Perisson Petroleum Corporation

Condensed Interim Consolidated Financial Statements
For the three and nine months ended September 30, 2017 and 2016
(Expressed in CDN dollars)

Perisson Petroleum Corporation

Condensed Interim Consolidated Statements of Financial Position

(Cdn $, unaudited)	*Note*	Sep. 30, 2017	Dec. 31, 2016
ASSETS			
Current assets			
Cash		$ 1,059,681	$ 89,141
Accounts receivable	*16*	1,179,991	313,196
Prepaid expenses		8,000	8,000
Restricted assets	*7*	547,477	564,571
		2,795,149	974,908
Non-current assets			
Property, plant and equipment	*8*	5,106,200	5,808,868
Exploration and evaluation assets	*9*	1	1
		$ 7,901,350	$ 6,783,777
LIABILITIES AND SHAREHOLDER'S EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	*13*	$ 1,231,361	$ 1,601,744
Debentures	*6*	348,397	1,501,985
Shareholder loan	*13*	-	941,132
		1,579,758	4,044,861
Non-current liabilities			
Debentures	*6*	5,478,297	-
Asset retirement obligation	*10*	3,845,028	3,877,617
		10,903,083	7,922,478
SHAREHOLDERS' EQUITY (DEFICIT)			
Share capital	*11*	14,249,744	14,233,494
Contributed surplus		15,754,555	15,209,429
Deficit		(37,033,329)	(34,513,769)
Accumulated other comprehensive income		4,027,297	3,932,145
		(3,001,733)	(1,138,701)
		$ 7,901,350	$ 6,783,777

Commitments (note 14)

The accompanying notes are an integral part of these financial statements.

On Behalf of the Board of Directors:

(Signed) "Gary Chen" Director (Signed) "Victor Hsu" Director

Perisson Petroleum Corporation

Condensed Interim Consolidated Statement of Loss and Comprehensive Loss

(Cdn $, except per share amounts, unaudited)	*Note*	Three months ended Sep 30 2017	Three months ended Sep 30 2016	Nine months ended Sep 30 2017	Nine months ended Sep 30 2016
Revenues					
Petroleum and natural gas sales, net of royalties	*17*	$ 531,809	$ 563,852	$ 1,830,501	$ 807,434
Expenses					
Operating		595,221	301,658	1,181,838	475,128
General and administrative	*17*	353,546	637,141	1,206,726	1,240,742
Costs associated with acquisitions	*8*	-	120,845	4,103	547,861
Share based compensation	*12*	244,852	87,475	693,727	262,425
Finance expense	*17*	194,887	100,134	576,698	170,483
Depletion and depreciation	*8*	224,674	315,296	667,910	442,987
Foreign currency exchange loss		-	(2,724)	19,059	101,722
Gain on bargain purchase	*8*	-	-	-	(411,695)
		1,613,180	1,559,825	4,350,061	2,829,653
Net loss		(1,081,371)	(995,973)	(2,519,560)	(2,022,219)
Other comprehensive (loss) income		152,616	-	95,152	-
Comprehensive loss		$ (928,755)	$ (995,973)	$ (2,424,408)	$ (2,022,219)
Net loss per share $	*11*				
Basic & diluted		$ (0.01)	$ (0.01)	$ (0.03)	$ (0.02)

The accompanying notes are an integral part of these financial statements.

Perisson Petroleum Corporation

Condensed Interim Consolidated Statement of Cash Flows

(Cdn $, unaudited)	*Note*	Three months ended Sep 30 2017	Three months ended Sep 30 2016	Nine months ended Sep 30 2017	Nine months ended Sep 30 2016
Cash provided by (Used in):					
OPERATING ACTIVITIES					
Net loss		$ (1,081,371)	$ (995,973)	$ (2,519,560)	$ (2,022,219)
Adjustments for items not involving cash:					
Share based compensation		244,852	87,475	693,727	262,425
Finance expense, accretion portion, ARO		20,474	32,409	63,742	64,497
Gain on bargain purchase		-	-	-	(411,695)
Depletion and depreciation		224,674	315,296	667,910	442,987
Foreign currency exchange loss		(17,993)	156,420	1,066	155,408
Change in non-cash working capital					
Accounts receivable		(93,030)	76,596	(866,795)	(163,815)
Prepaid & Other		-	78,458	-	11,109
Accounts payable and accrued liabilities		39,812	(366,208)	(370,383)	(36,626)
Cash used in Operating Activities:		(662,582)	(724,203)	(2,330,293)	(1,697,929)
FINANCING					
Debentures, net of repayment		1,703,539	14,206	4,270,194	2,803,701
Share capital issued for cash, net of issue costs		-	-	16,250	(3,900)
Increase (decrease) in shareholder loan		-	-	(941,132)	283,714
Cash provided by Financing Activities:		1,703,539	14,206	3,345,312	3,083,515
INVESTING					
Reduction (addition) in restricted assets		-	851,688	17,094	960,364
Property and equipment acquisition		-	-	-	(2,173,845)
Property, plant and equipment expenditures		(8,716)	(25,996)	(61,573)	(31,524)
Cash provided by (used in) Investing Activities:		(8,716)	825,692	(44,479)	(1,245,005)
Impact of foreign exchange on cash and cash equivalents		-	-	-	-
Change in cash		$ 1,032,241	$ 115,695	$ 970,540	$ 140,581
Cash, beginning of period		27,440	32,120	89,141	7,234
Cash, end of period		$ 1,059,681	$ 147,815	$ 1,059,681	$ 147,815

The accompanying notes are an integral part of these financial statements.

Perisson Petroleum Corporation

Condensed Interim Consolidated Statements of Changes in Equity

(Cdn $, except common shares issued, unaudited)	Common shares issued	Share capital	Contributed surplus	Deficit	Accumulated other comprehen-sive income	Total Equity
Balance December 31, 2016	86,665,657	14,233,494	15,209,429	(34,513,769)	3,932,145	(1,138,701)
Common shares issued, net of costs	-	-	-	-	-	-
Options exercised	125,000	16,250	-	-	-	16,250
Exchange gain on translation of Colombia balances	-	-	96,251	-	-	96,251
Share based payments	-	-	448,875	-	-	448,875
Net loss and comprehensive income for the year	-	-	-	(2,519,560)	95,152	(2,424,408)
Balance September 30, 2017	86,790,657	14,249,744	15,754,555	(37,033,329)	4,027,297	(3,001,733)

The accompanying notes are an integral part of these financial statements.

1. Description of Business

Perisson Petroleum Corporation (the "**Company**"), is incorporated under the *Canada Business Corporations Act*. The Company's business is the exploration and production of oil and gas in Canada and the Republic of Colombia ("**Colombia**"). The registered office of the Company is located at 1250, 639 - 5 Avenue S.W., Calgary, AB T2P 0M9.

Common shares of the Company trade on the TSX Venture Exchange under the symbol "POG".

2. Basis of Presentation

These condensed interim consolidated financial statements (the "Statements") have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting" using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Certain information and disclosures normally included in the annual consolidated financial statements prepared in accordance with IFRS have been condensed or omitted.

The Statements should be read in conjunction with the Company's audited annual consolidated financial statements as at and for the years ended December 31, 2016 and 2015 and the notes thereto. All accounting policies and methods of computation followed in the preparation of these condensed interim consolidated financial statements are consistent with those of the previous financial year.

These Statements have been prepared on the historical cost basis.

These Statements were approved and authorized for issue by the Board of Directors on November 29, 2017.

The presentation currency of these Statements is the Canadian dollar, which is the same as the Company's functional currency.

The Statements have not been audited nor reviewed by the Company's auditor.

3. Going Concern

These Statements have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. In assessing whether the going concern assumption is appropriate, management is aware of material uncertainties related to events and conditions that lend significant doubt regarding the Company's ability to continue as a going concern and, accordingly, the appropriateness of the use of IFRS applicable to a going concern, as described in the following paragraph.

The Company recorded a net loss of $2,519,560 for the nine months ended September 30, 2017 and has an accumulated deficit of $37,033,329 as at September 30, 2017. The Company must secure sufficient external funding to meet its obligations and commitments on the Colombian exploration and evaluation program and pay ongoing general and administrative costs. This external funding may be met in a number of ways including, but not limited to, the issuance of new debt or equity instruments and the introduction of joint venture partners. While management continues to be successful in securing financing, there can be no assurance it will be able to do so in the future or that these sources of funding or other initiatives will be available for the Company or that they will be available on terms which are acceptable to the Company. If management is unable to obtain new external funding, the Company may be unable to continue its operations.

These aforementioned circumstances indicate the existence of a material uncertainty that casts significant doubt on the Company's ability to continue as a going concern. These Statements do not reflect adjustments that would be necessary to the presentation and carrying amounts of assets and liabilities if the going concern assumption were not appropriate. Such adjustments could be material.

4. Significant accounting policies

A) Basis of consolidation

The Statements include the accounts of the Company, its subsidiaries Perisson Petroleum Panama Corporation (incorporated in Panama), Morichal Sinoco, SA (incorporated in Venezuela) and the latter's Colombian branch. The Company controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company and are deconsolidated from the date the control ceases. All intercompany transactions, balances, income and expenses, and profits and losses are eliminated on consolidation.

B) Foreign currency translation

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Gains and losses resulting from the settlement of foreign currency transactions and from the translation at exchange rates of monetary assets and liabilities denominated in currencies other than the Company's functional currency are recognized in the consolidated statement of comprehensive loss under exchange gain or loss.

Foreign operations

Each subsidiary in the group is measured using the currency of the primary economic environment in which the presentation currency using the closing rate for balance sheet accounts and the period average rate for revenue and expense accounts. Resulting exchange differences arising in the period are recognized in other comprehensive income or loss.

C) Joint arrangements

Certain of the Company's crude oil and natural gas activities are conducted jointly with others through unincorporated joint operations. The Statements reflect only the Company's proportionate share of the jointly controlled assets and liabilities and proportionate share of related revenues and costs.

D) Cash

Cash consists of cash on hand and term deposits with banks with original maturities of three months or less.

E) Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have been expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

a) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables are comprised of accounts receivable. Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

b) Other financial liabilities: Other financial liabilities consist of accounts payable, shareholder loan and convertible debentures. Financial liabilities are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value. Subsequently, other financial liabilities are measured at amortized cost using the effective interest method. Other financial liabilities are classified as current liabilities if payment is due within 12 months and as non-current liabilities if payment is due beyond 12 months.

Convertible debentures are bifurcated into a liability and an equity component to reflect the equity conversion feature separate from the debt instrument. The liability component is recognized initially at the fair value of a similar liability not containing an equity conversion option and the equity component is recognized as the difference between the total fair value of the convertible debenture and the fair value of the liability component net of any deferred taxes. Issue costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to the bifurcation, the liability component of convertible debentures is measured at amortized cost and is accreted to the original principal balance using the effective interest method. The equity component is not re-measured subsequent to initial recognition. Convertible debentures can be converted to share capital at the option of the holder and the number of shares to be issued does not vary with changes in fair value subsequent to issuance. The equity component and the accreted liability component will be reclassified to share capital in the event the equity conversion feature is exercised. Any balance in the equity component of convertible debentures that remains after the settlement of the liability will be transferred to contributed surplus.

F) Fair value

Fair value estimates are made at the consolidated statement of financial position date based on relevant market information and other information about financial instruments. Financial assets and financial liabilities measured at fair value in the consolidated statement of financial position are grouped into a fair value evaluation hierarchy. This hierarchy groups financial assets and financial liabilities into three levels according to the significance of the inputs used in the fair value evaluation of the financial assets and financial liabilities. The fair value levels of the hierarchy are as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets and liabilities at the financial reporting date;

Level 2 – Inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

Level 3 – Inputs for the assets or liabilities that are not based on observable market data.

The level within which the financial asset or financial liability is classified is determined based on the lowest level of significant input to the fair value measurement. The Company's cash is categorized as Level 1. Restricted assets (comprised of investments in GICs) are categorized as Level 2 and were valued using observable quoted prices from financial institutions.

G) Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired.

If such evidence exists, the Company recognizes an impairment loss on financial assets carried at amortized cost. This loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

H) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from the proceeds in equity in the period in which the transaction occurs.

I) Share based payment transactions

Employees, directors and consultants of the Company receive remuneration in the form of share-based payment transactions for services rendered. Share-based payments are recorded in the consolidated statement of loss for options granted, except for options granted to personnel directly associated with capital activities which are capitalized to property and equipment, with a corresponding amount credited to contributed surplus. Upon exercise of the stock options, the proceeds received are recorded as share capital. The accumulated charges related to the stock options recorded in contributed surplus are also transferred to share capital.

An individual is classified as an employee when the individual is an employee for legal or tax purposes or provides services similar to those performed by an employee. The fair value of the services rendered by the employee is determined indirectly by reference to the fair value of the equity instruments granted, measured at grant date, using the Black-Scholes option pricing model, and is amortized over the vesting period using the graded vesting method. At each reporting date, the amount recognized as an expense is adjusted to reflect the actual number of stock options that are expected to vest.

J) Exploration and evaluation assets

Pre-exploration expenditures

Costs incurred prior to obtaining the legal rights to explore an area are recognized, as incurred, as expenses in the consolidated statement of comprehensive loss.

Exploration and evaluation expenditures

Exploration and evaluation expenditures include costs associated with the acquisition of a licence interest, expenditures incurred in the process of determining oil and gas exploration targets, exploration drilling costs, trenching and sampling costs and costs associated with evaluating the technical feasibility and commercial viability of mineral resource extraction. Costs are not amortized prior to the conclusion of appraisal activities but are assessed for indicators of impairment at the asset or cash-generating unit (“CGU”) level at each reporting date. If facts and circumstances suggest the carrying amount of the asset or CGU may exceed its recoverable amount, the recoverable amount is determined at that date (refer to Impairment of non-financial assets).

The exploration and evaluation phase is completed when the technical feasibility and commercial viability of extracting mineral resources are demonstrable. At that point, the related capitalized exploration costs are tested for impairment and classified as oil and gas properties. Where exploration drilling results indicate the presence of hydrocarbons which are ultimately considered not commercially viable, all related costs are recognized in the consolidated statement of comprehensive loss.

K) Property, plant and equipment

Items of property and equipment, which include petroleum and natural gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Costs include E&E expenditures incurred in finding commercial reserves transferred from E&E assets, drilling and completion, production facilities, decommissioning costs, geological and geophysical costs and directly attributable costs related to development and production activities, net of any government incentive programs, and for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Costs incurred subsequent to commencement of production that are significant are recognized as oil and gas assets only when they increase the future economic benefits embodied in the specific asset to which they relate. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved and probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in income as incurred.

When significant parts of an item of property and equipment, including oil and natural gas properties, have different useful lives, they are accounted for as separate items (major components). Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized within the statement of loss.

Depletion and depreciation

The net carrying value of oil and gas properties is depleted using the unit of production method by reference to the ratio of production in the period to the related proved and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated considering the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers at least annually. Major development projects are not depleted until production commences.

L) Impairment of non-financial assets

Non-financial assets are reviewed for indicators of impairment at each reporting date. If any such indication is present, the recoverable amount of the asset is estimated in order to determine whether impairment exists. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash generating unit ("CGU") to which the asset belongs. CGUs represent the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets.

An asset's recoverable amount is the higher of fair value less costs of disposal and value in use. If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount is reduced to the recoverable amount and impairment is recorded in the consolidated statement of comprehensive loss. Where an impairment subsequently reverses, the carrying amount is increased to the revised estimate of recoverable amount but only to the extent that this does not exceed the carrying amount that would have been determined if no impairment had previously been recognized.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proved and probable reserves. Fair value less cost of disposal is assessed utilizing market valuation based on an arm's length transaction between active participants. In the absence of any such transactions, fair value less costs of disposal is estimated by discounting the expected after-tax cash flows of the cash generating unit at an after-tax discount rate that reflects the risk of the properties in the CGU.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been objective change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or depletion, if no impairment loss had been recognized.

M) Asset retirement obligation

The Company's activities give rise to dismantling, decommissioning and reclamation requirements. Costs related to these abandonment activities are estimated by management in consultation with the Company's engineers based on risk-adjusted current costs which take into consideration current technology in accordance with existing legislation and industry practices.

Decommissioning obligations are measured at the present value of the best estimate of expenditures required to settle the obligations at the reporting date. When the fair value of the liability is initially measured, the estimated cost, discounted using a credit adjusted rate, is capitalized by increasing the carrying amount of the related petroleum and natural gas assets. The increase in the provision due to the passage of time, or accretion, is recognized as a finance expense. Increases and decreases due to revisions in the estimated future cash flows are recorded as adjustments to the carrying amount of the related oil and gas assets.

Actual costs incurred upon settlement of the liability are charged against the obligation to the extent that the obligation was previously established. The carrying amount capitalized in petroleum and natural gas assets is depleted in accordance with the Company's depletion policy. The Company reviews the obligation at each reporting date and revisions to the estimated timing of cash flows, discount rates and estimated costs will result in an increase or decrease to the obligations. Any difference between the actual costs incurred upon settlement of the obligation and recorded liability is recognized as an increase

N) Revenue recognition

Revenue associated with the sale of crude oil, natural gas and natural gas liquids owned by the Company is recognized when title passes from the Company to its customers and collectability is reasonably assured. For natural gas, this is generally at the time product enters the pipeline. For crude oil, this is generally at the time the product reaches a trucking terminal or pipeline. For natural gas liquids, this is generally at the time the product is processed through a gas plant.

O) Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the statement of loss except to the extent that it relates to items recognized directly in other comprehensive income or equity, in which case the income tax is also recognized directly in other comprehensive income or equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using enacted or substantively enacted tax rates at the reporting date and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax is not recognized if it arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred tax is provided on temporary differences arising on investments in subsidiaries except, in the case of subsidiaries, where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the statement of financial position date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be used.

P) Earnings (loss) per share

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the net loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the net loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments outstanding, except when the effect would be anti-dilutive.

Q) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement, which involves assessing whether its fulfillment depends on the use of a specific asset or assets or it conveys a right to use the asset.

The classification of leases as finance or operation leases requires the Company to determine, based on an evaluation of the terms and conditions, whether it retains or acquires the significant risks and rewards or ownership of these assets and accordingly, whether the lease requires an asset and liability to be recognized on the consolidated statement of financial position.

R) Business combinations, goodwill and gain on bargain purchase

Business combinations are accounted for using the acquisition method of accounting in which the identifiable assets acquired, liabilities assumed and any non-controlling interest are recognized and measured at their fair value at the date of acquisition. Any excess of the purchase price plus any non-controlling interest over the fair value of the net assets acquired is recognized as goodwill. Any deficiency of the purchase price over the fair value of the net assets acquired is credited to net income as a gain on bargain purchase. Transaction costs associated with a business combination are expensed as incurred.

S) Amendments not yet adopted:

The Company has not yet adopted certain standards, interpretations to existing standards and amendments which have been issued but have an effective date subsequent to September 30, 2017. Certain of these updates are not relevant to the Company and are therefore not discussed herein.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 specifies how and when to recognize revenue as well as requiring entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and a number of revenue-related interpretations. IFRS 15 will be effective for annual periods beginning on or after January 1, 2018. Application of the standard is mandatory and early adoption is permitted.

The Company primarily enters into non-complex revenue contracts with customers that require physical delivery of produced volumes on a daily basis priced at the current-month average spot price. Performance obligations are met upon delivery and the transaction price is established based on the date of delivery. Management will complete a formal assessment of the impact of adoption of IFRS 15 on the Company commencing in Q4 2017.

IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement* and shall be applied to annual periods beginning on or after January 1, 2018. IFRS 9 provides a single model for classifying and measuring financial assets and liabilities and provides for only two classification categories: amortized cost and fair value. Hedge accounting requirements have also been updated in the new standard and are now more aligned with the risk management activities of an entity. The Company is currently evaluating the impact of IFRS 9 on its consolidated financial statements.

The Company's financial instruments primarily consist of cash, accounts receivable, restricted assets, accounts payable, shareholder loan and convertible debentures. The terms of these instruments are substantially consistent with those of the Company's peers within the oil and gas industry and are relatively short-term in nature (all with terms of less than one year). Management will complete a formal assessment of the impact of adoption of IFRS 9 on the Company commencing in Q4 2017.

IFRS 16 Leases

IFRS 16 replaces IAS 17 *Leases* and shall be applied to annual periods beginning on or after January 1, 2019. IFRS 16 establishes a single, on-balance sheet accounting model for lessees which will result in the recognition of a lease liability for the obligation to make lease payments and a right-of-use asset for the right to use the underlying asset for the lease term. The Company has not yet commenced the assessment of the impact of IFRS 16 on its consolidated financial statements.

5. Significant accounting estimates, assumptions and judgements

The preparation of financial statements requires management to use judgment in applying its accounting policies and estimates and assumptions about the future. These judgments and estimates are continually evaluated and are based on management's experience and knowledge of the relevant facts and circumstances, including expectations about future events that are believed to be reasonable under the circumstances. Actual results may differ from the amounts included in the consolidated financial statements.

Areas of significant judgment and estimates affecting the amounts recognized in the consolidated financial statements include the following:

Going concern

The assessment of the Company's ability to execute its strategy by funding working capital requirements and future exploration and production activities involves judgment. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances (note 3).

Reserves and depletion

Proved and probable reserves are estimated using independent reserve engineer reports prepared in accordance with National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* and represent the estimated quantities of oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. Proved reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. It is highly likely that the actual remaining quantities recovered will exceed the estimated proved reserves. Probable reserves are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved and probable reserves.

Oil and gas properties are depleted using the UOP method over proved plus probable reserves. The calculation of the UOP rate of depletion could be impacted to the extent that actual production in the future is different from current forecast production based on proved plus probable reserves. This would generally result from significant changes in any of the factors or assumptions used in estimating reserves.

Determination of cash generating units

Oil and gas properties are grouped into cash generating units for purposes of impairment testing. Management has evaluated the oil and gas properties of the Company, and grouped the properties into cash generating units on the basis of their ability to generate independent cash inflows, similar reserve characteristics, geographical location, and shared infrastructure.

Impairment indicators and calculation of impairment

At each reporting date, the Company assesses whether or not there are circumstances that indicate a possibility that the carrying values of exploration and evaluation assets and property and equipment are not recoverable, or impaired. Such circumstances include incidents of deterioration of commodity prices, changes in the regulatory environment, or a reduction in estimates of proved and probable reserves. When management judges that circumstances clearly indicate impairment, property, plant and equipment and exploration and evaluation assets are tested for impairment by comparing the carrying values to their recoverable amounts. The recoverable amounts of cash generating units are determined based on the higher of value in use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions that are subject to changes as new information becomes available including information on future commodity prices, expected production volumes, quantity of reserves, discount rates, as well as future development and operating costs.

Asset retirement obligation

At the end of the operating life of the Company's facilities and properties and upon retirement of its petroleum and natural gas assets, decommissioning costs will be incurred by the Company. This requires judgment regarding abandonment date, future environmental and regulatory legislation, the extent of reclamation activities, the engineering methodology for estimating cost, future removal technologies in determining the removal cost and discount rates to determine the present value of these cash flows.

Share-based compensation

Significant assumptions with respect to share-based payment amounts include an estimate of the volatility of the Company´s shares, forfeiture rates and the expected life of the options, which are subject to measurement uncertainty.

Measurement of fair value of liability component in convertible debentures

Convertible debentures are divided into a liability and an equity component to reflect the value of the equity conversion feature separate from the debt instrument. The liability component is recognized initially at the fair value of a similar liability not containing an equity conversion option and the equity component is recognized as the difference between the total fair value of the convertible debenture and the fair value of the liability component. An estimate is made by the Company to determine the interest rate to use for the liability instrument without a conversion feature.

Business combinations

Business combinations are accounted for using the acquisition method of accounting. The determination of fair value often requires management to make assumptions and estimates about future events. The assumptions and estimates with respect to determining the fair value of exploration and evaluation assets and petroleum and natural gas assets acquired generally require the most judgment and include estimates of reserves acquired, forecast benchmark commodity prices and discount rates. Changes in any of the assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to assets, liabilities and goodwill in the purchase price allocation.

Recognition of deferred taxes

The determination of income tax expense and deferred tax involves judgment and estimates as to the future taxable earnings, expected timing of reversals of deferred tax assets and liabilities, and interpretations of laws in the countries in which the Company operates. The Company is subject to assessments by tax authorities who may interpret the tax laws differently. Changes in these estimates may materially affect the final amount of deferred taxes or the timing of tax payments.

Management continually evaluates the likelihood that it is probable that its deferred tax assets will be realized. This requires management to assess whether it is probable that sufficient taxable income will exist in the future to utilize these losses within the carry-forward period. By its nature, this assessment requires significant judgment. To date, management has not recognized any deferred tax assets in excess of existing taxable temporary differences expected to reverse within the carry-forward period.

6. Debentures

In February 2017, the Company issued debentures for gross proceeds of $4,000,000. The debt is secured by the Company's interest in the Twining oil and gas assets of the Company.

The terms of the debentures are as follows:

- Debentures expire on or about February 1, 2024
- Interest at 1.5% per month, paid monthly
- Principal is repaid monthly over the 84-month term
- The Company can repay the debentures in full after February 1, 2021

Debentures - secured (Feb 2017 Issue)	Period ended Sep 30 2017	Period ended Dec 31 2016
Secured debentures issued	$ 4,000,000	$ -
- Repayment of debentures	(176,272)	-
Debentures outstanding	$ 3,823,728	-

During Q2 and Q3 2017, the Company issued additional debentures as part of a bridge financing. Terms have yet to be confirmed.

Debentures - No terms (Q2, Q3 2017 Issue)	Period ended Sep 30 2017	Dec 31 2016
Secured debentures issued	$ 2,002,966	.
- Repayment of debentures	-	-
Debentures outstanding	$ 2,002,966	-

Funds from the Feb 2017 debentures were partially used to repay outstanding secured convertible debentures that were issued in May 2016.

Convertible debentures - secured (May 2016 Issue)	Period ended Sep 30 2017	Dec 31 2016
Secured debentures issued or outstanding	$ 1,501,985	$ 1,505,000
- Accretion of liability	-	91,659
- Conversion of debentures to common shares	-	(94,674)
- Repayment of debentures	(1,501,985)	-
Debentures outstanding	$ -	1,501,985

7. Restricted assets

Pursuant to the contract for exploration and production ("**VMM-17 Contract**") with the National Hydrocarbons Agency of Colombia ("**ANH**"), the Colombian branch is required to present a letter of credit in the amount of USD $420,000 (2016 – USD $1,091,739) in order to guarantee compliance with the exploration terms of the licence. As collateral for the letter of credit issued on behalf of the Company, the Company is required to maintain short-term deposits consisting of monthly non-redeemable guaranteed investment certificates deposited in a Canadian chartered bank.

The deadline for work commitments, which has been extended several times, is March 18, 2018.See note 14.

8. Property, plant and equipment

Cost:	Oil & gas properties	Leasehold improvements	Field equipment	Total
Balance, December 31, 2016	$ 6,468,304	$ 4,490	$ 4,768	$ 6,477,562
Additions	29,864	31,709	-	61,573
Acquisitions	-	-	-	-
Changes in decommisioning provision	(96,331)	-	-	(96,331)
Balance, Sep. 30, 2017	$ 6,401,837	$ 36,199	$ 4,768	$ 6,442,804

Accumulated depletion, depreciation and impairment losses				
Balance, December 31, 2016	$ 659,436	$ 4,490	$ 4,768	$ 668,694
Depletion and depreciation	667,910	-	-	667,910
Balance, Sep. 30, 2017	$ 1,327,346	$ 4,490	$ 4,768	$ 1,336,604

Net carrying value:				
Balance, December 31, 2016	$ 5,808,868	$ -	$ -	$ 5,808,868
Balance, Sep. 30, 2017	$ 5,074,491	$ 31,709	$ -	$ 5,106,200

In May 2016, the Company acquired a beneficial interest in an oil and gas producing asset in the Twining Area of Alberta, Canada for cash consideration of $2,173,846 which is managed by a third party through a trust agreement.

In September 2016, the Company acquired a 10% interest in an oil producing asset in the Wainwright Area of Alberta, Canada for cash consideration of $28,866 which is managed by a third party through a trust agreement.

Both transactions were accounted for as business combinations using the acquisition method whereby the net assets acquired and the liabilities assumed were recorded at fair value.

9. Intangible exploration and evaluation assets

Capitalized expenditures relating to exploration and evaluation activities comprise the following:

Net book value at December 31, 2016 and September 30, 2017	1

The exploration and evaluation costs relate solely to the VMM-17 Contract which consists of 39,927 hectares located within the Magdalena Valley Basin in the centre of Colombia. The Company's commitments related to intangible exploration and evaluation assets under the contract are disclosed in Note 14.

In April 2015, the ANH issued a suspension order on the VMM-17 land block as the Company has not been able to obtain an environmental license due to environmental concerns of the CNNP and local residents. Notwithstanding the CNNP directives, on December 17, 2015 the ANH advised the Company that it had until September 17, 2016 to complete its work obligations under the VMM-17 Contract. The Company disagrees with the position taken by the ANH given the CNNP directives and the resulting inability to obtain an environmental license and is negotiating with the ANH to resolve the situation.

The work obligation has been extended three additional times to March 18, 2018.

10. Asset retirement obligation

Asset retirement obligations are based on the Company's net ownership in wells and facilities, and management's best estimate of future costs to abandon and reclaim those wells and facilities as well as an estimate of the future timing of the costs to be incurred.

The Company has estimated the present value of its total decommissioning provision to be $4.1 million at June 30, 2017 (2016 – $2.0 million), based on a total future undiscounted liability of $5.8 million (2016 – $4.2 Million). Payments to settle the obligations occur over the operating lives of the underlying assets and are estimated to be from 5 to 18 years, with the majority of costs to be incurred after 2019. The risk free rate used to calculate the present value of the decommissioning liability used average rates of 1.80 to 2.49%. The estimated inflation rate was 2.00%.

Changes to the decommissioning provision are:	Nine months ended Sep. 30, 2017	Year ended Dec. 31, 2016
Decommissioning provision, beginning of period	$ 3,877,617	$ -
Liabilities incurred	-	-
Liabilities settled	-	-
Liabilities acquired from acquisitions	-	1,994,055
Effect of change in risk free rate	(96,331)	2,029,191
Revisions in estimated cash outflows	-	(232,084)
Accretion expense	63,742	86,455
Decommissioning provision, end of period	$ 3,845,028	$ 3,877,617

11. Share capital

Authorized:

- Unlimited number of common shares without par value
- Unlimited number of first-ranking preferred shares, Series A, non-voting, non-participating, convertible into common shares, without par value
- Unlimited number of second-ranking preferred shares, terms to be determined by management

Net earnings (loss) per share amounts:

Net earnings (loss) per share	Three months ended Sep 30		Nine months ended Sep 30	
	2017	2016	2017	2016
Net loss - basic and diluted $	$(1,081,371)	$ (995,973)	$(2,519,560)	$(2,022,219)
Basic weighted average shares	86,790,657	83,457,281	86,776,005	83,457,281
Dilutive effect of stock options	-	6,246,166	-	6,246,166
Diluted weighted average shares	86,790,657	89,703,447	86,776,005	89,703,447
Net loss per share $				
Basic & diluted	$ (0.01)	$ (0.01)	$ (0.03)	$ (0.02)

12. Share based compensation

The Company maintains an option plan, which provides that the Board of Directors may, from time to time, in its discretion, grant to directors, officers, employees and consultants, non-transferable options to purchase common shares of the Company, provided that the number of common shares reserved for issuance will not exceed 10% of the Company’s issued and outstanding common shares. Options granted pursuant to the Share Option Plan have a term not to exceed five years and vest 1/4 on the grant date and then 1/4 on the first, second and third anniversaries of the grant date.

At June 30, 2017, 8,020,730 (December 31, 2016 – 8,395,730) stock options were issued and outstanding summarized in the table below.

	Sep. 30, 2017		Dec. 31, 2016	
Stock Options	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, beginning of year	8,395,730	$ 0.30	7,670,730	$ 0.13
Granted	-	$ -	4,250,000	$ 0.47
Exercised	(125,000)	$ 0.13	(1,337,500)	$ 0.13
Expired or forfeited	(475,000)	$ 0.13	(2,187,500)	$ 0.13
Cancelled	-	$ -	-	$ -
Outstanding, end of period	7,795,730	$ 0.32	8,395,730	$ 0.30
Options exercisable, end of period	2,772,866	$ 0.26	3,247,866	$ 0.24

Exercise price	Weighted Ave Strike Price	Outstanding September 30, 2017	Remaining (years)	Exercisable September 30, 2017
$0.13	$ 0.13	3,545,730	3.3	1,710,366
$0.47	$ 0.47	4,250,000	4.5	1,062,500
	$ 0.32	7,795,730	3.9	2,772,866

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model with assumptions as follows:

	Risk Free Interest Rate (%)	Expected Life (Years)	Expected Forfeitures	Expected Volatility	Share Price on Grant Date	Exercise Price on Grant Date	Weighted Average Future Value Per Option
2016	0.74%	5.0	0.00%	2.07	$ 0.47	$ 0.47	$ 0.460

The Company accounts for its options granted using the fair value method whereby costs have been recognized for share options granted, resulting in share based compensation expense for ytd 2017 of $693,727 (ytd 2016 – $262,425).

Volatility is calculated as the degree of variation of the common share closing prices over the year as measured by the standard deviation of logarithmic returns.

13. Related party transactions

During the six months ended June 30, 2017, the Company had the following transactions with related parties that were carried out in the normal course of operations:

i) Professional and consulting fees include legal fees of $142,356 (2016 – $94,000) invoiced by a law firm in which an officer and director of the Company is a partner in the law firm.

At September 30, 2017, the balance due to related parties, including the amounts outlined above, totaled approximately $63,000 (2016 – $266,000). This amount is subject to the same conditions as those of non-related parties.

The Company's short term shareholder loan of $941,132 at December 31, 2016, was repaid during the first three months of 2017. The loan is provided by a director on an informal, interest-free basis.

14. Commitments

Colombian Concession obligations

Pursuant to the VMM-17 Contract, the Company is committed to carry out a minimum amount of exploration and evaluation work on its properties. The VMM-17 Contract is currently in the exploration phase, which has a six-year term beginning at the date of execution. The exploration term of the VMM-17 Contract combined two phases (Phase 1 and Phase 2) with a duration of 72 months in total, which has been extended to September 17, 2017. An additional 6-month extension has been communicated by the Regulator.

All Phase 1 work has been completed: (i) acquisition, processing and interpretation of 80 KM 2D seismic activities and (ii) acquisition, processing and interpretation of 23 KM 2D seismic activities. The work remaining is the drilling of three A3 exploratory wells (US $1,800,000).

The Company is also obligated to provide security against future work commitments by way of a letter of credit (Note 7).

Environmental assessment study

The Company has contractual financial obligations to a Colombian engineering firm which prepared an environmental assessment study. Under the terms of the contract, certain amounts are payable as specific milestones outlined in the contract are met. Approximately $136,000 will be payable by the Company if an environmental and related drilling license is granted on the VMM-17 land block.

Operating leases

The Company has a lease agreement for office space and an offsetting sub-lease agreement expiring August 31, 2018. The minimum future lease payments payable and recoveries from the sub-lease agreement as at September 30, 2017 are as follows:

	Lease payments	Recoveries from sublease agreements
Less than one year	79,000	(79,000)
1 - 5 years	-	-

15. Capital management

The Company defines capital as equity, which was a deficit of $3,001,733 as at September 30, 2017 (2016 – deficit of $209,597).

The Company's objective when managing capital is to safeguard its ability to continue as a going concern in order to develop its exploration and evaluation projects, ensure sufficient capital to meet short-term business requirements, carry out its capital expenditures program and field operations and provide returns to its shareholders.

There were no significant changes in the Company's approach to capital management during the six months ended June 30, 2017. Other than as outlined in note 14, the Company does not have any externally imposed capital requirements or regulatory or contractual requirements to which it is subject. Changes in capital are presented in the consolidated statement of changes in equity.

16. Financial risk management

The Company's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. Risk management is carried out by management under policies approved by the Board of Directors. The Company's general risk management program seeks to minimize potential adverse effects on the Company's financial performance.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as currency and interest rates.

Currency risk

Currency risk arises when future recognized assets or liabilities are denominated in a currency that is not the entity's functional currency. The Company does not hedge foreign currency exposures.

The Company operates internationally and is exposed to currency risk arising from various currency exposures, primarily with respect to the Colombian peso. Currency risk arises on recognized assets and liabilities, principally cash, restricted assets and accounts payable.

The carrying amounts of the Company's significant foreign-currency-denominated financial assets and financial liabilities as follows:

FX Exposure to PESOS	September 30, 2017	Dec 31, 2016
Cash	308,211,713	198,835,418
AP and Accrued liabilites	(160,331,403)	(292,195,553)
NET exposure	147,880,310	(93,360,135)
rate	2,346.8242	2,232.1429
CAD equivalent	63,013	(41,825)
10% variance	(7,001)	4,648

Assuming that all other variables are constant, a variation of 10% in the Colombian peso exchange rate would generate an impact of $7,001 on net loss for the nine months ended September 30, 2017 (2016 – $348).

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company's current policy is to invest excess cash in certificates of deposit of major Canadian chartered banks. The Company does not consider there to be significant exposure to interest rate risk related to cash or restricted assets due to their short-term nature.

Credit risk

Financial instruments that potentially subject the Company to a significant concentration of credit risk consist primarily of cash, restricted assets and accounts receivable. The Company limits its exposure to credit loss by depositing its cash and restricted assets with Canadian financial institutions with credit ratings of A+. The Company has limited exposure to credit risk related to its receivables due from Canadian provincial and federal governments (approximately $111,000). There is some exposure that its joint venture related receivable of approximately $921,560 will not be collected. On May 5, 2017, the joint venture party related to the receivable was put into receivership by the Court of Queen's Bench of Alberta at the request of its primary lender. However, the receivable is protected by a Trust Agreement and Management believes that there are a number of steps that still need to be taken before collection becomes doubtful.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to meet its liabilities when due under both normal and stressed conditions without incurring unacceptable losses or risking harm to its reputation.

At September 30, 2017, the Company's financial liabilities consist of accounts payable, and debentures.

The Company endeavors to have sufficient working capital available to meet its day-to-day obligations and outstanding commitments, note 14. Management estimates that funds available will not be sufficient to meet the Company's obligations and budgeted expenditures through December 31, 2017 (Note 3).

Any funding shortfall may be met in a number of ways, including, but not limited to, the issuance of new debt or equity instruments, further expenditure reductions and/or the introduction of joint venture partners and/or business combinations. While management has been successful in securing financing in the past, there can be no assurance it will be able to continue to do so in the future or that these sources of funding or initiatives will be available for the Company or that they will be available on terms which are acceptable to the Company.

17. Supplemental information

Expenses by nature:

Petroleum and natural gas sales, net of royalties	Three months ended Sep 30		Nine months ended Sep 30	
	2017	2016	2017	2016
Revenue				
Oil	$ 546,945	$ 520,491	$ 1,771,232	$ 751,179
Natural gas	49,247	64,772	217,249	81,801
Revenue	596,192	585,263	1,988,481	832,980
Royalty expense	(64,383)	(21,411)	(157,980)	(25,546)
Total	531,809	563,852	1,830,501	807,434

Finance expense	Three months ended Sep 30		Nine months ended Sep 30	
	2017	2016	2017	2016
Interest expense	$ 174,413	$ 67,725	$ 460,269	$ 106,415
Interest revenue	-	-	(1,828)	(429)
Accretion of debentures	-	-	54,515	-
Accretion of ARO	20,474	32,409	63,742	64,497
Total	$ 194,887	$ 100,134	$ 576,698	$ 170,483

General & adminstrative expense	Three months ended Sep 30		Nine months ended Sep 30	
	2017	2016	2017	2016
Salaries	$ 152,064	$ 120,075	$ 425,629	$ 330,533
Management fees	-	253,991	60,000	253,991
Professional and consulting fees	92,678	183,258	337,291	399,517
Accommodation and travel	27,589	8,586	117,053	53,727
Listing fees	677	8,084	37,240	74,398
Office and general	80,538	63,147	229,513	128,576
Total	$ 353,546	$ 637,141	$ 1,206,726	$ 1,240,742

18. Subsequent event

In November 2017, the Company signed an agreement to become the global partner of Oil & Gas Engineering Co Ltd of CNNC Geo-Mining Shaanxi ("CNOG") for the purchase, transportation and sale of petroleum products into China. Concurrently, CNOG will partner with the Company for the acquisition and development of petroleum and infrastructure assets.