

# **PETRO-VICTORY ENERGY CORP.**

## **Consolidated Financial Statements Years Ended December 31, 2019 and 2018**

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## PETRO-VICTORY ENERGY CORP.

### MANAGEMENT'S REPORT

The accompanying consolidated financial statements of Petro-Victory Energy Corp. and its affiliates (the "Corporation") and all information in the annual report are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements were prepared by management in accordance with International Financial Reporting Standards. Other financial information appearing throughout the annual report is presented on a basis consistent with the consolidated financial statements.

Management is also responsible for establishing and maintaining adequate internal controls over the Corporation's financial reporting. Policies and procedures are designed to give reasonable assurance that transactions are appropriately authorized, assets are safeguarded and financial records properly maintained to provide reliable information for the presentation of consolidated financial statements.

Crowe MacKay LLP, independent external auditors, was engaged, as approved by the shareholders, to examine the consolidated financial statements in accordance with auditing standards generally accepted in Canada and to provide an independent professional opinion.

The Board of Directors has established an Audit Committee. The Audit Committee and Board of Directors reviewed the consolidated financial statements with management and Crowe MacKay LLP. The Board of Directors has approved the consolidated financial statements on the recommendation of the Audit Committee.

"Richard Gonzalez"  
Richard Gonzalez  
Chief Executive Officer

"Mark Bronson"  
Mark Bronson  
Chief Financial Officer

June 15, 2020



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## Independent Auditors' Report

To the Shareholders of Petro-Victory Energy Corp.

### Opinion

We have audited the consolidated financial statements of Petro-Victory Energy Corp. ("the Group"), which comprise the consolidated statements of financial position as at December 31, 2019 and the consolidated statements of operations and comprehensive loss, changes in shareholders' deficiency and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

### 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 *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated 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.

### Material Uncertainty Related to Going Concern

We draw attention to Note 2 to the consolidated financial statements which describes the material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated 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 consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the other information prior to the date of this auditors' 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 this auditors' report. We have nothing to report in this regard.

## **Independent Auditors' Report (continued)**

### **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

### **Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated 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 consolidated 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 Group'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

## **Independent Auditors' Report (continued)**

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

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

The engagement partner on the audit resulting in this independent auditors' report is Todd Freer.

### **Other Matter**

The consolidated financial statements of the Group for the year ended December 31, 2018 were audited by another public accounting firm who expressed an unmodified opinion in their report dated April 25, 2019.

*"Crowe MacKay LLP"*

**Chartered Professional Accountants  
Calgary, Canada  
June 15, 2020**

**Petro-Victory Energy Corp.**  
**Consolidated Statements of Operations and Comprehensive Loss**

	<b>For the Year Ended</b>	
	<b><u>December 31, 2019</u></b>	<b><u>December 31, 2018</u></b>
<b>EXPENSES</b>		
Payroll and related charges (Note 12)	\$ 709,395	\$ 809,435
Professional fees	281,394	183,015
Office expense and other	119,490	109,561
Travel and related	108,041	106,020
Insurance	97,946	85,525
Directors' fees (Note 12)	105,000	85,000
Consulting	64,825	-
Total expenses	<u>1,486,091</u>	<u>1,378,556</u>
<b>LOSS FROM OPERATIONS</b>	-1,486,091	(1,378,556)
Interest on long-term debt	147,699	46,257
Accretion of transactions costs (Note 9)	44,968	14,989
Gain on extinguishment of debt	-601,978	(350,711)
Change in fair value of derivative warrant liability (Note 9)	<u>237,530</u>	<u>61,570</u>
<b>NET LOSS AND COMPREHENSIVE LOSS</b>	<u>\$ (1,314,310)</u>	<u>\$ (1,150,661)</u>
Weighted average number of shares outstanding	<u>333,688,912</u>	<u>277,247,918</u>
<b>LOSS PER SHARE (basic and diluted)</b>	<u>\$ (0.004)</u>	<u>\$ (0.004)</u>

See accompanying notes to consolidated financial statements.

**Petro-Victory Energy Corp.**  
**Consolidated Statements of Financial Position**

	December 31,	
	2019	2018
<b>ASSETS</b>		
Current assets		
Cash	\$ 183,117	\$ 90,410
Other current assets	16,695	24,104
Prepaid expenses	100,776	1,979
Total current assets	300,588	116,493
Property, plant and equipment (Note 5)	1,730,263	-
Other long-term assets	3,223	6,952
Deposits (Note 7)	922,821	602,692
	2,956,895	726,137
<b>Total Assets</b>	<b>\$ 2,956,895</b>	<b>\$ 726,137</b>
<b>LIABILITIES AND SHAREHOLDERS' DEFICIT</b>		
Current liabilities		
Accounts payable (Note 12)	\$ 1,042,650	\$ 969,473
Accrued liabilities (Note 12)	1,229,555	1,180,161
Total current liabilities	2,272,205	2,149,634
Long-term debt (Note 9)	3,305,702	1,280,089
Decommissioning obligations (Note 6)	155,263	-
Derivative warrant liability (Note 9)	299,100	61,570
Total liabilities	6,032,270	3,491,293
Shareholders' Deficiency		
Share Capital (Note 8)	68,347,817	67,350,584
Contributed surplus	1,329,944	1,323,086
Accumulated Deficit	(72,753,136)	(71,438,826)
Total shareholders' deficiency	(3,075,375)	(2,765,156)
<b>Total Liabilities and Shareholders' Deficiency</b>	<b>\$ 2,956,895</b>	<b>\$ 726,137</b>
Going Concern (Note 2)		
Subsequent events (Note 15)		

Approved by the Board of Directors and authorized for issuance on June 15, 2020.

**"Richard Gonzalez"**  
**Richard Gonzalez, CEO**

**"Mark Bronson"**  
**Mark Bronson, CFO**

See accompanying notes to consolidated financial statements.

**Petro-Victory Energy Corp.**  
**Consolidated Statement of Changes in Shareholders' Deficiency**

	Share Capital				Contributed Surplus	Accumulated Deficit	Total
	Class A common shares		Class B common shares				
	Shares	Amount	Shares	Amount			
Balance at December 31, 2017	177,877,958	\$ 34,884,619	90,535,000	\$ 31,596,674	\$ 1,297,620	\$ (70,288,165)	\$ (2,509,252)
Conversion of Class A shares to Class B shares	(5,000,000)	(1,744,998)	5,000,000	1,744,998		-	-
Compensation expense recognized in connection with stock options	-	-	-	-	25,466	-	25,466
Private placement of stock	9,114,000	350,000	-	-		-	350,000
Shares issued on settlement of accrued liabilities to employees	22,810,751	519,291	-	-		-	519,291
Net loss	-	-	-	-		(1,150,661)	(1,150,661)
Balance at December 31, 2018	204,802,709	34,008,912	95,535,000	33,341,672	1,323,086	(71,438,826)	(2,765,156)
Private placement of stock	33,223,000	497,350	-	-		-	497,350
Private placement of stock	33,333,334	499,883	-	-		-	499,883
Compensation expense recognized in connection with stock options	-	-	-	-	6,858	-	6,858
Net loss	-	-	-	-		(1,314,310)	(1,314,310)
Balance at December 31, 2019	271,359,043	\$ 35,006,145	95,535,000	\$ 33,341,672	\$ 1,329,944	\$ (72,753,136)	\$ (3,075,375)

See accompanying notes to consolidated financial statements.

**Petro-Victory Energy Corp.**  
**Consolidated Statements of Cash Flows**

	Year Ended	
	December 31, 2019	December 31, 2018
<b>OPERATING ACTIVITIES</b>		
Net loss	\$ (1,314,310)	\$ (1,150,661)
Adjustments to reconcile net loss to net cash used in operating activities		
Changes in operating assets and liabilities:		
Depreciation and amortization	3,729	3,645
Accretion of transaction costs	44,968	14,989
Share-based compensation	6,858	25,466
Gain on settlement of debt	(601,978)	(350,711)
Change in fair value of derivative warrant liability	237,530	61,570
Changes in other assets and liabilities:		
Prepaid expenses	(98,797)	(828)
Other current assets	7,409	1,674
Accounts payable	(77,680)	(128,786)
Accrued liabilities	49,394	578,775
Net cash used in operating activities	(1,742,877)	(944,867)
<b>INVESTING ACTIVITIES</b>		
Property, plant and equipment expenditures	(1,191,049)	-
Deposits	(704,080)	(602,692)
Accounts payable relating to investing activities	752,835	-
Net cash used in investing activities	(1,142,294)	(602,692)
<b>FINANCING ACTIVITIES</b>		
Proceeds from long term debt	2,000,000	1,400,000
Transaction costs	(19,355)	(134,900)
Proceeds from Class A common share private placements	997,233	350,000
Net cash provided by financing activities	2,977,878	1,615,100
Net increase in cash	92,707	67,541
Cash at beginning of year	90,410	22,869
Cash at end of year	\$ 183,117	\$ 90,410
<b>Supplemental Disclosure of Non-Cash Information</b>		
Class A common shares issued as settlement of accrued liabilities	\$ -	\$ 870,002
Conversion of Class A common shares to Class B common shares	\$ -	\$ 1,744,998
Asset retirement obligations capitalized to Property, plant and equipment	\$ 155,263	\$ -
Deposits reclassified to Property, plant and equipment	\$ 383,951	\$ -
<b>Supplemental Disclosure of Cash Flow Information</b>		
Interest paid	\$ 152,905	\$ 43,151

**Petro-Victory Energy Corp.**  
**Notes to Consolidated Financial Statements**  
**Year Ended December 31, 2019**

**1. GENERAL INFORMATION**

Petro-Victory Energy Corp. and its subsidiaries ("Petro-Victory" or the "Corporation") are engaged in petroleum and natural gas exploration and other energy activities in Latin America. The Corporation is domiciled in the BVI and maintains its United States ("US") headquarters and registered office at 5070 Mark IV Parkway, Fort Worth, Texas. The Corporation's shares are traded on the Toronto Venture Exchange ("TSX-V") under the symbol VRY.

The financial statements were authorized for issuance by the Corporation's Board of Directors on June 15, 2020.

**2. BASIS OF PREPARATION**

**Statement of Compliance**

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and interpretations of the IFRS Interpretations Committee.

**Going Concern**

These consolidated financial statements (the "financial statements") have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Corporation will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. The Corporation incurred comprehensive losses of (\$1,314,310) and (\$1,150,661) for the years ended 2019 and 2018, respectively. As of December 31, 2019, the Corporation had cash of \$183,117, an accumulated deficit of (\$72,753,136), and a working capital deficiency of (\$1,971,617). To date, the Corporation has only earned nominal revenues from operations. In addition, subsequent to December 31, 2019, there was a world-wide outbreak of a novel coronavirus known as Covid-19 which has impacted the global economy and capital markets combined with extreme volatility in global oil commodity prices (Note 15). These combined matters represent a material uncertainty that may cast significant doubt about the Corporation's ability to continue as a going concern.

The ability of the Corporation to continue as a going concern and meet its commitments as they become due is dependent on continued support from key creditors and lenders, the Corporation's ability to achieve profitable operations, and obtaining the necessary debt and equity financing required to execute its business plans. If the going concern assumption were not appropriate for these financial statements, material adjustments might be necessary to the carrying values of assets and liabilities, reported expenses and the financial statement classifications and presentation.

**Basis of Measurement**

The financial statements have been prepared on the historical cost basis except as otherwise noted.

**Functional and Presentation Currency**

These financial statements are presented in United States dollars, which is both the functional and presentation currency. Unless otherwise indicated, all "dollar" amounts or references to "\$" refer to United States dollars. References to "CDN \$" are to Canadian dollars.

**Petro-Victory Energy Corp.**  
**Notes to Consolidated Financial Statements**  
**Year Ended December 31, 2019**

**2. BASIS OF PREPARATION (continued)**

**Significant Estimates and Management Judgements**

The timely preparation of financial statements in accordance with IFRS requires that management make estimates, assumptions and use judgement regarding the measured amounts of assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. Such estimates relate primarily to unsettled transactions and events as of the date of the financial statements. Accordingly, actual results may differ from estimated amounts as future confirming events occur. The following discussion relates to amounts determined by management which required significant estimation and/or judgement.

Management judgement is required in determining the functional currency that represents the economic effect of underlying transactions, events and conditions. The United States dollar is selected as the Corporation's functional currency as it is the currency of the primary economic environment in which the Corporation operates. The Corporation's funds from financing and the majority of its expenditures are denominated in United States dollars.

Significant estimation is involved in determining the fair value of the derivative warrant liability associated with debt financings. The Corporation uses the Black-Scholes model, which requires the use of estimation and assumptions for key inputs, to calculate the fair value.

Significant management judgement is required in determining the provision for deferred income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Corporation has not recognized a benefit for the net deferred tax asset created from its non-capital losses and capital losses carried forward due to the uncertainty of realization of such amounts.

The calculation of stock-based compensation expense is subject to uncertainty as the key assumptions used in the stock-based compensation calculation are based on estimated volatility and estimated forfeiture rates for stock options that will not vest.

The application of the Corporation's accounting policy for Exploration and Evaluation ("E&E") expenditures requires judgment in determining whether it is likely that future economic benefit exists when activities have not reached a stage where technical feasibility and commercial viability can be reasonably determined. Factors such as drilling results, future capital programs, future operating expenses, as well as estimated reserves and resources are considered. In addition, Management uses judgment to determine when E&E assets are reclassified to PP&E. In making this determination, various factors are considered, including the existence of reserves, and whether the appropriate approvals have been received from regulatory bodies and the Corporation's internal approval process.

Natural gas and crude oil assets are grouped into cash generating units ("CGUs") identified as having largely independent cash flows and are geographically integrated. The determination of the CGUs was based on management's interpretation and judgement. The recoverability of development and production asset carrying values is assessed at the CGU level. The asset composition of a CGU can directly impact the recoverability of the assets included therein.

Provisions are recorded for the future decommissioning and restoration of the Corporation's exploration and evaluation and production assets and infrastructure at the end of their economic lives. Management uses judgment to assess the existence and to estimate the future liability. The actual cost of decommissioning and restoration is uncertain and cost estimates may change in response to numerous factors including changes in legal requirements, technological advances, inflation and the timing of expected decommissioning and restoration. In addition, Management determines the appropriate discount rate at the end of each reporting period. This discount rate is used to determine the present value of the estimated future cash outflows required to settle the obligation and may change in response to numerous market factors.

**Petro-Victory Energy Corp.**  
**Notes to Consolidated Financial Statements**  
**Year Ended December 31, 2019**

**3. SIGNIFICANT ACCOUNTING POLICIES**

**Principles of consolidation**

The financial statements include the accounts of the Corporation and its wholly owned subsidiaries, as follows: Petro Victory Energy Service Company (“PV Service Company”), a Texas company; Pirity Hidrocarburos, SRL (“PHSRL”), a Paraguayan company; Petro-Victory, LLC, a Texas limited liability company; Universal Geophysics, LLC, an inactive Texas limited liability company; and Petro-Victory Energia Ltda, a Brazilian company. Subsidiaries are entities over which the Company has control. Subsidiaries are consolidated from the date of acquisition of control and continue to be consolidated until the date that there is a loss of control. All intercompany balances and transactions are eliminated on consolidation.

Interests in joint arrangements are classified as either joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangement. Joint operations arise when the Corporation has rights to the assets and obligations for the liabilities of the arrangement.

**Business combinations**

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The purchase price used in a business combination is based on the fair value at the date of the acquisition. The acquiree’s identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3, *Business Combinations*, are recognized at their fair values at the acquisition date. All acquisition costs are expensed as incurred. The interest of non-controlling shareholders in the acquiree, if any, is initially measured at the non-controlling shareholder’s proportion of the net fair value of the assets, liabilities and contingent liabilities recognized or at the fair value of the non-controlling interest. Increases or decreases in the Corporation’s ownership interest while retaining control is a capital transaction.

**Cash equivalents**

The Corporation considers all highly liquid instruments with original maturities of three months or less on the date of purchase to be cash equivalents. At December 31, 2019 and 2018, the Corporation did not have any cash equivalents.

**Foreign currency translation**

The United States dollar is the functional and presentation currency of the Corporation and its subsidiaries. In the event the accounts of the Corporation’s subsidiaries have a functional currency different from the Corporation’s presentation currency, the transactions and balances are translated into the Corporation’s presentation currency at period-end exchange rates for assets and liabilities, and using average rates over the period for revenues and expenses. Translation gains and losses relating to the foreign operations are recognized in other comprehensive income (“OCI”) as a cumulative translation adjustment.

When the Corporation disposes of an entire interest in a foreign operation or loses control, joint control, or significant influence over a foreign operation, the foreign currency gains or losses accumulated in OCI related to the foreign operation are recognized in net loss. When the Corporation disposes of part of an interest in a foreign operation that continues to be a subsidiary, a proportionate amount of gains and losses accumulated in OCI is allocated between controlling and non-controlling interests.

**Petro-Victory Energy Corp.**  
**Notes to Consolidated Financial Statements**  
**Year Ended December 31, 2019**

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Foreign currency translation (continued)**

Transactions in foreign currencies are translated to the respective functional currencies at exchange rates in effect on the dates of the transactions. Monetary assets and liabilities that are denominated in foreign currencies are translated into the functional currency at the rates of exchange in effect at the period-end date. Any gains or losses are recorded in the Consolidated Statement of Operations and Comprehensive Loss.

**Income taxes**

As a Foreign Reporting Issuer, the Corporation is generally exempt from all provisions of the United States Internal Revenue Code. In addition, the Corporation is generally exempt from all provisions of the Income Tax Act of the BVI, including with respect to all dividends, interests, rents, royalties, compensation and other amounts payable by the Corporation to persons who are not persons resident in the BVI. Certain subsidiaries of the Corporation are subject to taxation in the United States, Brazil and Paraguay.

Income tax expense comprises current and deferred income taxes. Income tax expense is recognized in the consolidated statements of operations and comprehensive loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

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

Deferred income tax is recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred income tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred income 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 income 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.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred income 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.

**Property, Plant and Equipment and Exploration and Evaluation Assets**

*Recognition and measurement*

Exploration and evaluation (“E&E”) assets - E&E costs, including the costs of acquiring licenses, farming into or acquiring rights to working interest and directly attributable general and administrative costs, initially are capitalized either as tangible or intangible E&E assets according to the nature of the assets acquired. The costs are accumulated in cost centers by well, field or exploration area pending determination of technical feasibility and commercial viability.

**Petro-Victory Energy Corp.**  
**Notes to Consolidated Financial Statements**  
**Year Ended December 31, 2019**

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Property, Plant and Equipment and Exploration and Evaluation Assets (continued)**

*Recognition and measurement (continued)*

When E&E assets are determined to be technically feasible and commercially viable (generally upon assignment of proved and probable reserves), the accumulated costs are transferred to property, plant and equipment ("PP&E").

When E&E assets are determined not to be technically feasible and commercially viable or the Corporation decides not to continue with its activity, the unrecoverable costs are charged to the consolidated statements of operations and comprehensive loss as exploration costs.

E&E assets are allocated into CGUs and assessed for impairment when they are transferred to PP&E or in any circumstances where sufficient data exists to determine technical feasibility and commercial viability, and facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Development and production ("D&P") assets - Items of property, plant and equipment, which include natural gas and crude oil development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. D&P assets are grouped into CGUs for impairment testing.

When significant parts of an item of PP&E, including natural gas and crude oil interests, have different useful lives, they are accounted for as separate items (major components).

Gains and losses on disposal of an item of PP&E are determined by comparing the proceeds from disposal, net of transaction costs with the carrying amount of PP&E and are recognized net within the consolidated statements of operations and comprehensive loss.

Subsequent costs - Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property, plant and equipment are recognized as PP&E only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in the consolidated statements of operations and comprehensive loss as incurred. Such capitalized PP&E generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves. The carrying amount of any replaced or sold component is de-recognized. The costs of the day-to-day servicing of PP&E are recognized in the consolidated statements of operations and comprehensive loss as incurred.

Depletion and depreciation - The net carrying value of D&P assets is depleted using the units-of-production method by reference to the ratio of production in the period to the related proved plus probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated by taking into account the level of development required to produce the reserves.

Proved and probable reserves are estimated using independent reserve engineer reports and represent the estimated quantities of natural gas, crude oil and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible.

**Petro-Victory Energy Corp.**  
**Notes to Consolidated Financial Statements**  
**Year Ended December 31, 2019**

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Property, Plant and Equipment and Exploration and Evaluation Assets (continued)**

*Recognition and measurement (continued)*

Reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon:

- i) A reasonable assessment of the future economics of such production;
- ii) A reasonable expectation that there is a market for all or substantially all the expected natural gas and crude oil production; and
- iii) Evidence that the necessary production, transmission and transportation facilities are available or can be made available.

**Corporate and other property and equipment**

Other property and equipment are stated at historical cost less accumulated depreciation. Depreciation is recognized on a double-declining basis at an annual rate of 20%.

**Impairment**

*Financial assets*

A financial asset is assessed at each reporting date for being credit-impaired or having significantly increased credit risk since initial recognition; if so determined, an estimated loss allowance is measured at an amount equal to the lifetime expected credit losses ("ECL"). Lifetime ECLs are a probability-weighted estimate of credit losses from all possible default events over the expected life of a financial asset. Credit losses are measured as the PV of all expected cash shortfalls relative to the carrying value of the financial asset. The ECLs are discounted at the effective interest rate.

*Non-financial assets*

The carrying amounts of the Corporation's non-financial assets, other than E&E assets and deferred income tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the recoverable amount of the asset is estimated. E&E assets are assessed for impairment when they are reclassified to PP&E, and also if facts and circumstances suggest that their carrying amount exceeds the recoverable amount. Deferred income 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.

For the purpose of 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. The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

E&E assets are allocated to related CGUs when they are assessed for impairment, both at the time of any triggering facts and circumstances as well as upon their eventual reclassification to D&P assets. An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro-rata basis.

**Petro-Victory Energy Corp.**  
**Notes to Consolidated Financial Statements**  
**Year Ended December 31, 2019**

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Impairment (continued)**

*Non-financial assets*

Impairment losses recognized in prior years are 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 depletion and depreciation or amortization, if no impairment loss had been recognized.

All impairment losses are recognized in the consolidated Statements of Operations and Comprehensive Loss.

**Provisions**

A provision is recognized if, as a result of a past event, the Corporation 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 using the risk-free rate of interest.

*Decommissioning obligations*

The Corporation's activities give rise to dismantling, decommissioning and site disturbance remediation activities. Provisions are 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 expenditure required to settle the present obligation at the period-end date. Subsequent to 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 or 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.

**Financial instruments**

Financial instruments are recognized when the Corporation becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Corporation has transferred substantially all risks and rewards of ownership. Financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs.

Subsequent to initial recognition, non-derivative financial instruments are measured as described below:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss ("FVTPL") are financial assets held for trading or financial assets designated as such by Management on initial recognition. Such assets are held for trading if they are acquired principally for the purpose of selling in the short-term. These assets are initially recognized, and subsequently carried, at fair value, with changes recognized in the consolidated statement of operations and comprehensive loss. Transaction costs are expensed. The Corporation has designated the derivative warrant liability at FVTPL.

**Petro-Victory Energy Corp.**  
**Notes to Consolidated Financial Statements**  
**Year Ended December 31, 2019**

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial instruments (continued)**

Financial assets and liabilities at amortized cost

Financial assets and liabilities at amortized cost are non-derivative financial instruments with fixed or determinable payments that are not quoted in an active market. They are included in current assets or liabilities, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets or liabilities. Financial assets and liabilities at amortized cost are initially recognized at fair value plus transaction costs and subsequently carried at amortized cost using the effective interest method. The Corporation has designated cash, accounts payable, accrued liabilities, and long term debt at amortized cost.

Equity Instruments

Financial instruments issued by the Corporation are classified as equity only to the extent that they do not meet the definition of a financial liability or asset. Common shares, warrants and share purchase options are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of tax effects if any.

In the case where common shares and warrants are issued as part of a unit offering, the Corporation uses the residual value method in valuing the offering's shares and warrants. The residual value method first allocates value to the more easily measurable component based on fair value and the residual value, if any, to the less easily measurable component. The fair value of common shares issued in private placement is determined to be the more easily measurable component and are valued at the trading price on the date of closing. The balance, if any, is allocated to the attached warrants.

**Loss per share**

Loss per share is calculated using the weighted-average number of common shares outstanding during the periods. Diluted loss per share is determined by calculating the loss attributable to common shareholders after adjusting the weighted average shares outstanding for the effect of dilutive instruments. Diluted loss per share is not presented when it is anti-dilutive in nature.

**Share-based compensation**

The Corporation accounts for share-based compensation using the Black-Scholes option-pricing model to determine the fair value of stock options on grant date using various estimates including expected share price volatility, the risk-free interest rate and the expected term of the options. Share-based compensation is measured at fair value on the grant date and expensed over the vesting period of each tranche with a corresponding increase to common stock. Consideration paid upon the exercise of stock options, together with corresponding amounts previously recognized in common stock, is recorded as an increase to share capital. The amount recognized as expense is adjusted for an estimated forfeiture rate for options that will not vest, which is adjusted as actual forfeitures occur, until the shares are fully vested.

**Petro-Victory Energy Corp.**  
**Notes to Consolidated Financial Statements**  
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**4. New and future accounting standards, amendments and interpretations**

**New standards adopted in 2019:**

The Corporation adopted IFRS 16 – *Leases* on its effective date of January 1, 2019. IFRS 16 replaces IAS 17 - *Leases* which was issued in January 2016 and specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. At the commencement date of the lease, the Corporation recognizes right-of-use assets and lease liabilities measured at the present value of lease payments to be made over the lease term. After the commencement date, the lease liabilities are increased to reflect the accretion of interest and reduced for the lease payments made. The recognized right-of-use assets are depreciated on a straight-line basis over the lease term. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. The adoption of this standard had no material effect on the Corporation's consolidated financial statements.

The Corporation adopted IFRS 16 using the modified retrospective method. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application. The Corporation does not have any lease agreements as at December 31, 2019 and 2018.

**Future accounting standards and amendments:**

Amendments to IFRS 3 Business Combinations

Amendments to IFRS 3, Business Combinations assist in determining whether a transaction should be accounted for as a business combination or an asset acquisition. It amends the definition of a business to include an input and a substantive process that together significantly contribute to the ability to create goods and services provided to customers, generating investment and other income, and it excludes returns in the form of lower costs and other economic benefits.

These amendments are effective for reporting periods beginning on or after January 1, 2020.

**5. PROPERTY, PLANT AND EQUIPMENT**

<u>Cost</u>	<u>D&amp;P</u>
As at December 31, 2018	\$ -
Expenditures incurred	1,575,000
Decommissioning obligations (Note 6)	155,263
<b>As at December 31, 2019</b>	<b>\$ 1,730,263</b>

In fiscal 2019, the Corporation completed the acquisition from ENGE PET of several farm-in participation interests in four oilfield concessions in the Potiguar Basin, Brazil. Pursuant to the agreement, the Corporation was required to enter into a Joint Operating Agreement with the farmee and will be obligated to fund its share of minimum work commitments in future periods (Note 14). Depletion, depreciation and amortization will commence once the Corporation is entitled to its proportionate share of the revenues and expenditures from the joint operation, which will occur in the first half of 2020.

Included in accounts payable is \$725,835 (2018 - \$nil) owing related to the acquisition of the farm-in interests.

**Petro-Victory Energy Corp.**  
**Notes to Consolidated Financial Statements**  
**Year Ended December 31, 2019**

**6. DECOMMISSIONING OBLIGATIONS**

The Corporation's decommissioning obligations result from its ownership interests in petroleum and natural gas assets, including well sites, facilities, and gathering systems. The total decommissioning obligations are estimated based on net ownership interests, estimated costs to reclaim and abandon these wells and facilities, and the estimated timing of the costs to be incurred in future years. The total undiscounted amount of the estimated cash flows required to settle its decommissioning obligations is \$185,000 (2018 - \$nil) which will be settled over the operating lives of the underlying assets, estimated to occur between 2027 and 2040. A risk-free rate of 1.15% (2018 – nil) and an inflation rate of 0.15% (2018 – nil) were used to calculate the decommissioning liability.

	2019	2018
Balance, beginning of year	\$ -	\$ -
Additions (Note 5)	<b>155,263</b>	-
Balance, end of year	<b>\$ 155,263</b>	\$ -

Accretion of the decommissioning obligation will commence in fiscal 2020 upon the commencement of the joint operations.

**7. DEPOSITS**

The Corporation is required to place deposits pursuant to farm-in and other acquisition agreements. The following deposits have been paid in accordance with the agreed terms of the respective contracts, which are in the regulatory approval process.

	2019	2018
ENGE PET	\$ -	\$ 383,951
Imetame	<b>219,886</b>	218,741
Lagoa Parda	<b>702,935</b>	-
	<b>\$ 922,821</b>	\$ 602,692

The deposits are non-interest bearing and are only refundable if the farmee fails to satisfy conditions precedent in the underlying agreements or the acquisition is not approved by the respective regulatory bodies.

In fiscal 2019, the Corporation transferred the ENGE PET deposit to property, plant and equipment on closing of the acquisition (Note 5).

**8. SHARE CAPITAL**

***Authorized***

The Corporation's authorized share capital consists of an unlimited number Class A Common Stock, no par value, an unlimited number of Class B Restricted Voting Shares, no par value, immediately convertible to Class A shares, and an unlimited number of Preferred Shares, no par value, which can be issued in one or more series with the terms for each series of Preferred Shares determined by the Board of Directors.

**Petro-Victory Energy Corp.**  
**Notes to Consolidated Financial Statements**  
**Year Ended December 31, 2019**

**8. SHARE CAPITAL (continued)**

***Share Issuances***

On July 13, 2018, the Corporation approved the settlement of outstanding debt in an aggregate settlement amount of \$870,002 (CDN \$1,140,537) through the issuance of an aggregate of 22,810,751 common shares at a price of CDN \$0.05 per common share, resulting in a gain on settlement of debt of \$350,711. On October 26, 2018, the Corporation completed a non-brokered private placement of 9,114,000 common shares at a price of \$.05 per share for gross proceeds of CDN \$455,700 (US \$350,000). The shares were subject to a four-month hold, and the proceeds were used for general working capital purposes.

On August 30, 2019 and May 2, 2019, the Corporation completed the closing of two non-brokered private placements of 33,333,334 and 33,223,000 shares, respectively, for gross proceeds of CDN \$666,667 (US \$499,883) and CDN \$664,460 (US \$497,350). The proceeds were used for general working capital purposes.

***Stock Options***

The Corporation's Stock Option Plan permits the granting of options to purchase Common Shares to directors, officers, employees and consultants of the Corporation and its subsidiaries. The Corporation adopted a 10% Rolling Stock Option Plan, which allows for the granting of stock options for the purchase of up to 10% of the outstanding shares of the Corporation (Note 15).

Additionally, options may not be granted to any one person, any one consultant or any persons performing investor relations duties in any twelve month period which could, when exercised, result in the issuance of shares exceeding 5%, 2% or 2%, respectively, of the issued and outstanding shares of the Corporation. All options granted under the Plan shall expire no later than the tenth anniversary of the date the options were granted.

The exercise price of the options is to be determined by the Board of Directors, subject to any applicable Exchange approval, at the time any option is granted. In no event shall such exercise price be lower than the exercise price permitted by any applicable Exchange. Vesting of the options is at the discretion of the Board of Directors.

A summary of the status of the stock option plan and changes during the years is presented below:

	<b>2019</b>		<b>2018</b>	
	<b>#</b>	<b>Weighted average exercise price (CDN)</b>	<b>#</b>	<b>Weighted average exercise price (CDN)</b>
<b>Outstanding, beginning of year</b>	<b>11,836,246</b>	<b>\$ 0.05</b>	13,856,246	\$ 0.05
Forfeited	-	-	(1,750,000)	(0.05)
<b>Outstanding, end of year</b>	<b>11,836,246</b>	<b>\$ 0.05</b>	11,836,246	\$ 0.05
<b>Exercisable, end of year</b>	<b>11,836,246</b>	<b>\$ 0.05</b>	10,919,579	\$ 0.05

**Petro-Victory Energy Corp.**  
**Notes to Consolidated Financial Statements**  
**Year Ended December 31, 2019**

**8. SHARE CAPITAL (continued)**

**Stock Options (continued)**

The details of the options outstanding at December 31, 2019 are as follows:

Options outstanding	Weighted average exercise price (CDN)	Options exercisable	Weighted average years to expiry
11,836,246	0.05	11,836,246	5.27

The fair value of the options granted in fiscal 2017 was determined using the Black-Scholes option pricing model with the following key assumptions and inputs: (1) exercise price of \$0.05(CDN); (2) volatility of 89.52%; (3) risk-free rate of 1.51%; (4) term of ten years; (5) forfeiture rate of 0%; and (6) expected dividend yield of 0%. The estimated fair value was calculated at \$0.21 (CDN) per option.

For the years ended December 31, 2019 and 2018, the Corporation recognized \$6,858 and \$25,466, respectively, of share-based compensation expense that has been included in payroll and related charges in the Statements of Operations and Comprehensive Loss.

**9. LONG TERM DEBT AND DERIVATIVE WARRANT LIABILITY**

*Loans*

	2019	2018
<b>Balance, beginning of year</b>	<b>\$ 1,280,089</b>	<b>\$ -</b>
Loan proceeds	2,000,000	1,400,000
Transaction costs incurred	(19,355)	(134,900)
Accretion of transaction costs	44,968	14,989
<b>Balance, end of year</b>	<b>\$ 3,305,702</b>	<b>\$ 1,280,089</b>

On August 28, 2018, the Corporation entered into a credit facility with PPF9, LLC ("PPF") providing for up to \$10 million of loans to be collateralized by shares of the subsidiary in Brazil and guaranteed by the corporate parent. The initial Loan Agreement (the "Loan") provides for a \$4 million loan consisting of two advances: 1) the sum of \$1,400,000 which was advanced on August 29, 2018; and 2) the remaining \$2,600,000 to be advanced at a mutually agreeable date thereafter. The \$1,400,000 advance is collateralized by the four Brazilian oil fields disclosed in Note 5. The Loan is signed with Petro-Victory, LLC as borrower, as the LLC owns the Brazilian subsidiary and is also guaranteed by the corporate parent. The Loan terms provide for interest at an annual rate of 9% payable quarterly, a maturity date 36 months after the initial close, and bonus warrants that permit the holder to purchase up to 30 million common shares (pro-rata at 3 warrants per dollar drawn on the loans) of the Corporation at a price of CDN \$0.05 per share for a period of three years from receipt of funding. Warrants to purchase 4,200,000 shares, on a one-for-one basis, vested with the funding of the initial \$1,400,000 advance.

On November 19, 2019, the Corporation announced the closing of a secured debt financing from 579 Max Ltd. totaling \$2,000,000 to be used for acquisitions and provide general working capital. The financing is subject to the same terms and conditions as the PPF9 facility above, and will similarly bear interest payable quarterly at the rate of 9% per annum and will be due with a balloon payment at the end of 36 months. 579 Max Ltd. received 26.3 million warrants to purchase an equal number of common shares over the term of the loan at an exercise price equal to CDN \$0.05.

**Petro-Victory Energy Corp.**  
**Notes to Consolidated Financial Statements**  
**Year Ended December 31, 2019**

**9. LONG TERM DEBT AND DERIVATIVE WARRANT LIABILITY (continued)**

*Loans*

Legal costs and other financing fees incurred to secure the credit facilities are recorded as a reduction of the outstanding loan balances in the year incurred and are amortized as accretion expense over the term of the respective loans.

*Warrants*

		<b>2019</b>			<b>2018</b>	
	#	Weighted average exercise price (CDN)	#	Weighted average exercise price (CDN)	#	Weighted average exercise price (CDN)
<b>Outstanding, beginning of year</b>	<b>4,200,000</b>	<b>\$ 0.05</b>	-	-	-	-
Issued	26,300,000	0.05	4,200,000	0.05	4,200,000	0.05
<b>Outstanding, end of year</b>	<b>30,500,000</b>	<b>\$ 0.05</b>	4,200,000	\$ 0.05	4,200,000	\$ 0.05
<b>Exercisable, end of year</b>	<b>30,500,000</b>	<b>\$ 0.05</b>	4,200,000	\$ 0.05	4,200,000	\$ 0.05

The details of the warrants outstanding at December 31, 2019 are as follows:

Warrants outstanding	Weighted average exercise price (CDN)	Warrants exercisable	Weighted average years to expiry
30,500,000	0.05	30,500,000	2.72

The number of common shares to be issued on the exercise of warrants and the price per share are fixed; however, since the functional currency of the Corporation and the loans are US dollar denominated, the warrants do not meet the requirements of an equity instrument. Based on IFRS requirements and specifically IAS 32, the warrants are instead classified as derivative financial liabilities. Accordingly, the value of the warrants is to be measured at their fair value on initial recognition and subsequent measurement.

For valuation purposes, the Corporation used the Black-Scholes method to determine the fair value at December 31, 2019 to be \$299,100 (2018 - \$61,570). The net change in the fair value of the derivative liability is charged to the Statement of Operations and Comprehensive Loss and resulted in recognizing \$237,530 (2018 - \$61,570) for the year ended December 31, 2019. The fair value of the warrant liability as at December 31, 2019 is \$299,100 (2018 - \$61,570). The average fair values of each warrant at December 31, 2019 were \$0.010 (2018 - \$0.015)

**Petro-Victory Energy Corp.**  
**Notes to Consolidated Financial Statements**  
**Year Ended December 31, 2019**

**10. SEGMENTED DATA**

The Corporation operates in one industry, being the exploration and development of oil and gas resources, but several geographic locations.

Segmented data for select financial assets and liabilities is noted in the table below:

<b>2019</b>	<b>Brazil</b>	<b>BVI</b>	<b>United States</b>	<b>Total</b>
Cash	\$ 54,873	\$ -	\$ 128,244	\$ 183,117
Deposits	922,821	-	-	922,821
Property and equipment	1,730,263	-	-	1,730,263
Accounts payable	834,398	-	208,252	1,042,650
Accrued liabilities	-	-	1,229,555	1,229,555
Decommissioning obligations	155,263	-	-	155,263
Long term debt	-	-	3,305,702	3,305,702

<b>2018</b>	<b>Brazil</b>	<b>BVI</b>	<b>United States</b>	<b>Total</b>
Cash	\$ 37,161	\$ -	\$ 53,249	\$ 90,410
Deposits	602,692	-	-	602,692
Accounts payable	29,067	-	940,406	969,473
Accrued liabilities	-	-	1,180,161	1,180,161
Long term debt	-	-	1,280,089	1,280,089

**11. FINANCIAL INSTRUMENT RISKS AND CONCENTRATIONS**

The Corporation's financial instruments consist of cash, accounts payable, accrued liabilities, long term debt and derivative warrant liability.

**Fair value**

The fair values of cash, accounts payable and accrued liabilities approximates their carrying values due to their short-term nature. The carrying value of long term debt approximates fair value and is recorded at amortized cost. The fair value of the derivative warrant liability is measured on initial recognition and each subsequent reporting date using Level 3 hierarchy inputs.

**Risks associated with financial assets and liabilities**

The Corporation's activities are exposed to a variety of financial risks such as credit risk, market risk and liquidity risk that arise as a result of its activities. Management has primary responsibility for monitoring and managing financial instrument risks under the direction of the Board of Directors, which has overall responsibility for establishing the Corporation's risk management framework.

**Market risk**

Market risk is the possibility that changes in foreign exchange rates, interest rates, access to capital, or the prices of crude oil and natural gas products will adversely affect the value of assets, liabilities and expected future cash flows.

**Petro-Victory Energy Corp.**  
**Notes to Consolidated Financial Statements**  
**Year Ended December 31, 2019**

**11. FINANCIAL INSTRUMENT RISKS AND CONCENTRATIONS (continued)**

**Commodity price risk**

Commodity price risk is the risk that future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by world and continental/regional economic and other events that dictate the level of supply and demand (note 15). Fluctuations in these prices may negatively impact the Corporation's ability to economically develop its resource properties and execute its business plans as access to capital could be restricted.

**Credit risk**

The Corporation's financial instruments exposed to concentrations of credit risk consist primarily of cash, which is on deposit with reputable financial institutions. There has been no history of credit losses.

**Foreign exchange risk**

Foreign currency risk is the risk that the fair value of the Corporation's financial assets and liabilities will fluctuate due to fluctuations in foreign exchange rates. The Corporation is exposed to foreign currency risk with respect to cash, accounts payable, and accrued liabilities denominated in Canadian dollars and Brazilian reals. The Corporation does not currently manage currency risk through hedging or other currency management tools.

**Liquidity risk**

Liquidity risk relates to the risk the Corporation will encounter should it have difficulty in meeting obligations associated with the financial liabilities. Financial liabilities consist of accounts payable, accrued liabilities and long term debt which are due within one to three years. The Corporation manages its liquidity risk by forecasting cash flow requirements for its planned corporate activities and anticipated investing and financing activities. Management and the board of directors are actively involved in the review, planning and approval of significant expenditures and commitments. Liquidity difficulties would emerge if the Corporation was unable to establish a profitable production base to generate sufficient cash flow to cover both operating and capital requirements and service debt financing arrangements. The Corporation anticipates it will continue to have adequate liquidity to fund its financial liabilities through its future funds from operations and issuance of debt or equity instruments.

The following are the contractual maturities of financial liabilities including expected interest payments at December 31:

<b>2019</b>	<b>Contractual cash flows</b>	<b>Less than one year</b>	<b>1 - 3 years</b>
Accounts payable and accrued liabilities	\$ 1,042,650	\$ 1,042,650	\$ -
Accrued liabilities	1,229,555	1,229,555	
Long term debt	4,128,280	-	4,128,280
	<b>\$ 6,400,485</b>	<b>\$ 2,272,205</b>	<b>\$ 4,128,280</b>
<b>2018</b>	<b>Contractual cash flows</b>	<b>Less than one year</b>	<b>1 - 3 years</b>
Accounts payable and accrued liabilities	\$ 969,473	\$ 969,473	\$ -
Accrued liabilities	1,180,161	1,180,161	
Long term debt	1,746,500	-	1,746,500
	<b>\$ 3,896,134</b>	<b>\$ 2,149,634</b>	<b>\$ 1,746,500</b>

**Petro-Victory Energy Corp.**  
**Notes to Consolidated Financial Statements**  
**Year Ended December 31, 2019**

**11. FINANCIAL INSTRUMENT RISKS AND CONCENTRATIONS (continued)**

**Interest rate risk**

Interest rate risk consists of two components:

- (a) To the extent that payments made or received on the Corporation's monetary assets and liabilities are affected by changes in the prevailing market interest rates, the Corporation is exposed to interest rate cash flow risk.
- (b) To the extent that changes in prevailing market rates differ from the interest rate in the Corporation's monetary assets and liabilities, the Corporation is exposed to interest rate price risk.

The Company is exposed to interest rate risk to the extent the changes in market interest rates will impact the Company's cash balances that are at a floating or short-term rate of interest and the long term debt, which is at a fixed rate of interest. The Corporation does not have any hedging instruments in place at December 31, 2019 and 2018 to mitigate this risk.

**12. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION**

Transactions with related parties are incurred in the normal course of business and are measured at the exchange amount which is the amount of consideration established and approved by the related parties. Related party transactions are disclosed below, unless they have been disclosed elsewhere in the financial statements.

For the year ended December 31, 2019, the Corporation incurred \$12,000 (2018 - \$12,000) in office and administration charges provided by a Company controlled by a significant shareholder. Included in accounts payable is a balance owing of \$34,843 (2018 - \$27,843) in respect of these amounts.

For the year ended December 31, 2019, the Corporation incurred \$24,000 (2018 - \$24,000) in consulting fees billed by members of management (Country Directors). Included in accrued liabilities is \$42,000 (2018 - \$18,000) owing to these individuals.

As at December 31, 2019, there are accrued and unpaid payroll and related charges of \$1,059,289 (2018 - \$903,534) owing to officers, directors and related party consultants.

During the year ended December 31, 2019, certain officers and directors advanced funds to the Corporation in the amount of \$265,365 (2018 - \$7,833). As at December 31, 2019, there are advances owing to related parties of \$47,152 (2018 - \$35,677) included in accounts payable and accrued liabilities. During the year ended December 31, 2019, interest on advances of \$3,000 (2018 - \$nil) was charged.

Key management compensation includes officers, directors and other senior management personnel. The compensation paid or payable to key management for services is shown below:

	<b>2019</b>	2018
Salaries and other short-term employee benefits	<b>\$ 689,000</b>	\$ 785,435
Consulting fees	<b>24,000</b>	24,000
Share-based compensation expense	<b>6,858</b>	25,466
	<b>\$ 719,858</b>	\$ 834,901

**Petro-Victory Energy Corp.**  
**Notes to Consolidated Financial Statements**  
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**13. CAPITAL MANAGEMENT**

The Corporation manages its capital structure and makes adjustments to it, based on the funds available to the Corporation, in order to support its operations. Management does not establish a quantitative return on capital criteria, but rather relies on the expertise of the Corporation's management to sustain future development of the business. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Corporation, is reasonable. The Corporation is not subject to externally imposed capital requirements.

**14. COMMITMENTS AND CONTINGENCIES**

**Canacol Energy Debenture**

On June 26, 2014, the Corporation executed a convertible debenture in the amount of \$5,000,000 with Canacol Energy, a related party. On July 25, 2014, the Corporation repaid \$2,500,000 of principal, as well as \$100,000 in interest and debt retirement fees. On October 5, 2015, the Corporation signed an Amendment Agreement providing for repayment of the debenture in a fixed amount of \$2,700,000 including accrued interest from one of two sources: a) from 33% of amounts received under the 3% NPI royalty agreement entered into by the Corporation upon divestiture of its interests in the Pirity Block, Paraguay in fiscal 2014, and/or b) the pass through of amounts received as back costs from any future farm-out partner in the Pirity Block. To date, no pass through recoveries have been received nor NPI payments. Since the repayment of this obligation is contingent upon the Corporation receiving funds from either of the aforementioned sources, the liability is contingent in nature and not recognized in the accompanying consolidated statement of financial position until such time as the contingencies are satisfied and then only to the extent amounts are received.

**Minimum work commitments**

Pursuant to farm-in and other acquisition agreements, the Corporation will be obligated to meet minimum work commitments (Note 5) related to exploration and development activities. The Corporation will be required to obtain additional debt or equity financing in 2020 and beyond to fund commitments for future work programs.

**Legal claims**

The Corporation is party to legal claims and disputes in the normal course of business. The Corporation believes that any liabilities that might arise from such matters, to the extent not provided for, are not likely to have a material impact on the consolidated financial statements. Provisions for claims are recognized when the probable outcome of the matter can be reasonably determined and the amount of the provision can be reasonably estimated.

**15. SUBSEQUENT EVENTS**

In preparing the financial statements, management has evaluated all subsequent events and transactions for potential recognition or disclosure through the date the financial statements were approved for issuance.

**Share Consolidation** – On January 23, 2020, the Corporation announced a consolidation of its share capital on the basis of one (1) new share for every existing forty (40) common shares. The consolidation was completed pursuant to shareholder approval obtained at the annual general meeting held on

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**15. SUBSEQUENT EVENTS (continued)**

November 21, 2019. The board believes that the consolidation should enhance the marketability of the common share as an investment and should facilitate additional financings to fund operations in the future.

**Stock Option Plan** – On March 13, 2020, also pursuant to approval obtained at the annual general meeting, the Corporation announced that the board of directors adopted a new 20% fixed stock option plan. The plan updated the prior plan under which 295,906 options remain outstanding at an exercise price of \$2.00 (both numbers post consolidation). On this date, the Corporation also granted new incentive stock options to certain directors and officers to purchase 1,480,750 shares exercisable at \$0.80 per share.

**COVID-19** - In March 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) to be a pandemic which continues to spread throughout the world. The global impact of COVID-19 as well as recent declines in spot prices for oil and gas have created a great deal of uncertainty in the markets. The situation is exacerbated by disputes over oil production levels by members of the Organization of the Petroleum Exporting Countries (“OPEC”) and other oil producing countries. The extent and duration of the disruption is unknown, but virtually all energy companies including Petro-Victory are subject to additional risks related to liquidity, future development of assets, financing, equity fund raising, and the general disruption of business. Management is continuing to assess the impact of the resulting economic decline; however, the impact to the Corporation’s results of operations and financial position cannot be reasonably estimated at this time.

The outbreak and market conditions increase the complexity of estimates and assumptions used to prepare financial statements for future periods, particularly related to the following key sources of estimation uncertainty:

i) Reserve estimates, impairment indicators and discount rates

Determining the recoverable amount of a cash-generating unit (“CGU”) or an individual asset requires the use of estimates and assumptions, which are subject to change as new information becomes available. The severe drop in commodity prices, due to reasons noted above, have increased the risk of measurement uncertainty in determining the recoverable amounts, especially in the estimation of economic crude oil and natural gas reserves and forward commodity prices.

ii) Decommissioning costs

Provisions are recorded for the future decommissioning and restoration of the Corporation’s properties and facilities at the end of their economic lives. Management uses judgment to assess the existence and to estimate the future liability. Market conditions have increased the measurement uncertainty inherent in determining the estimation of decommissioning liabilities, especially estimating the expected timing of settlement.

iii) Measurement of share-based compensation and the fair value of warrants

The measurement of the fair value of stock options and warrants requires the use of assumptions, which include the estimated volatility of the Corporation’s stock price over the life of the instrument, forfeiture rates, future interest rates and the estimated life of the option. Financial market volatility as a result of the events noted above increases the measurement uncertainty inherent in the inputs used to estimate the fair values.