# Condensed Interim Consolidated Financial Statements
# For the three months ended March 31, 2019 and 2018
# (UNAUDITED)

## MANAGEMENT'S REPORT

The accompanying unaudited condensed interim consolidated financial statements and all information in the management discussion and analysis and notes to the unaudited condensed interim consolidated financial statements are the responsibility of management. The condensed interim consolidated financial statements were prepared by management in accordance with International Accounting Standards "IAS" 34 – Interim Financial Reporting outlined in the notes to the condensed interim consolidated financial statements. Other financial information appearing throughout the report is presented on a basis consistent with the condensed interim 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 condensed interim consolidated financial statements.

The Audit Committee reviewed the condensed interim consolidated financial statements with management and with the auditors. The Board of Directors has approved the unaudited condensed interim consolidated financial statements on the recommendation of the Audit Committee.

Manuel Pablo Zuniga-Pflucker
Chief Executive Officer

Gregory E. Smith
Chief Financial Officer

May 28, 2019

## CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS

| ($ thousands US dollars - unaudited) | March 31, 2019 | December 31, 2018 |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash (note 4) | 17,781 | 26,259 |
| VAT receivable (note 7) | 7,277 | 6,848 |
| Trade and other receivables (note 8) | 1,729 | 1,848 |
| Inventory | 465 | 178 |
| Advances and prepaid expenses (note 10) | 3,231 | 502 |
| **Total Current assets** | 30,483 | 35,635 |
| **Non-current assets** | | |
| Exploration and evaluation assets (note 5) | 4,968 | 4,687 |
| Property, plant and equipment (note 6) | 61,614 | 52,045 |
| Deferred income taxes | 761 | 810 |
| VAT and other receivables (note 7) | 2,982 | 2,920 |
| **Total Non-current assets** | 70,325 | 60,462 |
| **Total Assets** | **100,808** | **96,097** |
| | | |
| **LIABILITIES AND EQUITY** | | |
| **Current liabilities** | | |
| Trade and other payables (note 9) | 12,792 | 7,462 |
| Current income taxes payable | 12 | - |
| Deferred income taxes | - | 17 |
| Lease liabilities | 76 | - |
| Decommissioning obligations (note 11) | 1,814 | 2,103 |
| **Total Current liabilities** | 14,694 | 9,582 |
| **Non-current Liabilities** | | |
| Lease liabilities | 289 | - |
| Deferred income taxes | 15 | - |
| Decommissioning obligations (note 11) | 9,844 | 8,988 |
| **Total Non-current liabilities** | 10,148 | 8,988 |
| **Total Liabilities** | 24,842 | 18,570 |
| **Equity** | | |
| Share capital | 84,793 | 84,793 |
| Contributed surplus | 159 | 109 |
| Deficit | (8,986) | (7,375) |
| **Total Equity** | 75,966 | 77,527 |
| **Total Liabilities and Equity** | **100,808** | **96,097** |

See accompanying notes to the condensed interim consolidated financial statements

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

| For the three months ended March 31<br>($ thousands US dollars, unaudited) | **2019** | **2018** |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net loss for the period | (1,611) | (1,544) |
| Adjustments for: | | |
| Unrealized foreign exchange gain/(loss) on receivables and payables | - | (54) |
| Depreciation depletion and amortization | 745 | 17 |
| Impairment expense on exploration and evaluation assets | - | 40 |
| Deferred income tax | 47 | - |
| Stock compensation plan | 50 | - |
| Finance expenses | 88 | 218 |
| Changes in non-cash working capital: | | |
| VAT and other receivables | (372) | (445) |
| Advances, prepaid expenses and inventory | (3,016) | (94) |
| Trade and other payables | (918) | (1,288) |
| Net cash used in operating activities | (4,987) | (3,150) |
| **Cash flows from investing activities** | | |
| Exploration and evaluation asset additions | (281) | (3,518) |
| Property, plant and equipment additions | (9,490) | (54) |
| Non cash changes in working capital | 6,303 | - |
| Net cash used in investing activities | (3,468) | (3,572) |
| **Cash flows from financing activities** | | |
| Repayment of lease liabilities | (23) | - |
| Net cash used in financing activities | (23) | - |
| **Net decrease in cash** | (8,478) | (6,722) |
| Cash, beginning of period | 26,259 | 48,783 |
| Effect of translation on foreign currency cash | - | (2) |
| Cash, end of period | 17,781 | 42,059 |

See accompanying notes to the condensed interim consolidated financial statements

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

For the three months ended March 31

| ($ thousands US dollars, except per share amounts, unaudited) | **2019** | **2018** |
|---|---|---|
| **REVENUES** | | |
| Crude oil revenues, net of royalty (note 12) | 4,315 | - |
| Total revenues | 4,315 | - |
| | | |
| **EXPENSES** | | |
| Operating | 3,470 | - |
| General and administration expense | 1,630 | 1,296 |
| Finance expense | 88 | 218 |
| Depreciation depletion and amortization | 745 | 17 |
| Impairment expense on exploration and evaluation assets | - | 40 |
| Foreign exchange gain | (66) | (27) |
| Total expenses | 5,867 | 1,544 |
| | | |
| **Loss before income taxes** | (1,552) | (1,544) |
| | | |
| Current income tax expense | (12) | - |
| Deferred income tax expense | (47) | - |
| | | |
| **Net loss and comprehensive loss** | **(1,611)** | **(1,544)** |
| | | |
| Basic and diluted loss per share | (0.00) | (0.00) |
| Weighted average common number of shares outstanding (000's) | | |
| Basic | 537,741 | 537,741 |
| Diluted | 537,741 | 537,741 |

See accompanying notes to the condensed interim consolidated financial statements

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| For the three months ended March 31<br>($ thousands US dollars, unaudited) | **2019** | **2018** |
|---|---|---|
| **Share capital** | | |
| Balance, beginning of period | 84,793 | 84,793 |
| Balance at March 31 | 84,793 | 84,793 |
| **Contributed surplus** | | |
| Balance, beginning of year | 109 | 4 |
| Stock compensation plan | 50 | - |
| Balance at March 31 | 159 | 4 |
| **Deficit** | | |
| Balance, beginning of year | (7,375) | (2,754) |
| Net loss | (1,611) | (1,544) |
| Balance at March 31 | (8,986) | (4,298) |

See accompanying notes to the condensed interim consolidated financial statements

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



## 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 unaudited condensed interim 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 May 28, 2019, on the recommendation of the Audit Committee.

## 2. BASIS OF PREPARATION

### STATEMENT OF COMPLIANCE

These condensed interim consolidated financial statements were prepared in accordance with International Accounting Standards "IAS" 34, Interim Financial Reporting. They do not contain all disclosures required by International Financial Reporting Standards "IFRS" for annual financial statements and, accordingly, should be read in conjunction with the Company's audited annual consolidated financial statements as at and for the years ended December 31, 2018 and 2017, which outline the Company's significant accounting policies in Note 2 thereto, which have been applied consistently in these condensed interim consolidated financial statements , as well as the Company's critical accounting judgements and key sources of estimation uncertainty which are also set out in Note 2 thereto.

### 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 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 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.

## 3. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

**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 was applied by the Company on January 1, 2019, and as such, booked a right-of-use asset relating to the head office lease of $0.4 million (included in property, plant and equipment), with a corresponding increase to lease obligations. The lease obligation was calculated using an average risk-free rate of 4.69 percent.

**Amendments to IFRS 3 – "Business Combinations" – Definition of a Business ("IFRS 3")**

The Company elected to early adopt the amendments to IFRS 3 effective January 1, 2019, which will be applied prospectively to acquisitions that occur on or after January 1, 2019. The amendments introduce an optional concentration test, narrow the definitions of a business and outputs, and clarify that an acquired set of activities and assets must include an input and a substantive process that together significantly contribute to the ability to create outputs. These amendments do not result in changes to the Company's accounting policies of applying the acquisition method.

## 4. CASH

| ($ thousands, US dollars) | March 31, 2019 | December 31, 2018 |
|---|---|---|
| Balances held in: | | |
| US dollars | 17,504 | 25,957 |
| Peruvian soles | 82 | 206 |
| Canadian dollars | 195 | 96 |
| Cash | 17,781 | 26,259 |

## 5. EXPLORATION AND EVALUATION ASSETS

The following table sets out a continuity of the E&E assets:

| ($ thousand, US dollars) | |
|---|---|
| Balance at December 31, 2017 | 38,571 |
| Additions | 14,198 |
| Impairment of exploration and evaluation assets | (40) |
| Transfer to property plant and equipment | (48,042) |
| Balance at December 31, 2018 | 4,687 |
| Additions | 281 |
| Balance at March 31, 2019 | 4,968 |

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

## 6. PROPERTY, PLANT AND EQUIPMENT

| ($ thousands, US dollars) | Oil and Gas Properties | Furniture, Fixtures and Lease Obligations | 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 |
| Additions | 9,469 | 21 | 9,490 |
| Change in estimates - decommissioning obligations | 482 | - | 482 |
| Right-of-use asset | - | 385 | 385 |
| DD&A charge in period | (749) | (39) | (788) |
| Net book value PP&E March 31, 2019 | 61,031 | 583 | 61,614 |

For the three months ended March 31, 2019, $41 thousand of the depreciation depletion and amortization expense was recorded as inventory (March 31, 2018: $nil).

The Company determined there were no indicators of impairment of the property, plant and equipment balance at March 31, 2019.

## 7. VAT AND OTHER RECEIVABLES

| ($ thousands, US dollars) | March 31, 2019 | December 31, 2018 |
|---|---|---|
| VAT receivable - current | 7,277 | 6,848 |
| | | |
| VAT receivable - non-current | 2,938 | 2,755 |
| Other receivables | 44 | 165 |
| Total non-current receivables | 2,982 | 2,920 |
| | | |
| Total VAT and other receivables | 10,259 | 9,768 |

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 recovered $0.9 million in the first quarter of 2019 and expects to recover $7.3 million within the next year 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, US dollars) | March 31, 2019 | December 31, 2018 |
|---|---|---|
| Trade receivables | 1,500 | 1,793 |
| Other receivables | 229 | 55 |
| Total trade and other receivables | 1,729 | 1,848 |

## 9. TRADE AND OTHER PAYABLES

| ($ thousands, US dollars) | March 31, 2019 | December 31, 2018 |
|---|---|---|
| Trade payables | 3,529 | 1,523 |
| Accrued payables and other liabilities | 9,263 | 5,939 |
| Total trade and other payables | 12,792 | 7,462 |

Trade payables are increasing as a result of ongoing drilling, and the increase at period end March 31, 2019 is a result of payment schedules that are in place with certain vendors.

## 10. ADVANCES AND PREPAID EXPENSES

| ($ thousands, US dollars) | March 31, 2019 | December 31, 2018 |
|---|---|---|
| Advances to contractors | 2,594 | - |
| Prepaid expenses | 637 | 502 |
| Total advances and prepaid expenses | 3,231 | 502 |

## 11. DECOMMISSIONING OBLIGATIONS

The Company has estimated decommissioning liabilities to be $16.7 million. The net present value of its estimated decommissioning liabilities is $11.7 million, which includes an adjustment of $0.5 million in the first quarter related to the drilling of the Company's second well in the Bretaña oil field. The present value of the obligations was calculated using an average risk-free rate of 4.69 percent (March 31, 2018: 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 (March 31, 2018: 2.0 percent). The following table sets out the continuity of decommissioning obligations:

| ($ thousands, US dollars) | |
|---|---|
| Balance at December 31, 2017 | 14,048 |
| Changes in estimates | (3,575) |
| Accretion of decommissioning discount | 618 |
| Balance at December 31, 2018 | 11,091 |
| Changes in estimates | 482 |
| Accretion of decommissioning discount | 85 |
| Balance at March 31, 2019 | 11,658 |
| This is represented by: | |
| Current | 1,814 |
| Non Current | 9,844 |

## 12. REVENUES

| Three months ended March 31,<br>($ thousands, US dollars) | **2019** | **2018** |
|---|---|---|
| Sales | | |
| Crude oil | 4,529 | - |
| Royalties | (214) | - |
| Net revenues | 4,315 | - |

## 13. FINANCIAL INSTRUMENTS

The Company's financial instruments include cash, VAT receivables, trade and other receivables, current income taxes payable, and trade and other payables. The following table details the Company's carrying value and fair value of financial assets, all of which are classified as financial and amortized cost and reported at amortized cost:

| | **March 31, 2019** | | **December 31, 2018** | |
|---|---|---|---|---|
| ($ thousands US dollars) | **Carrying Value** | **Fair Value** | **Carrying Value** | **Fair Value** |
| Cash | 17,781 | 17,781 | 26,259 | 26,259 |
| VAT Receivables | 10,215 | 10,215 | 9,603 | 9,603 |
| Trade and other receivables | 1,773 | 1,773 | 1,848 | 1,848 |
| Current income taxes payable | 12 | 12 | - | - |
| Trade and other payables | 12,792 | 12,792 | 7,462 | 7,462 |

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 March 31, 2019.

### 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. 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.

## 14. COMMITMENTS

As of March 31, 2019, 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 - 2nd exploratory well (expires December 6, 2021) |
| 133 | Perupetro S.A. | 1,000 | Expires two years after Perupetro lifts Force Majeure due to permitting process |

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.