PetroTal

Condensed Interim Consolidated Financial Statements
For the three and six months ended June 30, 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

August 28, 2019

CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS

($ thousands US dollars - unaudited)	As at June 30, 2019	As at December 31, 2018
ASSETS		
Current assets		
Cash (note 4)	33,128	26,259
VAT receivable (note 7)	9,268	6,848
Trade and other receivables (note 8)	1,662	1,848
Inventory (note 12)	4,980	178
Advances and prepaid expenses (note 10)	1,118	502
Total Current assets	50,156	35,635
Non-current assets		
Exploration and evaluation assets (note 5)	5,082	4,687
Property, plant and equipment (note 6)	86,804	52,045
Deferred income taxes	779	810
VAT and other receivables (note 7)	3,012	2,920
Total Non-current assets	95,677	60,462
Total Assets	**145,833**	**96,097**
LIABILITIES AND EQUITY		
Current liabilities		
Trade and other payables (note 9)	30,480	7,462
Current income taxes payable	8	-
Deferred income taxes	-	17
Lease liabilities	78	-
Decommissioning obligations (note 11)	1,814	2,103
Total Current liabilities	32,380	9,582
Non-current Liabilities		
Lease liability and other long term liabilities	587	-
Deferred income taxes	29	-
Decommissioning obligations (note 11)	12,679	8,988
Total Non-current liabilities	13,295	8,988
Total Liabilities	45,675	18,570
Equity		
Share capital (note 15)	108,394	84,793
Contributed surplus	231	109
Deficit	(8,467)	(7,375)
Total Equity	100,158	77,527
Total Liabilities and Equity	**145,833**	**96,097**

See accompanying notes to the condensed interim consolidated financial statements

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF EARNINGS (LOSS) AND COMPREHENSIVE INCOME (LOSS)

For the three and six months ended June 30	Three Months Ended June 30		Six Months Ended June 30	
($ thousands US dollars, except per share amounts, unaudited)	**2019**	**2018**	**2019**	**2018**
REVENUES				
Crude oil revenues, net of royalty (note 13)	7,669	-	11,984	-
Total revenues	7,669	-	11,984	-
EXPENSES				
Operating	4,314	-	7,784	-
General and administration expense	1,643	991	3,273	2,287
Finance expense	60	218	148	436
Depreciation depletion and amortization	1,125	6	1,870	23
Impairment expense on exploration and evaluation assets	-	-	-	40
Foreign exchange gain (loss)	16	185	(50)	158
Total expenses	7,158	1,400	13,025	2,944
Income (loss) before income taxes	511	(1,400)	(1,041)	(2,944)
Current income tax benefit (expense)	4	-	(8)	-
Deferred income tax benefit (expense)	4	-	(43)	-
Net income (loss) and comprehensive income (loss)	**519**	**(1,400)**	**(1,092)**	**(2,944)**
Basic and diluted earnings (loss) per share	0.00	(0.00)	(0.00)	(0.00)
Weighted average common number of shares outstanding (000's)				
Basic	565,579	537,736	551,815	537,736
Diluted	575,023	537,736	551,815	537,736

See accompanying notes to the condensed interim consolidated financial statements

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Six Months Ended June 30	
($ thousands US dollars, unaudited)	**2019**	**2018**
Share capital		
Balance, beginning of period	84,793	84,793
Net proceeds of capital raise	23,440	-
Warrants exercised	161	-
Balance at June 30	108,394	84,793
Contributed surplus		
Balance, beginning of period	109	4
Stock compensation plan	122	-
Balance at June 30	231	4
Deficit		
Balance, beginning of period	(7,375)	(2,754)
Net loss	(1,092)	(2,944)
Balance at June 30	(8,467)	(5,698)

See accompanying notes to the condensed interim consolidated financial statements

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30	
($ thousands, unaudited)	**2019**	**2018**
Cash flows from operating activities		
Net loss for the period	(1,092)	(2,944)
Adjustments for:		
Depreciation depletion and amortization	1,870	23
Impairment expense on exploration and evaluation assets	-	40
Accretion of decommissioning obligation	177	436
Deferred income tax	43	-
Stock compensation plan	122	-
Finance income	(29)	-
Changes in non-cash working capital:		
VAT and other receivables	(2,326)	(690)
Advances and prepaid expenses	(616)	(203)
Inventory	(4,802)	-
Trade and other payables	11,793	(1,257)
Net cash provided by (used in) operating activities	5,140	(4,595)
Cash flows from investing activities		
Exploration and evaluation asset additions	(395)	(12,939)
Property, plant and equipment additions	(34,244)	(178)
Non cash changes in working capital	12,811	3,916
Net cash used in investing activities	(21,828)	(9,201)
Cash flows from financing activities		
Net Proceeds from issuance of share capital	23,440	-
Net Proceeds for the exercise of warrants	161	-
Repayment of lease liabilities	(44)	-
Net cash provided by financing activities	23,557	-
Net increase (decrease) in cash	6,869	(13,796)
Cash, beginning of period	26,259	48,783
Cash, end of period	33,128	34,987

See accompanying notes to the condensed interim 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 August 20, 2019, on the recommendation of the Audit Committee.

2. BASIS OF PREPARATION

STATEMENT OF COMPLIANCE

These 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 Financial Statements, except as disclosed in Note 3, 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)	June 30, 2019	December 31, 2018
Balances held in:		
US dollars	32,529	25,957
Peruvian soles	233	206
Canadian dollars	366	96
Cash	33,128	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	395
Balance at June 30, 2019	5,082

The Company assesses exploration and evaluation assets for indicators of impairment.

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	33,910	334	34,244
Revisions to decommissioning obligations	1,722	-	1,722
Additions to decommissioning obligations	1,503	-	1,503
Right-of-use asset	-	385	385
DD&A charge in period	(3,005)	(90)	(3,095)
Net book value PP&E June 30, 2019	85,959	845	86,804

For the six months ended June 30, 2019, $1.2 million of the depreciation depletion and amortization expense was recorded as inventory (June 30, 2018: $nil).

The Company determined there were no indicators of impairment of the property, plant and equipment balance at June 30, 2019.

7. VAT AND OTHER RECEIVABLES

($ thousands, US dollars)	June 30, 2019	December 31, 2018
VAT receivable - current	9,268	6,848
VAT receivable - non-current	2,967	2,755
Other receivables	45	165
Total non-current receivables	3,012	2,920
Total VAT and other receivables	12,280	9,768

Valued 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 $2.2 million in the first half of 2019 and expects to recover $2.5 million approximately, within the last half of 2019 based on its estimated oil sales and $6.8 million will be recovered within the first half of the next year 2020.

8. TRADE AND OTHER RECEIVABLES

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

($ thousands, US dollars)	June 30, 2019	December 31, 2018
Trade receivables	1,160	1,793
Other receivables	502	55
Total trade and other receivables	1,662	1,848

9. TRADE AND OTHER PAYABLES

($ thousands, US dollars)	June 30, 2019	December 31, 2018
Trade payables	1,147	1,523
Accrued payables and other liabilities	29,333	5,939
Total trade and other payables	30,480	7,462

Trade payables are increasing as a result of ongoing drilling, and the increase at period end June 30, 2019 is a result of payment schedules that are in place with certain vendors.

10. ADVANCES AND PREPAID EXPENSES

($ thousands, US dollars)	June 30, 2019	December 31, 2018
Advances to contractors	700	-
Prepaid expenses	418	502
Total advances and prepaid expenses	1,118	502

11. 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
Additions	1,503
Revisions to decommissioning obligations	1,722
Accretion of decommissioning discount	177
Balance at June 30, 2019	14,493
This is represented by:	
Current	1,814
Non Current	12,679

The Company has estimated undiscounted decommissioning liabilities to be $17.9 million. The net present value of its estimated decommissioning liabilities is $14.5 million, which includes an addition of $1.5 million in the first six months related to the drilling of the Company's second and third wells in the Bretaña oil field and a revision of $1.7 million based upon a change in the un-risked interest rate. The present value of the obligations was calculated using an average risk-free rate of 3.56 percent (December 31, 2018: 4.69 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, 2018: 1.9 to 2.1 percent). The table above sets out the continuity of decommissioning obligations.

12. INVENTORY

Product inventory consists of the Company's crude oil barrels, which are valued at the lower of cost or net realizable value. Costs include operating expenses, transportation and depletion associated with crude oil barrels. Costs capitalized as inventory will be expensed when the inventory is sold.

As at June 30, 2019, the Company held 151,175 barrels of oil in inventory valued at approximately $32.94 per barrel (December 31, 2018 – 5,552 barrels at $32.18 per barrel).

13. REVENUES

	Three Months Ended June 30		Six Months Ended June 30	
($ thousands, US dollars)	2019	2018	2019	2018
Sales				
Crude oil	8,099	-	12,628	-
Royalties	(430)	-	(644)	-
Net revenues	7,669	-	11,984	-

14. FINANCIAL INSTRUMENTS

	June 30, 2019		December 31, 2018	
($ thousands US dollars)	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash	33,128	33,128	26,259	26,259
Trade and other receivables	1,662	1,662	1,848	1,848
Inventory	4,980	4,980	178	178
Lease liabilities	78	78	-	-
Trade and other payables	30,480	30,480	7,462	7,462

The Company's financial instruments include cash, inventory, lease liabilities, trade and other receivables and trade and other payables. The table above 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.

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 June 30, 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.

In addition, the company completed a capital raise of net $23.4 million in the second quarter of 2019.

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 June 30, 2019, the cash and cash equivalents were held with six different institutions from three countries, mitigating the credit risk of a collapse of one particular bank.

15. 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.

	Common shares thousands	**Share capital $ thousands**
Balance at December 31, 2018	537,741	84,793
Capital raised	133,328	23,440
Warrants exercised	1,127	161
Balance at June 30, 2019	672,196	108,394

In June 2019, the Company raised additional equity of $23.4 million net of fees ($25.5 million gross) by the issuance of 133,333,333 shares and had agents warrants exercised and converted into 1,126,710 shares for net proceeds of $0.161 million.

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 June 30, 2019 all of the warrants have vested. The following table sets out a continuity of outstanding performance warrants:

Balance at December 31, 2017	-
Additions during 2018	26,750,000
Balance at December 31, 2018 and June 30, 2019	26,750,000

AGENTS' WARRANTS

As compensation for the services rendered in connection with the brokered private placement offering, the Agents received warrants which entitled 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. The following table sets out a continuity of outstanding performance warrants:

Balance at December 31, 2017	-
Additions during 2018	2,086,500
Balance at December 31, 2018	2,086,500
Warrants exercised	(1,126,710)
Warrants expired	(959,790)
Balance at June 30, 2019	-

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 June 30, 2019:

Vest date three years from grant date, exchangeable for up to two shares	3,083,333
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 period	3,446,361

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 six months ended June 30, 2019, the Company recognized $0.1 million of share-based compensation expense in general and administration expense (June 30, 2018: $nil).

The Company issued an aggregate of 1,300,000 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 June 30, 2019, $0.3 million was included in accounts payable relating to the DSUs.

For the six months ended June 30, 2019, the Company recognized $0.2 million of DSU expense in general and administration expense and contributed surplus (June 30, 2018: $nil).

The following table details the PSU and DSU activity:

	Performance Share Units	**Director Share Units**
Balance at December 31, 2017	-	-
Additions	4,371,361	650,000
Balance at December 31, 2018	4,371,361	650,000
Additions	-	650,000
Forfeitures	(925,000)	-
Balance at June 30, 2019	3,446,361	1,300,000

16. COMMITMENTS

As of June 30, 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