



**2021 YEAR END REPORTING PACKAGE**

**APRIL 27, 2022**

**TSXV: TAL / AIM: PTAL / OTCQX: PTALF**



## PetroTal Announces 2021 Year-End Financial and Operating Results

**Calgary, AB and Houston, TX – April 28, 2022**—PetroTal Corp. ("PetroTal" or the "Company") (TSX-V: TAL, AIM: PTAL and OTCQX: PTALF) is pleased to announce its financial and operating results for the year and three months ("Q4") ended December 31, 2021.

Selected financial, reserves and operational information is outlined below and should be read in conjunction with the Company's audited consolidated financial statements ("Financial Statements"), management's discussion and analysis ("MD&A") and annual information form ("AIF") for the year ended December 31, 2021, which are available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.PetroTal-Corp.com](http://www.PetroTal-Corp.com). Reserve amounts presented herein were derived from an independent reserves report (the "NSAI Report") prepared by Netherland, Sewell & Associates, Inc. ("NSAI") effective December 31, 2021. All amounts herein are in United States dollars ("USD") unless otherwise stated.

### 2021 Significant Milestones and Highlights

- Achieved production of 8,966 barrels of oil per day ("bopd") and sales of 8,449 bopd, up 58% and 48%, respectively, from 2020;
- Recorded a 5<sup>th</sup> straight quarter of production growth; reaching 10,147 bopd in Q4 2021 from 9,508 bopd in Q3 2021;
- Achieved a four year Company target of 20,000 bopd in mid December 2021 underpinned by strong production rates from the newly drilled 8H and 9H wells in late Q3 and Q4 2021 that each reached over 8,500 bopd, respectively;
- Generated record net operating income ("NOI") and EBITDA<sup>(a)</sup> in 2021 of \$105 million and \$90 million, up approximately 3.6x and 5x, respectively, from 2020;
- Generated record funds flow provided by operations<sup>(a)</sup>, before changes in working capital of \$86.7 million, up over 5x from 2020;
- Grew proved plus probable ("2P") and proved plus probable plus possible ("3P") reserves by 53% and 39%, respectively, to 78 and 147 million barrels of oil ("bbl");
- Material progression of 2P after tax net present value discounted at 10% ("NPV-10") reserve value per share of \$1.23, up 62% from 2020;
- Generated 2021 proved ("1P") and 2P reserve replacement ratios of 457% and 816%, respectively; and,
- Created the framework for a social trust representing 2.5% of production, to create long standing alignment between communities and government, with a view to minimizing social downtime, maximizing social profitability, and developing community projects that will have a significant positive impact near the Company's Bretana oilfield.

## Selected Financial and Operational Highlights

(in thousands USD)	Three Months Ended		Twelve Months Ended	
	Dec 31, 2021	Sept 30, 2021	Dec 31, 2021	Dec 31, 2020
<b>Financial</b>				
Crude oil revenues	39,243	44,781	159,189	76,593
Royalties	(2,304)	(2,604)	(8,962)	(2,877)
Net operating income <sup>(1)</sup>	25,726	29,587	104,960	28,881
Commodity price derivative (income)/loss	5,622	(293)	(13,036)	4,788
Net income (loss)	6,843	14,970	63,972	(1,524)
Basic and diluted net income (loss) (US\$/share)	0.01	0.02	0.08	(0.00)
Capital expenditures	26,601	26,114	82,191	42,297
<b>Operating</b>				
Average production (bopd)	10,147	9,508	8,966	5,675
Average sales (bopd)	7,242	9,142	8,449	5,700
Average Brent price (\$/bbl)	79.79	73.21	70.82	43.20
Contracted sales price, gross (\$/bbl)	77.46	71.06	68.22	43.02
Netback (\$/bbl) <sup>(1)</sup>	38.61	35.18	34.03	13.84
Funds flow provided by operations <sup>(2)</sup>	34,714	18,648	77,456	13,341
<b>Balance sheet</b>				
Cash and restricted cash	74,459	57,655	74,459	9,628
Working capital	47,319	56,455	47,319	(22,157)
Total assets	398,288	373,261	398,288	215,138
Current liabilities	84,767	69,785	84,767	58,608
Equity	204,257	195,572	204,257	137,163

(1) Net operating income obtained from revenues less royalties, operating expenses, and direct transportation.

(2) Netback per barrel (“bbl”) and funds flow provided by operations do not have standardized meaning prescribed by GAAP and therefore may not be comparable with the calculation of similar measures for other entities. See “Selected Financial Measures” section.

## 2021 Operational highlights

- **Robust well results.** Completed one deviated and two horizontal oil wells in 2021. Both horizontal wells had the longest laterals ever drilled in Peru with production rates in excess of 8,500 bopd during the first month, and both paying out in under two months. Well 7D, drilled as a deviated well in the spring of 2021, had rates in excess of 4,000 bopd and has produced over 0.5 million bbl in under one year.
- **Infrastructure achievements.** Achieved significant infrastructure milestones in 2021 with the completion of all major construction work on CPF-2 and the completion and coring of an additional water disposal well, essentially doubling water disposal capacity to 100,000 barrels of water per day and allowing the field to produce up to 26,000 bopd of oil.
- **Material reserves increases.** Delivered excellent 2021 reserve report upgrades with increases for 1P, 2P, and 3P reserves by 68%, 53%, and 39% to 37.4, 77.9 and 147.1 million barrels, respectively. In addition, PetroTal was able to decrease 2P Finding and Development Costs (“F&D”) by 6% to \$4.68/bbl while adding seven 2P locations plus related infrastructure, leading to a record 2P after tax NPV-10 of just over \$1 billion.
- **Expanded Brazilian sales.** Created a highly successful third sales route to market into the Atlantic region through Brazil that has surpassed the Northern Peruvian Pipeline (“ONP”) as the Company’s

second most profitable sales route. The first pilot cargo, completed in December 2020 was 106,000 barrels, and during 2021 PetroTal built a strong trusted commercial relationship that will allow Brazilian shipments of 400,000 barrel cargos (without the need for diluent blending), thereby providing a safe and stable offtake of nearly 14,000 bopd at attractive netbacks.

- **Social alignment mechanism established.** In an effort to facilitate long standing alignment between the government and communities, PetroTal announced and submitted a proposal to the Peruvian Ministry of Energy and Mines for creation of a new social trust aimed to promote direct investments into the Loreto region. The fund will be based on 2.5% of crude oil production, payable over two week periods and calculated using the same methodology as Perupetro applies for royalties. The fund committee and investment legal entities are in the process of being created with full transparency and auditability to the public.
- **2021 capital program executed and optimized.** PetroTal's 2021 Capex investment totaled \$82 million in 2021 compared to \$42 million in 2020, which was significantly curtailed due to the COVID-19 pandemic.

## 2021 Financial highlights

- **Leverage to kickstart development.** Successfully executed a \$100 million senior secured bond issue at the trough of the oil price commodity price cycle with payment terms and amortization optimized to impact the Company in a much stronger oil macro backdrop, allowing PetroTal to commence its 2021 capital program in March 2021 with a sound liquidity injection.
- **Record net revenue.** Delivered net revenue after differentials and royalties of \$150 million (\$48.70/bbl) compared to 2020 of \$74 million (\$35.58/bbl).
- **Record net operating income.** Generated record NOI and EBITDA<sup>(a)</sup> of \$105 million (\$34.03/bbl) and \$90 million (\$29.31/bbl), respectively, as compared to \$28.9 million (\$13.84/bbl) and \$18.3 million (\$8.77/bbl), respectively, in 2020.
- **Successful 2021 capital program.** Executed an \$82 million Capex program (originally budgeted at \$101 million), deferring some non-essential infrastructure projects into 2022 to match with higher Brent pricing and more fluid labor movement.
- **Positive 2021 free cash flow.** Generated annual net positive free cash flow<sup>(a)</sup> before changes in non cash working capital and debt service of \$8.4 million, a first for PetroTal.
- **True up revenue realized.** Received true-up payments from Petroperu of approximately \$28.6 million in 2021 from oil reaching the Bayovar port and being sold at a higher price than originally received at pump station 1 of the ONP, enhancing financial metrics, and provided tailwind liquidity throughout the year.
- **Scalable lifting costs.** Maintained total lifting costs between \$5.1 and \$5.5 million per quarter in 2021 demonstrating significant scalability as production grew 60% from Q4 2020 to Q4 2021. On an annualized basis lifting costs were \$21.5 million (\$6.99/bbl) for 2021 compared to \$15.7 million (\$7.51/bbl) in 2020.

- **Variable costs impacted by higher Brent pricing.** Diluent and barging costs were \$23.7 million (\$7.68/bbl) in 2021 as compared to approximately \$14.3 million (\$6.85/bbl) in 2020. Increased per barrel metrics are attributed to higher barging diesel, diluent, and floating storage costs in 2021, compared to 2020.
- **Reduced G&A per barrel.** 2021 G&A of \$14.3 million (\$4.63/bbl) compared to \$10.6 million (\$5.07/bbl) in 2020, demonstrating a per barrel reduction of 10% and less than a 10% burden on adjusted EBITDA margins.
- **Record 2021 net income.** 2021 net income was a record \$63.2 million (\$0.08/share) compared to a net loss of \$1.5 million (\$0.00/share) in 2020 driven by higher commodity prices, sales volumes and a derivative gain related to sales volumes moving through the ONP valued at a higher Brent price compared to initial entry into the ONP.

### Operation and Financial Highlights Subsequent to December 31, 2021

- **Leverage reduction.** Due to early robust 2022 free cash flow generation and strong liquidity, PetroTal elected to repay \$20 million of the original \$100 million bond issue, on April 1, 2022, reducing its total long term debt to \$80 million, thereby lowering future interest costs.
- **Exceptional continued well performance.** Achieved a 10 day record production level for well 10H of 10,050 bopd allowing the Company to set a new total production record of 20,891 bopd for February 2022, and well payout in under a month.
- **CPF-2 approved.** Received approval by Peruvian regulators for full commissioning and fluid processing of CPF-2 so that up to 26,000 bopd can be processed by PetroTal.
- **Free cash flow focused 2022 budget.** On February 22, 2022, PetroTal announced a \$120 million fully funded capital program that could potentially generate up to \$230 million of free cash flow in 2022, allowing the Company the optionality to redeem the remaining \$80 million in bonds early and implement its return of capital to shareholders strategy in Q4 2022, subject to Board approval.
- **TSX-V award winner and OTCQX Best Market upgrade.** PetroTal was recognized as a top TSX Venture exchange performer for 2021 ranking 10th in the energy sector and in mid January 2022, PetroTal upgraded to the OTCQX Best Market in the United States under the ticker symbol PTALF.
- **Establishment of the 2.5% social trust brings interim dispute.** The establishment of the 2.5% social trust brought some anticipated demands from a minority group wanting to control the trust capital allocation process. This resulted in the Company's oil loading dock been blocked for five weeks requiring the intervention of Peru's Prime Minister and the government's full attention to the area's social disputes.

### Operational and Financial Highlights for Q4 2021

- **Continued production growth.** PetroTal produced 10,147 bopd and averaged 7,242 bopd in sales, which was impacted by social disruptions at the ONP, along with intermittent downtime leading to

constrained production schedules, compared to Q3 2021 production and sales of 9,508 bopd and 9,142 bopd, respectively.

- **20,000 bopd production target achieved.** The Company, with boosts from well 8H and 9H, achieved a five day trailing production rate of 20,000 bopd ending December 15, 2021, reaching its long standing target only four years after commencing operations at the Bretana oil field.
- **Completion of well 8H.** Well 8H was completed in late Q3 2021 for under \$12 million, had initial production rates in excess of 8,500 bopd, paying out in Q4 2021 from realized netbacks of over \$38.00/bbl.
- **Completion of well 9H.** Well 9H, completed in early December 2021, achieved approximately 9,000 bopd in early testing, averaging 8,200 bopd for the subsequent ten-day period.
- **Strong net operating income despite constrained sales.** PetroTal generated \$25.7 million in net operating income in Q4 2021, a decrease from \$29.6 million in Q3 2021, driven by lower sales volumes stemming from social protests in November and December 2021.
- **Capex optimization.** The Company invested \$26.6 million in Q4 2021, up slightly from the prior quarter due to ongoing consistent drilling activities in the second half of 2021.
- **Continued and expanding Brazilian exports.** PetroTal continued to utilize the Brazilian shipping route in Q4 2021, exporting 320,000 barrels in November and December 2021 compared to only 106,000 barrels in Q4 2020.
- **Opex and Transportation cost flexibility.** Lifting expense and direct transportation costs were \$11.2 million (\$16.82/bbl) in Q4 2021 compared to \$12.6 million (\$14.97/bbl) in Q3 2021, and \$10.7 million (\$21.23/bbl) in Q4 2020. During Q4 2022, the Company effectively utilized barges for oil storage to manage production and sales fluctuations during social disruptions.
- **Strong Q4 2021 exit liquidity.** Exited 2021 with strong balance sheet liquidity of \$75.0 million in total cash and approximately \$57.0 million of net debt which was approximately 0.63x net debt to 2021 EBITDA.
- **Growing derivative asset.** The exit Q4 2021 net derivative asset was \$36.7 million, representing the mark to market value of oil in the ONP, corporate hedges, and ONP hedges.

### **Operation and Financial Highlights Subsequent to December 31, 2021**

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### **Current Operations**

The Company's loading dock was re-opened on April 7, 2022 and PetroTal has been producing approximately 18,200 bopd over the last 10 days with priority sales going to Iquitos and Brazil thereafter. Until the ONP maintenance is completed, the Company will be managing production volumes to fit the Iquitos and Brazil sales threshold of nearly 16,000 bopd.

PetroTal is currently preparing to drill well 11H in early May with a late June or early July completion, at an estimated cost of \$15.6 million.

### **Updated Corporate Presentation and upcoming investor update**

PetroTal is excited to announce it will be hosting a virtual investor meeting on May 26, 2022 following the release of Q1 2022 results. The objective of management will be to provide updates on certain aspects of the Bretana asset and to communicate the Company's short and long term strategy. The Company has provided an updated corporate presentation with these 2021 results, on its website.

### **Manuel Pablo Zuniga-Pflucker, President and Chief Executive Officer, commented**

*"2021 will be remembered for many significant operational, commercial and financial milestones achieved by the PetroTal team. When unconstrained, PetroTal is the largest crude oil producer in Peru and our management team is well aware of the responsibilities and deliverables that accompany that stature. Our goals for 2022 are very clear, and given the tailwind of a robust commodity price environment aiding us, we believe the Company can add tremendous value. Having met our original goal of 20,000 bopd, the team is now focused on achieving a new production target of 25,000 bopd with minimal social downtime. I would like to thank PetroTal's shareholders, directors, employees, and contractors for their continued support and I look forward to keeping the market updated on the Company's progress throughout the remainder of 2022."*

## **ABOUT PETROTAL**

PetroTal is a publicly traded, tri-quoted (TSXV: TAL, AIM: PTAL and OTCQX: PTALF) oil and gas development and production Company domiciled in Calgary, Alberta, focused on the development of oil assets in Peru. PetroTal's flagship asset is its 100% working interest in Bretana oil field in Peru's Block 95 where oil production was initiated in June 2018. In early 2020, PetroTal became the largest crude oil producer in Peru. The Company's management team has significant experience in developing and exploring for oil in Peru and is led by a Board of Directors that is focused on safely and cost effectively developing the Bretana oil field. It is actively building new initiatives to champion community sensitive energy production, benefiting all stakeholders.

For further information, please see the Company's website at [www.petrotal-corp.com](http://www.petrotal-corp.com), the Company's filed documents at [www.sedar.com](http://www.sedar.com), or below:

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## READER ADVISORIES

### Notes to Press Release

(a) See "Specified Financial Measures".

**FORWARD-LOOKING STATEMENTS:** *This press release contains certain statements that may be deemed to be forward-looking statements. Such statements relate to possible future events, including, but not limited to: PetroTal's business strategy, objectives, strength and focus; the impact of social disruption on the Company's operations; drilling, completions, workovers and other activities and the anticipated costs and results of such activities; PetroTal's anticipated operational results for 2022 including, but not limited to, estimated or anticipated production levels, capital expenditures and drilling plans; the intention to redeem the outstanding bonds; PetroTal plans to deliver strong operational performance and to generate free cash flow and growth; capital requirements; the ability of the Company to achieve drilling success consistent with management's expectations; the ability of the Company to achieve near term production targets and operate at unrestricted levels; anticipated future production and revenue; drilling plans including the timing of drilling, commissioning, and startup and the impact of delays thereon; oil production levels, including average and exit production in 2022; sales expansion through alternative exports routes, including barging and trucking; the Company's proposals for collaboration with local communities; and future development and growth prospects. All statements other than statements of historical fact may be forward-looking statements. In addition, statements relating to expected production, reserves, recovery, costs and valuation are deemed to be forward-looking statements as they involve the implied assessment, based on certain estimates and assumptions that the reserves described can be profitably produced in the future. Forward-looking statements are often, but not always, identified by the use of words such as "anticipate", "believe", "expect", "plan", "estimate", "potential", "will", "should", "continue", "may", "objective" and similar expressions. Without limitation of the foregoing, future dividend payments, if any, and the level thereof, is uncertain, as the Company's dividend policy and the funds available for the payment of dividends from time to time is dependent upon, among other things, free cash flow financial requirements for the Company's operations and the execution of its growth strategy, fluctuations in working capital and the timing and amount of capital expenditures, debt service requirements and other factors beyond the Company's control. Further, the ability of PetroTal to pay dividends will be subject to applicable laws (including the satisfaction of the solvency test contained in applicable corporate legislation) and contractual restrictions contained in the instruments governing its indebtedness. The forward-looking statements are based on certain key expectations and assumptions made by the Company, including, but not limited to, expectations and assumptions concerning the ability of existing infrastructure to deliver production and the anticipated capital expenditures associated therewith, the ability of the Ministry of Energy to effectively achieve its objectives in respect of reducing social conflict and collaborating towards continued investment in the energy sector, reservoir characteristics, recovery factor, exploration upside, prevailing commodity prices and the actual prices received for PetroTal's products, including pursuant to hedging arrangements, the availability and performance of drilling rigs, facilities, pipelines, other oilfield services and skilled labour, royalty regimes and exchange rates, impact of inflation on costs, the application of regulatory and licensing requirements, the accuracy of PetroTal's geological interpretation of its drilling and land opportunities, current legislation, receipt of required regulatory approval, the success of future drilling and development activities, the performance of new wells, the Company's growth strategy, general economic conditions and availability of required equipment and services. Although the Company believes that the expectations and assumptions on which the forward-looking statements are based are reasonable, undue reliance should not be placed on the forward-looking statements because the Company can give no assurance that they will prove to be correct. Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, risks associated with the oil and gas industry in general (e.g., operational risks in development, exploration and production; delays or changes in plans with respect to exploration or development projects or capital expenditures; the uncertainty of reserve estimates; the uncertainty of estimates and projections relating to production, costs and expenses; and health, safety and environmental risks), commodity price volatility, price differentials and the actual prices received for products, exchange rate fluctuations, legal, political and economic instability in Peru, wars (including Russia's military actions in Ukraine), access to transportation routes and markets for the Company's production, changes in legislation affecting the oil and gas industry and uncertainties resulting from potential delays or changes in plans with respect to exploration or development projects or capital expenditures. Ongoing military actions between Russia and Ukraine have the potential to threaten the supply of oil and gas from the region. The long-term impacts of the actions between these nations remains uncertain. In addition, the Company cautions that current global uncertainty with respect to the spread of the COVID-19 virus and its effect on the broader global economy may have a significant negative effect on the Company. While the precise impact of the COVID-19 virus on the Company remains unknown, rapid spread of the COVID-19 virus may continue to have a material adverse effect on global economic activity, and may continue to result in volatility and disruption to global supply chains, operations, mobility of people and the financial markets, which could affect interest rates, credit ratings, credit risk, increased*

*operating and capital costs due to inflationary pressures, business, financial conditions, results of operations and other factors relevant to the Company. Please refer to the risk factors identified in the AIF and MD&A, which are available on SEDAR at [www.sedar.com](http://www.sedar.com). The forward-looking statements contained in this press release are made as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.*

*PRESENTATION OF OIL AND GAS INFORMATION: The reserves information herein sets forth PetroTal's reserves as at December 31, 2021, as presented in the independent reserves report prepared by NSAI, a qualified reserves evaluator, in accordance with the standards contained in the most recent publication of the Canadian Oil and Gas Evaluation Handbook (the "COGE Handbook") and the reserve definitions contained in National Instrument 51-101 - Standards of Disclosure for Oil and Gas Activities ("NI 51-101"). In addition to the summary information disclosed in this announcement and the press release dated February 15, 2022, more detailed information is included in the AIF. All oil and gas disclosure contained in this press release complies with the requirements of NI 51-101.*

*OIL AND GAS MEASURES: This press release contains metrics commonly used in the oil and natural gas industry which have been prepared by management, such as "F&D costs". These terms do not have a standardized meaning and may not be comparable to similar measures presented by other companies, and therefore should not be used to make such comparisons. "Finding and development costs" or "F&D costs" are calculated as the sum of field capital plus the change in future development costs for the period divided by the change in reserves that are characterized as development for the period. Finding and development costs take into account reserves revisions during the year on a per bbl basis. The aggregate of the exploration and development costs incurred in the financial year and changes during that year in estimated future development costs generally will not reflect total finding and development costs related to reserves additions for that year. Management uses these oil and gas metrics for its own performance measurements and to provide shareholders with measures to compare PetroTal's operations over time. Readers are cautioned that the information provided by these metrics, or that can be derived from the metrics presented in this press release, should not be relied upon for investment or other purposes.*

*SHORT-TERM PRODUCTION RATES: References in this press release peak production and other short-term production rates are useful in confirming the presence of hydrocarbons, however such rates are not determinative of the rates at which such wells will commence production and decline thereafter and are not indicative of long term performance or of ultimate recovery. While encouraging, readers are cautioned not to place reliance on such rates in calculating the aggregate production for PetroTal. The Company cautions that such results should be considered to be preliminary.*

*OIL REFERENCES: All references to "oil" or "crude oil" production, revenue or sales in this press release mean "heavy crude oil" as defined in NI 51-101. All references to Brent indicate Intercontinental Exchange ("ICE") Brent.*

*SPECIFIED FINANCIAL MEASURES: This press release includes various specified financial measures, including non-GAAP financial measures, non-GAAP financial ratios and capital management measures as further described herein. These measures do not have a standardized meaning prescribed by generally accepted accounting principles ("GAAP") and, therefore, may not be comparable with the calculation of similar measures by other companies. Management uses these non-GAAP measures for its own performance measurement and to provide shareholders and investors with additional measurements of the Company's efficiency and its ability to fund a portion of its future capital expenditures. "Netback" (non-GAAP financial ratio) equals total petroleum sales less quality discount, lifting costs, transportation costs and royalty payments calculated on a bbl basis. The Company considers netbacks to be a key measure as they demonstrate Company's profitability relative to current commodity prices. "Funds flow provided by operations" (non-GAAP financial measure) includes all cash generated from operating activities and is calculated before changes in non-cash working capital. "Adjusted EBITDA" (non-GAAP financial measure) is calculated as consolidated net income (loss) before interest and financing expenses, income taxes, depletion, depreciation and amortization and adjusted for G&A impacts and certain non-cash, extraordinary and non-recurring items primarily relating to unrealized gains and losses on financial instruments and impairment losses, including derivative true-up settlements. PetroTal utilizes adjusted EBITDA as a measure of operational performance and cash flow generating capability. Adjusted EBITDA impacts the level and extent of funding for capital projects investments. Reference to EBITDA is calculated as net operating income less G&A. "Free cash flow" (non-GAAP financial measure) is calculated as net operating income less G&A less exploration and development capital expenditures and is calculated prior to all debt service, taxes, lease payments, hedge costs, factoring, and lease payments. Management uses free cash flow to determine the amount of funds available to the Company for future capital allocation decisions. Please refer to the MD&A for additional information relating to specified financial measures.*

*FOFI DISCLOSURE: This press release contains future-oriented financial information and financial outlook information (collectively, "FOFI") about PetroTal's budget and guidance, prospective results of operations, production and production capacity, free cash flow, revenue, adjusted EBITDA, debt repayment, liquidity, shareholder returns and components thereof, all of which are subject to the same assumptions, risk factors, limitations and qualifications as set forth in the above paragraphs. FOFI contained in this press release was approved by management as of the date of this press release and was included for the purpose of providing further information about PetroTal's anticipated future business operations. PetroTal disclaims any intention or obligation to update or revise any FOFI contained in this press release, whether as a result of new information, future events or otherwise, unless required pursuant to applicable law. Readers are cautioned that the FOFI contained in this press release should not be used for purposes other than for which it is disclosed herein. All FOFI contained in this press release complies with the requirements of Canadian securities legislation, including NI 51-101.*

An aerial photograph of a wide river winding through a dense forest. The sun is low on the horizon, creating a golden glow and long shadows. The river reflects the light, and several boats are visible on the water. In the middle ground, there is an industrial facility with several large green storage tanks and various buildings.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the years ended December 31, 2021 and 2020**

TSXV: TAL / AIM: PTAL / OTCQX: PTALF

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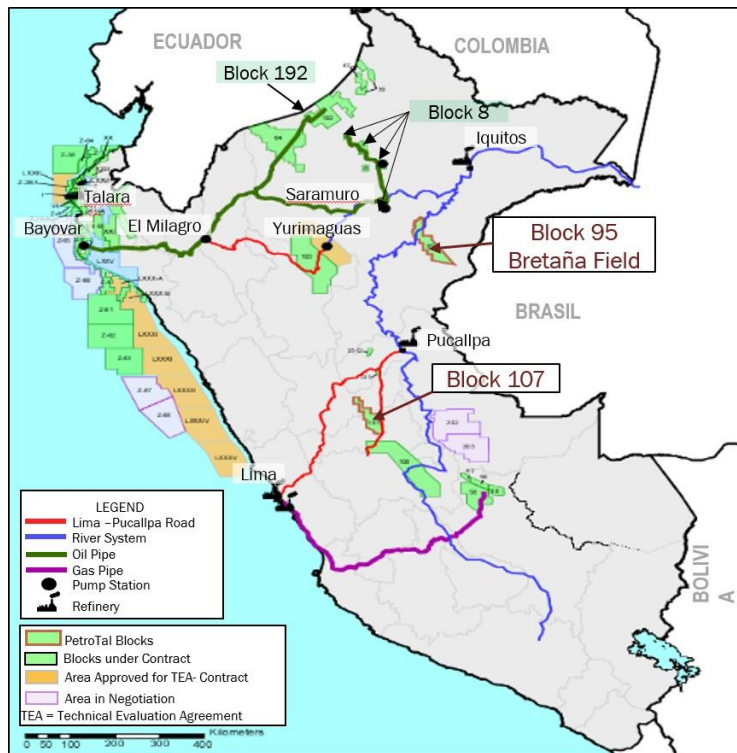
## MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") of the operating results and financial condition of PetroTal Corp. ("PetroTal" or the "Company") for the years ended December 31, 2021 and 2020, is dated April 27, 2022, and should be read in conjunction with the Company's audited Consolidated Financial Statements (the "Financial Statements") for the twelve months ended December 31, 2021 and 2020 and the Company's Annual Information Form (the "AIF") for the year ended December 31, 2021. The audited Financial Statements were prepared by management in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board, which are also generally accepted accounting principles ("GAAP") for publicly accountable enterprises in Canada.

Financial figures throughout this MD&A are stated in thousands of United States dollars ("\$" or "USD") unless otherwise indicated. This MD&A contains forward-looking statements that should be read in conjunction with the Company's disclosure under "*Forward-Looking Statements and Business Risks*".

### 1. CORPORATE OVERVIEW

PetroTal is a publicly-traded (TSXV: TAL, AIM: PTAL, and OTCQX: PTALF), international oil and gas company incorporated and domiciled in Canada. Through its two subsidiaries in Peru, the Company is currently engaged in the ongoing development of hydrocarbons in Block 95 with a focus on the development of, and production from the Bretaña oil field. In addition to further leads in Block 95, the Company has significant exploration prospects and leads in Block 107.



The Bretaña oil field is located in the Marañon Basin of northern Peru. To date, this basin has produced more than one billion barrels of crude oil. Approximately 70% of the oil in the Marañon Basin has been produced from the Vivian formation and approximately 30% from the Chonta formation. The Vivian formation is known as a quality oil reservoir with high permeabilities and strong aquifer support. Generally, this type of reservoir achieves the highest oil recoveries. The Chonta formation is immediately below the Vivian and typically produces medium to light oil, the Company is focused on the Vivian formation. The Company has a 100% working interest in the Bretaña oil field.

## 2. OVERVIEW AND SELECTED INFORMATION

The following table summarizes key financial and operating highlights associated with the Company's performance for the periods ended December 31, 2021, September 30, 2021, June 30, 2021, March 31, 2021 and December 31, 2020. Note that the commodity price derivative is a non-cash item.

### RESULTS AT A GLANCE

	Twelve Months Ended		Three Months Ended			
	December 31, 2021	December 31, 2020	December 31, 2021	September 30, 2021	June 30, 2021	March 31, 2021
<b>Financial</b>						
Crude oil revenues	\$159,189	\$76,593 <sup>(3)</sup>	\$39,243	\$44,781	\$42,809	\$32,356
Royalties	(\$8,962)	(\$2,877)	(\$2,304)	(\$2,604)	(\$2,306)	(\$1,748)
Net operating income <sup>(1)</sup>	\$104,960	\$28,881	\$25,726	\$29,587	\$29,678	\$19,969
Commodity price derivatives (gain) loss	(\$13,036)	\$4,788	\$5,622	(\$293)	\$4,147	(\$22,512)
Net income (loss)	\$63,972	(\$1,524)	\$6,843	\$14,970	\$11,374	\$30,785
Basic and diluted net income (loss) (\$/share)	0.08	(0.00)	0.01	0.02	0.01	0.04
Capital expenditures	\$82,191	\$42,297	\$26,601	\$26,114	\$22,363	\$7,113
<b>Operating</b>						
Average production (bopd)	8,966	5,675	10,147	9,508	8,839	7,331
Average sales (bopd)	8,449	5,700	7,242	9,142	8,842	8,578
Average Brent ICE price (\$/bbl)	70.82	43.20	79.79	73.21	69.01	61.06
Contracted sales price, gross (\$/bbl)	68.22	43.02	77.46	71.06	66.55	58.88
Netback (\$/bbl) <sup>(1)</sup>	34.03	13.84	38.61	35.18	36.88	25.87
Funds flow provided by operations <sup>(2)</sup>	\$77,456	\$13,341	\$34,714	\$18,648	\$19,627	\$4,467
<b>Balance sheet</b>						
Cash and restricted cash	\$74,459	\$9,628	\$74,459	\$57,655	\$79,491	\$75,824
Working Capital	\$47,319	(\$22,157)	\$47,319	\$56,455	\$62,634	\$68,213
Total assets	\$398,288	\$215,138	\$398,288	\$373,261	\$359,788	\$342,583
Current liabilities	\$84,767	\$58,608	\$84,767	\$69,785	\$72,639	\$69,348
Equity	\$204,257	\$137,163	\$204,257	\$195,572	\$180,291	\$168,405

(1) Net operating income obtained from revenues less royalties, operating expenses and direct transportation.

(2) Funds flow provided by operations does not have standardized meaning prescribed by GAAP and therefore may not be comparable with the calculation of similar measures for other entities. See "Non-GAAP Measures" section.

(3) Tariff and marketing fees are expenses usually recorded by reducing revenues in the financial statements. The table above reclassifies these fees from revenue to direct transportation by \$14,853.

## 3. 2021 HIGHLIGHTS

The Company reached several key operational and financial achievements as described below:

### Three months ended December 31, 2021 ("Q4") Highlights

- Oil production averaged 10,147 barrels of oil per day ("bopd"), an increase of 7% from 9,508 bopd in Q3 2021, and a 58% increase as compared to 6,410 bopd in Q4 2020. At December 31, 2021, the Company has ten producing wells and two water disposal wells;
- Well BN-8H ("8H") and well 9H ("9H") generated large initial production rates averaging over 10,000 bopd combined in Q4 2021, demonstrating production growth of 7% quarter on quarter;
- Sales allocations were 25% as export through Brazil, 56% through the ONP pipeline and 19% to the Iquitos refinery; and,
- Work continued on phase two of PetroTal's central processing facility ("CPF-2") which was completed in January 2022.

## 2021 Operational Highlights

- Ten producing wells and two water disposal wells were operating at year-end, inclusive of the initial water disposal well that was converted to an oil producing well;
- The Company invested \$82.2 million in capital expenditures for the drilling campaign, building production facilities, and drilling standby-related charges, compared to a total capital investment of \$42.3 million in 2020;
- PetroTal produced a total of 3.3 million barrels of oil in 2021, representing an average production of 8,966 bopd, increasing 58% from the average production of 5,675 bopd realized in 2020;
- Annual independent reserve assessment, as prepared by Netherland Sewell and Associates, Inc. (“NSAI”) shows increases in all reserve categories:
  - o Proved (“1P”) reserves of 37.4 million barrels (“mmbbl”), an increase of 68% from the 22.3 mmbbl recorded at the end of 2020;
  - o Proved plus Probable (“2P”) reserves of 78.0 mmbbl, an increase of 53% from the 51.0 mmbbl recorded at the end of 2020; and,
  - o Proved plus Probable and Possible (“3P”) reserves of 147.1 mmbbl, an increase of 39% from the 106.1 mmbbl recorded at the end of 2020;
- Original oil in place (“OOIP”) estimates for 1P, 2P and 3P reserve categories increased from 2020 by 5% to 247 mmbbls, 7% to 389 mmbbls, and 7% to 618 mmbbls, respectively; and,
- Net Present Value after tax, discounted at 10% (“NPV-10”) represents \$570 million (\$15.24/bbl) for 1P reserves, \$1.0 billion (\$13.10/bbl) for 2P reserves and \$1.7 billion (\$11.24/bbl) for 3P reserves.

## 2021 Financial Highlights

- Generated revenue of \$159.2 million (\$51.62/bbl) compared to \$76.6 million (\$36.71/bbl) in 2020;
- Royalties paid to the Peruvian government were \$9.0 million compared to \$2.9 million in 2020;
- Generated funds flow from operations of \$77.5 million compared to \$13.3 million in 2020 as a result of increased oil prices and higher crude oil production;
- Net operating income was \$105.0 million (\$34.03/bbl) compared to \$28.9 million (\$13.84/bbl) in 2020;
- The Company paid bond interest of \$6.0 million in August 2021 and remains in compliance with the bond covenants; and,
- On December 31, 2021, the Company had cash and restricted cash of \$74.5 million, compared to \$9.6 million at the end of 2020.

## December 31, 2021 Subsequent Events

- On February 10, 2022, PetroTal announced completion of well 10H (“10H”), which commenced production on January 30, 2022 and has set a new internal daily production record with an average standalone 10 day production level of 10,500 bopd;
- As previously announced on March 3, 2022, the Petroperu operated Northern Peruvian Pipeline remains closed due to erosion caused by the rainy season, with no firm timeline of maintenance completion provided by Petroperu. The Company is now focusing all efforts to maximize sales to the Iquitos refinery and the Brazilian export route. Commercial and technical efforts to eventually sell 400,000 barrel (13,000 bopd) monthly cargos through the Brazil route are being explored.
- On April 1, 2022, the Company elected to repay \$20 million to bondholders pursuant to the call option set out in the bond agreement. In addition, the Company paid \$0.5 million of interest and prepayment fees. The remaining bond principal repayments are \$25 million in February 2023, \$25 million in August 2023 and \$30 million in February 2024;
- On April 6, 2022, Peruvian government officials reached an agreement with the Asociación Indígena de Desarrollo y Conservación de Bajo Puinahua (“AIDECOBAP”), to end a social protest, which had been blocking PetroTal’s loading dock since February 28, 2022. AIDECOBAP was protesting against the government on three core issues: prosecution of protesting rights, allocation of the Basic Needs Trust capital to close the social gaps that exist in Peru, and that the government expedite the formalization of the Bretana 2.5% social fund, offered by PetroTal, into the Block 95 license contract. Oil production at Bretana recommenced on April 7, 2022;
- Pursuant to the Company’s oil market diversification strategy, PetroTal continues to increase oil shipments through Brazil for export into the Atlantic region; and,
- PetroTal continues to use hedges to ensure sufficient liquidity for the capital development program.



## 4. OUTLOOK AND GROWTH STRATEGY

### Strategy Outlook

The capital program prioritizes management's strategy to maintain a strong balance sheet during the period of low oil prices, maximizing activity to fit within cash flow. The Company activity will focus on managing existing production and drilling new wells during 2022. Base maintenance capital would require capital expenditures and additional activities included in the capital program outlined as follows:

- Completion of production facilities and infrastructure activities which include optimization of existing facilities, wells and some improvements aimed at lowering operating costs;
- Drilling new wells focused on continuing development in the core area of Bretana oilfield;
- Continued investment in environmental remediation and social initiatives as part of a sustained long-term effort to improve the physical environment, and to provide training programs and other community initiatives for the residents near the Company's operations.

The capital budget is based on the expected average annual Brent oil price forecast of \$60/bbl. Additionally, the Company will continue with an appropriate oil price hedging strategy for the future.

### Growth Strategy

PetroTal's strategy is focused on petroleum assets that have long-life reserves with production growth potential. Employing its knowledge base and technical expertise, the Company is working to optimize its existing assets primarily through drilling new oil wells to create long-term value for shareholders. This will be accomplished through the attainment of its main objectives: increasing production, reserves, funds generated from operations and net asset value.

PetroTal's strategic priorities are to:

- Increase reserves and production;
- Maintain a strong balance sheet by controlling and managing capital expenditures;
- Control costs through efficient management of operations;
- Pursue new and proven technology applications to improve operations and assist exploration endeavors;
- Expand infrastructure (pipelines, storage, treating capacity) to increase production capacity in a cost-effective manner;
- Explore undeveloped acreage to identify and create development opportunities;
- Maintain a strong focus on employee, contractor and community health and safety; and
- Manage environmental and social performance to minimize negative ecological impacts and ensure continued stakeholder support.

Throughout the year, PetroTal focused on achieving its priorities and implementing its capital programs in Peru. The Company will fund its capital development program using funds generated from operations and existing cash. Strategic allocation of the work program and budget is designated to provide additional recoverable reserves at the Peruvian oilfields and achieve production growth.

## **Environmental and Social Governance (“ESG”) Strategy**

PetroTal believes in generating long-term value for our shareholders, employees, suppliers, communities, clients, government, as well as ensuring economic value, safety for people and the environment and a better future for all. Therefore, our sustainability strategy to 2030 rests on our shoulders. The PetroTal ESG vision is: “create value and generate more opportunities for the benefit of all”. The steps to measure our success are:

- Develop targets for 2023, 2025 and 2030 which will be built and reviewed with the participation of each Company’s department;
- The initiatives will be continuously updated to achieve our objectives;
- The Sustainable Development Goals (“SDG”), to which PetroTal contributes through its Sustainability Plan to 2030, will be included;
- We are committed to reducing our footprint which means reducing emissions, waste, oil spills, actively managing our water usage, focusing on bio-diversity and managing our impact positively, innovating where possible and doing all the above safely; and,
- To address the aforementioned initiatives, we want to develop talent at PetroTal, the community, and within our suppliers.

## **Exploratory Block 107 – Osheki-Kametza**

PetroTal has a 100% working interest in this 623,280 acre block, of which the Osheki prospect has a best estimate of 278.4 million barrels of prospective recoverable oil resources according to NSAI. This estimate is based on a recovery factor of 28.6% of the estimated 970.7 million barrels of best estimate prospective OOIP. Resource estimates are based on maps generated from modern seismic acquired in 2007 and 2014 and de-risked with a new 3D geologic model supporting Cretaceous age reservoirs with high quality Permian source rocks. A second prospect, Constitucion Sur, contains a best estimate of 31.6 million barrels of prospective recoverable oil resources. These recoverable resources are based on a recovery factor of 29.1% of the 108.5 million barrels of best estimate prospective OOIP. Block 107 has three additional leads that, inclusive of Osheki and Constitucion Sur, could contain a total of 662 million barrels of recoverable resource in the best estimate case. A new drilling permit for the Osheki-Kametza prospect is being sought after which would allow testing the prospect from a much better location which would be less expensive and avoid entering a forest reserve. The Company continues to work on permits for Constitucion Sur which are expected in Q4 2022.



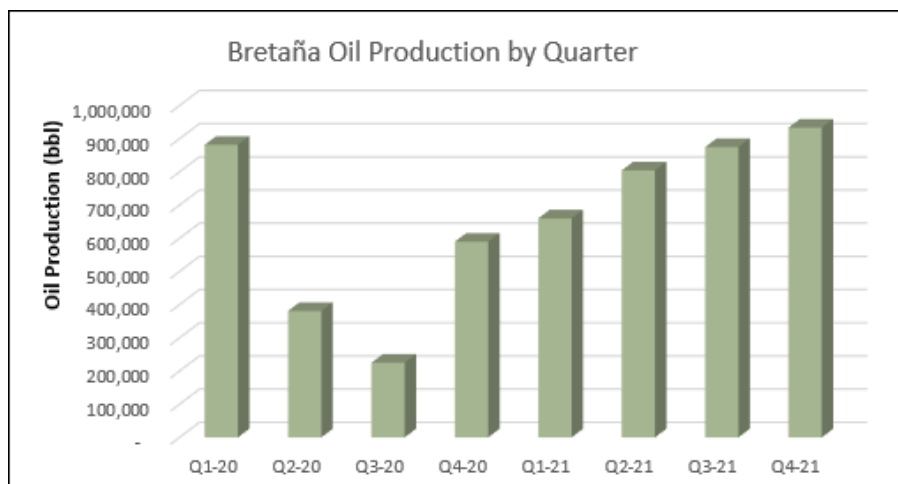
## EARNINGS STATEMENT INFORMATION

### Revenue

Sales increased to 3,084,033 barrels (8,449 bopd) in 2021, an increase from 2,086,226 barrels (5,700 bopd) in 2020. Sales for Q4 2021 were 7,242 bopd as compared to 5,471 bopd in Q4 2020.

The Company sells its oil at three sales points: the local Iquitos refinery, the ONP pipeline and exports through Brazil. During 2021, 56% of the oil sales were through the ONP, with 18% to the Iquitos refinery, and 26% through Brazil. Sales to the Iquitos refinery are priced at the prevailing Brent oil price less a quality differential discount and barge transportation charges. Sales to Petroperu at the Saramuro pump station for transportation through the ONP and onward to the Bayovar port, are priced based on the forecasted Brent oil price in eight months, less a quality differential, and is net of all pipeline and marketing fees. When the oil is ultimately sold by Petroperu at Bayovar, PetroTal is subject to a valuation adjustment based on the actual price achieved by Petroperu, whether higher or lower than the original forecasted price. Using the future eight-month price and the sales basis minimizes the impact of oil price fluctuations given it typically takes eight months for a barrel to be monetized from the time the oil enters the pipeline. Additionally, Petroperu placed commodity price hedges on volumes in the pipeline network. Oil sales exported through Brazil are on an FOB Bretana basis, at the forecasted Brent oil price in two months, less a fixed amount to cover all transportation and sales costs, including the quality differential.

Fluctuations in oil sales volumes and revenues were impacted in 2020 by the global oil price collapse, COVID-19 pandemic and temporary oil field closures as a result of the pandemic and community/government social issues.



**Royalties** increased to \$9.0 million (\$2.91/bbl) in 2021 from \$2.9 million (\$1.38/bbl) in 2020 and in Q4 2021 increased to \$2.3 million (\$3.46/bbl) from \$0.7 million (\$1.39/bbl) in Q4 2020. Royalties for the Bretana oilfield are calculated on production, ranging between 5% and 20%, less transportation costs. The royalty calculation is 5% based on production of 5,000 bopd or less and 20% when production reaches 100,000 bopd or more, increasing on a straight-line basis. Royalty determination in Peru is negotiated on an individual block basis, based either on production scales or on economic results.

**Operating expenses** in 2021 were \$21.5 million (\$6.99/bbl), as compared to \$15.7 million (\$7.51/bbl) in 2020 and in Q4 2021 were \$5.1 million (\$7.60/bbl) as compared to \$4.7 million (\$9.34/bbl). As production and oil field operations increase, the fixed operating cost allocations become more economic.

**Direct Transportation expenses** in 2021 totaled \$23.7 million (\$7.69/bbl), representing barging, diluent blending and pipeline costs, as compared to \$29.2 million (\$13.98/bbl) in 2020 and in Q4 2021 totaled \$6.2 million (\$9.23/bbl) versus \$6.0 million (\$11.89/bbl) in Q4 2020. Fluctuations are reflective of oil volumes, diluent pricing, sales delivery point and transportation timing.

	Q4 2021	2021
Diluent	2,806	12,069
Barging	975	6,214
Diesel	458	1,875
Storage	1,911	3,565
<b>Total Direct Transportation</b>	<b>6,150</b>	<b>23,723</b>

**General and administrative** expense in 2021 was \$14.3 million (\$4.63/bbl), as compared to \$10.6 million (\$5.07/bbl) in 2020. In 2020, G&A expenses were significantly reduced as a result of corporate measures taken reflective of the pandemic. During 2021, some G&A expenses (consulting and personnel costs and non-cash equity compensation charges) have recovered to pre-pandemic levels, along with enhanced community support initiatives. As production increases, per barrel G&A costs will decrease.

	December 31 2021	December 31 2020
Salaries and benefits	9,387	7,474
Legal, audit and consulting fees	3,051	2,494
Community support	1,451	621
Office rent and administrative	1,678	1,486
Stock expense employee and directors	2,548	1,080
G&A allocations	(3,833)	(2,570)
<b>Total</b>	<b>14,282</b>	<b>10,585</b>

Included in G&A are expenditures related to various community project initiatives for Bretana and neighboring communities. PetroTal recognizes the importance of community alignment and support over the areas in which it operates.

The Company capitalized and allocated \$3.8 million of G&A compared to \$2.6 million in 2020. For the year ended December 31, 2021, non-cash share-based compensation pertaining to performance share units granted to employees was \$1.7 million (2020: \$0.9 million).

**Depletion, Depreciation and Amortization (“DD&A”)** for 2021 was \$21.6 million (\$7.01/bbl) as compared to \$12.9 million (\$6.22/bbl) for 2020. On a quarterly basis, the Q4 2021 DD&A was \$4.8 million (\$7.14/bbl) as compared to \$3.2 million (\$6.30/bbl) in Q4 2020. DD&A was determined using the updated annual reserve report information prepared by NSAI at December 31, 2021. DD&A is calculated based on capital invested, production and 2P reserves.

**Derivative gain** of \$13.0 million in 2021 is the net fair value of outstanding embedded derivatives, compared to a \$4.8 million loss in 2020. The oil sales agreement with Petroperu for sales into the ONP are subject to oil price variations when sold by Petroperu upon arrival at the Bayovar port.

**Foreign exchange loss** in 2021 was \$0.3 million compared to a \$42 thousand foreign exchange gain in 2020, due to fluctuations in relative currency positions and transactions.

**Deferred tax recovery** of \$4 thousand was recorded in 2021 compared to a deferred tax expense of \$75 thousand in 2020.

**Financial expense** of \$17.8 million was mainly related to bond interest, factoring expense, and accretion of decommissioning obligation expense, as compared to \$2.0 million of financial expense in 2020. Interest on the bonds commenced on February 16, 2021, at completion of the bond placement.

### Reclassification (2020)

The Company has reclassified its operating expenses to separate out the transportation component from operating expenses and present it separately. The Company has made this change to reflect how management views the performance and disclosure of its operations. The Company has reclassified these costs in the statements of earnings (loss) and comprehensive income (loss). Historical results were reclassified to match the current period presentation. This change did not result in a change in income (loss) before taxes or cash flows from operations.

## 5.2 BALANCE SHEET INFORMATION

	December 31, 2021	September 30, 2021	June 30, 2021	March 31, 2021	December 31, 2020
(\$ thousands)					
Cash and restricted cash	\$68,459	\$51,655	\$74,791	\$72,774	\$9,076
VAT receivable	\$1,115	\$3,197	\$2,432	\$8,993	\$10,249
Trade and other receivables	\$2,639	\$22,831	\$17,713	\$7,509	\$1,835
Inventory	\$22,332	\$9,399	\$6,988	\$4,994	\$7,656
Prepaid expenses	\$818	\$1,057	\$2,122	\$4,284	\$7,635
Derivative assets	\$36,723	\$38,101	\$31,227	\$39,007	\$0
<b>Current Assets</b>	<b>\$132,086</b>	<b>\$126,240</b>	<b>\$135,273</b>	<b>\$137,561</b>	<b>\$36,451</b>
Restricted cash	\$6,000	\$6,000	\$4,700	\$3,050	\$552
VAT receivable and taxes	\$2,321	\$4,383	\$3,740	\$3,523	\$3,740
PPE and E&E, net	\$257,881	\$236,638	\$216,075	\$198,449	\$174,395
<b>Total Assets</b>	<b>\$398,288</b>	<b>\$373,261</b>	<b>\$359,788</b>	<b>\$342,583</b>	<b>\$215,138</b>
Trade and other payables	\$55,015	\$40,614	\$38,621	\$39,706	\$49,343
Short term leases	\$3,849	\$3,520	\$3,790	\$3,816	\$89
Short term debt	\$24,500	\$21,500	\$24,500	\$21,500	\$808
Derivative obligation	\$0	\$0	\$1,402	\$0	\$4,044
Decommissioning obligation	\$1,403	\$4,151	\$4,326	\$4,326	\$4,324
<b>Current Liabilities</b>	<b>\$84,767</b>	<b>\$69,785</b>	<b>\$72,639</b>	<b>\$69,348</b>	<b>\$58,608</b>
Long term leases	\$14,826	\$15,440	\$15,933	\$16,641	\$520
Deferred income taxes	\$40	\$47	\$47	\$28	\$28
Long term debt	\$73,700	\$73,029	\$72,345	\$71,196	\$1,972
Decommissioning obligation	\$20,698	\$19,388	\$18,533	\$16,965	\$16,847
<b>Non-Current Liabilities</b>	<b>\$109,264</b>	<b>\$107,904</b>	<b>\$106,858</b>	<b>\$104,830</b>	<b>\$19,367</b>
<b>Total Equity</b>	<b>\$204,257</b>	<b>\$195,572</b>	<b>\$180,291</b>	<b>\$168,405</b>	<b>\$137,163</b>
<b>Total Liabilities and Equity</b>	<b>\$398,288</b>	<b>\$373,261</b>	<b>\$359,788</b>	<b>\$342,583</b>	<b>\$215,138</b>

### Cash and liquidity

At December 31, 2021, the Company held cash of \$74.5 million, an \$64.9 million increase from \$9.6 million at year-end 2020. The working capital was \$47.3 million at December 31, 2021 as compared to a working capital deficiency of \$22.2 million at December 31, 2020. The variance resulted primarily from revenue and derivative asset increase, both associated with higher global oil prices.

Expected oil production increases, as a result of the 2021 capital development program, in conjunction with higher oil prices, establishes the basis for higher cash flow. PetroTal completed a \$100 million bond issue in February 2021 that enhanced liquidity significantly, and the Company maintains spending flexibility in all areas, with minimal capital expenditure commitments.

### VAT receivable

	December 31 2021	December 31 2020
VAT receivable - current	1,115	10,249
VAT receivable - non current	1,692	3,094
<b>Total VAT receivable</b>	<b>2,807</b>	<b>13,343</b>

Valued Added Tax (“VAT”) in Peru is levied on the purchase of goods and services and is recoverable on sales of goods and services. As a result of capital activity and oil sales during the year, the Company recovered \$30.3 million during 2021 and expects to recover \$1.1 million in the short term based on its estimated oil sales.

### Trade and other receivables

	December 31 2021	December 31 2020
Trade receivables	441	1,125
Other receivables	2,198	710
<b>Total trade and other receivables</b>	<b>2,639</b>	<b>1,835</b>

As of December 31, 2021, trade receivables represent revenue related to the sale of crude oil. No credit losses on the Company’s trade receivables have been incurred. Other receivables are primarily related to a price differential to be recovered from Petroperu and a Peruvian income tax receivable.

### Capital expenditures

	December 31 2021	December 31 2020
Drilling program	57,199	20,277
Production facilities	19,931	19,846
Decommissioning	895	158
Abandonment	2,783	519
Other	1,383	1,497
<b>Total</b>	<b>82,191</b>	<b>42,297</b>

The Company’s primary focus was to increase oil production and build on the success of reactivating the previously-drilled and shut-in initial discovery wells in 2020. The Company incurred \$82.2 million of capital expenditures in 2021 compared to \$42.3 million in 2020. The COVID pandemic curtailed any further drilling in 2020, and the drilling rig and related equipment were placed on reduced standby rates, pursuant to the contracts.

Some investments were made in exploration Block 107 for permits and maintenance to ensure PetroTal will be in a position to bring in a joint venture partner in the future. The Company continues to invest in a variety of community, social and regulatory (“CSR”) initiatives. An emphasis on ESG is prevalent throughout all areas of our operations.

At year-end 2021, the Company has approximately \$6 million of exploration and evaluation assets related to exploration Block 107.

### Inventory

	December 31 2021	December 31 2020
Crude oil inventory	12,222	4,134
Materials, parts and supplies	10,110	3,522
<b>Total inventory</b>	<b>22,332</b>	<b>7,656</b>

Product inventory consists of the Company's crude oil barrels, which are valued at the lower of cost or net realizable value. Costs include operating expenses, royalties, transportation, and depletion associated with crude oil barrels. Costs capitalized as inventory will be expensed when the inventory is sold. As of December 31, 2021, crude inventory balance of \$12.2 million consists of 432,075

barrels of crude oil valued at \$28.29 per barrel (December 31, 2020: \$4.1 million; 167,222 barrels at \$24.72 per barrel). Materials and supplies, including diluent, are expected to be consumed in the short-term.

	bbls
<b>Crude oil inventory at January 1, 2021</b>	167,222
Production	3,272,415
Diluent used	126,919
Internal use of crude and other	(50,448)
Sales	(3,084,033)
<b>Crude oil inventory at December 31, 2021</b>	432,075

### Trade and other payables

	December 31 2021	December 31 2020
Trade payables	26,888	31,151
Accrued payables and other obligations	28,127	18,192
<b>Total trade and other payables</b>	<b>55,015</b>	<b>49,343</b>

As at December 31, 2021, trade payables and accruals are primarily related to the drilling and completion of wells, and construction of production processing facilities.

### Derivatives

The derivative asset is classified as Level 2 fair value measurement. The service contract for transport of liquid hydrocarbons of the North-Peruvian Oil Pipeline (“ONP”) and Petroperu Saramuro agreements signed with Petroperu during 2021, includes a clause for the purchase price adjustment. The initial sales price is based on the arithmetic average of the ICE Brent Crude 8-month forward price. The realized price is based on the tender price of the crude oil that is sold at the Bayovar terminal. The purchase price adjustment is the realized price less the initial sales price. In the case the purchase price adjustment is negative, the Company will compensate Petroperu the amount, multiplied by the volume sold or arranged by Petroperu. If the purchase price adjustment is positive, the Company will be compensated by Petroperu.

The fair value of the embedded derivative, considering an average future Brent price marker differential, was recorded as a gain on commodity price derivatives at December 31, 2021.

<b>Net derivative liability at January 1, 2021</b>	(4,044)
Petroperu derivatives settled	17,984
Derivative exercised	1,462
Corporate hedging	8,285
Derivative gain	13,036
<b>Net derivative asset at December 31, 2021</b>	<b>36,723</b>

Sales delivery / Executed month	Expected month	Volume bbls	Price range \$/bbl	Hedged range \$/bbl	Derivative Asset
<b>Petroperu Hedging (a)</b>					
Nov-20 to May-21	Jan-22 to Jun-22	830,591	62.24 to 87.73	60.70 to 68.40	(13,644)
<b>Peru Embedded Derivatives (b)</b>					
Dec-19 to Oct-21	Jul-22 to Mar-23	2,561,434	43.98 to 78.47	62.00 to 87.74	47,762
<b>Corporate Derivatives Hedging (c)</b>					
September 2021	Jan-22 to Jun-22	862,434	64.29 to 69.77	70.00	2,605
<b>Total</b>					<b>36,723</b>

- Petroperu implemented a hedging program of oil sales through the ONP pipeline.
- Embedded derivative related to original Petroperu sales agreement.
- Corporate hedge program to cover a portion of 2022 oil production.



As of December 31, 2021, 2.5 million barrels of oil have been delivered to and sold into the ONP, and remain in the pipeline or storage tanks, awaiting final sale by Petroperu and are subject to the same settlement terms as noted above in the ONP contract.

### Decommissioning obligations

The undiscounted uninflated value of its estimated decommissioning liabilities is \$23.2 million. The present value of the obligations was calculated using an average risk-free rate of 3.6% (December 31, 2020: 2.8%) to reflect the market assessment of the time value of money as well as risks specific to the liabilities that have not been included in the cash flow estimates. The inflation rate used in determining the cash flow estimate was 2.0%. The table below sets out the continuity of decommissioning obligations.

<b>Balance at January 1, 2020</b>	17,562
Additions	650
Revisions to decommissioning obligations	2,686
Liabilities settled	(266)
Accretion	539
<b>Balance at December 31, 2020</b>	21,171
Additions	3,165
Revisions to decommissioning obligations	106
Liabilities settled	(2,871)
Accretion	530
<b>Balance at December 31, 2021</b>	22,101
Represented as:	
Current	1,403
Non-current	20,698

### Short and long-term debt

On February 2, 2021, the Company completed a 3-year senior secured bond with a face value of \$100 million issued at a 5% discount for total consideration of \$95 million. The bonds bear interest at 12% and interest is due semi-annually with repayments of \$25 million in February 2023, \$25 million in August 2023 and \$50 million in February 2024.

<b>US Dollar denominated debt - senior secured bonds</b>		
12% due February 16, 2024	Effective rate 15.8%	100,000
Less: unamortized financing cost		(6,300)
Interest payable		4,500
<b>Balance at December 31, 2021</b>		<b>98,200</b>
Represented as:		
Short term debt		24,500
Long term debt		73,700

In accordance with the terms of the bond agreement, the bonds are secured by all assets of the Company, and the Company is required to maintain the following financial ratios:

Covenant	Ratio	Description
a)	Liquidity	Cash amount not less than interest payable for the next 12 months
b)	Equity	Equity to total assets minimum rate of 40%
c)	Leverage	Net debt to EBITDA does not exceed the ratio of 3:1

The Company met all financial covenants as at December 31, 2021. No distributions to shareholders are permitted until the bonds are relinquished.

### Fair Value

The short-term and long-term debt of \$98.2 million was comparable to third-party fair value estimates for similar issues or current rates. The fair value of the Company's debt on December 31, 2021, was determined by reference to valuation inputs under Level 2 of the fair value hierarchy.

## Leases

The Company commenced a seven-year service contract with a supplier, that provides turnkey power generation equipment services, in Q1 2021. The Company has the option to buy the equipment in year five for \$4.5 million. The incremental borrowing rate used to measure the lease liabilities was 4.0% for the dollar denominated lease.

Lease liabilities at January 1, 2021	228
Net additions	16,721
Interest on leases	712
<b>Lease liabilities at December 31, 2021</b>	<b>17,661</b>
Represented as:	
Current liability	3,849
Non-current liability	13,812

As of December 31, 2021 total lease liabilities have the following minimum undiscounted payments per year:

Year	Amount
2022	3,457
2023	3,457
Thereafter	11,414
<b>Total</b>	<b>18,328</b>

## Share capital

Authorized share capital consists of an unlimited number of common shares without nominal or par value. The holders of common shares are entitled to one vote per share and are entitled to receive dividends as recommended by the Board of Directors. During 2021, 7,056,591 warrants were exercised, generating proceeds of \$1.4 million. On June 18, 2020, the Company completed an equity issue, raising gross proceeds of approximately \$18 million upon issuance of 141.2 million of units. Each unit is comprised of one common share and one half of one warrant allowing the subscriber to purchase additional shares within 36 months at 16 pence/share upon presentation of a full warrant.

As of April 27, 2022, PetroTal has the following securities outstanding:

Common shares	836,501,920	88%
Performance share units	28,577,181	3%
Performance warrants	80,990,606	9%
<b>Total</b>	<b>946,069,707</b>	<b>100%</b>

## 5.3 NON-GAAP TERMS

This report contains financial terms that are not considered measures under GAAP such as operating netback, operating netback per bbl, transportation and revenues adjusted, funds flow provided by operations, funds flow provided by operations per bbl, funds flow netback per bbl, free funds flow and diluted funds flow per share that do not have any standardized meaning under GAAP and may not be comparable to similar measures presented by other companies. Management uses these non-GAAP measures for its own performance measurement and to provide shareholders and investors with additional measurements of the Company's efficiency and its ability to fund a portion of its future capital expenditures.

### NON-GAAP FINANCIAL MEASURES

#### Revenue and transportation expense adjustment

Revenue and transportation expense adjustment are a non-GAAP measure, that includes in transportation ONP pipeline tariff, marketing fee, barging and diluent expenses. Tariff and marketing fees are expenses usually recorded by reducing revenues in the financial statements.

## Funds flow information

Funds flow provided by operations (“FFO”), is a non-GAAP measure that includes all cash generated from operating activities and changes in non-cash working capital. The Company considers funds flow from operations to be a key measure as it demonstrates Company’s profitability. A reconciliation from cash provided by operating activities to funds flow provided by operations is as follows:

	Q4 2021	2021	Q4 2020	2020
<b>Cash flows from operating activities</b>				
Net income (loss)	6,843	63,972	10,675	(1,524)
Adjustments for:				
Depletion, depreciation and amortization	4,758	21,630	3,170	12,979
Settlement of abandonment liabilities	(2,871)	(2,871)	-	-
Accretion of decommissioning obligation	154	530	137	539
Equity based compensation expense	1,139	2,361	279	997
Financial interest	3,826	14,132	-	(5)
Deferred income tax	10	(4)	15	75
Financial instruments (gain) loss	11,200	(13,036)	(12,968)	3,677
<b>Funds flow provided by operations before non-cash working capital</b>	<b>25,059</b>	<b>86,714</b>	<b>1,308</b>	<b>16,738</b>
Changes in non-cash working capital:				
VAT and other receivables	24,318	10,283	1,165	8,916
Advances and prepaid expenses	239	6,817	(2,880)	(6,386)
Inventory	(11,229)	(12,943)	(2,929)	(3,459)
Restricted cash	-	-	-	-
Trade and other payables	(3,673)	(13,415)	7,659	(2,468)
<b>Net cash provided by operating activities</b>	<b>34,714</b>	<b>77,456</b>	<b>4,323</b>	<b>13,341</b>

Funds flow after investing activities is a non-GAAP measure and the Company considers free funds flow or free cash flow to be a key measure as it demonstrates Company’s ability to fund a return of capital without accessing outside funds and is calculated as follows:

	Q4 2021	2021	Q4 2020	2020
<b>Cash flows from investing activities</b>				
Exploration and evaluation asset additions	130	(895)	207	(519)
Property, plant and equipment additions	(26,731)	(81,296)	(6,522)	(41,778)
Capital lease additions	(73)	(2,019)	-	-
Non-cash changes in working capital	8,191	8,016	2,123	(1,839)
<b>Net cash used in investing activities</b>	<b>(18,483)</b>	<b>(76,194)</b>	<b>(4,192)</b>	<b>(44,136)</b>
<b>Free funds flow</b>	<b>16,231</b>	<b>1,262</b>	<b>131</b>	<b>(30,795)</b>

## CAPITAL MANAGEMENT MEASURES

### Adjusted EBITDA

Adjusted EBITDA means earnings before interest, taxes, depreciation and amortization, and derivatives.

(Thousands of U.S. Dollars)	Three months ended December 31		Twelve months ended December 31	
	2021	2020	2021	2020
Net income (loss)	6,843	10,675	63,972	(1,524)
Adjustments to reconcile net income to EBITDA and Adjusted EBITDA				
DD&A expenses	4,758	3,170	21,630	12,979
Financial expense	4,519	550	17,838	2,020
Deferred income tax expense (recovery)	10	15	(4)	75
Commodity price derivative loss (income)	5,622	(12,969)	(13,036)	4,788
<b>EBITDA (non-GAAP)</b>	<b>21,752</b>	<b>1,441</b>	<b>90,400</b>	<b>18,338</b>
Realized derivative instruments gain (loss)	(2,782)	-	(1,462)	(1,111)
<b>Adjusted EBITDA (non-GAAP)</b>	<b>18,970</b>	<b>1,441</b>	<b>88,938</b>	<b>17,227</b>

## Operating netback

The Company considers operating netbacks to be a key measure as they demonstrate Company's profitability relative to current commodity prices. Netback is calculated by dividing net operating income by total revenue. For debt covenant purposes, the Company also looks at Adjusted EBITDA.

## 6. 2021 RESERVE REPORT

### Block 95 - Bretana oil field

Oil production commenced in Bretana in June 2018 via a long-term testing program of the single oil producer. In May 2019, the Company received the approval of the Environmental Impact Assessment ("EIA") to fully develop the Bretana field in Block 95. This approval provided PetroTal with the necessary permits to execute its development strategy at Bretana.

The summary below sets forth PetroTal's reserves as at December 31, 2021, as presented by NSAI, a qualified independent reserves evaluator. The figures in the following tables have been prepared in accordance with the standards contained in the most recent publication of the Canadian Oil and Gas Evaluation Handbook ("COGE") and the reserve definitions contained in National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities ("NI 51-101"). More detailed information will be included in PetroTal's AIF for the year ended December 31, 2021 posted on SEDAR ([www.sedar.com](http://www.sedar.com)) and on PetroTal's website.

### Summary of oil reserves and net present values as of December 31, 2021

	Company Heavy Oil Reserves (mmbbl)		Future Net Revenue Before Income Taxes Discounted at (in USD Million)				
	Gross	Net	0%	5%	10%	15%	20%
Proved Developed Producing	16.2	16.2	294	271	250	231	215
Proved Undeveloped	21.2	21.2	782	600	475	386	321
<b>Total Proved</b>	<b>37.4</b>	<b>37.4</b>	<b>1,076</b>	<b>871</b>	<b>725</b>	<b>617</b>	<b>536</b>
Probable	40.5	40.5	1,646	1,012	665	461	334
<b>Total Proved &amp; Probable</b>	<b>77.9</b>	<b>77.9</b>	<b>2,722</b>	<b>1,883</b>	<b>1,390</b>	<b>1,078</b>	<b>870</b>
Possible	69.1	69.1	2,940	1,545	932	622	445
<b>Total Proved &amp; Probable &amp; Possible</b>	<b>147.0</b>	<b>147.0</b>	<b>5,662</b>	<b>3,428</b>	<b>2,322</b>	<b>1,700</b>	<b>1,315</b>

### Summary of Pricing and Inflation Rate Assumptions – Forecast Prices and Costs (US\$/bbl)

Year-End Forecast:	2022	2023	2024	2025	2026	2027
Brent January 1, 2021	\$52.85	\$56.04	\$57.87	\$59.00	\$60.15	\$61.33
Brent January 1, 2022	\$75.33	\$71.46	\$69.62	\$71.01	\$72.44	\$73.88

### Year-End Crude Oil Reserves (mmbbl)

Category	2021	2020	Change
Proved Developed Producing	16.2	12.0	35%
Proved Undeveloped	21.2	10.3	106%
<b>Total Proved</b>	<b>37.4</b>	<b>22.3</b>	<b>68%</b>
Probable	40.5	28.7	41%
<b>Total Proved plus Probable</b>	<b>77.9</b>	<b>51.0</b>	<b>53%</b>
Possible	69.1	55.1	25%
<b>Total Proved plus Probable &amp; Possible</b>	<b>147.0</b>	<b>106.1</b>	<b>39%</b>

### Year-End Net Present Value at 10% - before income tax (\$ millions)

Category	2021	2020	Change
Proved Developed Producing	\$250	\$135	85%
Proved Undeveloped	\$474	\$182	160%
<b>Total Proved</b>	<b>\$724</b>	<b>\$317</b>	<b>129%</b>
Probable	\$665	\$513	30%
<b>Total Proved plus Probable</b>	<b>\$1,389</b>	<b>\$830</b>	<b>67%</b>
Possible	\$932	\$891	5%
<b>Total Proved plus Probable &amp; Possible</b>	<b>\$2,321</b>	<b>\$1,721</b>	<b>35%</b>

### Year-End Net Asset Value ("NAV") per Share – after tax

Category	December 31, 2021		December 31, 2020	
	US\$/sh	CAD\$/sh	US\$/sh	CAD\$/sh
Proved	\$0.69	\$0.88	\$0.33	\$0.43
Proved plus Probable	\$1.23	\$1.57	\$0.76	\$0.98
Proved plus Probable & Possible	\$2.00	\$2.54	\$1.50	\$1.93

### Reserve Life Index ("RLI")

Category	December 31, 2021
Proved	13.8 years
Proved plus Probable	28.9 years
Proved plus Probable & Possible	54.5 years

### Future Development Costs

The following information sets forth development and abandonment costs deducted in the estimation of PetroTal's future net revenue attributable to the reserve categories noted below:

Proved	\$141 million
Proved plus Probable	\$289 million
Proved plus Probable & Possible	\$504 million

The future development and abandonment costs are estimates of capital expenditures required in the future for PetroTal to convert the corresponding reserves to proved developed producing reserves.

As a result of the Company's successful drilling program, 2021 1P reserves increased by 68%, to 37.4 mmbbl from 22.3 mmbbl, 2P reserves increased by 53% to 77.9 mmbbl from 51.0 mmbbl, and 3P reserves increased by 39% to 147.1 mmbbl from 106.1 mmbbl. At year-end 2021, Net Present Value (before tax, discounted at 10%) represents \$724 million (\$19.35/bbl) for 1P reserves, \$1.4 billion (\$17.83/bbl) for 2P reserves and \$2.3 billion (\$15.77/bbl) for 3P reserves. Net Present Value (after tax, discounted at 10%) represents \$570 million (\$15.24/bbl) for 1P reserves, \$1.0 billion (\$13.09/bbl) for 2P reserves and \$1.7 billion (\$11.23/bbl) for 3P reserves.

Bretana's reserve life index for 1P and 2P reserves is 13.8 years and 28.9 years, respectively. The cumulative capital invested combined with all future development and abandonment costs represents total funding and development costs of \$6.63/bbl for 1P reserves, \$4.68/bbl for 2P reserves and \$3.85/bbl for 3P reserves.

OOIP estimates for 1P, 2P and 3P reserve categories increased in 2021 from 235 to 247 (5%), 364 to 389 (7%), and 579 to 618 (7%) mmbbls, respectively.

In addition to ongoing development of the Bretana oilfield, there are other prospects within Block 95 and exploration opportunities in Block 107.

## 7. SIGNIFICANT JUDGEMENTS AND ESTIMATES

Management is required to make judgments, assumptions and estimates that have a significant impact on the Company's financial

results. Significant judgments in the Financial Statements include going concern, financing arrangements, impairment indicators, assessment of transfers from Exploration and Evaluation (“E&E”) to Property, Plant and Equipment (“PP&E”), leases, derivatives, asset acquisition and joint arrangements. Significant estimates in the Financial Statements include commitments, provision for future decommissioning obligations, recoverable amounts for exploration and evaluation assets and accruals. In addition, the Company uses estimates for numerous variables in the assessment of its assets for impairment purposes, including oil prices, exchange rates, discount rates, cost estimates and production profiles. By their nature, all of these estimates are subject to measurement uncertainty, may be beyond management’s control and the effect on future Financial Statements from changes in such estimates could be significant. Critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the Financial Statements are included in the Financial Statements and the accompanying notes as of December 31, 2021 and 2020. Additional information about significant judgments and estimates are included in PetroTal’s audited Financial Statements for the years ended December 31, 2021 and 2020.

## 8. RELATED PARTY TRANSACTIONS AND TAXES

The Company had no related party transactions or off-balance sheet arrangements. The Company’s key management includes the Directors and Officers.

	December 31 2021	December 31 2020
Salaries, incentives and short term benefits	1,505	1,459
Director’s fees	369	323
Share based compensation	968	486
<b>Total compensation</b>	<b>2,842</b>	<b>2,268</b>

The compensation paid to our non-executive directors during the year ended December 31, 2021 is set forth in the following table.

Name	Compensation Earned	Share-based awards	Non-Equity Incentive Plans	Total
Manuel Pablo Zuniga-Pflucker*	450,000	1,025,074	450,000	1,925,074
Mark McComiskey (Chair)	35,190	35,190	-	70,380
Gary S. Guidry	29,325	29,325	-	58,650
Ryan Ellson	29,325	29,325	-	58,650
Gavin Wilson	29,325	29,325	-	58,650
Eleanor J. Barker	29,325	29,325	-	58,650
Roger M. Tucker	29,325	29,325	-	58,650
<b>Director Compensation</b>	<b>631,815</b>	<b>1,206,889</b>	<b>450,000</b>	<b>2,288,704</b>

\*Mr. Zuniga-Pflucker does not receive compensation fees or share-based awards for his role as Director on the Board.

## Taxes

Peruvian law requires the Company to pay a 2% tax on gross revenue, which is booked as a deferred income tax asset and is recoverable once the prior net operating losses of approximately \$276 million are exhausted. Due to prior net operating losses the Company does not anticipate having a significant tax liability for the next few years. At such time as there is a tax liability, the amounts pre-paid through the 2% payment will reduce the amount of future tax to be paid. Corporate tax rates for the Company’s license contracts in Peru are 32%.

## 9. CONTRACTUAL OBLIGATIONS AND COMMITMENTS

As of December 31, 2021, the Company holds the following letters of credit guaranteeing its commitments for exploration blocks to Perupetro S.A.:

Block	Beneficiary	Amount	Commitment	Expiration
107	Perupetro S.A.	\$1,500	1st exploration well, minimum work 5th exploratory period	December 2023
107	Perupetro S.A.	<u>\$1,500</u>	2nd exploration well, minimum work 5th exploratory period	December 2023
		<u>\$3,000</u>		

## 10. FORWARD-LOOKING STATEMENTS AND BUSINESS RISKS

### FOREIGN EXCHANGE RATE RISK

The Company's functional currency is the United States dollar. Foreign exchange gains or losses can occur on translation of working capital denominated in currencies other than the functional currency of the jurisdiction which holds the working capital item. Excluding the impact of changes in the cross-rates, a 1% fluctuation in translation rates would have nil impact on net income or loss, based on foreign currency balances held at December 31, 2021.

### LIQUIDITY RISK

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with its financial liabilities. The Company's approach to managing liquidity risk is to have sufficient cash and/or credit facilities to meet its obligations when due. Liquidity is managed through short and long-term cash, debt and equity management strategies. The Company's liquidity risk is impacted by current and future commodity prices. If required, the Company will also consider additional short-term financing or issuing equity in order to meet its future liabilities. Declines in future commodity prices could affect the Company's ability to fund ongoing operations. The current challenging economic climate has and may continue to have a significant impact on the Company including, but not exclusively:

- material declines in revenue and cash flows as a result of the decline in commodity prices;
- declines in revenue and operating activities due to reduced capital programs and the shut-in of production;
- inability to access financing sources;
- increased risk of non-performance by the Company's customers and suppliers;
- interruptions in operations as the Company adjusts personnel to the dynamic environment; and,
- delivery of crude oil at Bayovar port and sale swap price risk.

The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on the Company is not known at this time. Estimates and judgments made by management in the preparation of the financial statements are increasingly difficult and subject to a higher degree of measurement uncertainty during this volatile period.

### CREDIT RISK

Credit risk is the risk that a customer or counterparty will fail to perform an obligation or fail to pay amounts due causing a financial loss to the Company. The Company's VAT is primarily for sales tax credits on exploration and evaluation expenses incurred in prior years. These credits will be applied to future oil development activities or recovered as per the sales tax recovery legislation currently in effect. The majority of the Company's trade receivable balances relate to crude oil sales to one customer, being Petroperu, a state-owned company. Recently, the Company signed a long-term sales agreement and initiated exports through Brazil, with an oil trading company, whereby sales are FOB Bretana, and secured by a letter of credit. The Company's policy is to enter into agreements with customers that are well established and well financed entities in the oil and gas industry, including Petroperu, such that the level of risk is mitigated. The Company has not experienced any material credit losses in the collection of its trade receivables.

Impairment to a financial asset is only recorded when there is objective evidence of impairment and the loss event has an impact on future cash flow and can be reliably estimated. Evidence of impairment may include default or delinquency by a debtor or indicators that the debtor may enter bankruptcy. Management believes that there is no risk on the recoverability and or applicability of the sales tax credits. Therefore, no impairment to the carrying value of these assets has been estimated. The Company has deposited its cash and cash equivalents with reputable financial institutions, with which management believes the risk of loss to be remote. The maximum credit exposure associated with financial assets is their carrying value. At December 31, 2021, the cash and cash equivalents were held with six different institutions from three countries, mitigating the credit risk of a collapse of one particular bank.

### WORKFORCE MAY BE EXPOSED TO WIDESPREAD PANDEMIC

PetroTal's operations are located in areas relatively remote from local towns and villages and represent a concentration of personnel working and residing in close proximity to one another. Should an employee or visitor become infected with a serious illness that has the potential to spread rapidly, this could place the workforce at risk. The 2020/2021 outbreak of the novel coronavirus in China and other countries around the world is one example of such an illness. The Company takes every precaution to strictly follow industrial hygiene and occupational health guidelines. There can be no assurance that this virus or another infectious illness will not impact company's personnel and ultimately its operations.

Additional information regarding risk factors including, but not limited to, risks related to political developments in Peru and environmental risks is available in the Company's AIF, a copy of which may be accessed through the SEDAR website ([www.sedar.com](http://www.sedar.com)).

Certain statements contained in this MD&A may constitute forward-looking statements. These statements relate to future events or the Company's future performance, including, but not limited to: PetroTal's business strategy, objectives, strength, focus and outlook, drilling, completions, workovers and other activities including expanding infrastructure and exploring undeveloped acreage and the anticipated costs and results of such activities, environmental remediation and social initiatives, the ability of the Company to achieve drilling success consistent with management's expectations, anticipated future production and revenue, oil production levels, the 2022 capital program and budget, including drilling plans, balance sheet strength, COVID-19 surveillance and control process, hedging program and the terms thereof, and future development and growth prospects. All statements other than statements of historical fact may be forward-looking statements. In addition, statements relating to expected production, reserves, prospective resources, recovery, costs and valuation are deemed to be forward-looking statements as they involve the implied assessment, based on certain estimates and assumptions that the reserves described can be profitably produced in the future. Forward-looking statements are often, but not always, identified by the use of words such as "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "intend", "could", "might", "should", "believe" and similar expressions.

The forward-looking statements are based on certain key expectations and assumptions made by the Company, including, but not limited to, expectations and assumptions concerning the ability of existing infrastructure to deliver production and the anticipated capital expenditures associated therewith, reservoir characteristics, recovery factor, exploration upside, prevailing commodity prices and the actual prices received for PetroTal's products, including pursuant to hedging arrangements, the availability and performance of drilling rigs, facilities, pipelines, other oilfield services and skilled labor, royalty regimes and exchange rates, the application of regulatory and licensing requirements, the accuracy of PetroTal's geological interpretation of its drilling and land opportunities, current legislation, receipt of required regulatory approval, the success of future drilling and development activities, the performance of new wells, the Company's growth strategy, general economic conditions and availability of required equipment and services. Although the Company believes that the expectations and assumptions on which the forward-looking statements are based are reasonable, undue reliance should not be placed on the forward-looking statements because the Company can give no assurance that they will prove to be correct. The Company believes that the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should not be unduly relied upon by investors. These statements speak only as of the date of this MD&A and are expressly qualified, in their entirety, by this cautionary statement.

These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. These include, but are not limited to, risks associated with the oil and gas industry in general (e.g., operational risks in development, exploration and production, delays or changes in plans with respect to exploration or development projects or capital expenditures, the uncertainty of reserve estimates, the uncertainty of estimates and projections relating to production, costs and expenses, and health, safety and environmental risks), commodity price volatility, price differentials and the actual prices received for products, exchange rate fluctuations, legal, political and economic instability in Peru, access to transportation routes and markets for the Company's production, changes in legislation affecting the oil and gas industry and uncertainties resulting from potential delays or changes in plans with respect to exploration or development projects or capital expenditures. In addition, the Company cautions that current global uncertainty with respect to the spread of the COVID-19 virus and its effect on the broader global economy may have a significant negative effect on the Company. While the precise impact of the COVID-19 virus on the Company remains unknown, rapid spread of the COVID-19 virus may continue to have a material adverse effect on global economic activity, and may continue to result in volatility and disruption to global supply chains, operations, mobility of people and the financial markets, which could affect interest rates, credit ratings, credit risk, inflation, business, financial conditions, results of operations and other factors relevant to the Company. Please refer to the risk factors identified in the AIF which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. The Company cannot guarantee future results, levels of activity, performance, or achievements. The risks and other factors, some of which are beyond the Company's control, could cause results to differ materially from those expressed in the forward-looking statements contained in this MD&A.

The forward-looking statements contained in this MD&A are expressly qualified by the foregoing cautionary statement. Subject to applicable securities laws, the Company is under no duty to update any of the forward-looking statements after the date hereof or to compare such statements to actual results or changes in the Company's expectations. Financial outlook information contained in this



MD&A about prospective results of operations, financial position or cash flows is based on assumptions about future events, including economic conditions and proposed courses of action, based on management's assessment of the relevant information currently available. Readers are cautioned that such financial outlook information should not be used for purposes other than for which it is disclosed herein.

Prospective resources are the quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Estimates of prospective resources included in this document relating to the Osheki prospect are based upon an independent assessment completed by NSAI with an effective date of September 30, 2018 and prepared in accordance with the COGE and the standards established by NI 51-101. For additional information about the Company's prospective resources, see the Company's website for the most current press release.

## ADDITIONAL INFORMATION

Additional information about PetroTal Corp. and its business activities, including PetroTal's AIF and audited Financial Statements for the years ended December 31, 2021 and 2020 are available on the Company's website at [www.petrotal-corp.com](http://www.petrotal-corp.com), and at [www.sedar.com](http://www.sedar.com), or below:

### DIRECTORS

**Mark McComiskey**  
*Chair of the Board*

**Eleanor Barker**

**Ryan Ellson**

**Gary Guidry**

**Roger Tucker**

**Gavin Wilson**

**Manuel Pablo Zuniga-Pflucker**

### OFFICERS AND SENIOR EXECUTIVES

**Manuel Pablo Zuniga-Pflucker**  
President and Chief Executive Officer

**Douglas Urch**

EVP and Chief Financial Officer

**Dewi Jones**

VP Exploration and Development

**Glen Priestley**

VP Treasury and Planning

**Luis Pantoja**

General Manager - Peru

**Guillermo Florez**

Deputy General Manager - Peru

### CORPORATE HEADQUARTERS

**PetroTal Corp.**  
11451 Katy Freeway, Suite 500  
Houston, Texas 77079  
Office: 713.609.9101  
[info@petrotal-corp.com](mailto:info@petrotal-corp.com)  
[www.petrotal-corp.com](http://www.petrotal-corp.com)

### REGISTERED OFFICE

**PetroTal Corp.**  
4300 Bankers Hall West, 888-3rd Street  
Calgary, Alberta

### OPERATING OFFICE

**PetroTal Peru SRL**  
Calle Andres Reyes 437, Piso 8  
Edificio Platinum Plaza Torre 2 – San Isidro  
Lima, Peru

### STOCK EXCHANGES

**TSX Venture Exchange**  
Toronto, Canada  
TSXV: TAL

### AIM Stock Exchange

London, United Kingdom  
AIM: PTAL

### OTCQX Stock Exchange

New York, USA  
OTCQX: PTALF

### LEGAL COUNSEL

**Stikeman Elliott LLP**  
Calgary, Alberta

### AUDITORS

**Deloitte LLP**  
Calgary, Alberta  
Lima, Peru

### NOMINATED & FINANCIAL ADVISER

**Strand Hanson Limited**  
London, United Kingdom

### JOINT BROKERS

**Stifel Nicolaus Europe Limited**  
London, United Kingdom

### Auctus Advisors LLP

London, United Kingdom

### RESERVES EVALUATORS

**Netherland, Sewell & Associates, Inc.**  
Dallas, Texas

### TRANSFER AGENT AND REGISTRAR

**Computershare Trust Company of Canada**  
Calgary, Alberta  
London, United Kingdom

### Equity Stock Transfer

New York, NY

## GLOSSARY / ABBREVIATIONS

1P	Proved
2P	Proved plus Probable
3P	Proved plus Probable & Possible
AIDECOBAP	Asociación Indígena de Desarrollo y Conservación de Bajo Puinahua
AIF	Annual Information Form
bbl(s)	Barrel(s)
bopd	Barrels of Oil per Day
COGE	Canadian Oil and Gas Evaluation Handbook
CPF	Central Production Facility
CSR	Community, Social and Regulatory
DD&A	Depletion, Depreciation and Amortization
EIA	Environmental Impact Assessment
ESG	Environmental and Social Governance
FFO	Funds Flow Provided by Operations
GAAP	Generally Accepted Accounting Principles
IFRS	International Financial Reporting Standards
mbbls	Thousand Barrels
MD&A	Management's Discussion and Analysis
mmbbl	Million Barrels
NAV	Net Asset Value
NSAI	Netherland Sewell and Associates, Inc.
Netback	Benchmark to assess the profitability based on revenues less royalties, operating and transportation costs
NI 51-101	National Instruments - Standards of Disclosure for Oil and Gas Activities
NPV-10	Net Present Value Discounted at 10%
ONP	North Peruvian Oil Pipeline Agreement
OOIP	Original Oil in Place
RLI	Reserve Life Index
PP&E	Property, Plant and Equipment
SDG	Sustainable Development Goals
VAT	Value Added Tax



**AUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**For the years ended December 31, 2021 and 2020**

TSXV: TAL / AIM: PTAL / OTCQX: PTALF

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## MANAGEMENT'S REPORT

The accompanying audited Consolidated Financial Statements and all information in the management discussion and analysis and notes to the Consolidated Financial Statements are the responsibility of management. The Consolidated Financial Statements were prepared by management in accordance with International Accounting Standards outlined in the notes to the Consolidated Financial Statements. Other financial information appearing throughout the report is presented on a basis consistent with the Consolidated Financial Statements.

Management maintains appropriate systems of internal controls. 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.

The Audit Committee meets quarterly with management and the independent auditors to review auditing matters, financial reporting issues, and to satisfy itself that all parties are properly discharging their responsibilities. The Audit Committee also reviews the Consolidated Financial Statements, the management's discussion and analysis of financial results, and the independent auditor's report. The Audit Committee reports its findings to the Board of Directors for its approval of the Consolidated Financial Statements for issuance to the shareholders.

The Consolidated Financial Statements have been audited, on behalf of the shareholders, by the Company's independent auditors, in accordance with Canadian generally accepted auditing standards. Independent auditor has full and free access to the Audit Committee.

*Signed "Manuel Pablo Zuniga-Pflucker"*  
Manuel Pablo Zuniga-Pflucker  
President and Chief Executive Officer

*Signed "Douglas Urch"*  
Douglas Urch  
Executive VP and Chief Financial Officer

April 27, 2022

## Independent Auditor's Report

To the Shareholders of  
PetroTal Corp.

### Opinion

We have audited the consolidated financial statements of PetroTal Corp. (the "Company"), which comprise the consolidated balance sheets as at December 31, 2021 and 2020, and the consolidated statements of earnings (loss) and other comprehensive income (loss), changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

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

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). 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 Company in accordance with the ethical requirements that are relevant to our audit 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 of the Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the 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 financial statements or our knowledge obtained in the audit, 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 in this auditor's report. 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 IFRS, 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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company'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 GAAS 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 GAAS, 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 Company'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 Company'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 Company 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 auditor's report is Christopher Gill.

/s/ Deloitte LLP

Chartered Professional Accountants  
Calgary, Alberta  
April 27, 2022

## CONSOLIDATED BALANCE SHEETS

(\$ thousands of US Dollars)	Note	December 31 2021	December 31 2020
<b>ASSETS</b>			
<b>Current assets</b>			
Cash	4	44,919	9,076
Restricted cash	4	23,540	-
VAT receivable	5	1,115	10,249
Trade and other receivables	6	2,639	1,835
Inventory	7	22,332	7,656
Prepaid expenses	8	818	7,635
Derivative assets	9	36,723	-
<b>Total Current Assets</b>		<b>132,086</b>	<b>36,451</b>
<b>Non-current assets</b>			
Restricted cash	4	6,000	552
Exploration and evaluation assets	10	6,051	5,156
Property, plant and equipment	11	251,830	169,239
Deferred tax asset	13	629	646
VAT receivable	5	1,692	3,094
<b>Total Non-current Assets</b>		<b>266,202</b>	<b>178,687</b>
<b>Total Assets</b>		<b>398,288</b>	<b>215,138</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Trade and other payables	14	55,015	49,343
Short term debt	12	24,500	808
Derivative obligation	9	-	4,044
Decommissioning obligations	15	1,403	4,324
Current lease liability	16	3,849	89
<b>Total Current Liabilities</b>		<b>84,767</b>	<b>58,608</b>
<b>Non-current liabilities</b>			
Long term debt	12	73,700	1,972
Decommissioning obligations	15	20,698	16,847
Non-current lease liability	16	13,812	139
Deferred income tax		40	28
Other long term obligations		1,014	381
<b>Total Non-current Liabilities</b>		<b>109,264</b>	<b>19,367</b>
<b>Total Liabilities</b>		<b>194,031</b>	<b>77,975</b>
<b>Equity</b>			
Share capital	18	126,696	125,302
Contributed surplus		3,215	1,487
Retained earnings		74,346	10,374
<b>Total Equity</b>		<b>204,257</b>	<b>137,163</b>
<b>Total Liabilities and Equity</b>		<b>398,288</b>	<b>215,138</b>

See accompanying notes to the Consolidated Financial Statements

**CONSOLIDATED STATEMENTS OF EARNINGS (LOSS) AND OTHER COMPREHENSIVE INCOME (LOSS)**

(\$ thousands of US Dollars, except per share amounts)

For the years ended December 31	Note	2021	2020
<b>REVENUES</b>			
Crude oil revenue, net of royalty	19	150,227	58,863
<b>Total revenues</b>		<b>150,227</b>	<b>58,863</b>
<b>EXPENSES</b>			
Operating		21,544	15,660
Direct transportation		23,723	14,322
General and administrative	20	14,282	10,585
Finance expense	21	17,838	2,020
Commodity price derivatives loss (gain)	9	(13,036)	4,788
Depletion, depreciation and amortization		21,630	12,979
Foreign exchange loss (gain)		278	(42)
<b>Total expenses</b>		<b>86,259</b>	<b>60,312</b>
<b>Income (loss) before income taxes</b>		<b>63,968</b>	<b>(1,449)</b>
Deferred income tax recovery (expense)		4	(75)
<b>Net income (loss) and comprehensive income (loss)</b>		<b>63,972</b>	<b>(1,524)</b>
Basic earnings (loss) per share		0.08	(0.00)
Diluted earnings (loss) per share		0.07	(0.00)
Weighted average number of common shares outstanding (000's)			
Basic		819,286	749,860
Diluted		857,653	749,860

See accompanying notes to the Consolidated Financial Statements

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

(\$ thousands of US Dollars)

For the years ended December 31	Note	2021	2020
<b>Share capital</b>			
Balance, beginning of year		125,302	108,669
Equity issued	18	-	16,446
Exercise of warrants	18	1,394	187
<b>Balance, end of year</b>		<b>126,696</b>	<b>125,302</b>
<b>Contributed surplus</b>			
Balance, beginning of year		1,487	490
Equity based compensation plan		1,728	997
<b>Balance, end of year</b>		<b>3,215</b>	<b>1,487</b>
<b>Retained earnings</b>			
Balance, beginning of year		10,374	11,898
Net income (loss)		63,972	(1,524)
<b>Balance, end of year</b>		<b>74,346</b>	<b>10,374</b>

See accompanying notes to the Consolidated Financial Statements

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(\$ thousands of US Dollars)

For the years ended December 31

	Note	2021	2020
<b>Cash flows from operating activities</b>			
Net income (loss)		63,972	(1,524)
Adjustments for:			
Depletion, depreciation and amortization		21,630	12,979
Settlement of abandonment liabilities	15	(2,871)	-
Accretion of decommissioning obligations	15	530	539
Equity based compensation plan		2,361	997
Commodity price derivatives loss (gain)	9	(13,036)	3,677
Financial expenses		14,132	(5)
Deferred income tax		(4)	75
Changes in non-cash working capital:			
- VAT and other receivables		10,283	8,916
- Advances and prepaid expenses		6,817	(6,386)
- Inventory		(12,943)	(3,459)
- Trade and other payables		(13,415)	(2,468)
<b>Net cash provided by operating activities</b>		<b>77,456</b>	<b>13,341</b>
<b>Cash flows from investing activities</b>			
Property, plant and equipment additions	11	(81,296)	(41,778)
Exploration and evaluation asset additions	10	(895)	(519)
Non-cash changes in working capital		5,997	(1,839)
<b>Net cash used in investing activities</b>		<b>(76,194)</b>	<b>(44,136)</b>
<b>Cash flows from financing activities</b>			
Net funds received from bond issuance	12	90,900	-
Interest paid		(6,000)	-
Settlement of restructuring agreement	12	(16,626)	-
Funds received from (paid to) assistance programs	12	(2,900)	2,780
Net proceeds from equity issued and warrants exercised		1,394	16,633
Repayment of current lease liabilities		(2,647)	(91)
<b>Net cash provided by financing activities</b>		<b>64,121</b>	<b>19,322</b>
<b>Increase (decrease) in cash for the period</b>		<b>65,383</b>	<b>(11,473)</b>
Cash, beginning of year		9,076	21,101
Restricted cash	4	(29,540)	(552)
<b>Cash, end of year</b>		<b>44,919</b>	<b>9,076</b>

See accompanying notes to the Consolidated Financial Statements

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2021 and 2020. All amounts are stated in thousands of United States Dollars (\$) unless otherwise indicated.

### 1. CORPORATE INFORMATION

PetroTal Corp. (the “Company” or “PetroTal”) is a publicly-traded energy company incorporated and domiciled in Canada. The Company is engaged in the exploration, appraisal and development of crude oil and natural gas in Peru, South America. The Company’s registered office is located at 4300 Bankers Hall West, 888 –3rd Street S.W., Calgary, Alberta, Canada.

These Consolidated Financial Statements (the “Financial Statements”) have been prepared on a going concern basis, which assumes that the Company will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business.

The Company evaluated subsequent events (Note 24) and transactions that occurred after the balance sheet date up to the date that the Financial Statements were issued. Management is currently evaluating the impact of the pandemic on the industry and has concluded that while it is reasonably possible that the virus could have a negative effect of the Company’s financial position, results of its operations, the specific impact is not readily determinable as of the date of these Financial Statements. The Financial Statements do not include any adjustment that might result from the outcome of this uncertainty.

These Financial Statements were approved for issuance by the Company’s Board of Directors on April 27, 2022, on the recommendation of the Audit Committee.

### 2. BASIS OF PREPARATION

#### STATEMENT OF COMPLIANCE

The Company prepares its annual Financial Statements in accordance with International Financial Reporting Standards (“IFRS”).

#### BASIS OF MEASUREMENT

These Financial Statements have been prepared on a historical cost basis except for certain financial instruments that have been measured at fair value. In addition, these Financial Statements have been prepared using the accrual basis of accounting.

#### PRINCIPLES OF CONSOLIDATION

The Company’s Financial Statements include the accounts of the Company and its subsidiaries. The Financial Statements of the subsidiaries are prepared for the same reporting period as the parent company’s, using consistent accounting practices.

Inter-company balances and transactions, and any unrealized gains arising from inter-company transactions with the Company’s subsidiaries, were eliminated on consolidation.

The entities included in the Company’s Financial Statements are PetroTal Corp. and its 100% owned subsidiaries PetroTal USA Corp., PetroTal LLC, PetroTal Energy International (Peru) Holdings B.V., PetroTal Peru B.V., Petrolifera Petroleum Del Peru S.R.L. and PetroTal Peru S.R.L.

#### USES OF ACCOUNTING ASSUMPTIONS, ESTIMATES AND JUDGEMENTS

The preparation of the Company’s Financial Statements requires management to make judgement, estimates, and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the same period if the revision affects only that period or in the period of the revision and future periods if the revision affects current and future periods.

Estimates and critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the Financial Statements are summarized below:

#### Functional Currency

The functional currency of each of the Company's entities is the United States dollar, which is the currency of the primary economic environment in which the entities operate.

#### Exploration and Evaluation Assets

The accounting for exploration and evaluation ("E&E") assets requires management to make certain estimates and assumptions, including whether exploratory wells have discovered economically recoverable quantities of reserves. Designations are sometimes revised as new information becomes available. If an exploratory well encounters hydrocarbon, but further appraisal activity is required in order to conclude whether the hydrocarbons are economically recoverable, the well costs remain capitalized as long as sufficient progress is being made in assessing the economic and operating viability of the well. Criteria used in making this determination include evaluation of the reservoir characteristics and hydrocarbon properties, expected additional development activities, commercial evaluation and regulatory matters. The concept of "sufficient progress" is an area of judgement, and it is possible to have exploratory costs remain capitalized for several years while additional drilling is performed, or the Company seeks government, regulatory or partner approval of development plans.

Petroleum and natural gas 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.

#### Decommissioning Obligations

Decommissioning obligations will be incurred by the Company at the end of the operating life of wells or supporting infrastructure. The ultimate asset decommissioning costs and timing are uncertain and cost estimates can vary in response to many factors including changes to relevant legal and regulatory requirements, the emergence of new restoration techniques, experience at other production sites. As a result, there could be significant adjustments to the provisions established which would affect future financial results. The expected amount of expenditure is estimated using a discounted cash flow calculation with a risk-free discount rate. Liabilities for environmental costs are recognized in the period in which they are incurred, normally when the asset is developed, and the associated costs can be estimated.

#### Deferred Tax Assets & Liabilities

The estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions. Management assesses whether it is probable that some or all of the deferred income tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income, which in turn is dependent upon the successful discovery, extraction, development and commercialization of oil and gas reserves. To the extent that management's assessment of the Company's ability to utilize future tax deductions changes, the Company would be required to recognize more or fewer deferred tax assets, and future income tax provisions or recoveries could be affected. The measurement of deferred income tax provision is subject to uncertainty associated with the timing of future events and changes in legislation, tax rates and interpretations by tax authorities.

#### Provisions, Commitments and Contingent Liabilities

Amounts recorded as provisions and amounts disclosed as commitments and contingent liabilities are estimated based on the terms of the related contracts and management's best knowledge at the time of issuing the Consolidated Financial Statements. The actual results ultimately may differ from those estimates as future confirming events occur.

## SIGNIFICANT ACCOUNTING POLICIES

### a. Cash and Restricted Cash

Cash includes deposits held with banks in Canada, the United States and Peru that are available on demand and highly liquid. The Company's restricted cash is cash reserved for letters of credit guaranteeing the Company's commitments for the exploration of Block 107, acquisition of qualified hydrocarbon assets, and permitted hedging programs. The restricted cash is not available for the Company's immediate or general business use.

### b. Property, Plant and Equipment

Property, plant and equipment ("PP&E") is recorded at cost less accumulated depreciation. Depreciation begins when the asset is put into service and is calculated annually using the straight-line method. The cost of maintenance and repairs is charged to expense as incurred. The cost of significant renewals and improvements is added to the carrying amount of the respective asset. When assets are retired, or otherwise disposed of, the cost and related accumulated depreciation are removed from the balance, and any resulting gain or loss is reflected in the consolidated statements of earnings (loss) and comprehensive income (loss).

When commercial production in an area has commenced, petroleum properties, excluding surface costs are depleted using the unit-of-production method over their proved plus probable reserve life. Proved plus probable reserves are determined annually by qualified independent reserve engineers. Changes in factors such as estimates of proved plus probable reserves that affect unit-of-production calculations are accounted for on a prospective basis.

### c. Leases

The Company assesses each new contract to determine whether it contains a lease. A specific asset is the subject of a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company allocates contract consideration to the lease and non-lease components on the basis of their relative stand-alone prices.

The right-of-use asset is initially measured at cost, which includes: (i) the amount of the initial measurement of the lease liability, (ii) any lease payments made at or before the lease commencement date, less any lease incentives received, (iii) any initial direct costs incurred, and (iv) an estimate of restoration costs.

The lease liability and initial right-of-use asset are recognized at the lease commencement date measured at the present value of fixed lease payments (including in-substance fixed payments) plus the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, discounted at a rate the Company would be required to borrow over a similar term.

Key judgements include whether a contract identifies an asset (or a portion of an asset), whether the lessee obtains substantially all of the economic benefits of the asset over the contract term, whether the lessee has the right to direct the asset's use, which components are fixed or variable in nature and the discount rate. The Company applied its incremental borrowing rate for leases where the implicit rate cannot be readily determined. Right-of-use assets are presented within property, plant and equipment.

After initial recognition, the lease liability is accreted for the passage of time and reduced for lease settlements made during each period. If the lease term reflects that the Company will exercise a purchase option, the right-of-use asset is depreciated from the lease commencement date to the end of the useful life of the underlying asset. Otherwise, the right-of-use asset is depreciated to the earlier of the end of the useful life of the underlying asset or to the end of the lease term.

### d. Impairment

#### *Financial assets carried at amortized cost*

At each reporting date, the Company assesses whether there is objective evidence that a financial asset carried at amortized cost is impaired. If such evidence exists, the Company recognizes an impairment loss in net earnings (loss). Impairment losses are reversed in subsequent periods if the impairment loss decrease can be related objectively to an event occurring after the impairment was recognized.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.



#### *Non-financial assets*

At each reporting date, the carrying amounts of the Company's non-financial assets are reviewed to determine whether there is indication of impairment, except for E&E assets, which are reviewed when circumstances indicate impairment may exist. If there is indication of impairment, the asset's recoverable amount is estimated and compared to its carrying value. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit). 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. The Company's CGUs are not larger than a segment. In assessing both fair value less costs to sell and value in use, the estimated future cash flows are discounted to their present value using an after-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognized if the carrying amount of an asset or its CGU (Company has a single segment) exceeds its estimated recoverable amount. Impairment losses are recognized in net earnings (loss). Fair value less costs to sell and value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proved and probable reserves.

E&E assets are tested for impairment when they are transferred to petroleum properties and also if facts and circumstances suggest that the carrying amount of E&E assets may exceed the recoverable amount. Impairment indicators are evaluated at a CGU level. Indication of impairment includes:

1. Expiry or impending expiry of lease with no expectation of renewal;
2. Lack of budget or plans for substantive expenditures on further E&E;
3. Cessation of E&E activities due to a lack of commercially viable discoveries; and
4. Carrying amounts of E&E assets are unlikely to be recovered in full from a successful development project.

Impairment losses recognized in prior years are assessed at each reporting date for indication that the loss has decreased or no longer exists. An impairment loss may be 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.

#### **e. Inventory**

Inventory consists of oil crude and supplies to be used in the production and exploration activities, and is measured at the lesser of cost and net realizable value. The cost of oil crude inventory includes all costs incurred in bringing the inventory to its storage location. These costs, including operating expenses, royalties, transportation and depletion, are capitalized in the ending inventory balance. The cost of the inventory is recognized using the weighted average method.

#### **f. Financial Instruments**

On initial recognition, financial instruments are measured at fair value. Measurement in subsequent periods depends on the classification of the financial instrument:

- Fair value through profit or loss - subsequently carried at fair value with changes recognized in net earnings (loss). Financial instruments under this classification include cash and cash equivalents, and derivative commodity contracts;
- Fair value through other comprehensive income - transaction costs under this classification are expensed as incurred. Financial instruments under this classification include derivative assets and liabilities where hedge accounting is applied; and
- Amortized cost - subsequently carried at amortized cost using the effective interest rate method. Financial instruments under this classification includes accounts receivable, accounts payable and accrued liabilities and long-term debt.

IFRS 9 also includes a simplified hedge accounting model, aligning hedge accounting more closely with risk management. Derivative instruments are not used for trading or speculative purposes. The Company does not designate financial derivative contracts as effective accounting hedges, and thus does not apply hedge accounting. As a result, the Company's policy is to classify all financial derivative contracts at fair value through profit or loss and to record them on the Consolidated Balance Sheet at fair value with a corresponding gain or loss in net earnings (loss). Attributable transaction costs are recognized in net earnings (loss) when incurred. The estimated fair value of all derivative instruments is based on quoted market prices and/or third-party market indications and forecasts.

Embedded derivatives are derivatives embedded in a host contract. They are recorded separately from the host contract when their economic characteristics and risks are not closely related to those of the host contract; when the terms of the embedded derivatives are the same as those of a freestanding derivative; and when the combined contract is not measured at fair value

through profit or loss. The timing of the expected delivery to the final point of sale drives the value of the embedded derivative in the Petroperu contract, as the fair value of the derivative depends on the oil price at the time of the expected sale date at the final point of sale. Refer to Note 9 for the classification and measurement of these financial instruments.

The Company's financial instruments consist of cash, trade and other receivables, derivative assets, trade and other payables, derivative liabilities, and short and long-term debt and are included in the Company's balance sheet. The Company initially measures financial instruments at fair value.

**g. Exploration and Evaluation Assets**

E&E costs are those expenditures for an area where technical feasibility and commercial viability have not yet been determined. All costs directly associated with the exploration and evaluation of oil and natural gas reserves are initially capitalized. These costs include acquisition costs, exploration costs, geological and geophysical costs, decommissioning costs, E&E drilling, sampling and appraisals. Costs incurred prior to acquiring the legal rights to explore an area are expensed as incurred.

At each reporting date, the carrying amounts of the Company's exploration and evaluation assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the greater of its value in use and its fair value less costs to sell. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the year. The exploration and evaluation phase of a particular project is completed when both the technical feasibility and commercial viability of extracting oil or gas are demonstrable for the project or there is no prospect of a positive outcome for the project. Exploration and evaluation assets with commercial reserves will be reclassified to development and production assets and the carrying amounts will be assessed for impairment and adjusted (if appropriate) to their estimated recoverable amounts.

When an area is determined to be technically feasible and commercially viable the accumulated costs are transferred to property, plant and equipment, where they are depleted. Exploration and evaluation assets are not amortized during the exploration and evaluation stage. When an area is determined not to be technically feasible and commercially viable or the Company decides not to continue with its activity, the unrecoverable costs are charged to comprehensive income (loss) as impairment of exploration and evaluation assets.

**h. Decommissioning Obligations**

The Company recognizes a decommissioning liability in relation to the evaluation and exploration assets and to property, plant and equipment, in the period in which a reasonable estimate of the fair value can be made of the statutory, contractual, constructive or legal liabilities associated with the retirement of the oil and gas properties, facilities and pipelines. The amount recognized is the estimated cost of decommissioning, discounted to its present value using a discount rate. The estimates are reviewed periodically. Changes in the provision resulting from changes to the timing of expenditures, costs or risk-free rates are dealt with prospectively by recording an adjustment to the provision and a corresponding adjustment to property, plant and equipment or exploration and evaluation assets. The unwinding of the discount on the decommissioning provision is charged to the consolidated statements of earnings (loss) and comprehensive income (loss). Actual costs incurred upon settlement of the obligations are charged against the provision to the extent of the liability recorded and the remaining balance of the actual costs is recorded in the consolidated income statement.

**i. Income Taxes**

Income tax expense is comprised of current and deferred tax. Current tax and deferred tax are recognized in net income or loss except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive income or loss. Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date. Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss. Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting period the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

**j. Revenue Recognition**

Under IFRS 15, revenue is recognized when a customer obtains control of the goods or services as stipulated in a performance obligation. Determining whether the timing of the transfer of control is at a point in time or over time requires judgement and can significantly affect when revenue is recognized. In addition, the entity must also determine the transaction price and apply it correctly to the goods or services contained in the performance obligation.

The Company's revenue is derived exclusively from contracts with customers. Revenue associated with the sale of crude oil and gas is measured based on the consideration specified in contracts with customers. Revenue from contracts with customers is recognized when the Company satisfies a performance obligation by transferring a good or service to a customer. A good or service is transferred when the customer obtains control of the good or service. The transfer of control of oil and gas usually coincides with title passing to the customer and the customer taking physical possession. Company mainly satisfies its performance obligations at a point in time and the amounts of revenue recognized relating to performance obligations satisfied over time are not significant.

Revenues from the sale of crude oil and gas are recognized by reference to actual volumes delivered at contracted delivery points and prices. Prices are determined by reference to quoted market prices in active markets, adjusted according to specific terms and conditions applicable per the sales contracts. Revenues are recognized prior to the deduction of transportation costs. Revenues are measured at the fair value of the consideration received.

**k. Share Capital**

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity.

**l. Foreign Currency Translation**

Transactions in foreign currencies are initially translated into the functional currency using the exchange rate on the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statements of earnings (loss) and comprehensive income (loss). Each subsidiary in the group is measured using the currency of the primary economic environment in which the entity operates, which is its functional currency.

**m. Earnings per Share**

The Company presents basic and diluted earnings per share ("EPS") data for its common shares (the "Common Shares"). Basic EPS is calculated by dividing the net profit or loss attributable to common shareholders of the Company by the weighted average number of Common Shares outstanding during the period. Diluted EPS is determined by dividing the net profit or loss attributable to common shareholders by the weighted average number of Common Shares outstanding during the year, plus the weighted average number of Common Shares that would be issued on conversion of all dilutive potential Common Shares into Common Shares. Those potential Common Shares comprise share options granted.

**n. Fair Value Measurements**

Financial instruments recorded at fair value in the consolidated balance sheet (or for which fair value is disclosed in the notes to the Consolidated Financial Statements) are categorized based on the fair value hierarchy of inputs. The three levels in the hierarchy are described below:

**Level I**

Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide continuous pricing information.

**Level II**

Pricing inputs are other than quoted prices in active markets included in Level I. Prices in Level II are either directly or indirectly observable as of the reporting date. Level II valuations are based on inputs, including quoted forward for commodities, time value, credit risk and volatility factors, which can be substantially observed or corroborated in the marketplace.

**Level III**

Valuations are made using inputs for the asset or liability that are not based on observable market data. The Company uses Level III inputs for fair value measurements in inputs such as commodity prices in impairment assessments.

**o. Business Combinations**

The Company adopted the amendments to IFRS 3 – Business Combinations. The amendments introduced an optional concentration test, narrowed the definitions of a business and outputs, and clarified that an acquired set of activities and assets must include an input and a substantive process that together significantly contribute to the ability to create outputs.

**3. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS**

**NEW ACCOUNTING STANDARDS ISSUED BUT NOT EFFECTIVE**

New accounting standards and interpretations were issued and are mandatory for accounting periods after December 31, 2021. Certain of the new accounting standards and interpretations, which are not expected to have a significant impact on the Company’s Financial Statements upon adoption, are as follows:

- IAS 16 – Property, Plant and Equipment – Effective January 1, 2022, the amendments prohibit a company from deducting from the cost of PP&E amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognize such sales proceeds and related cost in profit or loss.
- IAS 37 – Provisions, Contingent Liabilities and Contingent Assets – Effective January 1, 2022, the amendments specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous.
- IAS 1 – Presentation of Financial Statements – Effective January 1, 2023, the amendments clarify the requirements for the presentation of liabilities as current or non-current in the statement of financial position.

**4. CASH AND RESTRICTED CASH**

The following table sets out cash and restricted cash balances held in different currencies:

	December 31 2021	December 31 2020
<b>Balances held in:</b>		
US dollars	73,057	9,149
Peruvian soles	110	42
English pounds	1,258	429
Canadian dollars	34	8
	<b>74,459</b>	<b>9,628</b>
<b>Represented as:</b>		
Cash	44,919	9,076
Restricted cash current	23,540	-
Restricted cash non-current	6,000	552

Current restricted cash of \$23.5 million is primarily related to acquisitions of qualified hydrocarbon assets, and \$6 million of non-current restricted cash is related to permitted hedging programs (see Note 9). In 2020, as part of the Peruvian government’s response to the hardships brought about by COVID-19, the Company received a government guaranteed loan (Reactiva program) of \$2.8 million, and a requirement of the loan was to escrow 20% of the proceeds, \$0.6 million, which is presented as non-current restricted cash.

**5. VAT RECEIVABLE**

	December 31 2021	December 31 2020
VAT receivable - current	1,115	10,249
VAT receivable - non current	1,692	3,094
<b>Total VAT receivable</b>	<b>2,807</b>	<b>13,343</b>

Valued Added Tax (“VAT”) in Peru is levied on the purchase of goods and services and is recoverable on sales of goods and services. As a result of capital activity and oil sales during the year, the Company recovered \$30.3 million during 2021 and expects to recover \$1.1 million in the short term based on its estimated oil sales.

## 6. TRADE AND OTHER RECEIVABLES

	December 31 2021	December 31 2020
Trade receivables	441	1,125
Other receivables	2,198	710
<b>Total trade and other receivables</b>	<b>2,639</b>	<b>1,835</b>

As of December 31, 2021, trade receivables represent revenue related to the sale of crude oil. No credit losses on the Company's trade receivables have been incurred. Other receivables are primarily related to a price differential to be recovered from Petroperu and a Peruvian income tax receivable.

## 7. INVENTORY

	December 31 2021	December 31 2020
Crude oil inventory	12,222	4,134
Materials, parts and supplies	10,110	3,522
<b>Total inventory</b>	<b>22,332</b>	<b>7,656</b>

Product inventory consists of the Company's crude oil barrels, which are valued at the lower of cost or net realizable value. Costs include operating expenses, royalties, transportation, and depletion associated with crude oil barrels. Costs capitalized as inventory will be expensed when the inventory is sold. As of December 31, 2021, crude inventory balance of \$12,222 consists of 432,075 barrels of crude oil valued at \$28.29 per barrel (December 31, 2020: \$4,134, 167,222 barrels at \$24.72 per barrel). Materials and supplies, including diluent, are expected to be consumed in the short-term.

## 8. PREPAID EXPENSES

	December 31 2021	December 31 2020
Advances to contractors	21	2,033
Prepaid expenses	797	1,303
Prepaid derivative obligation	-	4,299
<b>Total advances and prepaid expenses</b>	<b>818</b>	<b>7,635</b>

As of December 31, 2021, prepaid expenses are comprised of rent, insurance and other services. As at December 31, 2020, prepaid expenses were comprised of rent, insurance, and prepaid services (consultants and other services) related to the Company's activities to obtain credit facilities. In accordance with the Petroperu agreement (Note 9), in 2020 a prepaid amount of \$4.3 million was paid to offset the future settlement of the derivatives obligation.

## 9. RISK MANAGEMENT

	December 31, 2021		December 31, 2020	
	Carrying	Fair Value	Carrying Value	Fair Value
Cash and restricted cash	74,459	74,459	9,628	9,628
Trade and other receivables	2,639	2,639	1,835	1,835
Derivative asset	36,723	36,723	-	-
Derivative obligation	-	-	4,044	4,044
Short and long term debt	98,200	98,200	2,780	2,780
Trade and other payables	55,015	55,015	49,343	49,343

The table above details the Company's carrying value and fair value of financial instruments including cash and restricted cash, trade and other receivables, derivatives, short and long-term debt, and trade and other payables, all of which are classified as financial assets and liabilities and reported at amortized cost or fair value. The Company is exposed to various financial risks arising from normal-course business exposure. These risks include market risks relating to foreign exchange rate fluctuations and commodity price risk as well as liquidity.

## COMMODITY PRICE DERIVATIVES

The derivative asset is classified as Level 2 fair value measurement. The service contract for transport of liquid hydrocarbons of the North-Peruvian Oil Pipeline (“ONP”) and Petroperu Saramuro agreements signed with Petroperu during 2021, includes a clause for the purchase price adjustment. The initial sales price is based on the arithmetic average of the ICE Brent Crude 8-month forward price. The realized price is based on the tender price of the crude oil that is sold at the Bayovar terminal. The purchase price adjustment is the realized price less the initial sales price. In the case the purchase price adjustment is negative, the Company will compensate Petroperu the amount, multiplied by the volume sold or arranged by Petroperu. If the purchase price adjustment is positive, the Company will be compensated by Petroperu.

The fair value of the embedded derivative, considering an average future Brent price marker differential, was recorded as a gain on commodity price derivatives at December 31, 2021.

<b>Net derivative liability at January 1, 2021</b>	(4,044)
Petroperu derivatives settled	17,984
Derivative exercised	1,462
Corporate hedging	8,285
Derivative gain	13,036
<b>Net derivative asset at December 31, 2021</b>	<b>36,723</b>

Sales delivery / Executed month	Expected month	Volume bbls	Price range \$/bbl	Hedged range \$/bbl	Asset
<b>Petroperu Hedging (a)</b>					
Nov-20 to May-21	Jan-22 to Jun-22	830,591	62.24 to 87.73	60.70 to 68.40	(13,644)
<b>Peru Embedded Derivatives (b)</b>					
Dec-19 to Oct-21	Jul-22 to Mar-23	2,561,434	43.98 to 78.47	62.00 to 87.74	47,762
<b>Corporate Derivatives Hedging (c)</b>					
September 2021	Jan-22 to Jun-22	862,434	64.29 to 69.77	70.00	2,605
<b>Total</b>					<b>36,723</b>

- a) Petroperu implemented a hedging program of oil sales through the ONP pipeline.
- b) Embedded derivative related to original Petroperu sales agreement.
- c) Corporate hedge program to cover a portion of 2022 oil production.

As of December 31, 2021, 2.5 million barrels of oil have been delivered to and sold into the ONP, and remain in the pipeline or storage tanks, awaiting final sale by Petroperu and are subject to the same settlement terms as noted above in the ONP contract.

## FOREIGN EXCHANGE RATE RISK

The Company’s functional currency is the United States dollar. Foreign exchange gains or losses can occur on translation of working capital denominated in currencies other than the functional currency of the jurisdiction which holds the working capital item. Excluding the impact of changes in the cross-rates, a 1% fluctuation in translation rates would have nil impact on net income or loss, based on foreign currency balances held at December 31, 2021.

## LIQUIDITY RISK

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with its financial liabilities. The Company's liquidity risk is impacted by current and future commodity prices. If required, the Company will also consider additional short-term financing or issuing equity in order to meet its future liabilities. Declines in future commodity prices could affect the Company's ability to fund ongoing operations. The current challenging economic environment is having and may continue to have significant adverse impacts on the Company including, but not exclusively:

- material declines in revenue and cash flows as a result of the decline in commodity prices;
- declines in revenue and operating activities due to reduced capital programs and the shut-in of production;
- inability to access financing sources;
- increased risk of non-performance by the Company's customers and suppliers;
- interruptions in operations as the Company adjusts personnel to the dynamic environment; and,
- delivery of crude oil at Bayovar port and sale swap price risk.

Estimates and judgements made by management in the preparation of the financial statements are subject to a certain degree of measurement uncertainty during this volatile period.

## CREDIT RISK

Credit risk is the risk that a customer or counterparty will fail to perform an obligation or fail to pay amounts due causing a financial loss to the Company. The Company's VAT is primarily for sales tax credits on exploration and evaluation expenses incurred in prior years. These credits will be applied to future oil development activities or recovered as per the sales tax recovery legislation currently in effect. The majority of the Company's trade receivable balances relate to crude oil sales to one customer, being Petroperu, a state-owned company. Recently, the Company signed a long-term sales agreement and initiated exports through Brazil, with an oil trading company, whereby sales are FOB Bretana, and secured by a letter of credit. The Company's policy is to enter into agreements with customers that are well established and well financed entities in the oil and gas industry such that the level of risk is mitigated. The Company's customer sales for 2021 were 25% as export through Brazil, 56% through the ONP pipeline and 19% to the Iquitos refinery. The Company has not experienced any material credit losses in the collection of its trade receivables.

Impairment to a financial asset is only recorded when there is objective evidence of impairment and the loss event has an impact on future cash flow and can be reliably estimated. Evidence of impairment may include default or delinquency by a debtor or indicators that the debtor may enter bankruptcy. Management believes that there is no risk on the recoverability and or applicability of the sales tax credits. Therefore, no impairment to the carrying value of these assets has been estimated. The Company has deposited its cash and cash equivalents with reputable financial institutions, with which management believes the risk of loss to be remote. The maximum credit exposure associated with financial assets is their carrying value. At December 31, 2021, the cash and cash equivalents were held with six different institutions from three countries, mitigating the credit risk of a collapse of one particular bank.

## 10. EXPLORATION AND EVALUATION ASSETS

The following table sets out a continuity of the Exploration and Evaluation Assets:

<b>Balance at January 1, 2020</b>	4,637
Additions	519
<b>Balance at December 31, 2020</b>	5,156
Additions	895
<b>Balance at December 31, 2021</b>	6,051

## 11. PROPERTY, PLANT AND EQUIPMENT

	Petroleum Interests	Right of Use Asset (Power Plant)	Other Assets	Total
<b>Balance at January 1, 2020</b>	137,349	-	820	138,169
Additions	41,484	-	294	41,778
Additions to decommissioning obligations	3,336	-	-	3,336
Depletion, depreciation and amortization	(13,621)	-	(423)	(14,044)
<b>Balance at December 31, 2020</b>	168,548	-	691	169,239
Additions	80,831	21,387	465	102,683
Additions to decommissioning obligations	3,271	-	-	3,271
Depletion, depreciation and amortization	(21,641)	(1,199)	(523)	(23,363)
<b>Balance at December 31, 2021</b>	231,009	20,188	633	251,830

For the year ended December 31, 2021, \$1.7 million of the depreciation, depletion and amortization expense was recorded as inventory (December 31, 2020: \$1.1 million).

The Company determined there were no impairment indicators of the property, plant and equipment balance at December 31, 2021 and 2020.

## 12. SHORT AND LONG-TERM DEBT

At December 31, 2020, the Company had a financial liability of \$2.8 million pertaining to a Peruvian backed loan. The loan was paid in February 2021.

On February 2, 2021, the Company completed a 3-year senior secured bond with a face value of \$100 million issued at a 5% discount for total consideration of \$95 million. The bonds bear interest at 12% and interest is due semi-annually with principal repayments of \$25 million in February 2023, \$25 million in August 2023 and \$50 million in February 2024. The Company incurred deferred financing costs of \$4.1 million, which are amortized using the effective interest method over the remaining term of the debt. The Company, at its option, may redeem the bonds prior to maturity. Each bondholder shall have a right of prepayment and the issuer shall have a right of redemption, in each case at a price of 101% of nominal amount (plus accrued but unpaid interest on the redeemed bonds) during a period of 30 calendar days starting at the first anniversary of the issue date. According to the agreement, the net proceeds of \$90.9 million from the bonds were initially applied towards:

- (i) \$16.6 million plus accrued interest at 6.12%, for payment of all amounts outstanding under the Petroperu restructuring agreement;
- (ii) \$2.9 million for repayment of the Peruvian Reactiva assistance program;
- (iii) \$20 million restricted for the acquisition of qualified hydrocarbon assets;
- (iv) \$15 million for the permitted hedging programs; and,
- (v) Remaining amount for the Bretana oil field development.

According to the agreement, if the Company has not acquired a new asset by February 2022, bondholders have the right to request repayment of the \$20 million or the remaining balance of the acquisition account. If the bondholders have not exercised their call option, the Company has the right to repay (put option) the \$20 million. If neither party exercises the option, the funds remain in the acquisition account and remain available for hydrocarbon asset purchases. The \$20 million is treated as restricted cash (see Note 4 and Note 24).

<b>US Dollar denominated debt - senior secured bonds</b>		
12% due February 16, 2024	Effective rate 15.8%	100,000
Less: unamortized financing cost		(6,300)
Interest payable		4,500
<b>Balance at December 31, 2021</b>		<b>98,200</b>
Represented as:		
Short term debt		24,500
Long term debt		73,700



In accordance with the terms of the bond agreement, the bonds are secured by all assets of the Company, and the Company is required to maintain the following financial ratios:

Covenant	Ratio	Description
a)	Liquidity	Cash amount not less than interest payable for the next 12 months
b)	Equity	Equity to Total Assets minimum rate of 40%
c)	Leverage	Net debt to EBITDA does not exceed the ratio of 3:1

The Company met all covenants as of December 31, 2021. No distributions to shareholders are permitted until the bonds are relinquished.

### Fair Value

The long-term debt of \$98.2 million was comparable to third-party fair value estimates for similar issues or current rates. The fair value of the Company's debt on December 31, 2021 (Note 9), was determined by reference to valuation inputs under Level 2 of the fair value hierarchy.

### 13. TAXES

The Company utilizes the liability method of accounting for income taxes. Under the liability method, deferred tax assets and liabilities are recognized using enacted tax rates for the effect of temporary differences between the book and tax bases of recorded assets and liabilities.

Deferred tax assets are reduced by a valuation allowance if it is more likely than not that some portion or all of the net deferred tax assets will not be realized. The Company's ability to realize deferred tax assets is assessed throughout the year and a valuation allowance is established, if required. The Company recognizes the impact of a tax position only if it is more likely than not to be sustained upon examination based on the technical merits of the position. The Company also routinely assesses potential uncertain tax positions and, if required, establishes accruals for such amounts, including interest where appropriate. The Company recognizes a tax benefit from an uncertain tax position when it is more likely than not that the position will be sustained upon examination, based on the technical merits of the position.

The Company's effective tax rate is impacted each year by the relative pre-tax income (loss) earned by the Company's operations in Canada, U.S., and Peru. The Company is subject to statutory tax rates of 21% in the U.S., 28% in Canada and 32% in Peru (exploration activities of the Company in Peru are subject to a 30% statutory tax rate plus 2% in accordance with Law 27343). The Company files federal income tax returns as well as local income tax returns in the various jurisdictions.

	December 31 2021	December 31 2020
Income (loss) before income taxes	63,968	(1,449)
Canadian statutory income tax rate	28%	28%
Income tax expected at statutory rate	17,911	(406)
Derecognition of deferred tax assets and others	(17,907)	331
Deferred income tax expense (recovery)	4	(75)

The movement in deferred income tax balances are as follows:

	December 31 2021	December 31 2020
Deferred tax assets	66,459	59,712
Derecognition of deferred tax assets	(65,830)	(59,066)
Net deferred tax asset	629	646

The valuation allowance primarily relates to Canadian and Peruvian net operating loss carryforwards, which reduces the Company's net deferred tax asset to an amount that will more likely than not be realized within the carryforward period. In Peru the tax loss carryforward related to Block 95 will expire in three years for a total of \$276 million in losses. In Canada non-capital losses can be carried forward for

twenty years for a total of \$42.9 million in losses, \$1.9 million for US losses. There is generally no carryback period, and the carryover period starts with the taxable year following the loss and continues indefinitely.

The Company has a tax rate in each of the three license contracts of 32%; however, due to accumulated tax losses, the Company only expects to pay the 2% tax on revenue that is recoverable against any future tax payable. The balance of the 2% tax that is recoverable against any future tax payable at December 31, 2021 was \$1 million (December 31, 2020: \$0.6 million) and is included in other receivables.

#### 14. TRADE AND OTHER PAYABLES

	December 31 2021	December 31 2020
Trade payables	26,888	31,151
Accrued payables and other obligations	28,127	18,192
<b>Total trade and other payables</b>	<b>55,015</b>	<b>49,343</b>

As at December 31, 2021 and 2020, trade payables and accruals are primarily related to the drilling and completion of wells and construction of production processing facilities.

#### 15. DECOMMISSIONING OBLIGATIONS

<b>Balance at January 1, 2020</b>	17,562
Additions	650
Revisions to decommissioning obligations	2,686
Liabilities settled	(266)
Accretion	539
<b>Balance at December 31, 2020</b>	<b>21,171</b>
Additions	3,165
Revisions to decommissioning obligations	106
Liabilities settled	(2,871)
Accretion	530
<b>Balance at December 31, 2021</b>	<b>22,101</b>
Represented as:	
Current	1,403
Non-current	20,698

The undiscounted uninflated value of its estimated decommissioning liabilities is \$29.4 million. The present value of the obligations was calculated using an average risk-free rate of 3.6% (December 31, 2020: 2.8%) to reflect the market assessment of the time value of money as well as risks specific to the liabilities that have not been included in the cash flow estimates. The inflation rate used in determining the cash flow estimate was 2.0%. The table above sets out the continuity of decommissioning obligations.

#### 16. CURRENT AND NON-CURRENT LEASE LIABILITY

The Company commenced a seven-year service contract with a supplier, that provides turnkey power generation equipment services, in Q1 2021. The Company has the option to buy the equipment on year five for \$4.5 million. The incremental borrowing rate used to measure the lease liabilities was 4.0% for the dollar denominated lease.

<b>Lease liabilities at January 1, 2021</b>	228
Net additions	16,721
Interest on leases	712
<b>Lease liabilities at December 31, 2021</b>	<b>17,661</b>
Represented as:	
Current liability	3,849
Non-current liability	13,812

As of December 31, 2021, total lease liabilities have the following minimum undiscounted annual payments:

Year	Amount
2022	3,457
2023	3,457
Thereafter	11,414
<b>Total</b>	<b>18,328</b>

As of December 31, 2021, lease liabilities have the following minimum year payments under its office lease:

Year	Amount
2022	101
2023	40
Thereafter	-
<b>Total</b>	<b>141</b>

## 17. COMMITMENTS

As of December 31, 2021, the Company holds the following letters of credit guaranteeing its commitments in the exploration blocks:

Block	Beneficiary	Amount	Commitment	Expiration
107	Perupetro S.A.	\$1,500	1st exploration well, minimum work 5th exploratory period	December 2023
107	Perupetro S.A.	\$1,500	2nd exploration well, minimum work 5th exploratory period	December 2023
		<u>\$3,000</u>		

## 18. SHARE CAPITAL

Authorized share capital consists of an unlimited number of common shares without nominal or par value. The holders of common shares are entitled to one vote per share and are entitled to receive dividends as recommended by the Board of Directors after satisfactory payment of bonds.

On June 18, 2020, the Company completed an equity issue, raising gross proceeds of approximately \$18 million (at 10 pence per unit) upon issuance of 141.2 million of units. Each unit is comprised of one common share and one half of one warrant allowing the subscriber to purchase additional shares within 36 months at 16 pence/share upon presentation of a full warrant. In Q1 2020, the Company received \$0.2 million from the exercise of warrants.

	Thousands of common shares	Share Capital
<b>Balance at January 1, 2020</b>	672,201	108,669
Vesting of performance share units	1,762	-
Warrants exercised	1,000	187
Equity issued	141,204	16,446
<b>Balance at December 31, 2020</b>	816,167	125,302
Vesting of performance share units	4,973	-
Warrants exercised	7,057	1,394
<b>Balance at December 31, 2021</b>	<b>828,197</b>	<b>126,696</b>

## PERFORMANCE WARRANTS

The performance warrants have an exercise price of \$0.187 per share and vest upon achievement of certain oil production targets, within a specified period. Each warrant will be adjusted as to the number of shares to be issued on the exercise date and the exercise price of the warrant.

## INVESTORS' WARRANTS

In connection with the brokered private placement offering on June 18, 2020, investors received one common share and one half of one warrant allowing the subscriber to purchase additional shares within 36 months at 16 pence/share upon presentation of a full warrant. The following table sets out a continuity of outstanding warrants:

	Performance Warrants	Investor Warrants
Balance at January 1, 2020	26,750,000	-
Warrants exercised	(1,000,000)	-
Warrants issued	-	70,601,946
<b>Balance at December 31, 2020</b>	<b>25,750,000</b>	<b>70,601,946</b>
Warrants exercised	(3,203,650)	(3,852,941)
<b>Balance at December 31, 2021</b>	<b>22,546,350</b>	<b>66,749,005</b>

## SHARE-BASED COMPENSATION

The Company granted performance share units ("PSUs") to employees and deferred share units ("DSUs") to directors of the Company. The grant date fair value of performance share units ("PSUs") granted to employees is recognized as share-based compensation expense with a corresponding increase in contributed surplus over the vesting period. The Company granted PSUs to employees in accordance of the provisions of the Company's PSU plan. The PSUs either vest after three years or equally over three years and each PSU will entitle the holder to acquire between zero and two common shares of the Company, subject to the achievement of performance conditions relating to the Company's total shareholder return, net asset value and certain production and operational milestones. The company determined the fair value of the PSUs through a combination of Black-Scholes and a probability weighted model. The following table details the terms of the PSUs outstanding as at December 31, 2021:

	2021 Plan Share Units	2020 Plan Share Units
Vest date 3 years from grant date, exchangeable for up to 2 shares	6,467,416	5,540,400
Vest date equally over 3 years from grant date, exchangeable for up to 2 shares	933,982	928,039
Vest date equally over 3 years from grant date, exchangeable for up to 1-1.5 shares	2,628,864	3,094,062
<b>Total units</b>	<b>10,030,262</b>	<b>9,562,501</b>

The Board of Directors, after reviewing the Company's total shareholder return, net asset value and certain production and operational milestones, has determined that the 2021 units are exchangeable for 1.07 shares per unit (2020 Plan: 0.1).

The following assumptions were used for the Black-Scholes valuation of the PSUs granted:

	2021 Plan	2020 Plan
Risk-free interest rate	2.0%	2.0%
Expected Life	1-3 years	1-3 years
Annualized volatility	50%	50%
Dividend Rate	-	-
Forfeiture Rate	-	-

For the year ended December 31, 2021, the Company recognized \$2.5 million of share-based compensation expense in general and administrative expense (December 31, 2020: \$1 million).

The Company issued an aggregate of 2,962,539 DSUs pursuant to the Company's DSU plan to the directors of the Company. The DSUs vest immediately and may only be redeemed upon a holder ceasing to be a director of PetroTal. No common shares will be issued under the DSU plan; all DSUs granted are settled in cash. The DSUs are valued at the closing share price on the reporting date.

For the year ended December 31, 2021, the Company recognized \$0.4 million of DSU expense in general and administrative expense and contributed surplus (December 31, 2020: \$0.2 million).

The following table details the PSU and DSU activity:

	Performance Share Units	Deferred Share Units
<b>Balance at January 1, 2020</b>	10,871,353	1,057,299
Additions	14,205,199	1,244,300
Issued/forfeiture	(1,559,568)	-
<b>Balance at December 31, 2020</b>	23,516,984	2,301,599
Additions	10,030,262	660,940
Issued/forfeiture	(9,963,924)	-
<b>Balance at December 31, 2021</b>	23,583,322	2,962,539

## 19. REVENUES NET OF ROYALTY

The Company's oil production revenue is determined pursuant to the terms of the revenue agreements. The transaction price for crude is based on the commodity price in the month of production, adjusted for quality, allowable deductions and other factors. Commodity prices are based on market indices.

	December 31 2021	December 31 2020
<b>Sales</b>		
Crude oil revenue	159,189	61,740
Royalty	(8,962)	(2,877)
<b>Net revenue</b>	150,227	58,863

## 20. GENERAL AND ADMINISTRATIVE EXPENSES

	December 31 2021	December 31 2020
Salaries and benefits	9,387	7,474
Legal, audit and consulting fees	3,051	2,494
Community support	1,451	621
Office rent and administrative	1,678	1,486
Stock expense employee and directors	2,548	1,080
G&A allocations	(3,833)	(2,570)
<b>Total</b>	14,282	10,585

The Company reduced salaries to employees due to the pandemic from May to November 2020, and continued supporting the oil field community in Peru, providing infrastructure and medical supplies during 2021.

## 21. FINANCE EXPENSE

	December 31 2021	December 31 2020
Accretion of decommissioning obligations	530	539
Other interest	4,727	1,486
Bond interest and fees amortization	13,313	-
Interest income	(732)	(5)
<b>Total</b>	17,838	2,020

At December 31, 2021, the company completed a 3-year senior secured bond with a face value of \$100 million issued at a 5% discount. The bond bears interest at 12% and interest is due semi-annually. The Company also incurred financing costs which are amortized using the effective interest method over the remaining term of the debt. In the prior year, the Company had a financial liability of \$2.8 million pertaining to a Peruvian backed loan received in Q2 2020. The loan had an interest rate of 1.12% and was payable over 36 months. The loan was paid in February 2021.

## 22. RELATED PARTY TRANSACTIONS

The Company had no related party transactions or off-balance sheet arrangements. The Company's key management includes the Directors and Officers.

	December 31 2021	December 31 2020
Salaries, incentives and short term benefits	1,505	1,459
Director's fees	369	323
Share based compensation	968	486
<b>Total compensation</b>	<b>2,842</b>	<b>2,268</b>

## 23. CAPITAL STRUCTURE

The Company's objective when managing capital is to ensure it has sufficient funds to maintain ongoing operations, to pursue the acquisition of oil and gas properties, and to maintain a flexible capital structure that optimizes the cost of capital at an acceptable risk. The Company manages its capital structure, which may include equity and debt, and adjusts it according to the funds available to support the exploration and development of its interests in its existing oil and gas properties, and to pursue other opportunities as they arise.

The Company defines its capital as follows:

	December 31 2021	December 31 2020
Equity	204,257	137,163
Working capital (current assets less current liabilities)	(47,319)	22,157
<b>Total capital</b>	<b>156,938</b>	<b>159,320</b>

## 24. SUBSEQUENT EVENTS

On April 1, 2022, the Company elected to repay \$20 million to bondholders pursuant to the call option set out in the bond agreement. In addition, the Company paid \$0.5 million of interest and prepayment fees. The remaining bond principal repayments are \$25 million in February 2023, \$25 million in August 2023 and \$30 million in February 2024.