PetroTal

Audited Consolidated Financial Statements
For the years ended December 31, 2018 and 2017

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 Financial Reporting 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 reviewed the consolidated financial statements with management and with the auditors. The Board of Directors has approved the audited consolidated financial statements on the recommendation of the Audit Committee.

Manuel Pablo Zuniga-Pflucker
Chief Executive Officer

Gregory E. Smith
Chief Financial Officer

April 24, 2019

Deloitte.

Deloitte LLP
700, 850 2 Street SW
Calgary, AB T2P 0R8
Canada

Tel: 403-267-1700
Fax: 587-774-5379
www.deloitte.ca

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, 2018 and 2017, and the consolidated statements of loss and comprehensive loss, statements of changes in equity and statements of 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, 2018 and 2017, 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:

- 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.

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 David Langlois.

/s/ Deloitte LLP

Chartered Professional Accountants
Calgary, Alberta
April 24, 2019

CONSOLIDATED BALANCE SHEETS

($ thousands)	December 31, 2018	December 31, 2017
ASSETS		
Current assets		
Cash (note 4)	26,259	48,783
VAT receivable (note 7)	6,848	531
Trade and other receivables (note 8)	1,848	350
Inventory	178	295
Prepaid expenses	502	147
Total Current assets	35,635	50,106
Non-current assets		
Exploration and evaluation assets (note 5)	4,687	38,571
Property, plant and equipment (note 6)	52,045	109
Deferred income taxes (note 12)	810	-
VAT and other receivables (note 7)	2,920	9,980
Total Non-current assets	60,462	48,660
Total Assets	**96,097**	**98,766**
LIABILITIES AND EQUITY		
Current liabilities		
Trade and other payables (note 9)	7,462	2,675
Deferred income taxes (note 12)	17	-
Decommissioning obligations (note 10)	2,103	-
Total Current liabilities	9,582	2,675
Non-current Liabilities		
Decommissioning obligations (note 10)	8,988	14,048
Total Liabilities	18,570	16,723
Equity		
Share capital (note 13)	84,793	84,793
Contributed surplus	109	4
Deficit	(7,375)	(2,754)
Total Equity	77,527	82,043
Total Liabilities and Equity	**96,097**	**98,766**

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

For the years ended December 31 ($ thousands, except per share amounts)	**2018**	**2017**
REVENUES		
Oil and natural gas revenues (note 11)	9,994	-
Total revenue	9,994	-
EXPENSES		
Operating	4,898	-
General and administration expense	6,180	910
Transaction costs	-	1,810
AIM listing costs	1,660	-
Finance expense	618	-
Depreciation depletion and amortization	1,404	2
Impairment expense on exploration and evaluation assets	40	-
Foreign exchange loss	607	32
Total expenses	15,407	2,754
Loss before income taxes	(5,413)	(2,754)
Deferred income tax benefit (note 12)	792	-
Net loss and comprehensive loss	**(4,621)**	**(2,754)**
Basic and diluted loss per share ($US)	(0.01)	(0.13)
Weighted average common number of shares outstanding (000's)		
Basic	537,741	20,434
Diluted	537,741	20,434

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31 ($ thousands)	2018	2017
Share capital		
Balance, beginning of year	84,793	-
Issuance of common stock	-	87,659
Subscription receipt costs (note 13)	-	(2,862)
Agents' warrants	-	(4)
Balance, end of year	84,793	84,793
Contributed surplus		
Balance, beginning of year	4	-
Stock compensation plan	105	-
Agents' warrants	-	4
Balance, end of year	109	4
Deficit		
Balance, beginning of year	(2,754)	-
Net loss	(4,621)	(2,754)
Balance, end of year	(7,375)	(2,754)

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31 ($ thousands)	2018	2017
Cash flows from operating activities		
Net loss for the period	(4,621)	(2,754)
Adjustments for:		
Unrealized foreign exchange gain/(loss) on receivables and payables	-	24
Depreciation depletion and amortization	1,404	2
Impairment expense on exploration and evaluation assets	40	-
Deferred income tax benefit	(792)	-
Stock compensation plan	105	-
Accretion of decommissioning obligation	618	25
Changes in non-cash working capital:		
VAT and other receivables	(755)	(56)
Prepaids and Inventory	(238)	(91)
Trade and other payables	4,269	1,763
Net cash used in operating activities	30	(1,087)
Cash flows from investing activities		
Exploration and evaluation asset additions	(14,198)	(154)
Property, plant and equipment additions	(9,009)	-
Non cash changes in working capital	653	-
Net cash used in investing activities	(22,554)	(154)
Cash flows from financing activities		
Proceeds from subscription receipts, net of issuance costs	-	31,139
Cash acquired from reverse takeover and Gran Tierra Peru	-	18,893
Net cash provided by financing activities	-	50,032
Net increase (decrease) in cash	(22,524)	48,791
Cash, beginning of year	48,783	-
Effect of translation on foreign currency cash	-	(8)
Cash, end of year	26,259	48,783

See accompanying notes to the condensed consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2018 and 2017. All amounts are stated and presented in thousands United States dollars unless otherwise noted.

1. CORPORATE INFORMATION

PetroTal Corp (formerly Sterling Resources Ltd), (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 4000, 421 – 7th Avenue 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.

These Financial Statements were approved for issuance by the Company's Board of Directors on April 24, 2019, on the recommendation of the Audit Committee.

2. BASIS OF PREPARATION

STATEMENT OF COMPLIANCE

The company prepares its annual consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS").

BASIS OF MEASURMENT

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 consolidated financial statements comprise the financial statements of the Company and the wholly-owned group of companies. 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, are eliminated on consolidation.

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

USES OF ACCOUNTING ASSUMPTIONS, ESTIMATES AND JUDGMENTS

The preparation of the Company's Financial Statements requires management to make judgements, 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.

Critical judgments 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 hydrocarbons, 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 judgment, 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.

Impairment Indicators

The Company monitors internal and external indicators of impairment relating to the exploration and evaluation assets. Among others, the following are the types of indicators used:

- The entity's right to explore in an area has expired during the period or will expire in the near future without renewal;
- No further exploration or evaluation work is planned or budgeted in the specific area;
- The decision to discontinue exploration and evaluation in an area because of the absence of commercial reserves; or
- Sufficient data exists to indicate that the book value will not be fully recovered from future development and production.

The assessment of impairment indicators requires the exercise of judgment. If an impairment indicator exists, then the recoverable amounts of individual assets are determined based on the higher of value-in-use and fair values less costs of disposal calculations. These require the use of estimates and assumptions, such as future oil and natural gas prices, discount rates, operating costs, future capital requirements, decommissioning costs, exploration potential, reserves and operating performance. These estimates and assumptions are subject to risk and uncertainty. Therefore, there is a possibility that changes in circumstances will impact these projections, which may impact the recoverable amount of assets and/or CGUs.

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 assed 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 POLICES

a. Cash

Cash includes deposits held with banks in Canada, the United States and Peru that are available on demand and highly liquid.

b. Restricted Cash

Cash and cash equivalents unavailable for use by the Company or its subsidiaries due to certain restrictions that may be in place are classified as restricted cash.

c. Property, Plant and Equipment ("PP&E")

Property, plant and equipment is stated at cost, less accumulated depletion and depreciation and accumulated impairment losses.

The initial cost of an asset comprises of its purchase price or construction costs, any costs directly attributable to bringing the asset into operation, and the initial estimate of any decommissioning obligations. The cost of significant renewals and improvements is added to the carrying amount of the respective asset. The cost of maintenance and repairs is charged to expense as incurred. 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 statement of profit and loss and comprehensive profit and loss.

When commercial production has commenced, the net carrying value of development and production assets, excluding surface costs, is depleted using the unit of production method over their proved plus probable reserve life, taking into account the estimated future development costs necessary to bring those reserves into production. 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.

For all other property, plant and equipment assets, depreciation begins when the asset is put into service and is calculated using the straight-line method over the assets' estimated useful life.

The carrying amounts of the Company's property, plant and equipment are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If such indication exists, then the asset's carrying amounts are assessed for impairment. The recoverable amount is the greater of its value-in-use and fair value, and an impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount.

d. Inventory

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

e. Financial Instruments

Financial instruments are measured at fair value on initial recognition of the instrument and are classified into one of the following three categories: amortized cost, fair value through comprehensive income "FVOCI" or fair value through profit or loss ("FVTPL").

Cash, trade receivables, and other receivables, are classified as financial assets at amortized cost and reported at amortized cost. A provision for impairment of trade and other receivables is established when there is evidence that the Company will not be able to collect all amounts due according to the original terms. Trade and other payables are classified as financial liabilities at amortized cost.

Subsequent measurement of financial instruments is based on their initial classification. FVTPL financial instruments are measured at fair value and changes in fair value are recognized in the statement of consolidated comprehensive gain or loss. All other financial instruments are measured at fair value with changes in fair value recorded at FVTPL depending on their initial classification and measurement. The remaining categories of financial instruments are recognized at amortized cost using the effective interest method.

f. Exploration and Evaluation Assets

All costs directly associated with the exploration and evaluation of oil and natural gas reserves are initially capitalized. Exploration and evaluation costs are those expenditures for an area where technical feasibility and commercial viability have not yet been determined. 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 higher of fair value less costs to sell and value in use. 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.

g. 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 credit-adjusted 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 statement of loss and comprehensive 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.

h. 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.

i. 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.

j. Foreign Currency Translation

Transactions and Balances

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 income statement.

Foreign Operations

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.

k. 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.

l. 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.

k. Revenue Recognition

Revenue associated with the sale of crude oil and natural gas is measured based on the consideration specified in contracts with customers. Revenue from contracts with customers is recognized when or as the Company satisfies a performance obligation by transferring a promised good or service to a customer. A good or service is transferred when the customer obtains control of that good or service. The transfer of control of oil, natural gas, natural gas liquids usually coincides with title passing to the customer and the customer taking physical possession. The Company principally 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.

3. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

The following pronouncements from the International Accounting Standards Board became effective on January 1, 2018. The Company adopted these standards as follows:

IFRS 9 – Financial Instruments

In July 2014, the IASB issued final amendments to IFRS 9, replacing IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). IFRS 9 introduces new requirements for the classification, measurement and impairment of financial assets, and new requirements related to hedge accounting. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value and replaces the multiple category and measurement models in IAS 39. The categorization approach in IFRS 9 focuses on how an entity manages its financial instruments in the context of its business model, as well as the contractual cash flow characteristics of the financial assets. New hedge accounting requirements incorporated into IFRS 9 increase the scope of items that may qualify as a hedged item and changes the requirements of hedge effectiveness testing that must be met in order to apply hedge accounting.

The requirements of IFRS 9 were effective for annual periods beginning on or after January 1, 2018. IFRS 9 replaced the multiple classification and measurement models for financial assets that existed under IAS 39 Financial Instruments, and the basis on which financial assets are measured determines their classification as either, at amortized cost, fair value through profit and loss, or fair value through other comprehensive income. Therefore, the adoption of this standard results in a reclassification of financial assets classified as loans and receivables to financial assets at amortized cost. The standard also requires entities to recognize a loss allowance for expected credit losses on financial assets with the objective to recognize lifetime expected credit losses for all financial instruments, however there was no impact to the measurement of these financial assets, for the Company. The implementation of IFRS 9 did not have a material effect on the Company's Financial Statements.

The following table details the Company's carrying value and fair value of financial assets, all of which are classified as financial assets at amortized cost and reported at amortized cost:

	December 31, 2018		December 31, 2017	
($ thousands)	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash	26,259	26,259	48,783	48,783
VAT Receivables	9,603	9,603	10,511	10,511
Trade and other receivables	2,013	2,013	350	350
Trade and other payables	7,462	7,462	2,675	2,675

IFRS 15- Revenue from contracts with customers

In May 2014, the IASB and FASB jointly issued IFRS 15 "Revenue from Contracts with Customers," which replaces IAS 18 "Revenue," IAS 11 "Construction Contracts," and other revenue related interpretations. In April 2016, the IASB issued amendments to IFRS 15, clarifying the application of certain of its underlying principles, including the identification of a performance obligation, and the determination of whether a company is a principal or is acting as an agent in the provision of a good or service. The amendments became effective concurrent with the effective date of IFRS 15 on January 1, 2018. The adoption of IFRS 15 did not have a material effect on the Company's Financial Statements. This standard also requires expanded disclosure requirements. The standard is required to be adopted either retrospectively or using a modified retrospective approach.

The Company used the modified retrospective approach to adopt the standard. Under this transitional provision, the cumulative effect of initially applying IFRS 15 is recognized on the date of initial application as an adjustment to retained earnings. No adjustment to retained earnings was required upon adoption of IFRS 15. The Company has reviewed its various revenue streams and underlying contracts with customers, and as result of this review, the adoption of IFRS 15 did not have a material impact on the Company's statements of comprehensive income and financial position. However, the Company has expanded the disclosures in the notes to its financial statements as prescribed by IFRS 15, including disclosing the Company's disaggregated revenue streams by product type.

IFRS 2 - "Share-based Payment"

In June 2016, the IASB issued amendments to IFRS 2, clarifying how to account for certain types of share-based payment transactions, including the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, accounting for share-based accounting transactions with a net settlement feature for withholding tax obligations, and accounting for modifications to the terms and conditions of a share-based payment that changes the classification of the share-based payment transaction from cash-settled to equity-settled. The IFRS 2 amendments were effective for annual periods beginning on or after January 1, 2018. The implementation of IFRS 2 did not have a material effect on the Company's Financial Statements.

The following pronouncements from the International Accounting Standards Board are issued and become effective on January 1, 2019. The Company intends to adopt these standards and interpretations when they become effective.

IFRS 16 - Leases

In January 2016, the IASB issued IFRS 16 "Leases", which replaces IAS 17 "Leases". IFRS 16 eliminates the distinction between operating and financing leases and provides a single lessee accounting model that requires the lessee to recognize assets and liabilities for all leases on its balance sheet. Leases to explore for or use oil or natural gas are specifically excluded from the scope of IFRS 16. The standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted if IFRS 15 has also been applied. IFRS 16 will be applied by the Company on January 1, 2019 and does not have a material impact on the Company's consolidated financial statements.

4. CASH

($ thousands)	December 31, 2018	December 31, 2017
Balances held in:		
US dollars	25,957	48,764
Peruvian soles	206	19
Canadian dollars	96	-
Cash	26,259	48,783

5. EXPLORATION AND EVALUATION ASSETS

On July 1st, 2018, following the evaluation of successful commercial results, the Bretaña field was transferred from exploration and evaluation ("E&E") assets to property, plant and equipment. The costs capitalized to the Bretaña filed were compared to the fair value of the reserves estimated to be in place at the date of transfer. The fair value of the reserves exceeded the costs recorded in E&E and no impairment was recorded on the transfer. The following table sets out a continuity of the E&E assets:

($ thousands)	2018	2017
Balance, beginning of the year	38,571	-
Additions from Peru asset acquisition	-	38,417
Additions during the period	14,198	154
Impairment of exploration and evaluation assets	(40)	-
Transfer to property plant and equipment	(48,042)	
Balance, end of the year	4,687	38,571

In 2018, the Company assessed exploration and evaluation assets for indicators of impairment. As a result, the Company booked a $40 thousand impairment charge related to three released prospects.

6. PROPERTY, PLANT AND EQUIPMENT

($ thousands)	Oil and Gas Properties	Furniture and Fixtures	Total
Balance at December 31, 2017	-	109	109
Transfer of exploration and evaluation assets	48,160	(118)	48,042
Change in estimates - decommissioning obligations	(3,575)		(3,575)
Additions	8,736	273	9,009
DD&A charge in period	(1,492)	(48)	(1,540)
Net book value PP&E December 31, 2018	51,829	216	52,045

For the year ended December 31, 2018, $136 thousand of the depreciation depletion and amortization expense was recorded as inventory (December 31, 2017: $nil).

The Company determined there were no indicators of impairment of the property, plant and equipment balance at December 31, 2018.

7. VAT AND OTHER RECEIVABLES

($ thousands)	December 31, 2018	December 31, 2017
VAT receivable - Current	6,848	531
VAT receivable - Non-current	2,755	9,980
Other receivables	165	-
Total Non-current receivables	2,920	9,980
Total VAT and other receivables	9,768	10,511

Value added tax ("VAT") in Peru is levied on the purchase of goods and services and is recoverable on sales of goods and services. The company expects to recover $6.9mm in 2019 based on its estimated oil sales.

8. TRADE AND OTHER RECEIVABLES

100% of trade receivables are revenue, are current, and are with one counterparty.

($ thousands)	December 31, 2018	December 31, 2017
Trade receivables	1,793	-
Other receivables	55	350
Total trade and other receivables	1,848	350

9. TRADE AND OTHER PAYABLES

($ thousands)	December 31, 2018	December 31, 2017
Trade payables	1,523	227
Accrued payables and other liabilities	5,939	2,448
Total trade and other receivables	7,462	2,675

10. DECOMMISSIONING OBLIGATIONS

The Company has estimated decommissioning liabilities to be $15.8 million. The net present value of its estimated decommissioning liabilities is $11.1 million, which includes an adjustment of $6.4 million in the year reflecting the revised life of the 2P reserves of Bretaña to 20 years from 1 year and an adjustment of $2.8 million reflecting an increase in management's estimate of costs. The present value of the obligations was calculated using an average risk-free rate of 4.69 percent (December 31, 2017: 5.85 percent) 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 estimates ranges from 1.9 percent to 2.1 percent (December 31, 2017: 0.1 percent to 2.3 percent). The following table sets out the continuity of decommissioning obligations:

($ thousands)	December 31, 2018	December 31, 2017
Balance, beginning of period	14,048	-
Additions from Peru asset acquisition	-	14,023
Changes in estimates	(3,575)	-
Accretion of decommissioning discount	618	25
Balance, end of the period	11,091	14,048
This is represented by:		
Current	2,103	-
Non Current	8,988	14,048

11. REVENUES

Years Ended December 31, ($ thousands)	2018	2017
Sales		
Crude oil	10,487	-
Royalties	(493)	-
Net revenues	9,994	-

12. INCOME 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., Peru and the rest of the world. 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.

Years Ended December 31, ($ thousands unless otherwise indicated)	2018	2017
Loss before income taxes	(5,413)	(2,754)
Statutory income tax rate	28%	32%
Income tax recovery expected at statutory rate	1,515	881
Derecognition of deferred tax assets	(723)	(881)
Total income tax benefit	792	-

The movement in deferred income tax balances is as follows:

($ thousands)	December 31, 2018	December 31, 2017
Deferred tax asset	117,443	62,196
Derecognition of deferred tax assets	(116,651)	(62,196)
Net deferred tax asset	792	-

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 carry-forward related to Block 95 will expire in four years. In Canada non-capital losses can be carried forward for twenty years. For US losses arising in taxable years ending in 2018 and later, 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 percent; however due to accumulated tax losses, the Company only expects to pay the two percent tax on revenue that is recoverable against any future tax payable. The balance of the two percent tax that is recoverable against any future tax payable at December 31, 2018 was $0.1mm (December 31, 2017: $nil) and is included in other long-term receivables.

13. 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.

	December 31, 2018		December 31, 2017	
	Shares	Amount	Shares	Amount
	000s	$ thousands	000s	$ thousands
Balance, beginning of the period	537,741	84,793	-	-
Equity issuances:	-	-	-	-
Petrotal - Pre-Transaction (effected for Share Exchange)	-	-	21,400	-
Petrotal - Subscription Receipts	-	-	181,900	34,000
Consideration Paid by Petrotal (Sterling Shares @ FV)	-	-	147,191	18,662
Acquisition of Gran Tierra Energy International Holdings	-	-	187,250	34,997
Less agents' warrants	-	-	-	(4)
Less subscription receipts costs	-	-	-	(2,862)
Balance, end of the period	537,741	84,793	537,741	84,793

Pursuant to the Arrangement Agreement closed on December 18, 2017, whereby PetroTal completed a plan of arrangement that constituted a reverse takeover under the policies of the TSX Venture Exchange, Sterling Resources, Ltd. acquired all of the issued and outstanding PetroTal shares from PetroTal shareholders in exchange for 5.35 Sterling shares for each PetroTal share. An aggregate of 203,300,005 Sterling shares were issued at a deemed price of $0.187 per Sterling share.

In addition, pursuant to the share purchase agreement among Sterling, Gran Tierra Energy Inc. ("GTE"), and its wholly owned subsidiary Gran Tierra Energy International Holdings Ltd. ("GTEIH"), Sterling acquired all of the issued and outstanding shares of Gran Tierra Energy International (Peru) Holdings B.V. ("GTE Peru"), an indirect wholly-owned subsidiary of GTE. In consideration for the Gran Tierra Peru shares, Sterling issued 187,250,000 Sterling shares at a deemed price of $0.187 per Sterling share. This acquisition was completed on December 18, 2017.

PERFORMANCE WARRANTS

The performance warrants have an exercise price of $0.187 per share, a 5-year term and will vest upon achievement of certain oil and gas production targets, within a specified period of time. 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. As of December 31, 2018, one half of the warrants have vested. The following table sets out a continuity of outstanding performance warrants:

	December 31, 2018	December 31, 2017
Balance, beginning of the year	26,750,000	-
Additions during the year	-	26,750,000
Balance, end of the year	26,750,000	26,750,000

AGENTS' WARRANTS

As compensation for the services rendered in connection with the brokered private placement offering, the Agents received warrants which entitles the holder to purchase one common share of the Company at an exercisable price of $0.187 per converted Agents' warrant on or before June 12, 2019. There are 2,086,500 Agent's warrants outstanding.

STOCK-BASED COMPENSATION

In 2018 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 stock-based compensation expense with a corresponding increase in contributed surplus over the vesting period. The Company granted an aggregate of 4,371,361 PSUs to employees of the Company 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 ("Common Shares"), 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, 2018:

Vest date three years from grant date, exchangeable for up to two shares	4,008,333
Vest date equally over three years from grant date, exchangeable for up to two shares	267,361
Vest date equally over three years from grant date, exchangeable for up to one share	95,667
Balance, end of year	4,371,361

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 units exchangeable for up to one share will be issued one share per unit, and that the units exchangeable for up to two shares will be issued 1.334 shares per unit.

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

Risk-free interest rate	4.94%
Expected Life	1-3 years
Annualized volatility	50%
Dividend Rate	0%
Forfeiture Rate	0%

For the year ended December 31, 2018, the Company recognized $0.1 million of share-based compensation expense in general and administration expense (December 31, 2017: $nil).

The Company issued an aggregate of 650,000 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. At December 31, 2018, $0.1 million was included in accounts payable relating to the DSUs.

For the year ended December 31, 2018, the Company recognized $0.1 million of DSU expense in general and administration expense and contributed surplus (December 31, 2017: $nil).

The following table details the PSU and DSU activity during the year:

	Performance Share Units	Director Share Units
Balance, beginning of the year	-	-
Additions during the year	4,371,361	650,000
Balance, end of the year	4,371,361	650,000

14. FINANCIAL INSTRUMENTS

The Company's financial instruments include cash, trade and other receivables, and trade and other payables.

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.

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 one percent fluctuation in translation rates would have nil impact on net income or loss, based on foreign currency balances held at December 31, 2018.

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 position continues to be adequate as a result of the closing of the plan of arrangement on December 18, 2017, in conjunction with a simultaneous private placement of $34 million.

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 Value Added Tax "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 sale tax recovery legislation currently in effect. The majority of the Company's trade receivable balances relate to crude oil sales. 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. To date, 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, 2018, the cash and cash equivalents were held with five different institutions from three countries, mitigating the credit risk of a collapse of one particular bank.

15. COMMITMENTS

As at December 31, 2018, the Company had the following minimum payments under its office lease:

($ thousands)	
2019	90
2020	94
2021	97
2022	101
2023	40
Thereafter	-
Total	422

As of December 31, 2018, the Company holds the following letters of credit guaranteeing its commitments in the exploration blocks:

Block	Beneficiary	Amount - $000s	Commitment
107	PeruPetro S.A.	1,500	Minimum work – 5th exploratory period - 1st exploratory well (expires December 6, 2021)
107	PeruPetro S.A.	1,500	Minimum work – 5th exploratory period - 1st exploratory well (expires December 6, 2021)
133	PeruPetro S.A.	1,000	Minimum work – 3rd exploratory period - expires November 25, 2019

16. COMPENSATION OF KEY MANAGEMENT PERSONNEL

Key management personnel are those persons, including all directors and officers, having authority and responsibility for planning, directing, and controlling the activities of the Company.

The renumeration of directors and key management personnel is detailed below:

Years Ended December 31, ($ thousands)	2018	2017
Salaries, incentives and short term benefits	2,150	605
Director's fees	238	-
Stock based compensation	202	-
Total compensation	2,590	605

17. CAPITAL STRUCTURE

The Company's objective when managing its capital is to ensure it has sufficient funds to maintain its 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 and adjusts it according to the funds available to the Company, 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:

($ thousands)	December 31, 2018	December 31, 2017
Equity	77,527	82,043
Working capital (current assets less current liabilities)	(26,053)	(47,431)
Total capital	51,474	34,612

18. SUBSEQUENT EVENT

The Company entered into a six month drilling rig contract (with an option to extend for a further six months) beginning February 15, 2019 at a rate of US$29,500 per day.