PETRICHOR ENERGY INC.

Condensed Consolidated Interim Financial Statements

Six Months Ended June 30, 2021

Expressed in Canadian Dollars - unaudited

NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements have been prepared by and are the responsibility of the management.

The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

VANCOUVER, BC
August 24, 2021

Petrichor Energy Inc.
Condensed Consolidated Interim Statements of Financial Position
(Expressed in Canadian dollars - unaudited)

	Note		June 30, 2021		December 31, 2020
ASSETS					
Current assets					
Cash		$	795	$	73
Accounts receivable	4		521		239
Short-term investments	5		228		6,000
TOTAL ASSETS		**$**	**1,544**	**$**	**6,312**
LIABILITIES					
Current liabilities					
Trade payables and accrued liabilities	8	$	135,979	$	148,970
Due to related parties	13		3,306,156		3,191,622
Due to shareholders	10		1,408,641		1,395,014
Convertible debentures	9		5,893,826		5,685,914
TOTAL LIABILITIES			10,744,602		10,421,520
DEFICIENCY					
Share capital	12		65,209,036		65,209,036
Reserves	12		5,800,263		5,800,263
Deficit			(81,752,357)		(81,424,507)
TOTAL DEFICIENCY			(10,743,058)		(10,415,208)
TOTAL LIABILITIES AND DEFICIENCY		**$**	**1,544**	**$**	**6,312**

Nature and continuance of operations (Note 1)
Commitments (Notes 9 and 10)

Approved by the Directors:

"Richard Barnett"

"Joe DeVries"

Petrichor Energy Inc.
Condensed Consolidated Interim Statements of Comprehensive Income (loss)
Six months ended June 30, 2021 and 2020
(Expressed in Canadian dollars - unaudited)

		Six months ended		Three months ended	
	Note	**June 30, 2021**	**June 30, 2020**	**June 30, 2021**	**June 30, 2020**
Expenses					
Consulting and management fees	13	9,000	9,569	4,500	4,499
Foreign exchange loss (gain)		(25,967)	81,085	(13,796)	(272)
General and administrative	13	40,276	38,657	21,721	25,693
Interest and finance fees	8, 9, 10 & 13	298,769	300,478	149,732	150,074
		322,078	429,789	162,157	179,994
Net loss from operations		(322,078)	(429,789)	(162,157)	(179,994)
Unrealized gain (loss) on short-term investments		(5,772)	11	(5,772)	11
Gain on settlement on Marble Falls Prospect	6,7,8 & 11	-	3,495,417	-	-
Net income (loss) and comprehensive income (loss)		$ (327,850)	$ 3,065,639	$ (167,929)	$ (179,983)
Income (loss) per share – basic and diluted		**$ (0.01)**	**$ 0.09**	**$ (0.00)**	**$ (0.01)**
Weighted average number of shares outstanding – basic and diluted		**35,288,809**	**35,288,809**	**35,288,809**	**35,288,809**

See accompanying notes to the condensed consolidated interim financial statements

Petrichor Energy Inc.
Condensed Consolidated Interim Statements of Changes in Deficiency
Six months ended June 30, 2021 and 2020
(Expressed in Canadian dollars - unaudited)

	Share capital		Reserves			
	Number of shares	**Amount**	**Share-based payment reserve**	**Equity component of convertible debenture**	**Deficit**	**Total**
Balance at January 1, 2020	**35,288,809**	**$ 65,209,036**	**$ 5,479,624**	**$ 320,639**	**$ (84,220,217)**	**$ (13,210,918)**
Comprehensive income	-	-	-	-	3,065,639	3,065,639
Balance at June 30, 2020	**35,288,809**	**$ 65,209,036**	**$ 5,479,624**	**$ 320,639**	**$ (81,154,578)**	**$ (10,145,279)**
Balance at December 31, 2020	35,288,809	$ 65,209,036	$ 5,479,624	$ 320,639	$ (81,424,507)	$ (10,415,208)
Comprehensive loss	-	-	-	-	(327,850)	(327,850)
Balance at June 30, 2021	**35,288,809**	**$ 65,209,036**	**$ 5,479,624**	**$ 320,639**	**$ (81,752,357)**	**$ (10,743,058)**

See accompanying notes to the condensed consolidated interim financial statements

Petrichor Energy Inc.
Condensed Consolidated Interim Statements of Cash Flows
Six months ended June 30, 2021 and 2020
(Expressed in Canadian dollars – unaudited)

	2021	2020
Operating activities		
Net income (loss)	$ (327,850)	$ 3,065,639
Adjustments for non-cash items:		
Interest and finance fees expense	298,769	300,478
Foreign exchange loss (gain)	(25,237)	79,750
Unrealized loss (gain) on short-term investments	5,772	(11)
Gain on settlement on Marble Fall Prospect	-	(3,495,417)
Changes in non-cash working capital items:		
Accounts receivable	(282)	(532)
Trade payables and accrued liabilities	26,350	17,101
Net cash flows used in operating activities	(22,478)	(32,992)
Financing activities		
Amounts advanced from related parties	23,200	32,950
Net cash flows provided by financing activities	23,200	32,950
Increase (decrease) in cash	722	(42)
Cash, beginning	73	168
Cash, ending	$ 795	$ 126

During the six months ended June 30, 2021 and 2020, there were no other non-cash transactions.

See accompanying notes to the condensed consolidated interim financial statements

1. Nature and continuance of operations

Petrichor Energy Inc. (the "Company") was formed on August 25, 2005, under the Business Corporations Act (B.C.) in British Columbia, Canada, and its principal activity is the acquisition, exploration and development of oil and gas properties. On September 25, 2019, the Company's shares were transferred from the TSX Venture Exchange (the "TSX-V") to the NEX Board under the symbol "PTP.H". The head office and registered and records office of the Company are located at 303-595 Howe Street, Vancouver, British Columbia, Canada, V6C 2T5.

Going concern

These consolidated financial statements are prepared on a going concern basis, which implies the Company will continue realizing its assets and discharging its liabilities in the normal course of business. As at June 30, 2021, the Company had a working capital deficiency of $10,743,058 (December 31, 2020: $10,415,208) and an accumulated deficit of $81,752,357 (December 31, 2020: $81,424,507). The Company will require additional financing in order to meet its current financial obligations and to continue its operations. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. Should the Company be unable to continue as a going concern, the net realizable value of its assets may be materially less than the amounts presented on its statement of financial position.

As a result of the Company not making required principal and interest payments on the convertible debentures (Note 9), the convertible debentures were past due as at June 30, 2021, and the date of the approval of these financial statements, which constitutes an event of default. At June 30, 2021, the balance payable relating to the convertible debentures was $5,893,826 (December 31, 2020: $5,685,914).

Since March 2020, several measures have been implemented in Canada and the rest of the world in response to the increased impact from the novel coronavirus (COVID-19). The Company continues to operate its business at this time. While the impact of COVID-19 is expected to be temporary, the current circumstances are dynamic and impacts of COVID-19 on business operations cannot be reasonably estimated at the time. The Company anticipates this could have an adverse impact on its business, results of operations, financial position and cash flows.

2. Significant accounting policies and basis of preparation

The consolidated financial statements were authorized for issuance on August 24, 2021 by the directors of the Company.

Statement of compliance to International Financial Reporting Standards

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. These condensed consolidated interim financial statements follow the same accounting policies and methods of application as the most recent annual consolidated financial statements of the Company. These interim financial statements do not contain all of the information required for full annual financial statements and should be read in conjunction with the annual audited financial statements for the year ended December 31, 2020.

Basis of preparation

The consolidated financial statements of the Company have been prepared on an accrual basis and are based on historical costs, modified where applicable. The financial statements are presented in Canadian dollars unless otherwise noted. Certain figures in these financial statements may have been reclassified to conform to the current period's presentation.

Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned United States subsidiary, Petrichor Energy (US) Corp. ("Petrichor US").

2. Significant accounting policies and basis of preparation (cont'd)

Significant estimates and assumptions

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the year. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Estimates and assumptions where there is a significant risk of material adjustments to assets and liabilities in future accounting periods include the recoverability of the carrying value of property, plant and equipment and exploration and evaluation assets, fair value measurements for financial instruments and stock-based compensation and other equity-based payments, the recognition and valuation of provisions for restoration and environmental liabilities, and the recoverability and measurement of deferred tax assets and liabilities. Actual results may differ from those estimates.

Significant judgments

The preparation of financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments in applying the Company's financial statements include:

- the assessment of the Company's ability to continue as a going concern and whether there are events or conditions that may give rise to significant uncertainty; and
- the determination of the functional currency of the parent company and its subsidiary to be Canadian dollars

Foreign currency translation

The functional currency of each of the Company's entities is measured using the currency of the primary economic environment in which that entity operates. The financial statements are presented in Canadian dollars which is the company's functional and presentation currency.

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in profit or loss in the statement of comprehensive loss in the period in which they arise, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive income in the statement of comprehensive loss to the extent that gains and losses arising on those non-monetary items are also recognized in other comprehensive income. Where the non-monetary gain or loss is recognized in profit or loss, the exchange component is also recognized in profit or loss.

2. **Significant accounting policies and basis of preparation** (cont'd)

Exploration and evaluation expenditures

Exploration and evaluation expenditures include the costs of acquiring the legal right to explore, technical services and studies, exploration drilling and testing, directly attributed general and administrative costs. These costs are initially capitalized as either tangible or intangible exploration and evaluation assets according to the nature of the assets. Exploration and evaluation expenditures are capitalized. Costs incurred before the Company has obtained the legal rights to explore an area are recognized in profit or loss.

Exploration and evaluation assets are assessed for impairment if sufficient data exists to determine technical feasibility and commercial viability, and facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, exploration and evaluation assets are allocated to cash generating units. Once technical feasibility and commercial viability have been established, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to oil and gas properties and accounted for as property, plant and equipment. Recoverability of the carrying amount of any exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest. In the event of a farm out arrangement, the Company does not record any expenditure made by the farmee on its account. It also does not recognize any gain or loss on its exploration and evaluation farm out arrangements but reallocates any costs previously capitalized in relation to the whole interest as relating to the partial interest retained and any consideration received directly from the farmee is credited against costs previously capitalized. If the consideration exceeds amounts previously capitalized, any excess is recorded in the statement of comprehensive loss.

Property, plant and equipment

Property, plant and equipment, which include oil and gas properties where technical feasibility and commercial viability have been established, are measured at cost less accumulated depletion and depreciation, and adjustments for impairment. Costs include expenditures that are directly attributable to the acquisition of the asset.

Gains and losses on disposal of an item of property, plant and equipment, including oil and gas properties, are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized in profit or loss. Farm-outs of oil and gas properties included in property, plant and equipment are accounted for as a disposition of an interest in the asset in exchange for the fair value of goods and services received pertaining to the Company's retained interest in the asset.

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property, plant and equipment are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. Such costs generally represent amounts incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of oil and gas properties are recognized in profit or loss as incurred.

2. Significant accounting policies and basis of preparation (cont'd)

Depletion and depreciation

Oil and gas properties included in property, plant and equipment are depleted using the unit of production method by reference to the ratio of production in the period to the related proved and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers at least annually. Depletion is calculated separately for each cash-generating unit.

Proved and probable reserves are estimated by independent, qualified reserve engineers 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 probability, to be recoverable in future years from known reservoirs which are considered commercially producible.

Share-based payments

Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the share-based payment reserve. The fair value of options is determined using a Black-Scholes Option Pricing Model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

Income taxes

Current income tax:
Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically valuates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax:
Deferred income tax is provided using the asset and liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

2. Significant accounting policies and basis of preparation (cont'd)

Decommissioning provision

The Company provides for dismantling, decommissioning and site disturbance remediation activities based on current legislation and industry operating practices. Provision is made for the estimated cost of decommissioning obligations and capitalized in the respective asset category unless it arises from the normal course of production activities, in which case it is recognized in profit or loss. Decommissioning obligations are measured at the present value of management's best estimate of expenditures required to settle the present obligation at the date of the statement of financial position. Subsequent to initial measurement, the obligation is adjusted at the end of each reporting 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 a finance cost and increases/decreases due to changes in the estimated future cash flows to decommission the asset are capitalized. Actual costs incurred upon settlement of the site restoration obligations are charged against the provision to the extent the provision was established.

Earnings (loss) per share

Basic earnings or loss per share is calculated by dividing the earnings or loss attributable to common shareholders by the weighted average number of common shares outstanding in the period. For all periods presented, the loss attributable to common shareholders equals the reported loss attributable to owners of the Company. Diluted loss per share is calculated by the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the year. For all periods presented, basic loss per share equals diluted loss per share as the Company either made a loss, or all potentially dilutive instruments were not in the money.

Financial Instruments ("IFRS 9")

Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"); at fair value through other comprehensive income (loss) ("FVTOCI"); or, at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

Measurement

Debt investments at FVTOCI
These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income ("OCI"). On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Equity investments at FVTOCI
These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

2. Significant accounting policies and basis of preparation (cont'd)

Financial Instruments ("IFRS 9") *(cont'd)*

Financial assets and liabilities at amortized cost
Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities at FVTPL
Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statements of comprehensive loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the statements of comprehensive loss in the period in which they arise.

Impairment of financial assets at amortized cost
The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If, at the reporting date, the credit risk of the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve-month expected credit losses. The Company shall recognize in the statements of comprehensive loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

Derecognition
Financial assets
The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the statements of comprehensive loss.

Financial liabilities
The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the statements of comprehensive loss.

3. New standards, interpretations and amendments adopted

Accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a material impact on the Company's financial statements, other than increased disclosure.

4. Accounts receivable

	June 30, 2021	December 31, 2020
GST receivable	$ 521	$ 239
	$ 521	$ 239

During the year ended December 31, 2020, pursuant to a settlement agreement, the Company extinguished trade receivables of $5,575 (Notes 6 and 7).

5. Short-term investments

Short-term investments consist of shares of publicly listed companies which are carried at market value. During the year ended December 31, 2020, $20,650 of short-term investment were impaired due to a trading halt on the marketable security.

6. Property, plant and equipment

	June 30, 2021	December 31, 2020
Balance, beginning	$ -	$ 1
Disposal –Cost	-	(1)
Total	$ -	$ -

During the year ended December 31, 2020, the Company completed a settlement agreement with the operator of the Company's Marble Falls Prospect (Note 7). As the operator had an operator's lien for the unpaid debts on the property of approximately US$2.67 million (Note 8), the operator had a first priority debt. The Company agreed to settle with the operator instead of proceeding through a court judgment, which would have resulted in the loss of Company's rights to the property, and the potential of significant additional damages being awarded plus legal bills. The Company released its claim to any rights it may have had to the leases and wells in the Prospect (Note 7) in exchange for the operator releasing the Company from any and all past claims and obligations for work and commitments relating to the Marble Falls Prospect.

This settlement cleared all of the Company's obligations of approximately US$2.67 million to the operator and eliminated any further actions they make take under the terms of the operator's agreement. Further, this agreement also extinguished trade receivables of CAD$5,575 (Note 4) and decommissioning liabilities of CAD$22,554 (Note 11).

7. Exploration and evaluation assets

	June 30, 2021	December 31, 2020
Balance, beginning	$ -	$ 1
Disposal –Cost	-	(1)
Total	$ -	$ -

Marble Falls Prospect, Texas

In a prior year, the Company entered into a participation agreement to acquire a 50% working interest in the Marble Falls Prospect in Texas. On October 17, 2013, the Company acquired an additional 16.66% working interest for US$1,387,500 payable on the following terms: US$150,000 down payment (paid), US$637,500 upon the closing of the November 2013 private placement (paid), and US$600,000 to be paid from (i) 15% of the net revenue received by the Company on any wells drilled and producing on the Marble Falls Prospect and (ii) 15% of any future equity financings with the balance payable by January 31, 2015.

As at December 31, 2019, a liability of $551,990 represented the remaining obligation for this land purchase commitment, which, until it was paid, did not confer ownership. The Marble Falls Prospect served as security for the convertible debentures issued by the Company during the year ended December 31, 2013 (Note 9), but was first subject to an operator's lien for costs incurred but unpaid.

7. Exploration and evaluation assets (cont'd)

In a prior year, the vendor served notice of default and took action under the terms of the operator's agreement that would cause the Company to forfeit parts or all of its interests in the Marble Falls Prospect. During the year ended December 31, 2018, the Company recognized an impairment on the Marble Falls Prospect in the amount of $2,599,195.

As at December 31, 2019, the Company owed the operator of the Marble Falls Prospect $3,478,438 (US$2,678,195) relating to its share of costs incurred, inclusive of the $551,990 land purchase commitment, and the operator had filed an operator's lien against the properties.

During the year ended December 31, 2020, pursuant to a settlement agreement, the Company surrendered title to the Marble Falls Prospect (Note 6), and the Company recognized a gain of $3,495,417 on the debt settlement.

8. Trade payables and accrued liabilities

	June 30, 2021	December 31, 2020
Trade payables	$ 122,952	$ 134,345
Accrued liabilities	13,027	14,625
	$ 135,979	$ 148,970

During the year ended December 31, 2020, pursuant to a settlement agreement, the Company settled debt of $3,478,438 (US$2,678,195) relating to its share of costs incurred, inclusive of the $551,990 land purchase commitment due to BlakEnergy Ltd., the operator of the Marble Falls Prospect (Note 7).

9. Convertible debentures

On September 26, 2013, the Company completed a convertible debenture financing totaling $3,400,000. The convertible debentures are past due which constitutes an event of default. Upon the approval by the debenture holders, the trustee may give notice to the Company that all unpaid principal and interest are immediately due and payable. The trustee may further, if required by the convertible debenture holders, commence proceedings to take possession of any or all of the secured assets which include the Marble Falls Prospect subject to the vendor's and operator's liens and rights under their agreements (Note 7).

The debentures bear interest at 12% per annum, payable quarterly. The balance of the convertible debenture is calculated as follows:

	June 30, 2021	December 31, 2020
Convertible debentures balance forward	$ 5,685,914	$ 5,270,090
Interest accrued and payable	207,912	415,824
Balance	$ 5,893,826	$ 5,685,914

The convertible debentures matured September 26, 2016 and have not been paid.

10. Due to shareholders

Due to shareholders relates to amounts advanced by shareholders and is comprised of loans as follows:

A US$30,000 unsecured loan advanced on December 31, 2012 that accrues interest at 1% per month, repayable on demand;

The balance of advances from numerous shareholders received in 2013 totaling $72,767. These amounts are unsecured, non-interest bearing with no fixed terms for repayment;

A $75,000 unsecured loan advanced December 29, 2014, net of a fixed fee of $7,500, accruing interest at 1% per month, repayable on demand;

A US$186,000 unsecured loan advanced on December 30, 2014 net of a fixed fee of US$9,300, accruing interest at 1% per month, repayable on demand;

The balance of advances received from several shareholders in 2014 totaling $175,000. These amounts are unsecured, non-interest bearing with no fixed terms for repayment;

A US$200,000 unsecured loan advanced on April 22, 2015, accruing interest at 1% per month, repayable on demand; and

A $46,845 unsecured loan advanced on June 29, 2015, accruing interest at 1% per month, repayable on demand.

A continuity of the due to shareholders balance is as follows:

	June 30, 2021	December 31, 2020
Balance, beginning	$ 1,395,014	$ 1,333,223
Accrued interest	38,864	83,611
Foreign exchange on amounts advanced	(25,237)	(21,820)
	$ 1,408,641	$ 1,395,014

11. Decommissioning provision

At December 31, 2019, the Company had a decommissioning provision of $22,554 related to its oil and gas wells (Note 6).

During the year ended December 31, 2020, pursuant to a settlement agreement, the Company settled the decommissioning provision of $22,554 on the Marble Falls Prospect (Note 6).

12. Share capital and reserves

Authorized share capital

The Company has authorized an unlimited number of common shares without par value and an unlimited number of preferred shares without par value. At June 30, 2021, there were 35,288,809 (December 31, 2020: 35,288,809) issued and fully paid common shares.

Stock options

The Company has adopted a 10% rolling stock option plan which provides that the Board of Directors may, in accordance with TSX-V requirements, grant options to directors, officers, employees, and consultants of the Company, provided that the number of options will not exceed 10% of the Company's issued and outstanding common shares. Option vesting terms are established upon grant, at the discretion of the Board of Directors.

12. Share capital and reserves (cont'd)

No stock options were granted during the period ended June 30, 2021 and 2020. There were no outstanding stock options as at June 30, 2021 and December 31, 2020.

Warrants

There were no warrants outstanding as at June 30, 2021 and December 31, 2020, and no transactions during the periods then ended.

Share-based payment reserve

The share-based payment reserve records items recognized as stock-based compensation expense until the options are exercised, at which time the corresponding amount will be transferred to share capital.

Equity component reserve

The equity component reserve consists of the equity portion of convertible debt, offset by the related deferred income tax recovery.

13. Related party transactions

Related party balances

Amounts due to related parties consist of charges accrued for office administration, management fees and loans to the Company. These amounts are due to directors, officers, or companies controlled by directors or officers. These amounts are unsecured and are due on demand.

The following amounts are due to related parties:

	June 30, 2021	**December 31, 2020**
Accrued payables to companies controlled by the CEO or CFO	$ 2,423,257	$ 2,331,923
Loans from a company controlled by the CEO with interest at 12% per annum	882,899	859,699
	$ 3,306,156	$ 3,191,622

Related party transactions

	Six Months Ended	
	June 30, 2021	**June 30, 2020**
Management fees incurred with companies controlled by the CEO or the CFO	$ 9,000	$ 9,000
Interest costs at 12% per annum on unsecured loans advanced to the Company by a company controlled by the CEO	51,993	49,473
General and administrative fees incurred with a company controlled by the CEO	30,341	27,065
	$ 91,334	$ 85,538

13. Related party transactions (cont'd)

Key management personnel compensation

	Six Months Ended	
	June 30, 2021	**June 30, 2020**
Management fees	$ 9,000	$ 9,000

14. Financial risk and capital management

The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is as follows:

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash held in bank accounts. The majority of cash is deposited in bank accounts held with major banks in Canada. As most of the Company's cash is held by a bank there is a concentration of credit risk. This risk is managed by using a major bank that is a high credit quality financial institution, as determined by rating agencies. The Company's secondary exposure to risk is on accounts receivable which mainly consisted of tax recoverable from the government. This risk is assessed as low.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company's ability to continue as a going concern is dependent on management's ability to raise required funding through future equity issuances. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments.

Historically, the Company's main source of funding has been the issuance of equity securities for cash, primarily through private placements. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity funding. This risk is assessed as high.

Foreign exchange risk

Foreign exchange risk is the risk that the future fair value of cash flows of a financial instrument will fluctuate because of changes in the foreign exchange rates. The Company's financial results are reported in Canadian dollars while it conducts a significant portion of its business activities in US dollars. The assets, liabilities and expenses that are denominated in US Dollars will be affected by changes in the exchange rate between the Canadian dollar and the US Dollar.

14. Financial risk and capital management (cont'd)

The following is an analysis of Canadian dollar equivalent of financial assets and liabilities that are denominated in US Dollars:

		June 30, 2021		December 31, 2020
Cash	$	72	$	73
Trade payables		(24,007)		(24,757)
Due to shareholders		(937,823)		(935,169)
	$	(961,758)	$	(959,853)

Based on the above net exposures, as at June 30, 2021, a 1% change in the US Dollar against the Canadian dollar exchange rate would impact the Company's net income or loss by approximately $9,600.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not currently exposed to significant interest rate risk as it does not hold any debt that bears interest at variable rates.

Capital management

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern such that it can provide returns for shareholders and benefits for other stakeholders.

The Company considers the items included in shareholders' equity as capital. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust its capital structure, the Company may issue new shares, sell assets to settle liabilities or return capital to its shareholders. The Company is not exposed to externally imposed capital requirements. There have been no changes to the Company's capital management structure during the period ended June 30, 2021.

Classification of financial instruments

Financial assets included in the statement of financial position are as follows:

		June 30, 2021		December 31, 2020
At amortized cost:				
Accounts receivable	$	521	$	239
Fair value through profit and loss:				
Cash		795		73
Short-term investments		228		6,000
	$	1,544	$	6,312

14. Financial risk and capital management (cont'd)

Financial liabilities included in the statement of financial position are as follows:

	June 30, 2021	December 31, 2020
At amortized cost:		
Trade payables	$ 135,979	$ 148,970
Due to related parties	3,306,156	3,191,622
Due to shareholders	1,408,641	1,395,014
Convertible debentures	5,893,826	5,685,914
	$ 10,744,602	$ 10,421,520

15. Segmented information

Operating segments

The Company operates in a single reportable operating segment – the acquisition, exploration and development of oil and gas properties.

Geographic segments

The Company's property, plant and equipment and all revenue sources were located in the USA.