PetroTal

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2020 and 2019
(Unaudited)

TSXV: TAL / AIM: PTAL / OTC: PTALF

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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 unaudited 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 unaudited condensed interim consolidated Financial Statements. Other financial information appearing throughout the report is presented on a basis consistent with the unaudited 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 unaudited condensed interim consolidated Financial Statements.

The Audit Committee reviewed the unaudited 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.

Signed "Manuel Pablo Zuniga-Pflucker"
Manuel Pablo Zuniga-Pflucker
Chief Executive Officer

Signed "Douglas Urch"
Douglas Urch
Chief Financial Officer

November 19, 2020

CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS

($ thousands of US Dollars, unaudited)	Note	September 30 2020	December 31 2019
ASSETS			
Current assets			
Cash and restricted cash	4	9,232	21,101
VAT receivable	7	8,410	12,747
Trade and other receivables	8	4,824	8,230
Inventory	12	4,727	4,197
Advances and prepaid expenses	10	4,755	1,249
Total Current assets		31,948	47,524
Non-current assets			
Restricted cash	4	556	-
Exploration and evaluation assets	5	5,363	4,637
Property, plant and equipment	6	163,895	138,169
Deferred tax asset		660	734
VAT receivable	7	3,109	3,117
Total Non-current assets		173,583	146,657
Total Assets		**205,531**	**194,181**
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	9	40,328	54,532
Financial liability	16	667	-
Derivative obligation	14	17,012	367
Decommissioning obligations	11	4,348	4,387
Total Current liabilities		62,355	59,286
Non-current Liabilities			
Lease and other long term obligations		432	635
Deferred income tax		28	28
Financial liability	16	2,327	-
Decommissioning obligations	11	14,136	13,175
Total Non-current liabilities		16,923	13,838
Total Liabilities		79,278	73,124
Equity			
Share capital	15	125,302	108,669
Contributed surplus	15	1,252	490
Retained earnings		(301)	11,898
Total Equity		126,253	121,057
Total Liabilities and Equity		**205,531**	**194,181**

See accompanying notes to the condensed interim consolidated financial statements

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

($ thousands of US Dollars, except per share amounts, unaudited)	Note	Three Months Ended September 30 2020	Three Months Ended September 30 2019	Nine Months Ended September 30 2020	Nine Months Ended September 30 2019
REVENUES					
Crude oil revenue, net of royalty	13	6,685	18,809	44,414	30,793
Total revenues		6,685	18,809	44,414	30,793
EXPENSES					
Operating		2,492	3,111	10,961	8,273
Transportation		1,869	6,534	10,564	9,156
General and administrative		2,164	1,469	6,027	4,742
Financial expense		444	359	1,470	507
Commodity price derivatives loss (income)	14	(4,399)	580	17,757	580
Depletion, depreciation and amortization		1,406	2,898	9,809	4,768
Impairment of exploration and evaluation assets		-	442	-	442
Foreign exchange loss (gain)		(523)	409	(35)	359
Total expenses		3,453	15,802	56,553	28,827
Income (loss) before income taxes		3,232	3,007	(12,139)	1,966
Deferred income tax benefit (expense)		(8)	10	(60)	(41)
Net income (loss) and comprehensive income (loss)		**3,224**	**3,017**	**(12,199)**	**1,925**
Basic and diluted earnings (loss) per share		0.00	0.00	(0.02)	0.00
Weighted average common number of shares outstanding (000's)					
Basic		814,556	672,196	727,366	592,776
Diluted		815,398	682,770	727,366	602,402

See accompanying notes to the condensed interim consolidated financial statements

Certain amounts in prior year have been reclassified to conform to the presentation of this statement (see Note 2)

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CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

($ thousands of US Dollars, unaudited)	Note	Nine Months Ended September 30 2020	2019
Share capital			
Balance, beginning of year		108,669	84,793
Shares issuance	15	16,446	23,664
Exercise of warrants		187	212
Balance, end of period		125,302	108,669
Contributed surplus			
Balance, beginning of year		490	109
Equity-based compensation plan	15	762	189
Balance, end of period		1,252	298
Retained earnings			
Balance, beginning of year		11,898	(7,375)
Net loss		(12,199)	1,925
Balance, end of period		(301)	(5,450)

See accompanying notes to the condensed interim consolidated financial statements

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CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

		Nine Months Ended September 30	
($ thousands of US Dollars, unaudited)	Note	2020	2019
Cash flows from operating activities			
Net Income (Loss)		(12,199)	1,925
Adjustments for:			
Depletion, depreciation and amortization		9,809	4,768
Impairment of exploration and evaluation assets		-	442
Accretion of decommissioning obligations	11	402	291
Equity-based compensation plan	15	718	189
Unrealized commodity price derivatives loss	14	16,645	580
Changes in non-cash working capital:			
- VAT and other receivables		7,751	(6,126)
- Advances and prepaid expenses		(3,506)	(282)
- Deferred income tax		60	41
- Inventory		(530)	(8,337)
- Trade and other payables		(10,127)	17,780
Net cash provided by operating activities		9,023	11,271
Cash flows from investing activities			
Exploration and evaluation asset additions	5	(726)	(1,005)
Property, plant and equipment additions	6	(35,256)	(61,485)
Non cash changes in working capital		(3,962)	21,487
Net cash used in investing activities		(39,944)	(41,003)
Cash flows from financing activities			
Net proceeds from shares issuance - exercise of warrants		16,677	23,876
Funds received from assistance programs	16	2,994	-
Repayment of lease liabilities		(68)	(68)
Financial interest		5	175
Net cash provided by financing activities		19,608	23,983
Decrease in cash for the period		(11,313)	(5,749)
Cash, beginning of period		21,101	26,259
Cash and restricted cash, end of the period		**9,788**	**20,510**

See accompanying notes to the condensed interim consolidated financial statements

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2020 and 2019. All amounts are stated in thousands of United States Dollars ($) unless otherwise indicated.

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 4300 Bankers Hall West, 888 –3rd Street 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.

The Financial Statements were approved for issuance by the Company's Board of Directors on November 19, 2020, 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, 2019 and 2018, 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 Peru B.V., Petrolifera Petroleum del Peru S.R.L. and PetroTal Peru S.R.L.

RECLASSIFICATION

In prior periods the Company had reclassified its operating expenses to separate out the transportation component from operating expenses and present it separately. The Company has made this change to reflect how management views the performance and disclosure of its operations. The Company has reclassified these costs in the condensed interim consolidated statements of earnings (loss) and comprehensive income (loss). Historical results were reclassified to match the current period presentation. This change did not result in a change to income (loss) before taxes or cash flows from operations. Management believes the reclassifications described below, now align with the nature of the costs presented with the assessment of performance of the Company.

	Three Months Ended September 30, 2019 Before reclassification	Three Months Ended September 30, 2019 After reclassification	Nine Months Ended September 30, 2019 Before reclassification	Nine Months Ended September 30, 2019 After reclassification
Operating	4,114	3,111	10,189	8,273
Transportation	5,531	6,534	7,240	9,156

3. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

Accounting Standards issued but not yet effective

New accounting standards and interpretations were issued and are mandatory for accounting periods after December 31, 2019. Certain of the new accounting standards and interpretations, which do not have an impact on the Company's Financial Statements upon adoption, are as follows:

- Conceptual framework for financial reporting, and
- Amendments to IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting policies changes in accounting estimates and errors, definition of material.

4. CASH AND RESTRICTED CASH

The following table sets out cash balances held in different currencies (presented in USD):

	September 30 2020	December 31 2019
Balances held in:		
US dollars	9,126	19,742
Peruvian soles	248	1,347
English pounds	405	-
Canadian dollars	9	12
Cash and cash equivalents	9,788	21,101
This is represented by:		
Current cash	9,232	21,101
Current restricted cash	556	-

Also, as a part of the Peruvian government's response to the hardships brought about by COVID-19, the Company received a government guaranteed loan of $2.8 million. A requirement of that loan was to escrow 20% of the proceeds, $0.6 million. The restriction on this cash is expected to be lifted when 80% of the 36-month loan has been repaid.

5. EXPLORATION AND EVALUATION ASSETS

The following table sets out a continuity of the Exploration and Evaluation Assets:

Balance at January 1, 2019	4,687
Additions	397
Impairment of exploration and evaluation assets	(447)
Balance at December 31, 2019	4,637
Additions	726
Impairment of exploration and evaluation assets	-
Balance at September 30, 2020	5,363

The rights to explore and exploit Block 133 have been returned and accepted by Petroperu S.A. in August 2019. Management of the Company considers Block 133 value to be zero. The net book value of the Block 133 was fully expensed during 2019 ($0.4 million).

6. PROPERTY, PLANT AND EQUIPMENT

	Petroleum Interests	Furniture and Lease	Total
Balance at January 1, 2019	51,829	216	52,045
Additions	87,886	480	88,366
Revisions to decommissioning obligations	(3,804)	-	(3,804)
Additions to decommissioning obligations	10,176	-	10,176
Right-of-use asset	-	385	385
DD&A charge	(8,738)	(261)	(8,999)
Balance at December 31, 2019	137,349	820	138,169
Additions	35,000	256	35,256
Additions to decommissioning obligations	650	-	650
DD&A charge	(9,866)	(314)	(10,180)
Balance at September 30, 2020	163,133	762	163,895

For the nine months ended September 30, 2020, $0.4 million of the depletion, depreciation and amortization expense was recorded as inventory (December 31, 2019: $0.5 million). As at September 30, 2020, the Company reviewed indicators of impairment and determined there were no impairment indicators present.

Impairment testing of properties

In the first quarter of 2020, indicators of impairment were presented due to global commodity price forecast deteriorating from decreases in demand and an increase of supply around the world. As a result of the indicators of impairment, the Company performed an impairment test on its Peru Cash Generating Unit (CGU) whereby the recoverable amount was compared against its carrying amount. The recoverable amount was determined using value in use, after-tax cash flows for proved plus probable reserves and after-tax discount rate of 13.5%. Based on the results of the impairment test completed, no impairment expense was recognized, the following prices were used:

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029-2041
Brent $/bbl avg	40.17	42.47	45.15	47.75	49.94	52.18	54.30	56.10	58.26	58.68

The following is the result of the impairment test completed and sensitivity impact of a 0.5% increase in after tax discount and 5% decrease in pricing in the impairment test completed:

CGU Results	0.5% increase discount rate	5% decrease on pricing
Peru	No impairment	No impairment

7. VAT RECEIVABLE

	September 30 2020	December 31 2019
VAT receivable - current	8,410	12,747
VAT receivable - non current	3,109	3,117
Total VAT receivable	11,519	15,864

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 $12.6 million during the nine months of 2020 and expects to recover $8.4 million over the next year based on estimated oil sales.

8. TRADE AND OTHER RECEIVABLES

	September 30 2020	December 31 2019
Trade receivables	4,071	7,855
Other receivables	753	375
Total trade and other receivables	4,824	8,230

As at September 30, 2020, trade receivables represent revenue related to the sale of crude oil and payments received in the short term. No credit losses on the Company's trade accounts have been incurred.

9. TRADE AND OTHER PAYABLES

	September 30 2020	December 31 2019
Trade payables	28,854	35,985
Accrued payables and other obligations	11,387	17,587
Dividend payable	-	879
Lease obligation	87	81
Total trade and other payables	40,328	54,532

As at September 30, 2020, trade payables and accruals are primarily related to the drilling and completion of wells, as well as construction of production processing facilities.

10. ADVANCES AND PREPAID EXPENSES

	September 30 2020	December 31 2019
Advances to contractors	1,182	28
Prepaid expenses	1,139	1,221
Prepaid derivative obligation	2,434	-
Total advances and prepaid	4,755	1,249

As at September 30, 2020, prepaid expenses are comprised of rent, insurance and prepaid services (consultants and other services) related to the Company's activities to obtain credit facilities. In accordance with the Petroperu agreement a prepaid amount of $2.4 million was paid to offset the settlement of the derivatives obligation.

11. DECOMMISSIONING OBLIGATIONS

Balance at January 1, 2019	11,091
Additions	10,176
Revisions to decommissioning obligations	(3,804)
Liabilities settled	(318)
Accretion of decommissioning discount	417
Balance at December 31, 2019	17,562
Additions	650
Liabilities settled	(130)
Accretion of decommissioning discount	402
Balance at September 30, 2020	18,484
This is represented by:	
Current	4,348
Non current	14,136

The undiscounted uninflated value of its estimated decommissioning liabilities is $21.6 million which includes an addition of $0.7 million related to the drilling campaign of the Company in the Bretana oil field, and liabilities settled of $0.1 million. The present value of the obligations was calculated using an average risk-free rate of 3.3% (December 31, 2019: 3.3%) 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 2.0 percent. The table above sets out the continuity of decommissioning obligations.

12. INVENTORY

	September 30 2020	December 31 2019
Crude oil inventory	1,773	1,549
Materials, parts and supplies	2,954	2,648
Total inventory	4,727	4,197

Crude oil inventory costs include operating expenses, royalties, transportation and depletion associated with crude oil barrels. Crude oil inventory is expensed upon the sale of inventory.

As at September 30, 2020, crude inventory balance of $1.7 million consists of 57,109 barrels of crude oil valued at $31.04 per barrel (December 31, 2019: $1.5 million – 93,767 barrels at $16.52 per barrel). Materials and supplies, including diluent, are expected to be consumed in the short-term.

13. REVENUE NET OF ROYALTY

The Company's oil production revenue is determined pursuant to the terms of the revenue agreements. The transaction price for crude is based on the commodity price in the month of production, adjusted for quality, allowable deductions and other factors. Commodity prices are based on market indices.

	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
Sales				
Crude oil revenue	6,933	19,746	46,591	32,374
Royalty	(248)	(937)	(2,177)	(1,581)
Net revenue	6,685	18,809	44,414	30,793

14. FINANCIAL INSTRUMENTS

	September 30, 2020		December 31, 2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and restricted cash	9,788	9,788	21,101	21,101
Trade and other receivables	4,824	4,824	8,230	8,230
Lease obligation	249	249	309	309
Derivative obligation	17,012	17,012	367	367
Trade and other payables	40,241	40,241	54,451	54,451

The table above details the Company's carrying value and fair value of financial instruments including cash, trade and other receivables, lease obligation and trade and other payables, all of which are classified as financial 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.

COMMODITY PRICE DERIVATIVES

The embedded derivative liability is unrealized and classified as a Level 2 fair value measurement. The service contract for transport of liquid hydrocarbons of the North-Peruvian Oil Pipeline ("ONP") and Petroperu Saramuro agreements signed with Petroperu during 2019, include a clause to adjust the risk of volatility of the international price of crude oil during the period in which Petroperu provides the service of crude oil usage and until the Company returns the full amount of the volumes that were delivered in advance. The price compensation is based on the 2 day average Brent oil price marker quotes (Brent Platts and Brent ICE) to the points of shipment and returns. In case the average price shipment is greater than the average price return, the Company will compensate Petroperu an amount equivalent to the difference between both averages, multiplied by the volume sold or arranged by Petroperu. If the average price shipment is lower than the average price return, the Company will be compensated by Petroperu.

The fair value of the embedded derivative, considering an average future Brent price marker differential, was recorded as a loss on commodity price derivatives of $40.4 million in Q1 2020, derivative income of $18.2 million in Q2 2020, and derivative income of $4.4 million in Q1 2020.

Delivery month	Settlement month	Volume bbls	Sale price $/bbl	Future price at Sep 30,2020 $/bbl	Receivable/ (Liability)
ONP Agreement					
Aug-19	Jul-20	200,261	59.66	43.10	(3,316)
Oct-19	Jul-20	209,200	64.37	43.10	(4,451)
Dec-19	Jul-20	53,119	68.17	43.10	(1,332)
Dec-19	Dec-20	119,061	68.17	41.56	(3,168)
Petroperu Saramuro Agreement					
Dec-19	Dec-20	294,372	64.30	41.56	(6,695)
Dec-19	Dec-20	60,761	65.17	41.56	(1,435)
Jan-20	Feb-21	284,981	63.67	42.33	(6,082)
Feb-20	Feb-21	48,878	55.48	42.33	(643)
Mar-20	Apr-21	523,836	33.73	42.96	4,835
Apr-20	May-21	286,212	26.63	43.27	4,763
May-20	May-21	49,526	32.41	43.27	538
Jul-20	May-21	37,402	43.22	43.27	2
Aug-20	May-21	16,594	45.01	43.27	(29)
Sep-20	May-21	895	41.87	43.27	1
Total		**2,185,098**			**(17,012)**

At September 30, 2020, 2.2 million barrels of oil have been delivered and sold pursuant to the sales agreements, of which 1.7 million barrels of oil remains in the pipeline or storage tanks, awaiting final transport and sale by Petroperu, and are subject to the same settlement terms as noted above in the ONP contract.

In addition to the ONP contract, PetroTal entered a commodity swap transaction with an international bank and commodity broker to hedge 460,000 barrels of crude oil at $40.58 per barrel. This transaction was completed on July 17, 2020.

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 September 30, 2020.

LIQUIDITY RISK

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with its financial liabilities. The Company has no debt or loans with financial institutions. While the decrease in commodity prices as a result of the COVID-19 pandemic will negatively impact the Company's financial performance and position, the subsequent events disclosed in Note 18 provides the Company with financial flexibility and the ability to meet obligations as they become due. The Company's liquidity risk is impacted by current and future commodity prices. If required, the Company will also consider additional short-term financing or issuing equity in order to meet its future liabilities. Declines in future commodity prices could affect the Company's ability to fund ongoing operations. The current challenging economic climate is having and may continue to have significant adverse impacts on the Company including, but not exclusively:

- material declines in revenue and cash flows as a result of the decline in commodity prices;
- declines in revenue and operating activities due to reduced capital programs and the shut-in of production;
- inability to access financing sources;
- increased risk of non-performance by the Company's customers and suppliers; and
- interruptions in operations as the Company adjusts personnel to the dynamic environment.

The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on the Company is not known at this time. Estimates and judgments made by management in the preparation of the financial statements are increasingly difficult and subject to a higher degree of measurement uncertainty during this volatile period.

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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 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 September 30, 2020, the cash and cash equivalents were held with seven 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. In June 2019, the Company issued equity for gross proceeds of $25.5 million upon the issuance of 133.3 million of shares, and had agents warrants exercised and converted into 1.1 million shares for net proceeds of $0.2 million. In December 2019, PetroTal declared a dividend of $0.9 million to all shareholders which was paid in January 2020. In Q1 2020 the Company received $0.2 million from the exercise of warrants.

On June 18, 2020, the Company completed an equity issue, raising gross proceeds of approximately $18 million (at 10 pence per unit) upon issuance of 141.2 million of units. Each unit is comprised of one common share and one half of one warrant allowing the subscriber to purchase additional shares within 36 months at 16 pence/share upon presentation of a full warrant.

	Thousands of common shares	Capital and Contributed Surplus
Balance at January 1, 2019	537,741	84,793
Shares issuance	133,333	23,664
Warrants exercised	1,127	212
Balance at December 31, 2019	672,201	108,669
Vesting of performance share units	151	-
Warrants exercised	1,000	187
Shares issuance	141,204	16,446
Balance at September 30, 2020	814,556	125,302

DIVIDEND DECLARED

The Company did not declare any cash dividends or distributions on common shares in prior years. On December 12, 2019, the Company declared an interim dividend of Canadian Dollars ("CAD$") 0.0017 cash for each common share to be paid to shareholders on January 20, 2020, representing in aggregate a total dividend payment of approximately CAD$1.1 million ($0.9 million). The dividend declared was paid in January 2020.

Due to the financial impact of the global oil price disruption, the Company has temporarily suspended declaration and payment of all dividends in order to manage cash for business operations.

PERFORMANCE WARRANTS

The performance warrants had an exercise price of $0.187 per share and vested upon achievement of certain oil production targets, within a specified period. 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.

INVESTORS' WARRANTS

In connection with the brokered private placement offering on June 12, 2020, investors received warrants which entitled the holder to purchase one common share and one half of one warrant allowing the subscriber to purchase additional shares within 36 months at 16 pence/share upon presentation of a full warrant.

The following table sets out a continuity of outstanding warrants:

Balance at January 1, 2018	-
Additions during 2018	26,750,000
Balance at December 31, 2019	26,750,000
Performance warrants exercised	(1,000,000)
Investor warrants issued	70,601,946
Balance at September 30, 2020	96,351,946

SHARE-BASED COMPENSATION

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 share-based compensation expense with a corresponding increase in contributed surplus over the vesting period. The Company granted PSUs to employees 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, 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 September 30, 2020:

	2019 Plan Share Units	2018 Plan Share Units
Vest date three years from grant date, exchangeable for up to 2 shares	4,489,013	2,066,666
Vest date equally over three years from grant date, exchangeable for up to 2	412,500	178,241
Vest date equally over three years from grant date, exchangeable for up to 1-1.5	3,540,146	63,778
Total units	8,441,659	2,308,685

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 1.575 shares per unit (2018 Plan: 1.334).

For the three and nine months ended September 30, 2020, the Company recognized $0.2 and $0.7 million, respectively, of share-based compensation expense in general and administrative expense (December 31, 2019: $0.4 million).

The Company issued an aggregate of 2,067,188 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. For the nine months ended September 30, 2020, the Company recognized $0.2 million of DSU expense in general and administrative expense and long-term liabilities (December 31, 2019: $0.3 million). PSUs exercised of 121,009 units equal to 150,776 shares were issued during Q1 2020. The following table details the PSU and DSU activity:

	Performance Share Units	Deferred Share Units
Balance at January 1, 2019	4,371,361	650,000
Additions	8,441,659	707,299
Exercised	-	(300,000)
Forfeitures	(1,941,667)	-
Balance at December 31, 2019	10,871,353	1,057,299
Additions	-	1,009,889
Exercised	(121,009)	-
Balance at September 30, 2020	10,750,344	2,067,188

16. FINANCIAL LIABILITIES

The Company received two government backed loans in Q2 2020, one in Peru of $2.8 million and one in the US of $0.2 million. The loan in Peru was made at an interest rate of 1.12% and is to be repaid over 36 months. The US based loan was for $0.2 million and is expected to be forgiven since it was applied towards salary, rent and utilities. Any portion of the loan proceeds not forgiven will become a two-year balloon note at an interest rate 0.5%.

17. COMMITMENTS

As of September 30, 2020, the Company has recorded discounted lease liabilities of $0.2 million and has the following minimum annual payments under its office lease:

Year	Amount
2020	52
2021	97
2022	101
2023	40
Thereafter	-
Total	**290**

IFRS 16 was applied by the Company and as such, booked a right-of-use asset relating to the head office lease of $0.4 million (balance net of amortization of $0.3 million at December 31, 2019) and 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.

As of September 30, 2020, the Company holds the following letters of credit guaranteeing its commitments in the exploration blocks:

Block	Beneficiary	Amount	Commitment	Expiration
107	Perupetro S.A.	$1,500	1st exploration well, minimum work 5th exploratory period	December 2021
107	Perupetro S.A.	$1,500	2nd exploration well, minimum work 5th exploratory period	December 2021
		$3,000		

18. SUBSEQUENT EVENTS

After PetroTal recommenced oil field operations on September 28, 2020, the wells were quickly brought into full operation, at the pre-shut down level of 11,500 bopd. The indigenous communities and government bodies have reached an agreement that will see increased funding for the local communities. Oil deliveries have commenced to the Iquitos refinery and, on a limited basis, to the ONP until social issues affecting the ONP are fully resolved. In order to manage oil inventory levels, production is currently intentionally constrained to 5,000 bopd, until such time as the ONP is operational. The Company's stringent COVID-19 protocols continue to ensure that the camp remains safe.

In October 2020, the Company sold 192,000 barrels of oil to the Iquitos refinery and the ONP at pump station #1, thereby generating revenues of $5.5 million (net of transportation and fees), which has been paid to the company.

The Company expects to finalize the arrangement made with Petroperu to crystallize the contingent liability during Q4 2020, with the amount to be paid over a three-year period in equal instalments at an interest rate of approximately 6.5%. The agreement is secured by the Company's assets. The Company remains exposed to fluctuations in the commodity price beyond the crystallization date and will realize the benefit or loss of fluctuations in the commodity price when the oil is sold. On a monthly basis, the Company tracks the impact of fluctuating oil prices on volumes sold under both Sales Contracts as a commodity derivative. Given the current ONP timetable, it is expected that all remaining oil delivered pursuant to the Sales Contracts will be sold by Petroperu commencing in Q4 2020. As of September 30, 2020, the contingent liability has been reduced to $17.0 million.

The Company continues to diligently pursue a robust credit facility that will enhance liquidity and enable the Company to continue investment in the Bretana oil field for development growth.

In Q4 2020, the Company will commence a six year services contract with a supplier that will provide turnkey power generation services. The monthly lease payments for this contract will be $0.3 million fixed capacity charge, and $0.05 million mainly for the power consumed on a variable basis. The net present value of the lease will be recorded only in the balance sheet accounts.