NOTICE TO READER

Petro-Victory Energy Corp. (the "Corporation") is re-filing its annual audited consolidated financial statements for the years ended December 31, 2020 and 2019 as the originally filed annual audited consolidated financial statements, which were filed on SEDAR on April 30, 2021, did not include the Consolidated Statements of Operations and Comprehensive Income (Loss). Other than the inclusion of the Consolidated Statements of Operations and Comprehensive Income (Loss), the re-filed annual audited consolidated financial statements of the Corporation for the years ended December 31, 2020 and 2019, as set forth below, do not contain any changes or amendments.

PETRO-VICTORY ENERGY CORP.

Consolidated Financial Statements
Years Ended December 31, 2020 and 2019

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"	*"Mark Bronson"*
Richard Gonzalez	Mark Bronson
Chief Executive Officer	Chief Financial Officer

April 30, 2021

Crowe MacKay LLP
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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, 2020 and December 31, 2019 and the consolidated statements of operations and comprehensive income (loss), changes in shareholders' deficiency and cash flows for the years 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, 2020 and 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.

"Crowe MacKay LLP"

Calgary, Canada
April 30, 2021

Chartered Professional Accountants

Petro-Victory Energy Corp.

Consolidated Statements of Operations and Comprehensive Income (Loss)

	For the Year Ended December 31, 2020	For the Year Ended December 31, 2019
REVENUES		
Revenues from oil sales	$ 297,065	$ -
Less: royalties	(31,566)	-
	265,499	-
EXPENSES		
Payroll and related charges (Note 13)	1,268,079	709,395
Professional fees	493,253	281,394
Office expense and other	161,748	119,490
Travel and related	51,418	108,041
Insurance	87,896	97,946
Directors' fees (Note 13)	105,000	105,000
Consulting	77,388	64,825
Well operating expenses	63,764	-
Depletion and depreciation	24,676	-
Total expenses	2,333,222	1,486,091
LOSS FROM OPERATIONS	(2,067,723)	(1,486,091)
Interest on long-term debt	306,838	147,699
Accretion of transactions costs (Note 10)	52,152	44,968
Accretion of decommissioning costs (Note 8)	1,341	-
Gain on sale of assets (Note 6)	(2,408,824)	-
Gain on extinguishment of debt	-	(601,978)
Foreign exchange gain	(103,109)	-
Change in fair value of derivative warrant liability (Note 10)	(233,300)	237,530
NET INCOME (LOSS) BEFORE INCOME TAXES	317,179	(1,314,310)
Income tax expense	129,600	-
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	$ 187,579	$ (1,314,310)
Weighted average number of shares outstanding	9,205,913	8,342,223
INCOME (LOSS) PER SHARE (basic and diluted)	$ 0.020	$ (0.158)

See accompanying notes to consolidated financial statements.

Petro-Victory Energy Corp.
Consolidated Statements of Financial Position

	December 31, 2020	December 31, 2019
ASSETS		
Current assets		
Cash	$ 833,957	$ 183,117
Restricted cash	1,151,631	-
Other current assets	5,000	16,695
Prepaid expenses	725	100,776
Total current assets	1,991,313	300,588
Property, plant and equipment, net (Note 5)	1,761,201	1,730,263
Depreciable equipment, net	2,579	3,223
Deposits (Note 6)	909,151	922,821
Exploration and evaluation assets (Note 7)	22,520	-
Total Assets	$ 4,686,764	$ 2,956,895
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Current liabilities		
Accounts payable (Note 13)	$ 1,246,418	$ 1,042,650
Accrued liabilities (Notes 10 and 13)	2,206,104	1,229,555
Income taxes payable	129,600	-
Current portion of long-term debt (Note 10)	1,370,025	-
Total current liabilities	4,952,147	2,272,205
Long-term debt (Note 10)	2,016,729	3,305,702
Decommissioning obligations (Note 8)	195,086	155,263
Derivative warrant liability (Note 10)	65,800	299,100
Total liabilities	7,229,762	6,032,270
Shareholders' Deficiency		
Share Capital (Note 9)	68,372,817	68,347,817
Contributed surplus	1,649,742	1,329,944
Accumulated deficit	(72,565,557)	(72,753,136)
Total shareholders' deficiency	(2,542,998)	(3,075,375)
Total Liabilities and Shareholders' Deficiency	$ 4,686,764	$ 2,956,895

Going Concern (Note 2)
Commitments and contingencies (Note 15)
Subsequent event (Note 16)

Approved by the Board of Directors and authorized for issuance on April 30, 2021.

"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
(See Note 8 Regarding Share Consolidation)

	Share Capital						
	Class A common shares		Class B common shares		Contributed	Accumulated	
	Shares	Amount	Shares	Amount	Surplus	Deficit	Total
Balance at December 31, 2018	5,120,069	$ 34,008,912	2,388,375	$ 33,341,672	$ 1,323,086	$ (71,438,826)	$ (2,765,156)
Compensation expense recognized in connection with stock options	-	-	-	-	6,858	-	6,858
Net loss for the year	-	-	-	-	-	(1,314,310)	(1,314,310)
Private placement of stock - May	830,575	497,350	-	-	-	-	497,350
Private placement of stock - August	833,334	499,883	-	-	-	-	499,883
Balance at December 31, 2019	6,783,978	35,006,145	2,388,375	33,341,672	1,329,944	(72,753,136)	(3,075,375)
Private placement of stock	41,667	25,000	-	-	-	-	25,000
Compensation expense recognized in connection with stock options	-	-	-	-	319,798	-	319,798
Net income for the year	-	-	-	-	-	187,579	187,579
Balance at December 31, 2020	6,825,645	$ 35,031,145	2,388,375	$ 33,341,672	$ 1,649,742	$ (72,565,557)	$ (2,542,998)

See accompanying notes to consolidated financial statements.

Petro-Victory Energy Corp.
Consolidated Statements of Cash Flows

	Year Ended December 31, 2020	Year Ended December 31, 2019
OPERATING ACTIVITIES		
Net income (loss)	$ 187,579	$ (1,314,310)
Adjustments to reconcile net loss to net cash used in operating activities		
Changes in operating assets and liabilities:		
Accretion of transaction costs	52,152	44,968
Accretion of decommissioning obligations	1,341	-
Depletion, depreciation and impairment	24,676	3,729
Share-based compensation	319,798	6,858
Gains from extinguishment of debt	-	(601,978)
Change in fair value of derivative warrant liability	(233,300)	237,530
Gain on sale of E&E asset	(2,408,824)	
Changes in other assets and liabilities:		
Prepaid expenses	100,051	(98,797)
Other current assets	16,695	7,409
Accounts payable	203,768	(77,680)
Accrued liabilities	976,549	49,394
Income taxes	129,600	-
Net cash used in operating activities	(629,915)	(1,742,877)
INVESTING ACTIVITIES		
Property, plant and equipment expenditures	(16,488)	(1,191,049)
Deposits	(909,151)	(704,080)
Exploration and evaluation expenditures	(22,520)	-
Proceeds from sale of concessions (Note 6)	3,326,645	-
Restricted cash	(1,151,631)	-
Accounts payable relating to investing activities	-	752,835
Net cash provided by (used in) investing activities	1,226,855	(1,142,294)
FINANCING ACTIVITIES		
Proceeds from long term debt	28,900	2,000,000
Transaction costs incurred	-	(19,355)
Proceeds from Class A common share private placements	25,000	997,233
Net cash provided by financing activities	53,900	2,977,878
Increase in cash	650,840	92,707
Cash at beginning of year	183,117	90,410
Cash at end of year	$ 833,957	$ 183,117
Supplemental Disclosure of Non-Cash Information:		
Asset retirement obligations capitalized to property, plant and equipment	$ 38,482	$ 155,263
Deposits reclassified to property, plant and equipment	$ -	$ 383,951
Supplemental Disclosure of Cash Flow Information:		
Interest paid	$ 3,672	$ 152,905

See accompanying notes to consolidated financial statements.

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 consolidated financial statements were authorized for issuance by the Corporation's Board of Directors on April 30, 2021.

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 and Uncertainties

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 had comprehensive income of $187,579 (2019 – comprehensive loss of $1,314,310) for the year ended December 31, 2020. As of December 31, 2020, the Corporation had cash of $833,957 (2019 - $183,117), an accumulated deficit of $72,565,557 (2019 - $72,753,136), and a working capital deficiency of $2,960,834 (2019 - $1,971,617).

In March 2020, the World Health Organization declared COVID-19 to be a pandemic. The pandemic and subsequent measures intended to limit its spread, contributed to significant declines and volatility in financial markets. The pandemic has adversely impacted global commercial activity, including significantly reducing worldwide demand for certain commodities, including crude oil, natural gas and natural gas liquids.

There is no certainty when demand levels will recover and therefore the situation remains dynamic and the ultimate duration and magnitude of the impact on the economy and financial effect on the Corporation is not known at this time. These events have resulted in a volatile and challenging economic environment. The current economic climate may have significant adverse impacts on the Corporation's results and operations including, but not exclusively:

- material declines in revenue and cash flows;
- declines in revenue and operating activities could result in increased impairment charges and reduced capital programs;
- increased risk of non-performance by the Corporations purchasers and joint venture partners which could materially increase the risk of non-payment and customer defaults; and
- if the situation continues for prolonged periods, if could have a material impact on profitability, liquidity, and in the longer term could impact the ability of the Corporation to continue as a going concern.

The outbreak and market conditions increase the complexity of estimates and assumptions used to prepare financial statements for future periods. The most significant estimates and judgments impacted are the estimated recoverable amount of the Company's property, plant and equipment and the appropriateness of the going concern assumption.

2. BASIS OF PREPARATION (continued)

Going Concern and Uncertainties

These factors give rise to a material uncertainty that may cast significant doubt on 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.

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.

2. BASIS OF PREPARATION (continued)

Significant Estimates and Management Judgements (continued)

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.

Petroleum and natural gas assets are depleted on a unit-of-production basis at a rate calculated by reference to proved reserves determined in accordance with National Instrument 51-101, Standards of disclosure for Oil and Gas Activities ("NI 51-101") and incorporating the estimated future cost of developing and extracting those reserves. Proved reserves are estimated using independent reservoir engineering reports and represent the estimated quantities of crude oil, natural gas 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. Reserves estimates, although not reported as part of the Company's financial statements, can have a significant effect on net income (loss), assets and liabilities as a result of their impact on depletion, decommissioning liabilities, deferred taxes and asset impairments. Independent reservoir engineers perform evaluations of the Company's oil and gas reserves on an annual basis. The estimation of reserves is an inherently complex process requiring significant judgment. Estimates of economically recoverable oil and natural gas reserves are based upon a number of variables and assumptions such as geoscientific interpretation, production forecast, commodity prices and costs and related future cash flows, all of which may vary considerably from actual results.

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.

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, 2020 and December 31, 2019, the Corporation did not have any cash equivalents.

Restricted cash

Restricted cash comprises amounts held by the Corporation but which is restricted as security for specific arrangements, such as cash held in designated accounts as collateral for credit agreements or bank guarantees, and to which the Corporation has restricted access for a period of time. Subsequent to year-end, all restricted cash held at December 31, 2020 was returned to the Corporation.

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.

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 Income (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 income (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

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.

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”).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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 income (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 income (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 income (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 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 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Corporate and other property and equipment

Other property and equipment are stated at historical cost less accumulated depreciation.

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:

<u>Financial assets at fair value through profit or loss</u>
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 income (loss). Transaction costs are expensed. The Corporation has designated the derivative warrant liability at FVTPL.

<u>Financial assets and liabilities at amortized cost</u>
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, restricted cash, accounts payable, accrued liabilities, and long-term debt at amortized cost.

<u>Equity Instruments</u>
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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment (continued)

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.

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 Income (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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Earnings (loss) per share

Earnings (loss) per share is calculated using the weighted-average number of common shares outstanding during the periods. Diluted earnings (loss) per share is determined by calculating the earnings (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 contributed surplus. Consideration paid upon the exercise of stock options, together with corresponding amounts previously recognized in contributed surplus, is recorded as an increase to share capital. 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.

Revenue recognition

Revenue associated with the sale of the Corporation's crude oil is recognized when control passes from the Company to its customer. This generally occurs when product is physically transferred into a vessel, pipe or other delivery mechanism and it is probable that the economic benefits will flow to the Corporation.

The Corporation sells its production pursuant to variable price contracts. The transaction price for variable price contracts is based on the commodity price and then adjusted for quality, location or other factors whereby each component of the pricing formula can be either fixed or variable depending on the contract terms. Revenue is recognized when a unit of production is delivered to the counterparty. The amount of revenue recognized is based on the agreed transaction price, whereby any variability in revenue relates specifically to the Corporation's efforts to transfer production and therefore the resulting revenue is allocated to the production delivered in the period during which the variability occurs. As a result, none of the variable revenue is considered constrained.

Crude oil is sold under contracts of varying price and volume terms of up to one year. The Corporation only had one revenue source being the sale of crude oil and therefore there is no disaggregated revenue by source to disclose.

4. NEW AND FUTURE ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS

New standards adopted in 2020:

<u>Amendments to IFRS 3 Business Combinations</u>

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. This amendment had no material impact on the financial statements upon adoption.

4. NEW AND FUTURE ACCOUNTING STANDARDS (continued)

Future accounting standards and pronouncements

Onerous Contracts—Cost of Fulfilling a Contract (Amendments to IAS 37)

The amendments to IAS 37 specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

These amendments are effective for reporting period beginning on or after January 1, 2022.

Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

The amendments to IAS1 provide a more general approach to the classification of liabilities based on the contractual arrangements in place at the reporting date.

These amendments are effective for reporting periods beginning on or after January 1, 2023.

5. PROPERTY, PLANT AND EQUIPMENT

Cost:

		December 31, 2020		December 31, 2019
Balance, beginning of year	**$**	**1,730,263**	$	-
Additions		**16,488**		1,575,000
Asset retirement obligations recorded (Note 8)		**35,220**		155,263
Revisions to asset retirement obligations (Note 8)		**3,262**		-
Balance, end of year	**$**	**1,785,233**	$	1,730,263

Accumulated depletion:

		December 31, 2020		December 31, 2019
Balance, beginning of year	**$**	**-**	$	-
Depletion		**24,032**		-
Balance, end of year	**$**	**24,032**	$	-

Carrying value:				
Balance, end of year	**$**	**1,761,201**	$	1,730,263

In fiscal 2019, the Corporation completed the acquisition from ENGEPET 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 it's share of minimum work commitments in future periods (Note 15). Depletion, depreciation and amortization commenced in 2020 as first oil sales occurred.

Included in accounts payable is $551,781 (December 31, 2019 - $725,835) owing related to the acquisition of the farm-in interests.

6. 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	2019
Imetame	**$ -**	$ 219,886
Lagoa Parda	**-**	702,935
Trapia	**139,510**	-
Portiguar	**753,946**	-
Other	**15,695**	-
	$ 909,151	$ 922,821

The deposits are non-interest bearing and will be released upon satisfaction of the underlying terms and conditions of the respective agreements or transferred to exploration and evaluation assets or property, plant and equipment upon successful completion.

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

On October 26, 2018, the Company announced the acquisition through a farm-in of a 50% working interest in five Brazilian exploration concessions in the Espirito Santo Basin onshore Brazil. On November 25, 2019, the Company announced the acquisition of a 50% working interest in three additional onshore oil fields (the Lagoa Parda fields) in the same Basin. Both acquisitions were made in partnership with Imetame Energia. On November 11, 2020, the Company announced that it had entered into a Purchase and Sale agreement with EnP Econssistemas Energeticos Holdings S.A. for the sale of the Company's interest in the Espirito Santo Basin concessions for gross proceeds of $5,100,000. The sale was consummated and funded on December 1, 2020, and the net gain on sale of $2,408,824 (2019 - $nil) is separately shown on the accompanying Consolidated Statements of Operations and Comprehensive Income (Loss) for the year ended December 31, 2020.

Subsequent to year-end, the deposit on the Portiguar Basin was refunded to the Corporation in full.

7. EXPLORATION AND EVALUATION ASSETS

Exploration and evaluation ("E&E") assets represent permits and other intangible and tangible costs incurred and capitalized pending evaluation of the prospect or concession. Occasionally, the Corporation is required to acquire permits pursuant to farm-in and other acquisition agreements. The following amounts were included in E&E assets at each year-end.

	December 31, 2020	December 31, 2019
Balance, beginning of year	**$ -**	$ -
Additions	**22,520**	-
Balance, end of year	**$ 22,520**	$ -

8. 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 $235,000 (2019 - $185,000) which will be settled over the operating lives of the underlying assets, estimated to occur between 2027 and 2049. A risk-free rate of 0.65% (2019 – 1.15%) and an inflation rate of 2% (2019 – 0.15%) were used to calculate the decommissioning liability.

		December 31, 2020		December 31, 2019
Balance, beginning of year	**$**	**155,263**	$	-
Additions (Note 5)		**35,220**		155,263
Revisions (Note 5)		**3,262**		-
Accretion expense		**1,341**		-
Balance, end of year	**$**	**195,086**	$	155,263

9. 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 determined by the Board of Directors.

Share Consolidation

On January 27, 2020, the Corporation completed a 40:1 share consolidation. All classes of stock, stock options, and warrants were affected and all comparative numbers for 2019 have been restated.

Share Issuance

On March 12, 2020, the Corporation completed a common share issuance of 41,666 shares at a price of CDN $0.80. Proceeds from the issuance were US $25,000.

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. On March 13, 2020, the Corporation adopted a 20% Stock Option Plan, which allows for the granting of stock options for the purchase of up to 20% of the outstanding shares of the Corporation.

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.

9. SHARE CAPITAL (continued)

Stock Options (continued)

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 changes in options is presented below:

	December 31, 2020		December 31, 2019	
	#	**Weighted average exercise price (CDN)**	#	Weighted average exercise price (CDN)
Outstanding, beginning of year	**295,906**	**$ 2.00**	295,906	$ 2.00
Granted	**1,480,750**	**0.80**	-	-
Forfeited	**(37,500)**	**(1.20)**	-	-
Outstanding, end of year	**1,739,156**	**1.00**	295,906	2.00
Exercisable, end of year	**1,265,157**	**$ 1.07**	295,906	$ 2.00

The details of the options outstanding at December 31, 2020 are as follows:

Options outstanding	**Weighted average exercise price (CDN)**	**Options exercisable**	**Weighted average years to expiry**
227,156	2.00	227,156	3.56
56,250	2.00	56,250	6.59
1,445,750	0.80	981,751	4.19

The options granted in 2020 have vesting periods ranging from 30 days to three years. The fair value of the options was determined using the Black-Scholes option pricing model with the following key assumptions: (1) exercise price of $0.80 (CDN); (2) volatility ranging from 134.4% to 174.6%: (3) risk-free rates ranging from 0.53% to 0.54%; (4) term of five years; (5) forfeiture rate of 0%; and (6) expected dividend yield of 0%. The estimated fair values of the 2020 options were calculated at $0.24 to $0.40 (CDN) per option.

For the years ended December 31, 2020 and 2019, the Corporation recognized $319,798 and $6,858, respectively, of share-based compensation expense that has been included in payroll and related charges in the Statements of Operations and Comprehensive Income (Loss). At December 31, 2020, there was $75,875 of remaining unamortized share-based compensation cost related to the 2020 stock option grants.

10. LONG-TERM DEBT AND DERIVATIVE WARRANT LIABILITY

Long-term debt:

		December 31, 2020		December 31, 2019
Balance, beginning of year	**$**	**3,305,702**	$	1,280,089
Loan proceeds		**28,900**		2,000,000
Transaction costs incurred		**-**		(19,355)
Accretion of transaction costs		**52,152**		44,968
Balance, end of year		**3,386,754**		3,305,702
Less current portion		**(1,370,025)**		-
		2,016,729		3,305,702

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 750,000 common shares (pro-rata at 3 warrants per dollar drawn on the loans) of the Corporation at a price of CDN $2.00 per share for a period of three years from receipt of funding. Warrants to purchase 105,000 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 PPF 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 657,500 warrants to purchase an equal number of common shares over the term of the loan at an exercise price equal to CDN $2.00.

In April of 2020 the Small Business Administration (SBA) made certain loans available to companies making US payrolls in order to assist the companies and minimize payroll disruptions. Petro-Victory applied for and received a loan of $28,900 for such purposes. It is probable that the loan will be partially or totally forgivable by the SBA and not have to be repaid, but final forgiveness by the SBA has not yet been received. Accordingly, the loan remains outstanding and is included in long-term debt. The loan bears interest at 1% per annum and is due on May 9, 2022.

At December 31, 2020, the Corporation was unable to make the quarterly interest payments due to the two primary lenders, but has received waivers from each lender. Accrued interest payable to the two secured lenders of $306,838 has been recorded in accrued liabilities at December 31, 2020 (2019 - $nil).

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.

10. LONG-TERM DEBT AND DERIVATIVE WARRANT LIABILITY (continued)

Warrants (adjusted to reflect January 2020 share consolidation):

	December 31, 2020			December 31, 2019		
	#		**Weighted average exercise price (CDN)**	#		Weighted average exercise price (CDN)
Outstanding, beginning of year	**762,500**	**$**	**2.00**	105,000	$	2.00
Issued	**-**		**-**	657,500		2.00
Outstanding, end of year	**762,500**	**$**	**2.00**	762,500	$	2.00
Exercisable, end of year	**762,500**	**$**	**2.00**	762,500	$	2.00

The details of the warrants outstanding at December 31, 2020 are as follows:

Warrants outstanding	**Weighted average exercise price (CDN)**	**Warrants exercisable**	**Weighted average years to expiry**
762,500	2.00	762,500	1.97

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, 2020 to be $65,800 (2019 - $299,100). The net change in the fair value of the derivative liability is credited to the Statement of Operations and Comprehensive Income (Loss) and resulted in recognizing a $233,300 gain (2019 - $237,000 loss) for the year ended December 31, 2020. The average fair values of each warrant at December 31, 2020 were $0.086 (2019 - $0.40).

11. 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 assets and liabilities is noted in the following table:

December 31, 2020	**Brazil**	**Paraguay**	**United States**	**Total**
Cash	$ 829,673	$ 427	$ 3,857	$ 833,957
Restricted cash	1,151,631	-	-	1,151,631
Exploration and evaluation assets	22,520	-	-	22,520
Property, plant equipment	1,761,201	-	-	1,761,201
Deposits	909,151	-	-	909,151
Accounts payable	614,829	6,293	625,296	1,246,418
Accrued liabilities	-	-	2,206,104	2,206,104
Decommissioning obligations	195,086	-	-	195,086
Long-term debt	-	-	3,386,754	3,386,754

December 31, 2019	Brazil	Paraguay	United States	Total
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

12. FINANCIAL INSTRUMENT RISKS AND CONCENTRATIONS

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

Fair value

The fair values of cash, restricted cash accounts payable and accrued liabilities approximate 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.

12. 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 2). 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. Following are the contractual maturities of financial liabilities including expected interest payments at each year-end:

December 31, 2020	**Contractual cash flows**	**Less than one year**	**1 - 3 years**
Accounts and income taxes payable	$ 1,419,555	$ 1,419,555	$ -
Accrued liabilities	2,206,104	2,206,104	-
Long-term debt and related interest payable	3,821,644	1,662,849	2,158,795
	$ 7,447,303	**$ 5,288,508**	**$ 2,158,795**

December 31, 2019	**Contractual cash flows**	**Less than one year**	**1 - 3 years**
Accounts payable	$ 1,042,650	$ 1,042,650	$ -
Accrued liabilities	1,229,555	1,229,555	-
Long-term debt	4,128,280	-	4,128,280
	$ 6,400,485	**$ 2,272,205**	**$ 4,128,280**

12. 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 30, 2020 or December 31, 2019 to mitigate this risk.

13. 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 years ended December 31, 2020 and 2019, the Corporation incurred $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 $51,843 (December 31, 2019 - $39,843) in respect of these amounts.

For the years ended December 31, 2020 and 2019, the Corporation incurred $24,000 in consulting fees billed by members of management (Country Directors). Included in accrued liabilities is $51,000 (December 31, 2019 - $42,000) owing to these individuals.

As at December 31, 2020, there are accrued and unpaid payroll and related charges of $1,606,307 (December 31, 2019 - $1,059,289) owing to officers and directors.

As at December 31, 2020, there are advances owing to related parties of $170,000 (December 31, 2019 - $47,152) included in accounts payable and accrued liabilities. During 2020, no interest was charged ($2019 - $3,000) on these balances.

The compensation paid or payable to key management for services is shown below:

	December 31, 2020	December 31, 2019
Salaries and director fees	**$ 914,000**	$ 689,000
Consulting fees	**24,000**	24,000
Share-based compensation expense	**319,798**	6,858
	$ 1,257,798	$ 719,858

14. 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. There have been no changes in the composition of capital.

15. COMMITMENTS AND CONTINGENCIES

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 2021 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.

16. SUBSEQUENT EVENT

On November 24, 2020, the Corporation announced that it had signed a term sheet to enter into a series of transactions expected to increase capitalization, align with an investment fund, and obtain $5 million of working capital through a secured debt issuance. The complexity of the transactions and multiple approvals required have delayed the closing; however, the Corporation expects to complete the transaction.