

PETROX RESOURCES CORP.

Financial Statements

December 31, 2021 and 2020

PETROX RESOURCES CORP.
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For the years ended December 31, 2021 and 2020

FINANCIAL STATEMENTS

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To the Shareholders of PETROX Resources Corp.:

Opinion

We have audited the financial statements of PETROX Resources Corp. (the "Corporation"), which comprise the statements of financial position as at December 31, 2021 and December 31, 2020, and the statements of net income (loss) and comprehensive income (loss), changes in shareholders' equity (deficiency) and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2021 and December 31, 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audits of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

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

In connection with our audits of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation'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 Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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 auditor's report is Brad Frampton.

Calgary, Alberta

April 28, 2022

MNP LLP

Chartered Professional Accountants

MNP

PETROX RESOURCES CORP.
Statements of Financial Position
As at December 31,
(Stated in Canadian Dollars)

	Note	December 31, 2021 (\$)	December 31, 2020 (\$)
ASSETS			
CURRENT			
Cash		134,010	70,126
Trade and other receivables		50,166	42,177
Prepaid expense		638	638
TOTAL CURRENT ASSETS		184,814	112,941
NON-CURRENT			
Property and equipment	5	272,020	236,529
TOTAL ASSETS		456,834	349,470
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)			
CURRENT			
Trade and other payables		68,207	61,455
NON-CURRENT			
Decommissioning obligations	6	384,093	394,973
TOTAL LIABILITIES		452,300	456,428
SHAREHOLDERS' EQUITY (DEFICIENCY)			
Share capital	7	4,174,166	4,174,166
Contributed surplus		2,304,548	2,304,548
Deficit		(6,474,180)	(6,585,672)
TOTAL SHAREHOLDERS' EQUITY (DEFICIENCY)		4,534	(106,958)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)		456,834	349,470

ON BEHALF OF THE BOARD OF DIRECTORS

(Signed) "Edwin Tam"

(Signed) "Alan P. Chan"

PETROX RESOURCES CORP.
Statements of Net Income (Loss) and Comprehensive Income (Loss)
For the years ended December 31,
(Stated in Canadian Dollars)

	Note	December 31, 2021	December 31, 2020
		(\$)	(\$)
REVENUE			
Production revenue		602,212	314,252
Royalties		(21,225)	(9,753)
		580,987	304,499
EXPENSES			
Operating costs		299,978	285,251
General and administrative fees		215,888	241,255
Depletion and depreciation	5	46,190	48,728
Impairment (reversal of impairment) of assets	5	(102,000)	142,078
Accretion	6	9,439	6,141
		469,495	723,453
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)		111,492	(418,954)
INCOME (LOSS) PER SHARE			
Basic and diluted		0.002	(0.008)
WEIGHTED AVERAGE COMMON SHARES			
Basic and diluted		55,132,258	55,132,258

The accompanying notes are an integral part of the financial statements.

PETROX RESOURCES CORP.
Statements of Changes in Shareholders' Equity (Deficiency)
(Stated in Canadian Dollars)

	Share Capital				Total Shareholders' Equity
	Number of Shares	Share capital	Contributed Surplus	Deficit	
	(\$)	(\$)	(\$)	(\$)	
As at December 31, 2020	55,132,258	4,174,166	2,304,548	(6,585,672)	(106,958)
Net income and comprehensive income	-	-	-	111,492	111,492
As at December 31, 2021	55,132,258	4,174,166	2,304,548	(6,474,180)	4,534

	Share Capital				Total Shareholders' Equity
	Number of Shares	Share capital	Contributed Surplus	Deficit	
	(\$)	(\$)	(\$)	(\$)	
As at December 31, 2019	55,132,258	4,174,166	2,304,548	(6,166,718)	311,996
Net loss and comprehensive loss	-	-	-	(418,954)	(418,954)
As at December 31, 2020	55,132,258	4,174,166	2,304,548	(6,585,672)	(106,958)

The accompanying notes are an integral part of the financial statements.

PETROX RESOURCES CORP.
Statements of Cash Flows
For the years ended December 31,
(Stated in Canadian Dollars)

	Note	December 31, 2021	December 31, 2020
		(\$)	(\$)
OPERATING ACTIVITIES			
Net income (loss)		111,492	(418,954)
Items not affecting cash:			
Depletion and depreciation	5	46,190	48,728
Accretion expense	6	9,439	6,141
Impairment (reversal) of assets	5	(102,000)	142,078
Changes in non-cash working capital:			
Trade and other receivables		(7,989)	12,824
Prepaid expenses		-	1,050
Trade and other payables		6,752	3,349
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		63,884	(204,784)
INCREASE (DECREASE) IN CASH		63,884	(204,784)
Cash - beginning of year		70,126	274,910
CASH - END OF YEAR		134,010	70,126

The accompanying notes are an integral part of the financial statements.

PETROX RESOURCES CORP.
Notes to the Financial Statements
For the years ended December 31, 2021 and 2020

1. NATURE OF OPERATIONS

Petrox Resources Corp. (“Petrox” or the “Corporation”) is a public company (TSXV: PTC) incorporated under the Business Corporations Act (Alberta) on February 25, 2011. The principal business of the Corporation is the acquisition, exploration, development and production of petroleum and natural gas in Canada.

These financial statements were authorized for issue by the Board of Directors on April 28, 2022. The Corporation’s registered office is 1250, 639 – 5th Avenue S.W., Calgary, Alberta T2P 0M9.

2. BASIS OF PRESENTATION, STATEMENT OF COMPLIANCE AND GOING CONCERN

These financial statements have been prepared in accordance and compliance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”) in effect at January 1, 2021.

IFRS was applied on a going concern basis, which assumes that the Corporation will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a forced liquidation. For the year ended December 31, 2021, the Corporation had a net income of \$111,492 (2020 - loss of \$418,954) and cash flows from operating activities of \$63,884 (2020 - negative cashflow of \$204,784) and, as at December 31, 2021, had an accumulated deficit of \$6,474,180 (2020 - \$6,585,672).

Recent developments of COVID-19 and global oil price fluctuation have also impacted the Corporation’s profitability. These financial statements do not give effect to adjustments that would be necessary to the carrying amounts and classifications of assets and liabilities should the Corporation be unable to continue as a going concern.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of Measurement

The financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value with changes in fair value recorded in loss.

Functional Currency

The presentation currency and functional currency of the Corporation is the Canadian dollar.

Cash

Cash consist of amounts on deposit with banks.

Exploration and Evaluation Assets

Exploration and evaluation costs include the costs of acquiring licenses, exploratory drilling, geological and geophysical activities, acquisition of mineral and surface rights, directly attributable general and administrative expenses and technical studies. Exploration and evaluation costs are capitalized as exploration and evaluation assets when the technical feasibility and commercial viability of extracting oil and natural gas reserves have yet to be determined. Exploration and evaluation assets are measured at cost and are not depleted or depreciated. Exploration and evaluation assets, net of any impairment loss, are transferred to property and equipment when proved and/or probable reserves are determined to exist.

PETROX RESOURCES CORP.
Notes to the Financial Statements
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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount exceeds the recoverable amount. Exploration and evaluation assets are also assessed for impairment upon their reclassification to property and equipment. For purposes of impairment testing, exploration and evaluation assets are allocated to appropriate cash-generating units.

Property and Equipment

All costs directly associated with the development of oil and natural gas interests are capitalized on an area-by-area basis as oil and natural gas interests and are measured at cost less accumulated depletion and depreciation and net impairment losses. These costs include expenditures for areas where technical feasibility and commercial viability has been determined. These costs include property acquisitions with proved and/or probable reserves, development drilling, completion, gathering and infrastructure, decommissioning liabilities and transfers of exploration and evaluation assets.

Costs of replacing parts of property 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 loss as incurred. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in income as incurred.

Disposals of property and equipment are measured at fair value unless the transactions lack commercial substance or that neither the fair value of the asset received, nor the asset given up can be reliably estimated. The cost of the acquired asset is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. Any gain or loss on the disposal of the property and equipment is measured as the difference between the asset's carrying value and the proceeds received on disposition.

Furniture and fixtures are depreciated on a straight-line basis over periods ranging from two to five years.

Depletion and Depreciation

Oil and natural gas interests are depleted using the unit-of-production method by reference to the ratio of production in the year to the related proved and probable reserves, taking into account estimated future development costs. Production and reserves of natural gas are converted to equivalent barrels of crude oil on the basis of six thousand cubic feet of natural gas to one barrel of oil. Changes in estimates used in prior periods, such as proved and probable reserves, that affect the unit-of-production calculations are dealt with on a prospective basis.

Processing facilities and well equipment are depleted using the unit-of-production method along with the related reserves when the assets are designed to have a life similar to the reserves of the related wells with little to no residual value. Where facilities and equipment, including major components, have differing useful lives, they are depreciated separately on a straight-line basis over the estimated useful life of the facilities and equipment and other related components.

PETROX RESOURCES CORP.
Notes to the Financial Statements
For the years ended December 31, 2021 and 2020

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of Non-Financial Assets

The carrying amounts of the Corporation's non-financial assets are reviewed for indicators of impairment at each reporting date. If indicators of impairment exist, the recoverable amount of the asset is estimated.

For the purposes of assessing impairment, exploration and evaluation assets and property and equipment are grouped into cash-generating units ("CGUs"), defined as the lowest levels for which there are separately identifiable independent cash inflows. Goodwill, if any, is allocated to the CGUs that are expected to benefit from the synergies of the business combination creating the goodwill. Exploration and evaluation assets are tested with the associated CGU for which the activity can be attributed or separately where an associated CGU does not exist for the exploration and evaluation activity.

The recoverable amount of a CGU is the greater of its fair value less costs to sell and its value in use. Fair value is determined to be the amount for which the asset could be sold in an arm's length transaction between knowledgeable and willing parties. Fair value less costs to sell may be determined using discounted future net cash flows of proved and probable reserves using forecast prices and costs and including future development costs. These cash flows are discounted at an appropriate discount rate which would be applied by a market participant. Value in use is determined by estimating the present value of the future net cash flows to be derived from the continued use of the cash-generating unit in its present form. These cash flows are discounted at a rate based on the time value of money and risks specific to the CGU.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its recoverable amount. An impairment loss recognized in respect of a CGU is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis. Impairment losses are recognized in comprehensive loss.

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 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, if no impairment loss had been recognized. A goodwill impairment loss is not reversed.

Revenue from Contracts with Customers

The Corporation principally generates revenue from the sale of commodities, which include crude oil and natural gas. Revenue associated with the sale of commodities is recognized when control is transferred from the Corporation to its customers. The Corporation's commodity sale contracts represent a series of distinct transactions. The Corporation considers its performance obligations to be satisfied and control to be transferred when all the following conditions are satisfied:

- The Corporation has transferred title and physical possession of the commodity to the buyer;
- The Corporation has transferred significant risks and rewards of ownership of the commodity to the buyer;
- and,
- The Corporation has the present right to payment.

Revenue is measured based on the consideration specified in a contract with the customer. Payment terms for the Corporation's commodity sales contracts are on the 25th of the month following delivery. The Corporation does not have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a result, the Corporation does not adjust its revenue transactions for the time value of money. Revenue represents the Corporation's share of commodity sales net of royalty obligations to governments and other mineral interest owners.

PETROX RESOURCES CORP.
Notes to the Financial Statements
For the years ended December 31, 2021 and 2020

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from Contracts with Customers (continued)

The Corporation has applied the practical expedient to recognize revenue in the amount to which the Corporation has the right to invoice. As such, no disclosure is included relating to the amount of transaction price allocated to remaining performance obligations and when these amounts are expected to be recognized as revenue.

Revenue in the statement of net loss and comprehensive loss represents the Corporation's share of product sales net of royalty payments to governments and other mineral interest owners.

Financial Instruments

The Corporation measures its financial assets and financial liabilities at fair value on initial recognition, which is typically the transaction price unless a financial instrument contains a significant financing component. Subsequent measurement is dependent on the financial instrument's classification which in the case of financial assets, is determined by the context of the Corporation's business model and the contractual cash flow characteristics of the financial asset. Financial assets are classified into two categories: (1) measured at amortized cost and (2) fair value through profit and loss ("FVTPL"). Financial liabilities are subsequently measured at amortized cost, other than financial liabilities that are measured at FVTPL or designated as FVTPL where any change in fair value resulting from an entity's own credit risk is recorded as other comprehensive income ("OCI").

Amortized Cost

The Corporation classifies its trade and other receivables and trade and other payables as measured at amortized cost. The contractual cash flows received from the financial assets are solely payments of principal and interest and are held within a business model whose objective is to collect the contractual cash flows. These financial assets and financial liabilities are subsequently measured at amortized cost using the effective interest method.

FVTPL

The Corporation classifies its cash as measured at FVTPL. Financial assets and liabilities classified as FVTPL are subsequently measured at fair value with changes in fair value charged immediately to the statements of income (loss) and comprehensive income (loss).

Impairment of Financial Assets

The Corporation's trade and other receivables are considered collectible within one year or less; therefore, these financial assets are not considered to have a significant financing component and a lifetime expected credit loss ("ECL") is measured at the date of initial recognition of the trade and other receivables.

The Corporation's trade and other receivables are subject to the ECL model under IFRS 9. For the trade and other receivables, the Corporation applies the simplified approach to providing for ECL prescribed by IFRS 9, which requires the use of the lifetime expected loss provision for all trade receivables. In estimating the lifetime expected loss provision, the Corporation considered historical industry default rates as well as credit ratings of major customers.

Fair Value Hierarchy

IFRS 7 establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value as follows:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as price) or indirectly (i.e., derived from prices); and

PETROX RESOURCES CORP.
Notes to the Financial Statements
For the years ended December 31, 2021 and 2020

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Hierarchy (continued)

- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Taxes

Tax expense comprises current and deferred tax. Tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income, in which case the tax is also recognized directly in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted, or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years. Current tax assets and current tax liabilities are only offset if a legally enforceable right exists to offset the amounts, and the Corporation intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Deferred tax is recognized in respect of all qualifying temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the statement of financial position date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

Share Capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity, net of tax when deemed recoverable.

Basic and Diluted Income (Loss) Per Share

Basic income (loss) per share is computed by dividing the net income (loss) applicable to common shares by the weighted average number of common shares outstanding for the relevant period. Diluted income (loss) per share is computed by dividing the net income (loss) applicable to common shares by the sum of the weighted average number of common shares issued and outstanding and all additional common shares that would have been outstanding if potentially dilutive instruments were converted.

Changes in Accounting Policy

In October 2018, the international Accounting Standards Board issued “Definition of a Business (Amendments to IFRS 3)”. The amendments clarify the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendment provides an assessment framework to determine when a series of integrated activities is not a business. The amendments are effective for business combinations occurring on or after the beginning of the first annual reporting period beginning on or after January 1, 2020. The Corporation adopted the amendments prospectively on the effective date of January 1, 2020 and there was no impact to the Corporation’s financial statements.

There are no additional accounting standards that have been issued that have a material impact on the Corporation’s financial statements.

PETROX RESOURCES CORP.
Notes to the Financial Statements
For the years ended December 31, 2021 and 2020

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting Standard Not Yet Effective

IAS 1, Presentation of Financial Statements IAS 1 – Presentation of Financial Statements (“IAS 1”) was amended in January 2020 to provide a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date. The amendments clarify that the classification of liabilities as current or noncurrent is based solely on a company’s right to defer settlement at the reporting date. The right needs to be unconditional and must have substance. The amendments also clarify that the transfer of a company’s own equity instruments is regarded as settlement of a liability, unless it results from the exercise of a conversion option meeting the definition of an equity instrument. The amendments are effective for annual periods beginning on January 1, 2023.

IAS 37, Provisions, Contingent Liabilities, and Contingent Assets IAS 37 – Provisions, Contingent Liabilities, and Contingent Assets (“IAS 37”) was amended. The amendments clarify that when assessing if a contract is onerous, the cost of fulfilling the contract includes all costs that relate directly to the contract – i.e. a full-cost approach. Such costs include both the incremental costs of the contract (i.e. costs a company would avoid if it did not have the contract) and an allocation of other direct costs incurred on activities required to fulfill the contract – e.g. contract management and supervision, or depreciation of equipment used in fulfilling the contract. The amendments are effective for annual periods beginning on January 1, 2022.

IAS 16, Property, Plant and Equipment IAS 16 – Property, Plant and Equipment (“IAS 16”) was amended. The amendments introduce new guidance, such that the proceeds from selling items before the related property, plant and equipment is available for its intended use can no longer be deducted from the cost. Instead, such proceeds are to be recognized in profit or loss, together with the costs of producing those items. The amendments are effective for annual periods beginning on January 1, 2022. The Company is currently assessing the impact of adopting these pronouncements.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of these financial statements requires management to make judgments and estimates that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these judgments and estimates. The financial statements include judgments and estimates which, by their nature, are uncertain. The impacts of such judgments and estimates are pervasive throughout the financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimates are revised and the revision affects both current and future periods.

Management reviews significant estimates on a periodic basis and, when changes in estimates are necessary, makes adjustments prospectively.

The key sources of estimates and judgments made by management, are as follows:

Exploration and Evaluation Costs

Certain exploration and evaluation costs are initially capitalized with the intent to establish commercially viable reserves. The Corporation is required to make judgments about future events and circumstances and applies estimates to assess the economic viability of extracting the underlying resources. The costs are subject to technical, commercial and management review to confirm the continued intent to develop the project. Level of drilling success, or changes to project economics, resource quantities, expected production techniques, production costs and required capital expenditures, are important judgments when making this determination.

PETROX RESOURCES CORP.
Notes to the Financial Statements
For the years ended December 31, 2021 and 2020

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY
(continued)

Development Costs

Management uses judgment to determine when exploration and evaluation assets are reclassified to Property and Equipment. This decision considers several factors, including the existence of reserves, appropriate approvals from regulatory bodies and the Corporation's internal project approval processes.

Determination of Cash Generating Units

A CGU is defined as the lowest grouping of integrated assets that generate identifiable cash inflows that are largely independent of the cash inflows of other assets or groups of assets. The allocation of assets into CGUs requires significant judgment and interpretations with respect to the integration between assets, the existence of active markets, similar exposure to market risks, shared infrastructures, and the way in which management monitors the operations. Management has determined that the Corporation has one CGU.

Asset Impairment and Reversals

Management applies judgment in assessing the existence of impairment and impairment reversal indicators based on various internal and external factors. The recoverable amount of the CGU and individual assets is determined based on the higher of fair value less costs to sell or value-in-use calculations. The key estimates the Corporation applies in determining the recoverable amount normally include estimated future commodity prices, expected production volumes, future operating and development costs, discount rates, tax rates, and refining margins. In determining the recoverable amount, management may also be required to make judgments regarding the likelihood of occurrence of a future event. Changes to these estimates and judgments will affect the recoverable amounts of the CGU and individual assets and may then require a material adjustment to their related carrying value.

Deferred Taxes

Deferred tax assets are recognized when it is considered probable that deductible temporary differences will be recovered in the foreseeable future. To the extent that future taxable income and the application of existing tax laws in each jurisdiction differ significantly from the Corporation's estimate, the ability of the Corporation to realize the deferred tax assets could be impacted. Deferred tax liabilities are recognized when there are taxable temporary differences that will reverse and result in a future outflow of funds to a taxation authority. The Corporation records a provision for the amount that is expected to be settled, which requires the application of judgment as to the ultimate outcome. Deferred tax liabilities could be impacted by changes in the Corporation's judgment of the likelihood of a future outflow and estimates of the expected settlement amount, and the tax laws in the jurisdictions in which the Corporation operates.

Reserves

Reserves are used in the unit of production calculation for depletion and depreciation, as well as impairment analysis. The quantity of reserves is subject to a number of estimates and projections including assessment of engineering data, projected future rates of production, commodity prices, regulatory changes, operating costs and sustaining capital expenditures. These estimates and projections are uncertain as the Corporation does not have a long commercial production history to assist in the development of these forward-looking estimates. However, all reserve and associated financial information is evaluated and reported on by a firm of qualified independent reserve evaluators in accordance with the standards prescribed by applicable securities regulators. The calculation of future cash flows based on these reserves is dependent on a number of estimates including: production volumes, facility performance, commodity prices, and royalties, operating costs, sustaining capital and tax rates. The price used in the Corporation's assessment of future cash flows is based on the Corporation's independent evaluator's estimate of future prices and evaluated for reasonability by the Corporation against other available information. The Corporation believes these prices are reasonable estimates for a long-term outlook.

PETROX RESOURCES CORP.
Notes to the Financial Statements
For the years ended December 31, 2021 and 2020

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY
(continued)

Decommissioning Liabilities

The Corporation measures decommissioning liabilities at each financial statement date. The estimate is based on the Corporation's share of costs to reclaim the assets and certain facilities. To determine the future value of the liability, estimates of the amount, timing and inflation of the associated abandonment costs are made. The present value of the cost is recorded as the decommissioning liability using a risk-free discount rate. Due to the long-term nature of current and future project developments, abandonment costs will be incurred many years in the future. Because of these factors, different estimates could be used for such abandonment costs and the associated timing. Assumptions of higher future abandonment costs, regulatory changes, higher inflation, lower risk-free rates or an assumption of earlier or specified timing of abandonment would cause the decommissioning liability of the corresponding asset to increase. These changes would also cause future accretion expenses to increase.

5. PROPERTY AND EQUIPMENT

Year ended December 31, 2021	<i>Property & Equipment</i>	<i>Furniture & Fixtures</i>	<i>Total</i>
	(\$)	(\$)	(\$)
Cost			
Beginning balance	3,088,930	2,212	3,091,142
Changes in estimate (Note 6)	(20,319)	-	(20,319)
Ending balance	3,068,611	2,212	3,070,823
Accumulated Depletion			
Beginning balance	(2,852,401)	(2,212)	(2,854,613)
Impairments (reversal)	102,000	-	102,000
Depletion and depreciation	(46,190)	-	(46,190)
Ending balance	(2,796,591)	(2,212)	(2,798,803)
Book Value	272,020	-	272,020

Year ended December 31, 2020	<i>Property & Equipment</i>	<i>Furniture & Fixtures</i>	<i>Total</i>
	(\$)	(\$)	(\$)
Cost			
Beginning balance	3,065,100	2,212	3,067,312
Changes in estimate (Note 6)	23,830	-	23,830
Ending balance	3,088,930	2,212	3,091,142
Accumulated Depletion			
Beginning balance	(2,661,595)	(2,212)	(2,663,807)
Impairments	(142,078)	-	(142,078)
Depletion and depreciation	(48,728)	-	(48,728)
Ending balance	(2,852,401)	(2,212)	(2,854,613)
Book Value	236,529	-	236,529

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5. PROPERTY AND EQUIPMENT (continued)

Impairment reversal

During the year ended December 31, 2021, the Corporation determined that a recovering commodity price was an indicator of reversal of prior impairment and tested its CGU for impairment reversal. The recoverable amount of the CGU was estimated based on the higher of the value in use and the fair value less costs to sell. The estimate of fair value less costs to sell was determined using a cost to sell of 2%, a discount rate of 10% and forecasted cash flows, with escalating prices and future development costs, as obtained from an independent reserve engineer for the Corporation's proved plus probable reserves. The impairment reversal calculations resulted in an impairment reversal of \$102,000 for the year ended December 31, 2021 (2020 – impairment of \$142,078).

During the year ended December 31, 2020, the Corporation determined that a low commodity price was an indicator of impairment and tested its CGU for impairment. The recoverable amount of the CGU was estimated based on the higher of the value in use and the fair value less costs to sell. The estimate of fair value less costs to sell was determined using a cost to sell of 2%, a discount rate of 10% and forecasted cash flows, with escalating prices and future development costs, as obtained from an independent reserve engineer for the Corporation's proved plus probable reserves.

The impairment test was based on the following future prices at December 31, 2021.

Year	Canadian Light Sweet - 40 API (\$/bbl)
2021	55.30
2022	60.14
2023	63.75
2024	67.33
2025	69.11
2026	70.88
2027	72.06

Escalate oil, gas, and product prices at 2.0% per year thereafter.

6. DECOMMISSIONING OBLIGATION

The following table presents the reconciliation of the carrying amount of the obligation associated with the reclamation and abandonment of the Corporation's oil and gas properties:

	<i>Year ended</i> <i>December 31, 2021</i>	<i>Year ended</i> <i>December 31, 2020</i>
	(\$)	(\$)
Beginning balance	394,973	365,002
Accretion	9,439	6,141
Change in estimate	(20,319)	23,830
Ending balance	384,093	394,973

The following assumptions were used to estimate the decommissioning obligation for 2021 and 2020:

	<i>2021</i>	<i>2020</i>
Undiscounted cash flows	\$ 377,659	\$ 377,659
Risk free rate	0.49% - 1.68%	0.20% - 1.32%
Inflation rate	2%	2%
Expected timing of cash flows	2 to 5 years	4 to 7 years

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7. SHARE CAPITAL

(a) Authorized:

Unlimited number of common shares without par value

Unlimited number of preferred shares without par value

Issued:	<i>December 31, 2021</i>		<i>December 31, 2020</i>	
	Number	Amount	Number	Amount
Common shares				
Balance – beginning and end of year	55,132,258	\$ 4,174,166	55,132,258	\$ 4,174,166

(b) Stock Option Plan

No options outstanding as of December 31, 2021 and 2020.

8. RELATED PARTY TRANSACTIONS

The following tables summarize the remuneration of directors and of other members of key management personnel during the periods:

	<i>Year ended December 31, 2021</i>	<i>Year ended December 31, 2020</i>
Consulting fees	\$ 79,050	\$ 74,658

As of December 31, 2021 and 2020, all of the above amounts have been paid.

9. INCOME TAXES

The net income tax provision differs from that expected by applying the combined federal and provincial tax rates due to the following:

	2021	2020
Net income (loss) before income taxes	\$ 111,492	\$ (418,954)
Combined federal and provincial income tax rate	23.00%	23.99%
Expected tax expense (recovery)	25,643	(100,507)
Non-deductible items and other	-	4,159
Tax benefit not recognized	(25,643)	96,348
	\$ -	\$ -

The Corporation has not recognized a deferred tax asset in respect of the following deductible temporary differences:

	2021	2020
Non-capital losses	\$ 4,564,407	\$ 4,266,179
Oil and gas assets	2,055,952	2,461,311
Total deductible temporary differences	\$ 6,620,359	\$ 6,727,490

The Corporation's non-capital losses will expire between 2030 and 2041 if not utilized.

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10. FINANCIAL INSTRUMENTS

The Corporation's financial assets consist of cash and trade and other receivables, and its financial liabilities consist of trade and other payables. Unless otherwise noted, it is management's opinion that the Corporation is not exposed to significant interest or currency arising from these financial instruments. The fair value of these financial instruments approximates their carrying value, unless otherwise noted, due to the short-term maturity of these items.

Credit risk

Credit risk is the risk of financial loss to a Corporation if a counter party to a financial instrument fails to meet its contractual obligations. The Corporation's financial instruments that subject it to credit risk relate to cash in Canadian chartered banks, interest receivable from Canadian chartered banks, goods and services tax recoverable from the federal government, and trade and other receivables. The Corporation considers the risk of default from parties in the oil and gas industry to be low as they are with reputable oil and gas marketers.

The composition of trade and other receivables relates to oil sales which is typically collected in the month following the sales month.

The Corporation considers its receivables to be aged as follows:

	<i>December 31, 2021</i>	<i>December 31, 2020</i>
Current	\$ 50,166	\$ 42,177
Total	\$ 50,166	\$ 42,177

Liquidity risk

Liquidity risk relates to the risk that the Corporation will encounter difficulty in meeting its obligations associated with financial liabilities. The financial liabilities on the statement of financial position consist of trade and other payables. The Corporation anticipates it will have adequate liquidity to fund its financial liabilities. Trade and other payables consist of invoices payable to trade suppliers for general, administrative and capital expenditures and are usually payable in 30 to 90 days.

The following table indicates the contractual maturities for financial liabilities:

	<i>December 31, 2021</i>	<i>December 31, 2020</i>
Current	\$ 68,207	\$ 61,455
Total	\$ 68,207	\$ 61,455

Market risk

Market risk is the risk that changes in market prices, such as currency, commodity and interest will affect the Corporation's net earnings, future cash flows, the value of financial instruments, or the fair value of its assets and liabilities. The Corporation does not procure services denominated in currency other than Canadian dollars. As such, the Corporation is not exposed to foreign currency fluctuations. The Corporation has no debt and as such has no material exposure to interest risk.

Commodity price risk

The nature of the Corporation's operations results in exposure to fluctuations in commodity prices. Commodity prices for petroleum and natural gas are impacted by global economic and political events that dictate the levels of supply and demand. As at December 31, 2021, a 5% change in price of oil would represent a change in net income (loss) for the year ended December 31, 2021 of approximately \$29,000.

11. CAPITAL MANAGEMENT

The Corporation's objectives when managing capital are:

- To safeguard the Corporation's ability to continue as a going concern.
- To maintain appropriate cash reserves on hand to meet ongoing operating costs.
- To invest cash on hand in highly liquid and highly rated financial instruments.

The Corporation's policy is to maintain a strong and stable capital base for the objectives of maintaining financial flexibility, to sustain the development of the Corporation's current capital projects and for future development of the Corporation. The Corporation monitors its working capital and expected capital spending and issues share capital to manage its development plans.

The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Corporation's management. 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.

The Corporation considers its capital structure to be shareholders' equity.