



**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

(\$ thousands US dollars, except per share amounts, unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	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

(\$ thousands US dollars, unaudited)	Six Months Ended June 30	
	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

(\$ thousands, unaudited)	Six Months Ended June 30	
	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

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2019 (Unaudited). 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 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 MEASUREMENT

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

PRINCIPLES OF CONSOLIDATION

The Company’s Financial Statements 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

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

14. FINANCIAL INSTRUMENTS

(\$ thousands US dollars)	June 30, 2019		December 31, 2018	
	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



**Management's Discussion and Analysis
For the three and six months ended June 30, 2019
(unaudited)**

MANAGEMENT'S DISCUSSION AND ANALYSIS

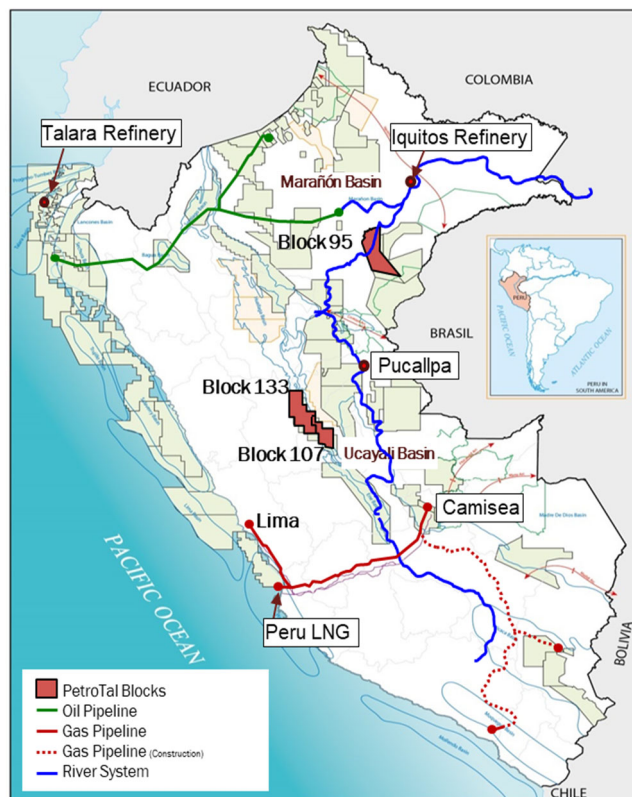
This Management's Discussion and Analysis ("MD&A") of the operating results and financial condition of PetroTal Corp ("PetroTal" or the "Company") for the three months and six months ended June 30, 2018 and June 30, 2019, is dated May 28, 2019, and should be read in conjunction with the Company's unaudited condensed consolidated financial statements (the "financial statements") for the three months and six months ended June 30, 2018 and June 30, 2019, as well as the Company's audited consolidated financial statements (the "financial statements") for the years ended December 31, 2018. The unaudited condensed consolidated financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34 – Interim Financial Reporting as issued by the International Accounting Standards Board, which are also generally accepted accounting principles ("GAAP") for publicly accountable enterprises in Canada.

Financial figures throughout this MD&A are stated in thousands of United States dollars (\$) unless otherwise indicated.

This MD&A contains forward-looking statements that should be read in conjunction with the Company's disclosure under "Forward Looking Statements and Business Risks".

CORPORATE OVERVIEW AND STRATEGY

PetroTal is a publicly-traded (TSX-V:TAL and AIM:PTAL), international oil and gas company incorporated and domiciled in Canada. Through its two subsidiaries in Peru, the Company is currently engaged in the ongoing development of hydrocarbons in Block 95 with a focus on the development of the Bretaña oil field. Additionally, the Company has exploration prospects and leads in Block 107.



On December 18, 2017, the Company:

- Completed a plan of arrangement (the Reverse Takeover "RTO") with Sterling Resources Ltd. pursuant to which Sterling acquired all of the shares of PetroTal LLC and, once amalgamated, continued as one operation under the name of Sterling Resources Ltd. The name of the Company was changed in June 2018 to PetroTal Corp.
- Acquired from Gran Tierra Energy Inc. ("GTE") 100% of the subsidiaries that held the rights in the exploration blocks in Peru. GTE had 100% working interest in three license contracts (Blocks 95, 107 and 133), and GTE retained a 20% back-in option in Block 107.

After the reverse takeover transaction and the acquisition of GTE Peruvian assets on December 18, 2017, the Company appointed an experienced Board of Directors and retained the prior PetroTal Management team

- Raised \$34 million gross proceeds through the issuance of subscription receipts, which have been subsequently converted into common shares.

The Company commenced oil production in Bretaña on July 1st, 2018 via a long-term testing program of the single oil producer drilled by GTE, which is was a major component of our operations. The Company brought online the second oil producer in the field in mid-April 2019 at approximately 2,250 barrels of oil per day (“BOPD”), and the third oil producing well in the field in mid-June at a 30-day rate of approximately 2,800 BOPD, bringing total field production to over 5,000 BOPD. The Company subsequently drilled a new water disposal well and has completed a workover on the existing water disposal well to turn the well into an oil producer. The workover came online at an initial rate of 2,700 BOPD. Total field production is being limited to the capacity of oil production facilities and approximates 5,500 BOPD. These activities have significantly diversified our operations.

In June 2019, the Company raised additional equity of \$23.4 million net of fees, to expedite the development of the Bretaña oil field.

SECOND QUARTER 2019 OPERATIONAL AND FINANCIAL HIGHLIGHTS

BRETAÑA OIL FIELD

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

The Bretaña oil field with its estimated 330 million barrels of oil (“MMBO”) in place, as estimated by Netherland, Sewell & Associates, Inc. (“NSAI”), a qualified reserves evaluator as defined in National Instrument 51-101 - *Standards of Disclosure for Oil and Gas Activities* (“NI 51-101”), effective December 31, 2018, is a large oil field in the Marañon Basin. The current estimate of 39.4 MMBO of gross 2P reserves is based on a 12% recovery factor. The net reserves were estimated at 37.5 MMBO with the differential being oil being used to generate power in the field, also assume a 12% recovery factor. Analog fields show that the potential recovery could be significantly higher.

The Company’s operating team has previously worked on the fields in the area, and therefore are familiar with these types of operations. These highly productive oil wells are supported by strong aquifers and require the produced water to be reinjected back into the reservoir. The Company intends to develop the Bretaña oil field on a modular basis, whereby the production and water reinjection facilities are installed as needed.

On June 1, 2018, five months earlier than anticipated, the Company announced that the Bretaña discovery well was placed on production through long-term testing, allowing for the start of the commissioning of the newly installed oil production facilities. The Company restricted the well’s flow rate to minimize water production until the required water injection facilities and oil well hydraulic pump was commissioned and installed. Three additional oil wells have since been brought online in 2019, and the Bretaña field is currently producing approximately 5,500 BOPD from the three new oil wells in the field drilled by PetroTal. The discovery well, drilled by the previous operator, is shut-in due to capacity constraints of the facilities in the field. Each well is being produced at various rate intervals to manage total field capacity to produce oil. The Company plans to increase total field production to over 10,000 BOPD by year-end with continued drilling and installation of processing facilities that are expected to be commissioned late in the fourth quarter 2019. To provide for additional water reinjection, the Company completed a new water reinjection well in July of 2019, providing the ability to reinject up to 40,000 barrels of water per day. Currently the Company is drilling the BN 95-4 development well which is expected to take 60 days to complete. Subsequent to the end of the second quarter, on August 26, 2019, the company sold 200,000 barrels of oil, most of which was recorded in inventory at June 30, 2019.

OSHEKI

PetroTal opened a data room for Block 107 in September 2018 to present the Osheki prospect and other leads to potential partners. Based on an independent assessment completed by Netherland Sewell & Associates, Inc., with an effective date of June 30, 2018, and prepared in accordance with the Canadian Oil and Gas Evaluation Handbook and the standards established by NI 51-101, the Osheki prospect is estimated to have 534 MMBO of mean prospective recoverable oil resources. This estimate is based on a recovery factor of 30 percent of the estimated 1.78 billion barrels of mean prospective original oil in place (“OOIP”), using maps generated from seismic acquired in 2007 and 2014. The mean risked prospective resources figure for the Osheki prospect is 85 MMBO. The prospect

was de-risked with a new 3D geologic model supporting Cretaceous age reservoirs with high quality Permian source rocks. Block 107 has four additional leads that, with Osheki, could contain a total of 4.6 billion barrels of recoverable resource in the high estimate case. Drilling permits for the Osheki prospect have been approved and the Company is seeking joint venture partners to drill the first exploration well and are looking to spud the well in 2020.

SUMMARY OF QUARTERLY RESULTS

(\$ thousands US dollars, unless otherwise indicated)	2019		2018				2017		
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Net Revenues	7,669	4,315	5,850	4,144	-	-	-	-	-
Net Income (loss)	519	(1,611)	(2,184)	507	(1,400)	(1,544)	(2,754)	-	-
Net Income (loss) per weighted average Common Share – basic and diluted (\$)	0.00	(0.00)	(0.00)	0.00	(0.00)	(0.00)	(0.01)	-	-
Total assets	145,833	100,808	96,097	91,322	98,918	97,363	98,766	-	-
Total liabilities	45,675	24,842	18,570	11,655	19,819	16,864	16,723	-	-
Shareholders' equity	100,158	75,966	77,527	79,667	79,099	80,499	82,043	-	-
Capital expenditures	24,868	9,771	4,673	5,595	8,208	4,731	154	-	-
Cash, End of Period	33,128	17,781	26,259	27,905	27,905	34,986	48,783	-	-
Common shares outstanding (000's)	672,196	537,741	537,741	537,741	537,741	537,741	537,741	-	-

PRODUCTION

	Quarters Ended					Six Months Ended June	
	Jun 30, 2019	Mar 31, 2019	Dec 31, 2018	Sept 30, 2018	Jun 30, 2018	2019	2018
Oil - BOPD sold	1,533	923	1,199	730	-	1,230	-
Oil - BOPD produced	3,109	944	1,158	757	-	2,032	-

In late May 2019 the Company received approval of the Environmental Impact Assessment (“EIA”) to fully develop the Bretaña oil field in Block 95. This approval provides the Company with necessary permits to execute its development strategy at Bretaña. Production for the second fiscal quarter was 279,810 barrels and averaged 3,109 BOPD, driven higher by the successful drilling and completion of the second and third oil producing wells in the field. Production should continue to increase materially with the installation of the production facilities by year-end 2019, bringing expected field production to approximately 10,000 BOPD.

REVENUES AND ROYALTIES

(\$ thousands US dollars, unless otherwise indicated)	Quarters Ended					Six Months Ended June	
	Jun 30, 2019	Mar 31, 2019	Dec 31, 2018	Sept 30, 2018	Jun 30, 2018	2019	2018
Gross revenues	8,099	4,529	6,186	4,301	-	12,628	-
Royalties	430	214	336	157	-	644	-
Net revenues	7,669	4,315	5,850	4,144	-	11,984	-
Royalties as a % of revenues	5%	5%	5%	4%	-	5%	-
Average Brent oil price	68.96	63.14	67.75	75.18	74.52	66.07	-

Following the Company’s July 3, 2018 announcement of first oil production from the Bretaña field, the Company executed an initial oil sales contract with PetroPeru, Peru’s state oil company and owner of the Iquitos refinery. The Company successfully negotiated a discount equivalent to approximately 14 percent from Brent; however, the Company does not pay pipeline tariffs during the contract term, as all oil is barged directly to the refinery. The crude oil is currently picked up at the Bretaña field and transported to the refinery by PetroPeru. The Company signed a new contract for crude oil sales to the Iquitos refinery with an average 18.5 percent discount to Brent, which is offset by the barging tariff being reduced from \$5.50 per barrel to \$3.40 per barrel. Currently the Company is preparing to use the oil northern pipeline, which requires minimum batches of 50,000 and 100,000 barrels, resulting in a large inventory build.

As previously announced, the Company negotiated an oil contract to sell the oil in Bayovar, Peru under an oil swap agreement with PetroPeru. Additionally, the Company is negotiating long-term crude oil marketing contracts.

The royalty regime in Peru is negotiated on a block by block basis. In our current blocks, we pay a royalty based on production, and ranges between five percent and twenty percent. The royalty calculation is five percent based on production of 5,000 BOPD or less and twenty percent when production reaches 100,000 BOPD or more, with a straight-line calculation between. Currently the Company is paying a royalty of five percent, and at peak production will be approximately eight percent once the field has been fully developed. For royalty calculation purposes, PetroPeru subtracts transportation from revenue prior to calculation of the royalty.

OPERATING EXPENSES

(\$ thousands US dollars, except \$ per barrel)	Quarters Ended					Six Months Ended June	
	Jun 30, 2019	Mar 31, 2019	Dec 31, 2018	Sept 30, 2018	Jun 30, 2018	2019	2018
Operating expenses	4,314	3,470	3,544	1,354	-	7,784	-
\$ per barrel sold	30.92	41.79	32.13	20.16	-	34.98	-
\$ per barrel produced	15.25	40.85	33.27	19.44	-	21.16	-

Operating expense per barrel in prior quarters were affected by lower production in those quarters. Management previously stated that operating costs on a per unit basis should decrease in the future due to production increases and fixed operating expenses being spread over a greater number of barrels produced. The difference between oil sold and oil produced metrics was a result of inventory build to begin access to the oil pipeline.

GENERAL AND ADMINISTRATIVE

(\$ thousands US dollars, except \$ per barrel)	Quarters Ended					Six Months Ended June	
	Jun 30, 2019	Mar 31, 2019	Dec 31, 2018	Sept 30, 2018	Jun 30, 2018	2019	2018
G&A expenses	1,643	1,630	2,415	1,478	991	3,273	2,287
\$ per barrel sold	11.78	19.63	21.90	22.00	n/a	14.71	n/a
\$ per barrel produced	5.81	19.19	23.24	20.33	n/a	8.90	n/a

General and administrative costs are on par with the prior quarter, however with increased volumes the per barrel comparison is more in line with management expectations. As production increases, management believes the per barrel cost of G&A should improve materially. The difference between oil sold and oil produced metrics was a result of inventory build to begin access to the oil pipeline.

CAPITAL EXPENDITURES

(\$ thousands US dollars)	Quarters Ended					Six Months Ended June	
	Jun 30, 2019	Mar 31, 2019	Dec 31, 2018	Sept 30, 2018	Jun 30, 2018	2019	2018
Exploration and evaluation	114	281	293	966	8,208	395	14,198
Oil and gas properties	24,441	9,469	4,351	4,385	-	33,910	8,736
Furniture and fixtures	313	21	29	244	-	334	273

Capital expenditures for the three months ended June 30, 2019 are primarily related to the drilling of the Company's second and third oil wells, as well as accounting for the production processing facilities to be installed by year-end.

The Board of Directors has approved PetroTal's capital budget for 2019, with key spending at Block 95 as follows:

- Drilling of three oil wells expected to produce oil at an average cost of \$12.1 million each;
- Additional processing facilities to be installed in 4Q2019, with an expected total spend in 2019 to approximate \$16.0 million, increasing capacity to 10,000 BOPD;
- One water disposal well for approximately \$7.0 million;
- Abandonment costs of approximately \$2.0 million associated with a legacy drilling site approximately 4.5 miles south of the Bretaña drill and production pad.

Following the successful capital raise in June 2019, management and the Board will review additional capital expenditures that will allow for increased oil production at year-end 2019. The Company does not intend to spend material amounts of capital in Block 107 as the primary effort in those locations at this time is to secure a joint interest partner.

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

At June 30, 2019, the total DD&A capitalized to inventory was \$1.2 million. In addition, IFRS 16 "Leases" was applied by the Company on January 1, 2019, and as such, a right-of-use asset relating to the head office lease of \$0.4 million (included in property, plant and equipment) was booked, with a corresponding increase to lease obligations.

DEPLETION, DEPRECIATION AND AMORTIZATION ("DD&A")

(\$ thousands US dollars, except \$ per barrel)	Quarters Ended				Six Months Ended June		
	Jun 30, 2019	Mar 31, 2019	Dec 31, 2018	Sept 30, 2018	Jun 30, 2018	2019	2018
DD&A	1,125	745	815	566	6	1,870	23
\$ per barrel produced	3.98	8.77	7.66	8.12	n/a	5.08	n/a

Depletion for the second quarter was \$2.3 million, at a rate of \$8.12 per barrel. However, \$1.2 million of this depletion expense was reclassified to inventory resulting in lower than expected depletion expense of \$3.98 per barrel. Depletion and amortization are calculated based upon capital expenditures, production rates and proved plus probable reserves. At June 30, 2019, \$217.3 million of future development costs have been included in the depletion calculation.

FINANCING ACTIVITIES AND LIQUIDITY

(\$ thousands US dollars)	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018
Cash	33,128	17,781	26,259	27,905	34,986
VAT receivables	9,268	7,277	6,848	1,905	2,234
Trade and other receivables	1,662	1,729	1,848	1,553	104
Inventory	4,980	465	178	539	294
Advances and prepaid expenses	1,118	3,231	502	391	350
Trade and other payables	(30,480)	(12,792)	(7,462)	(4,035)	(5,335)
Current income taxes payable	(8)	(12)	-	-	-
Deferred income taxes	-	-	(17)	-	-
Lease liabilities	(78)	(76)	-	-	-
Decommissioning obligations	(1,814)	(1,814)	(2,103)	-	-
Total	17,776	15,789	26,053	28,258	32,633

Working capital was \$17.8 million at June 30, 2019 compared to \$15.8 million at March 31, 2019. The increase is due to the capital raised of net \$23.4 million and offset by an increase in trade and payables that is driven by payment plans negotiated with certain vendors. A breakdown of the Company's net working capital as at June 30, 2019, March 31, 2019, December 31, 2018, September 30, 2018, and June 30, 2018 is provided in the chart above.

CAPITAL COMMITMENTS

As of June 30, 2019, the Company holds the following commitments in the exploration blocks in Peru, which are guaranteed by letters of credit:

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

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 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.

SIGNIFICANT JUDGEMENTS AND ESTIMATES

Management is required to make judgments, assumptions and estimates that have a significant impact on the Company's financial results. Significant judgments in the financial statements include going concern, financing arrangements, impairment indicators, assessment of transfers from E&E to PPE, asset acquisition and joint arrangements. Significant estimates in the financial statements include commitments, provision for future decommissioning obligations, recoverable amounts for exploration and evaluation assets and accruals. In addition, the Company uses estimates for numerous variables in the assessment of its assets for impairment purposes, including oil and natural gas prices, exchange rates, discount rates, cost estimates and production profiles. By their nature, all of these estimates are subject to measurement uncertainty, may be beyond management's control and the effect on future consolidated financial statements from changes in such estimates could be significant.

RELATED PARTY TRANSACTIONS AND OFF-BALANCE SHEET ARRANGEMENTS

The Company had no related party transactions or off-balance sheet arrangements.

TAXATION

Peruvian law requires the Company to pay a two percent tax on gross revenues, which is booked as a deferred income tax asset and is recoverable once the prior net operating losses of approximately \$310 million are exhausted. Due to prior net operating losses the Company does not anticipate having a significant tax liability for the next few years. At such time as there is a tax liability, the amounts pre-paid through the two percent payment will reduce the amount of future tax to be paid. Corporate tax rates for the Company's license contracts in Peru are 32 percent.

DISCLOSURE OF OUTSTANDING SHARE DATA

As at the date hereof, there are issued and outstanding:

- 672,196,034 common shares;
- 3,446,361 performance stock units;
- 26,750,000 performance warrants that are fully vested due to management reaching certain production thresholds.

During the second quarter, the Company completed a secondary offering of common shares, totaling 133,333,333 shares. This capital raised, completed in London, was intended to increase trading liquidity as well as give the Company additional capital to accelerate the plan to increase production at the Breña field.

For a description of the performance warrants, refer to PetroTal's annual information form available via SEDAR at www.sedar.com.

FORWARD-LOOKING STATEMENTS AND BUSINESS RISKS

Certain statements contained in this MD&A may constitute forward-looking statements. These statements relate to future events or the Company's future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "intend", "could", "might", "should", "believe" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes that the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should not be unduly relied upon by investors. These statements speak only as of the date of this MD&A and are expressly qualified, in their entirety, by this cautionary statement.

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

The forward-looking statements contained in this MD&A are expressly qualified by the foregoing cautionary statement. Subject to applicable securities laws, the Company is under no duty to update any of the forward-looking statements after the date hereof or to compare such statements to actual results or changes in the Company's expectations. Financial outlook information contained in this MD&A about prospective results of operations, financial position or cash flows is based on assumptions about future events, including economic conditions and proposed courses of action, based on management's assessment of the relevant information currently available. Readers are cautioned that such financial outlook information should not be used for purposes other than for which it is disclosed herein.

ADDITIONAL INFORMATION

Additional information about PetroTal Resources Ltd. and its business activities, including PetroTal's annual information form and audited financial statements for the years ended December 31, 2018 and 2017 are available via SEDAR at www.sedar.com.