

IOCL (USA) Inc.
Financial Statements
March 31, 2021

IOCL (USA) Inc.

March 31, 2021

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Independent Auditors' Report

To the Board of Directors
and Stockholder of IOCL (USA) Inc.

We have audited the accompanying financial statements of IOCL (USA) Inc. (a Texas corporation), which comprise the balance sheets as of March 31, 2021 and 2020, and the related statements of operations and comprehensive loss, changes in stockholder's equity, and cash flows for the years then ended, and the related notes to financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of IOCL (USA) Inc. as of March 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with U.S generally accepted accounting principles.

Pannell Kerr Forster of Texas, P.C.

April 19, 2021

IOCL (USA) Inc.
Balance Sheets

		as of March 31,	
	Note	2021	2020
Assets			
Current assets			
Cash and cash equivalents	4	\$ 2,948,624	\$ 2,358,362
Accounts receivable	5	492,530	479,574
Certificates of deposit	6	<u>4,001,337</u>	<u>3,279,631</u>
Total current assets		7,442,491	6,117,567
Oil and natural gas properties, net, successful efforts method	7	6,555,589	23,311,268
Deferred tax asset	13	<u>-</u>	<u>-</u>
Total assets		<u>\$ 13,998,080</u>	<u>\$ 29,428,835</u>
Liabilities and Stockholder's Equity			
Current liabilities			
Accounts payable and accrued liabilities	8	\$ 97,494	\$ 279,014
Asset retirement obligations, current	9	<u>233,786</u>	<u>125,670</u>
Total current liabilities		331,280	404,684
Asset retirement obligations, non-current	9	<u>629,987</u>	<u>428,453</u>
Total liabilities		961,267	833,137
Commitments and contingencies			
Stockholder's equity			
Common stock \$0.01 par value; 10,000,000,000 shares authorized; 5,763,538,921 shares issued and outstanding as of March 31, 2021 and 2020, respectively		57,635,390	57,635,390
Accumulated deficit		<u>(44,598,577)</u>	<u>(29,039,692)</u>
Total stockholder's equity		<u>13,036,813</u>	<u>28,595,698</u>
Total liabilities and stockholder's equity		<u>\$ 13,998,080</u>	<u>\$ 29,428,835</u>

See accompanying notes to financial statements.

IOCL (USA) Inc.
Statements of Operations and Comprehensive Loss

		for the years ended March 31,	
	Note	2021	2020
Revenues:			
Revenue from contracts with customers	10	\$ 3,653,518	\$ 4,396,128
Total Revenue		3,653,518	4,396,128
Operating costs and expenses			
Lease operating	11	1,021,046	1,301,641
Production taxes		107,088	231,458
Marketing and distribution		651,814	738,273
Abandonment of expired leases		-	764,581
Depletion, depreciation and amortization	7	4,699,462	3,779,199
Impairment of oil and natural gas properties	7	12,564,367	-
General and administrative	12	173,691	181,354
Accretion expense	9	15,779	16,633
Total operating expenses		19,233,247	7,013,139
Operating loss		(15,579,729)	(2,617,011)
Other (income) / expense			
Finance income		(21,490)	(103,774)
Finance costs		646	644
Total other income, net		(20,844)	(103,130)
Loss before income tax expense / (benefit)		(15,558,885)	(2,513,881)
Income tax expense / (benefit)	13	-	-
Net loss and comprehensive loss		<u>\$(15,558,885)</u>	<u>\$ (2,513,881)</u>

See accompanying notes to financial statements.

IOCL (USA) Inc.
Statements of Changes in Stockholder's Equity
for the years ended March 31, 2021 and 2020

	<u>Common Stock</u>		<u>Accumulated</u>	<u>Total</u>
	<u>Shares issued</u>	<u>Amount</u>	<u>Deficit</u>	<u>Stockholder's</u>
				<u>Equity</u>
Balance as of March 31, 2019	5,763,538,921	\$ 57,635,390	\$ (26,525,811)	\$ 31,109,579
Net loss	-	-	(2,513,881)	(2,513,881)
Balance as of March 31, 2020	5,763,538,921	57,635,390	(29,039,692)	28,595,698
Net loss	-	-	(15,558,885)	(15,558,885)
Balance as of March 31, 2021	<u>5,763,538,921</u>	<u>\$ 57,635,390</u>	<u>\$ (44,598,577)</u>	<u>\$ 13,036,813</u>

See accompanying notes to financial statements.

IOCL (USA) Inc.
Statements of Cash Flows

	for the years ended March 31,	
	2021	2020
Cash flows from operating activities:		
Net loss	\$(15,558,885)	\$ (2,513,881)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depletion, depreciation and amortization	4,699,462	3,779,199
Impairment of oil and natural gas properties	12,564,367	-
Abandonment of expired leases	-	764,581
Accretion expense	15,779	16,633
Finance income added to short term deposit	(12,548)	(79,440)
Changes in operating assets and liabilities		
Accounts receivable	(12,956)	295,917
Accounts payable and accrued liabilities	(149,965)	11,127
Net cash provided by operating activities	1,545,254	2,274,136
Cash flows from investing activities:		
Acquisition of oil and gas properties	(214,279)	(575)
Capital expenditures	-	(2,266,587)
Change in capital expenditure accrual	(31,555)	-
Change in advances to operator	-	555
Purchase of short term deposits	(4,000,000)	(6,490,496)
Redemption of short term deposits (including interest)	3,290,842	7,813,457
Net cash used in investing activities	(954,992)	(943,646)
Net increase in cash and cash equivalents	590,262	1,330,490
Cash and cash equivalents - beginning of year	2,358,362	1,027,872
Cash and cash equivalents - end of year	\$ 2,948,624	\$ 2,358,362
Supplemental non-cash investing and financing activities:		
ARO liabilities incurred and revisions to estimates	\$ 293,871	\$ 37,612

See accompanying notes to financial statements.

IOCL (USA) Inc.
Notes to the financial statements
for the year ended March 31, 2021

Note 1 - Incorporation and Principal Activities

IOCL (USA) Inc. (the "Company") was incorporated on October 1, 2012 as a Texas Corporation. The Company is a wholly-owned subsidiary of Indian Oil Corporation Limited (the "Parent").

The Company is a petroleum exploration and production company engaged in the acquisition, exploration, and development of properties for the production of crude oil and natural gas from underground reservoirs.

IOCL (USA) Inc. acquired a 10% working interest in the producing Niobrara shale project located in Weld, Morgan and Adams Counties in the State of Colorado, USA from Carrizo Oil & Gas Inc., USA on October 1, 2012. Carrizo Oil and Gas has since divested its entire stake in the project to Verdad Resources LLC effective September 1, 2017. The acreage is operated by Verdad Resources LLC as well as other companies such as Noble Energy Inc., Whiting Oil & Gas Corp., Great Western Operating Company, Mallard Exploration (DPOC LLC) and Bison Oil & Gas II LLC.

Note 2.1 - Basis of Preparation Statement of Compliance

These financial statements have been prepared in accordance with the Generally Accepted Accounting Principles in United States of America ("US GAAP").

Basis of measurement

The financial statements have been prepared on a historical cost basis except, when necessary, certain items are measured at fair value. The accounting policies adopted are set out below and have been consistently applied.

The financial statements are presented in United States dollars (" \$" or "USD") except as otherwise stated. The financial statements provide comparative information in respect of the previous period.

Note 2.2 - Summary of Significant Accounting Policies

a) Current versus non-current classification

The Company presents assets and liabilities in the balance sheets based on current/non-current classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

IOCL (USA) Inc.
Notes to the financial statements
for the year ended March 31, 2021

Note 2.2 - Summary of Significant Accounting Policies (continued)

a) Current versus non-current classification (continued)

A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The terms of the liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification. The Company classifies all other liabilities as non-current.

b) Joint arrangements

The Company's exploration, development and production activities are generally conducted in joint arrangement with other companies.

To be classified as a joint arrangement, the contract between parties of joint arrangements require that all parties take all of the output at a price covering the costs of the arrangement and provides rights to the underlying assets and obligations for the liabilities of the arrangement.

The Company recognizes its assets, liabilities and expenses relating to its interests in joint operations, including its share of assets held jointly and liabilities and expenses incurred jointly with other parties according to the applicable standards and accounting policies. Since, all of the output is taken by the parties and there is a joint operation, the Company only recognizes revenue when it sells its share of output to third parties.

c) Revenue from contracts with customers

The Company follows Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606) Accounting Standards Codification ("ASC") 606 ("ASC 606") using the modified retrospective method and has applied the standard to all existing contracts. ASC 606 supersedes previous revenue recognition requirements in ASC 605 - Revenue Recognition ("ASC 605") and includes a five-step revenue recognition model to depict the transfer of goods or services to customers in an amount that reflects the consideration in exchange for those goods or services.

The Company is in the business of selling crude oil, natural gases and natural gas liquids ("NGLs") generated from Niobrara Formation area in Weld, Morgan, and Adams counties of the State of Colorado. The Company's oil and natural gas revenues are distributed directly from the operator who sells on the Company's behalf to various purchasers the Company's share of oil, natural gas and NGLs which may be subject to operator obligated processing, treating and delivery contracts.

Revenue is recognized when control of the products has been transferred to the purchaser and generally occurs when the product is physically transferred into a vessel, pipe or other delivery mechanism, depending on the contractually agreed terms. The Company believes that the disaggregation of revenue into these three major product types appropriately depicts how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors based on its single geographic location.

IOCL (USA) Inc.
Notes to the financial statements
for the year ended March 31, 2021

Note 2.2 - Summary of Significant Accounting Policies (continued)

c) Revenue from contracts with customers (continued)

Revenues from the sale of oil, natural gas and NGLs is recorded net of royalties. An accrual is recorded at each reporting period by estimating the oil, natural gas and NGL volumes produced and delivered, net of royalties, and corresponding prices for periods when actual production information is not available. Crude oil that remains within the field tanks, natural gas that remains in a pipeline and natural gas liquids that remain within a tank that is not sold at each reporting period is considered not produced.

The transaction price used to recognize revenue is a function of the contract billing terms of the operator taking into account volumes at contractually based rates with payment typically required within 30 days of the end of the production month. At the end of each month when the performance obligation is satisfied, the variable consideration can be reasonably estimated and amounts due from operator are accrued in accounts receivable in the balance sheets (See Note 5). Taxes assessed by governmental authorities on crude oil, natural gas and NGLs and costs associated with processing, treating and delivery contracts are typically netting within the selling price received or when remitted. Taxes assessed are presented separately from revenues in the statements of operations as production taxes and other post production costs are presented as marketing and distribution costs since control of production sold passes to the purchasers subject to the operator's terms under these contracts.

The Company follows the practical expedient in ASC 606 exempting the disclosure of the transaction price allocated to remaining performance obligations if the variable consideration is allocated entirely to a wholly unsatisfied performance obligation. Each unit of product typically represents a separate performance obligation; therefore, future volumes are wholly unsatisfied and disclosure of the transaction price allocated to remaining performance obligation is not required.

Contract balances accounts receivable

As referred to above, accounts receivable result from sale of crude oil, natural gas and NGLs. The majority of these receivables have payment terms of 30 to 60 days. The Company continually monitors the creditworthiness of the counterparties and at the end of each reporting period, assesses the recoverability of all material receivables using historical data, current market conditions, and reasonable and supportable forecasts of future economic conditions to determine expected collectability. An allowance is recorded for expected credit losses when necessary to reflect the net amount expected to be collected.

d) Business concentration

Two customers accounted for approximately 85% of the Company's total revenue during the year ended March 31, 2021, and accounted for approximately 89% of accounts receivable as of March 31, 2021. Two vendors accounted for approximately 80% of operating expenses during the year ended March 31, 2021, and one of those vendors accounted for 80% of accounts payable and accrued expenses at March 31, 2021. During the year ended March 31, 2020, three customers accounted for approximately 94% of the Company's total revenue and approximately two of those customers accounted for approximately 90% of accounts receivable as of March 31, 2020. During the year ended March 31, 2020, three vendors accounted for approximately 91% of operating expenses, and four vendors accounted for 97% of accounts payable and accrued expenses at March 31, 2020.

IOCL (USA) Inc.
Notes to the financial statements
for the year ended March 31, 2021

Note 2.2 - Summary of Significant Accounting Policies (continued)

e) Cash and cash equivalents

Cash and cash equivalents include cash at banks and all highly liquid short-term deposits with original maturities of three months or less, that are readily convertible to a known amount of cash and subject to an insignificant risk of changes in value.

For the purpose of the statement of cash flows, cash and cash equivalents consists of cash at banks and short-term deposits as defined above.

Other short-term deposits with original maturities of more than three months and remaining maturities of less than twelve months are classified within other assets.

f) Oil and natural gas properties

The Company uses the successful efforts method of accounting for oil and natural gas producing activities.

Costs to acquire mineral interests in oil and natural gas properties, costs to drill and equip exploratory wells that find proved reserves, costs to drill and equip development wells, and related asset retirement costs are capitalized as oil and gas property. With respect to amounts paid by the Company for its prior carry obligation, they were recorded to oil and natural gas properties based on cost categories incurred as tangible and intangible drilling costs, completion costs and production equipment. Additionally, interest costs, if appropriate, are capitalized to property and equipment during the period that unevaluated leasehold costs and costs of wells in progress are undergoing development and preparation for their intended use until reserves have been identified. Costs to drill exploratory wells that do not find proved reserves, geological and geophysical costs, and costs of carrying and retaining unevaluated properties are expensed as incurred.

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Unevaluated leasehold cost is stated at cost, net of accumulated impairment losses, if any.

Depletion and depreciation

Depreciation is not recorded on unevaluated property costs, costs of wells in progress and related capitalized interest costs, if any, until the related costs are considered developed or until proved reserves are found.

Capitalized costs of producing oil and natural gas properties, after considering estimated residual salvage values, are depreciated and depleted on a field level (common reservoir) using the unit-of-production method using proved producing oil and natural gas reserves of the field.

Evaluated oil and natural gas leasehold costs are depleted using the unit-of-production method based on total proved oil and natural gas reserves.

Estimates of the residual values of property, plant and equipment are reviewed annually and adjusted if appropriate. Changes in estimates are accounted for prospectively over the remaining reserves of the field or remaining life of the asset.

Sale or retirement

Upon sale or retirement of a complete unit of an evaluated property, the cost and related accumulated depreciation, depletion, and amortization are eliminated from the property accounts, and the resulting gain or loss is recognized in the statement of operations and comprehensive income. On the retirement or sale of a partial unit of evaluated property, the cost and related accumulated depreciation, depletion, and amortization apportioned to the interest retired or sold are eliminated from the property accounts, and the resulting gain or loss is recognized in the statement of operations and comprehensive (loss)/income.

IOCL (USA) Inc.
Notes to the financial statements
for the year ended March 31, 2021

Note 2.2 - Summary of Significant Accounting Policies (continued)

f) Oil and natural gas properties (continued)

Sale or retirement (continued)

Upon sale of an entire interest in an unevaluated property, gain or loss on the sale is recognized, taking into consideration the amount of any recorded impairment if the property had been assessed individually. If a partial interest in an unevaluated property is sold, the amount received is treated as a reduction of the cost of the interest retained.

Impairment

Evaluated oil and natural gas properties are tested for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable, which is generally performed at the field level. If assets are determined to be impaired, the carrying amounts of those assets are written down to their recoverable amount, which is the higher of fair value less costs to sell and the carrying value.

Estimates of future undiscounted net cash flows are determined by a third-party petroleum engineering firm for oil and natural gas properties to determine the recoverability of carrying amounts. If the net cost exceeds the undiscounted future net cash flows, then the fair value is determined using the discounted future net cash flows as the new carrying value with any excess net cost recorded as impairment with a corresponding amount recorded to accumulated depreciation, depletion and amortization.

Impairment losses are recognized in the statement of operations and comprehensive loss. As of March 31, 2021 and 2020, an impairment of proved oil and natural gas properties totaling \$12,564,367 and \$nil, respectively, was recorded.

Unevaluated oil and natural gas properties which totaled \$nil and \$nil at March 31, 2021 and 2020, respectively, are periodically assessed for impairment of value, and a loss is recognized at the time of impairment by providing an impairment allowance. As unevaluated leases expire and are not renewed estimated costs of these leases are charged to abandonment expense. Abandonment of expired leases charged to expense totaled \$nil and \$764,581 for the years ended March 31, 2021 and 2020, respectively.

g) Asset retirement obligations (ARO)

The Company records an asset retirement obligation for the abandonment of oil and natural gas producing properties to be incurred at the end of the producing life each well. An ARO is recognized at the time an obligation is incurred and is measured at its estimated fair value. Fair value is measured using expected future cash outflows which considers an estimate of the cost to plug and abandon wells (excluding salvage value), future inflation rates and is discounted at the Company's credit-adjusted risk-free interest rate. The fair value of the estimated asset retirement cost is capitalized as part of the carrying amount of the oil and natural gas property and depleted with the corresponding proved oil and natural gas property using the unit-of-production method. Accretion expense is recognized over time as the discounted liability is accreted to its expected settlement and included in the statement of operations and comprehensive loss.

Periodically the asset retirement obligation is re-evaluated to determine if a revision to the estimate is necessary due to changes in the timing or the amount of the original estimated undiscounted cash flows. Changes are recognized as an increase or decrease in the ARO and the related oil and natural gas property. If a decrease in the provision exceeds the asset's carrying amount, the excess is recognized in the statement of operations and comprehensive (loss)/income. The adjusted carrying amount of the asset is depleted prospectively over the remaining reserves of the field.

IOCL (USA) Inc.
Notes to the financial statements
for the year ended March 31, 2021

Note 2.2 - Summary of Significant Accounting Policies (continued)

h) Taxation

Income/tax expense (benefit) represents the sum of current and deferred tax. Income tax assets and liabilities are presented separately in the financial statements except where there is a right of offset within fiscal jurisdictions, which are recorded as non-current on a net basis.

Current tax

Current income tax expense (benefit) is based on the taxable profit/(loss) for the year. The current income tax charge is calculated on the basis of tax rates and laws that have been enacted by the reporting date.

The state of Texas has a gross margin tax of 0.75% that is levied on taxable margin. Taxable margin is defined as total revenue less deduction for costs of goods sold or compensation and benefits in which total calculated taxable margin cannot exceed 70% of total revenue.

Deferred tax

Deferred tax expense (benefit) is recognized using the asset and liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts at the reporting date in the financial statements.

Deferred tax assets are recognized for all deductible temporary differences and the carry forward of any unused tax losses. Deferred tax assets are recognized in full and a valuation allowance is separately recognized to the extent it is more likely than not that the deferred tax asset will not be realized.

Deferred tax assets and liabilities are measured on an undiscounted basis at the tax rates that are currently enacted and applicable to the period in which the deferred tax asset is expected to be realized, or the deferred tax liability is expected to be settled.

As changes in tax laws or rates occur, deferred tax assets and liabilities are adjusted through the provision for income taxes.

Uncertain tax positions

The impact of an uncertain tax position is recognized only if it is more likely than not of being sustained upon examination of the relevant taxing authority. The Company has taken no uncertain tax positions that require adjustment to the financial statements. The Company accounts for interest and penalties assessed as a result of an examination, if any, in income tax expense. The Company had no tax-related interest or penalties for the years ended March 31, 2021 and 2020.

i) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ('the functional currency'). The financial statements are presented in USD (\$), which is also the Company's functional currency.

IOCL (USA) Inc.
Notes to the financial statements
for the year ended March 31, 2021

Note 2.2 - Summary of Significant Accounting Policies (continued)

j) Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

Financial assets are classified, at initial recognition and subsequently measured at amortized cost, as fair value through other comprehensive loss, and fair value through profit or loss. The classification of financial assets at initial recognition is determined by the contractual cash flows and where applicable the Company's business model for managing the financial assets.

A financial asset is measured at amortized cost, if the objective of the business model is to hold the financial asset in order to collect contractual cash flows and the contractual terms give rise to cash flows that are solely payments of principal and interest. It is initially recognized at fair value plus or minus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently the financial asset is measured using the effective interest method less any impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Company's financial assets include accounts receivables, cash and cash equivalents and certificates of deposit. Accounts receivables are initially recognized at fair value based on the amounts exchanged and are subsequently measured at amortized cost less any provision for impairment.

De-recognition

A financial asset is derecognized when the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognized in other comprehensive income is recognized in the statement of operations and comprehensive loss.

Financial liabilities

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Company's financial liabilities include accounts payable and accrued liabilities.

Subsequent measurement

For purposes of subsequent measurement, financial liabilities are classified in two categories:

- Financial liabilities at fair value through profit or loss
- Financial liabilities at amortized cost (payables, loans and borrowings)

The classification depends on the nature of the underlying liabilities, with management determining the classification of financial liabilities at initial recognition.

IOCL (USA) Inc.
Notes to the financial statements
for the year ended March 31, 2021

Note 2.2 - Summary of Significant Accounting Policies (continued)

j) Financial instruments – initial recognition and subsequent measurement (continued)

De-recognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of operations and comprehensive loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

k) Fair value measurement

The Company measures financial instruments at fair value at each balance sheet date in accordance with Financial Accounting Standards Board (“FASB”) ASC 820, “Fair Value Measurements and Disclosures,” which defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value and enhances disclosure requirements for fair value measurements.

A three-level valuation hierarchy for disclosure of fair value measurements categorizes assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs employed in the measurement.

- Level 1 inputs include observable inputs such as quoted prices in active markets at the measurement date for identical, unrestricted assets or liabilities.
- Level 2 inputs include inputs that are observable directly or indirectly such as quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 inputs include unobservable inputs for which there is little or no market data and which the Company makes its own assumptions about how market participants would price the assets and liabilities.

l) Leases

The Company follows Accounting Standards Update No. 2016-02 (ASU 2016-02), which created ASC 842 Leases. The standard requires lessees to recognize a right-of-use (ROU) asset and lease liability on the balance sheet for the rights and obligations created by leases. This standard does not apply to leases to explore for or use minerals, oil, natural gas or similar nonregenerative resources, including the intangible right to explore for those resources and rights to use the land in which those natural resources are contained. The standard does not have any impact on the Company since the Company does not have any active leases.

IOCL (USA) Inc.
Notes to the financial statements
for the year ended March 31, 2021

Note 2.2 - Summary of Significant Accounting Policies (continued)

m) *Financial Instruments - credit losses*

The Company follows ASU 2016-13, which requires a valuation allowance for credit losses be recognized for certain financial assets that reflects the current expected credit loss over the asset's contractual life. The valuation allowance considers the risk of loss, even if remote, and considers past events, current conditions and expectations of the future.

n) *Standards issued but not effective*

Income Taxes: In December 2019, the FASB released Accounting Standards Update No. 2019-12 (ASU 2019-12): Income Taxes (Topic 740) – Simplifying the Accounting for Income Taxes, which removes certain exceptions for recognizing deferred taxes for investments, performing intra-period allocation and calculating income taxes in interim periods. The ASU also adds guidance to reduce complexity in certain areas, including recognizing deferred taxes for tax goodwill and allocating taxes to members of a consolidated group. The amended standard is effective for public entities for fiscal years beginning after December 15, 2020 and December 15, 2021 for all other entities, with early adoption permitted. The Company does not anticipate any material impact on adoption of this standard.

Note 3 - Significant Judgments, Assumptions and Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Management believes that these estimates and assumptions provide a reasonable basis for the fair presentation of the financial statements.

Significant estimates include volumes of oil and natural gas reserves used in calculating depreciation, depletion and amortization of oil and natural gas properties, future net revenues and abandonment obligations, impairment of developed and undeveloped properties, the collectability of outstanding accounts receivable, contingencies, and the results of any current and future litigation. Oil and natural gas reserve estimates, which are the basis for unit-of-production depreciation and depletion, have numerous inherent uncertainties. The accuracy of any reserve estimate is a function of the quality of available data and of engineering and geological interpretation and judgment. Subsequent drilling results, testing, and production may justify revision of such estimates. Accordingly, reserve estimates are often different from the quantities of oil and natural gas that are ultimately recovered. In addition, reserve estimates are sensitive to changes in wellhead prices of crude oil and natural gas. Such prices have been volatile in the past and can be expected to be volatile in the future.

The Company's significant estimates are based on current assumptions that may be materially affected by changes to future economic conditions, such as the market prices received for sales of volumes of oil and natural gas and are primarily based upon the data and information received from the operators. Future changes in these assumptions may affect these estimates materially in the near term.

Estimation uncertainty relating to COVID-19 outbreak

The Company has considered the possible effects that may result from the pandemic relating to COVID-19 on the carrying amounts of trade receivables. In developing the assumptions relating to the possible future uncertainties in the global economic conditions because of this pandemic,

IOCL (USA) Inc.
Notes to the financial statements
for the year ended March 31, 2021

Note 3 - Significant Judgements, Assumptions and Estimates (continued)

Estimation uncertainty relating to COVID-19 outbreak (continued)

the Company, as at the date of approval of these financial statements has used internal and external sources of information including credit reports and related information, economic forecasts and consensus estimates from market sources on the expected future performance of the Company. The Company has used the principles of prudence in applying judgments, estimates and assumptions including sensitivity analysis and based on the current estimates and indicators of future economic conditions expects to recover the carrying amount of these assets. The eventual outcome of impact of the global health pandemic may be different from those estimated as on the date of approval of these financial statements and the Company will continue to closely monitor any material changes to future economic conditions.

Note 4 - Cash and Cash Equivalents

	<u>2021</u>	<u>2020</u>
Cash at bank-MMD	\$ 2,613,658	\$ 1,213,874
Cash at bank-other	334,966	1,144,488
Total	\$ 2,948,624	\$ 2,358,362

Cash at banks - MMD earns interest at floating rates based on daily bank deposit short-term rates.

Note 5 - Accounts Receivable

	<u>2021</u>	<u>2020</u>
Trade receivables - oil and natural gas	\$ 492,530	\$ 479,574
Total	\$ 492,530	\$ 479,574

Trade receivables are unsecured amounts due from the operators and are generally payable within 30 to 60 days from the date of oil, natural gas and NGL delivery.

Note 6 - Certificates of Deposit

Financial assets

Financial assets

Current	<u>2021</u>	<u>2020</u>
Short term deposits having original maturity of more than three months but less than 12	\$ 4,001,337	\$ 3,279,631
Total	4,001,337	3,279,631

Non-financial assets

Current

Prepaid expense	-	-
Total	-	-

Total other assets	\$ 4,001,337	\$ 3,279,631
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Short-term deposits are made with banks for varying periods of between three months and 12 months, depending on the cash requirements of the Company, and earn interest at the respective short-term deposit rates.

IOCL (USA) Inc.
Notes to the financial statements
for the year ended March 31, 2021

Note 7 - Oil and Natural Gas Properties

	Oil and natural gas properties		
	Leasehold and development costs	Unevaluated leasehold costs	Total
Cost			
At April 1, 2019	\$ 77,220,701	\$ 764,006	\$ 77,984,707
Additions	2,266,587	575	2,267,162
Transfers	-	-	-
Disposals	-	(764,581)	(764,581)
ARO liabilities incurred and revisions to estimates	37,612	-	37,612
At March 31, 2020	79,524,900	-	79,524,900
Additions	214,279	-	214,279
Transfers	-	-	-
Disposals	-	-	-
ARO liabilities incurred and revisions to estimates	293,871	-	293,871
At March 31, 2021	\$ 80,033,050	\$ -	\$ 80,033,050
Depletion, depreciation and impairment			
At April 1, 2019	\$ 52,434,433	\$ -	\$ 52,434,433
Charge for the period	3,779,199	-	3,779,199
At March 31, 2020	56,213,632	-	56,213,632
Charge for the period	17,263,829	-	17,263,829
At March 31, 2021	\$ 73,477,461	\$ -	\$ 73,477,461
Net book value			
At March 31, 2021	\$ 6,555,589	\$ -	\$ 6,555,589
At March 31, 2020	\$ 23,311,268	\$ -	\$ 23,311,268

During fiscal year 2021, capital expenditures of USD \$0.2 Million have been incurred in the Niobrara Shale Project, USA (USD \$2.3 million - fiscal year 2020).

Note 8 - Accounts Payable and Accrued Liabilities

	2021	2020
Accounts payable	\$ 22,964	\$ 177,245
Accounts payable - Parent	13,930	-
Accrued liabilities	60,600	101,769
Total	\$ 97,494	\$ 279,014

Accounts payable and accrued liabilities are non-interest bearing and have an average term of 30 days.

IOCL (USA) Inc.
Notes to the financial statements
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Note 9 - Asset Retirement Obligations

A summary of the changes in the asset retirement obligations for the years ending March 31 are as follows:

	<u>2021</u>	<u>2020</u>
Beginning of year	\$ 554,123	\$ 499,878
Liabilities incurred	8,434	25,030
Revisions of estimate	285,437	12,582
Accretion expense	15,779	16,633
End of year	<u>\$ 863,773</u>	<u>\$ 554,123</u>
Current	\$ 233,786	\$ 125,670
Non- current	\$ 629,987	\$ 428,453

Asset retirement obligations are estimated at \$60,000 (2020: \$40,000) per well at March 31, 2021. The Company accounts for its share of the abandonment cost confirmed by different operators for wells and facilities. Management expects that the present value of the asset retirement obligation is sufficient to meet the Company's obligations at the end of the useful life of the wells as at March 31, 2021. The asset retirement obligation as at March 31, 2021 is determined by discounting the expected future obligations using a discount rate ranging from 1.94% to 5.50% (2020: 1.94% to 5.50%) and is expected to be incurred in different years based on remaining life of the respective wells. The discount rate used for discounting the expected obligation is subject to review on an annual basis.

Note 10 - Revenue from Contracts with Customers

Disaggregate revenue information for the years ended March 31 is as follows:

	<u>2021</u>	<u>2020</u>
Type of goods		
Sale of oil	\$ 3,182,836	\$ 3,817,441
Sale of gas	276,731	353,008
Sale of NGLs	193,951	225,679
Total	<u>\$ 3,653,518</u>	<u>\$ 4,396,128</u>

Revenue is recognized at point in time based on when delivery has occurred and control has passed to the purchaser.

	<u>2021</u>	<u>2020</u>
Geographical markets		
USA	\$ 3,653,518	\$ 4,396,128
Other	-	-
Total	<u>\$ 3,653,518</u>	<u>\$ 4,396,128</u>

Contract balances

The Company's contract balances represent accounts receivable. See Note 5 "Accounts Receivable".

IOCL (USA) Inc.
Notes to the financial statements
for the year ended March 31, 2021

Note 11 - Lease Operating Expense

	<u>2021</u>	<u>2020</u>
Staff cost	\$ 256,907	\$ 208,161
Contract services	42,061	93,640
Chemicals	32,357	51,748
Rental for equipment	183,959	257,943
Professional and legal fees	24,050	16,373
Electricity / power, fuel and water	15,763	14,375
Overhead	143,098	127,921
Salt water disposal / hauling	64,700	120,310
Pollution control	82,222	70,611
Miscellaneous expenses	89,118	211,775
Other expenses	86,811	128,784
Total	<u>\$ 1,021,046</u>	<u>\$ 1,301,641</u>

Note 12 - General and Administrative Expense

	<u>2021</u>	<u>2020</u>
Legal services	\$ 25,067	\$ 21,930
Accounting fees	6,717	20,754
Audit fees	43,750	50,190
Annual license fee	21,059	16,748
Consulting	2,447	-
Miscellaneous expenses	74,651	71,732
Total	<u>\$ 173,691</u>	<u>\$ 181,354</u>

Note 13 - Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes using a U.S. Federal statutory corporate rate of 21% as of March 31, 2021 and 2020. Significant components of the Company's net deferred tax assets as of March 31, are as follows:

	<u>2021</u>	<u>2020</u>
Differences in depletion, depreciation, and amortization of property for tax purposes	\$ 570,887	\$ (2,828,512)
Federal net operating loss carryforward	8,681,188	8,306,830
State net operating loss carryforward	1,512,057	1,446,852
Valuation allowance	(10,764,132)	(6,925,170)
Deferred tax assets, net	<u>\$ -</u>	<u>\$ -</u>

IOCL (USA) Inc.
Notes to the financial statements
for the year ended March 31, 2021

Note 13 - Income Taxes (Continued)

The Company had a net operating loss carry forward available at March 31, 2021 that amounts to \$41,338,990 of which \$29,268,364 will begin to expire in 2033 and \$12,070,626 will be carried forward indefinitely. Income tax benefit for the years ended March 31, 2021 and 2020 differ from the amount computed by applying the U.S. federal income tax rate of 21% to pre-tax income, as a result of the following:

	<u>2021</u>	<u>2020</u>
Income tax expense (benefit) at statutory rate	\$ (3,267,366)	\$ (525,788)
State taxes	(569,468)	(111,226)
Other	(2,128)	(112,791)
Valuation allowance	3,838,962	749,805
Total tax (benefit) expense	<u>\$ -</u>	<u>\$ -</u>

Note 14 - Financial Instruments

Financial assets and financial liabilities

	<u>2021</u>	<u>2020</u>
Financial assets		
Accounts receivable (Note 5)	\$ 492,530	\$ 479,574
Certificates of deposit (Note 6)	4,001,337	3,279,631
Total financial assets	<u>\$ 4,493,867</u>	<u>\$ 3,759,205</u>
Total current	\$ 4,493,867	\$ 3,759,205
Total non-current	\$ -	\$ -
At amortized cost		
Accounts payable and accrued liabilities (Note 8)	\$ 97,494	\$ 279,014
Total financial liabilities	<u>\$ 97,494</u>	<u>\$ 279,014</u>
Total current	\$ 97,494	\$ 279,014
Total non-current	\$ -	\$ -

Note 15 - Fair Value Measurement

Management of the Company assessed the fair values of accounts receivable, other current financial assets, cash and cash equivalents and accounts payable and accrued liabilities which approximate their carrying amounts largely due to the short-term maturities of these instruments.

IOCL (USA) Inc.
Notes to the financial statements
for the year ended March 31, 2021

Note 15 - Fair Value Measurement (Continued)

There is a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy categorizes assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs employed in the measurement. The three levels are defined as follows:

- Level 1 inputs include observable inputs such as quoted prices in active markets at the measurement date for identical, unrestricted assets or liabilities.
- Level 2 inputs include inputs that are observable directly or indirectly such as quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 inputs include unobservable inputs for which there is little or no market data and which the Company makes its own assumptions about how market participants would price the assets and liabilities.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

The initial measurement of asset retirement obligations at fair value is calculated using discounted cash flow techniques and based on internal estimates of future retirement costs associated with property, plant and equipment.

Significant Level 3 inputs used in the calculation of asset retirement obligations include plugging costs, reserve lives, credit adjusted discount rates and inflation rates. A reconciliation of the Company's asset retirement obligations is presented in Note 9 – Asset Retirement Obligations.

Significant Level 3 inputs associated with the calculation of discounted cash flows used in the impairment analysis include the Company's estimate of future crude oil, natural gas, and NGLs prices, production costs, development expenditures, anticipated production of proved reserves, appropriate risk-adjusted discount rates and other relevant data (see Note – 2.2 Summary of Significant Accounting Policies under the caption "Oil and natural gas properties").

Note 16 - Financial Risk Management

Financial instruments, risk management objectives and policies

The Company's principal financial liabilities comprise accounts payable and accrued liabilities. The main purpose of these financial liabilities is to finance the Company's operations. The Company's principal financial assets include accounts receivable, certificates of deposit and cash and cash equivalents that are derived directly from its operations.

The Company is exposed to market risk, credit risk and liquidity risk.

IOCL (USA) Inc.
Notes to the financial statements
for the year ended March 31, 2021

Note 16 - Financial Risk Management (Continued)

Risk management framework

The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. Review of proposed investments and compliance with target asset allocations is monitored by the Board of Directors on a regular basis.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and commodity price risk. Financial instruments affected by market risk include cash and cash equivalents and certificates of deposit.

The Company's strategy for the management of market risk is driven by the Company's investment objective of making investments in income generating assets in target markets. Market risks are monitored regularly by the Board of Directors in accordance with the policies and procedures in place.

The Company is not exposed to currency risk since all operating activities are denominated in U.S. \$ and not exposed to interest rate risk since there are no outstanding obligations with variable interest rates.

Commodity price risk

The Company is exposed to commodity price risks related to oil, natural gas and NGLs. Per risk management policies, the Parent undertakes commodity hedging strategies to mitigate the risk within approved limits.

Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company, resulting in a financial loss to the Company. It arises principally from cash and cash equivalents and accounts receivable.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

Risk Management

The Company maintains its cash with financial institutions it believes have a high credit quality. The Company at times maintains bank deposits in excess of federally-insured limits. The possibility of a loss exists if the bank holding excess deposits was to fail. All of the Company's accounts receivable are from its operators of the Company's oil, natural gas, and NGL properties resulting from oil and natural gas sales. To mitigate this credit risk, the Company closely monitors the payment history and credit worthiness of its operators.

IOCL (USA) Inc.
Notes to the financial statements
for the year ended March 31, 2021

Note 16 - Financial Risk Management (continued)

Impairment of financial assets

The Company has applied the simplified approach which requires expected lifetime credit losses to be recognized from initial recognition of the accounts receivable. In calculating the expected credit loss rates, the Company considers historical loss rates and adjusts for forward-looking macroeconomic data.

As of March 31, 2021 and 2020, the Company has insignificant credit risk exposure in relation to accounts receivable.

Financial assets that are neither past due nor impaired

Cash and bank balances that are neither past due nor impaired are mainly deposits with banks with high credit- ratings assigned by international credit-rating agencies.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its commitments associated with financial liabilities. Liquidity risk may emanate from inability to sell a financial asset quickly at an amount close to its fair value. The Company monitors its liquidity risk and maintains adequate financing to fund its obligations when they come due and to mitigate the effects of fluctuations in cash flows.

Contractual maturity for financial liabilities

The table below analyses the maturity profile of the financial liabilities of the Company based on contractual undiscounted cash flows:

	Contractual cash flows			
	Carrying value	Total	Between 1 to 3 months	Between 3 to 12 months
At March 31, 2021				
Accounts payable and accrued liabilities (Note 8)	\$ 97,494	\$ 97,494	\$ 97,494	\$ -
At March 31, 2020				
Accounts payable and accrued liabilities (Note 8)	\$ 279,014	\$ 279,014	\$ 279,014	\$ -

Note 17 - Capital Management

The primary objective of the Company is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize stockholder value.

The Company manages its capital structure and makes adjustments in light of changes in economic conditions and its financial requirements. To maintain or adjust the capital structure, the Company may adjust the dividend payment to stockholders, return capital to stockholders or issue new shares.

For the purpose of the Company's capital management, capital includes issued capital and all other equity reserves attributable to the equity holders.

IOCL (USA) Inc.
Notes to the financial statements
for the year ended March 31, 2021

Note 18 - Commitments and Contingencies

In the normal course of business, the Company is subjected to claims, legal actions, contract negotiations, and disputes. The Company is subject to contingencies as a result of environmental laws and regulations. The Company provides for losses, if any, in the year in which they can be reasonably estimated. In management's opinion, there are currently no such matters outstanding that would have a material effect on the accompanying financial statements.

Note 19 - Subsequent Events

Management has evaluated subsequent events through April 19, 2021, which is the date the financial statements were available to be issued and has determined that there were no other subsequent events to be reported.