Pennine Petroleum Corporation
Condensed Interim Financial Statements
September 30, 2016
(Unaudited)

Contents

Notice for National Instrument 51-102

The interim condensed financial statements and notes thereto for the three and nine months ended September 30, 2016 are prepared by management and have not been independently audited or reviewed by the Company's auditors.

Pennine Petroleum Corporation
Condensed Statements of Financial Position

As at	Notes		September 30, 2016		December 31, 2015
Assets					
Current					
Cash		$	**142,904**	$	79,453
Accounts receivable			**25,160**		13,873
Deposits and prepaid expenses			**2,317**		1,818
Property and equipment held for sale	4		**-**		89,628
			170,381		184,772
Restricted cash	6		**24,847**		
Exploration and evaluation	3		**888,443**		857,295
Property and equipment	4		**195,124**		195,423
		$	**1,278,795**	$	1,237,490
Liabilities					
Current					
Accounts payable and accrued liabilities		$	**57,214**	$	131,706
Promissory notes payable	5		**-**		18,750
Decommissioning liability held for sale	4		**-**		73,304
			57,214		223,760
Promissory notes payable	5		**-**		209,186
Decommissioning liability	6		**669,631**		654,957
			726,845		1,087,903
Shareholders' Equity					
Share capital	7		**7,174,094**		6,528,813
Contributed surplus			**846,007**		756,007
Deficit			**(7,468,151)**		(7,135,233)
			551,950		149,587
		$	**1,278,795**	$	1,237,490

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

Pennine Petroleum Corporation
Condensed Statements of Operations and Comprehensive Loss

	Notes	For the three month period ended September 30, 2016	2015	For the nine month period ended September 30, 2016	2015
Oil and natural gas		**$ 23,783**	$ 59,427	**$ 60,281**	$ 126,312
Other		**17**	2,095	**17**	2,120
Royalties		**(332)**	(1,382)	**(3,060)**	(3,346)
		23,468	60,140	**57,238**	125,086
Expenses					
Operating		**25,311**	36,101	**74,773**	73,371
Transportation		**6,819**	12,105	**12,860**	28,100
Administrative		**67,378**	79,929	**253,644**	276,107
Share based payment		**9,800**	-	**41,200**	-
Financing costs	**5**	**6,524**	5,782	**26,216**	10,596
Gain on disposition of oil and gas properties	**4**	**-**	-	**(26,176)**	-
Depletion, depreciation and impairment	**4**	**2,519**	5,116	**7,639**	10,249
		118,351	139,033	**390,156**	398,423
Net loss and comprehensive loss for the period		**$ (94,883)**	$ (78,893)	**$ (332,918)**	$ (273,337)
Loss per share					
- basic and diluted		**$ (0.001)**	$ (0.001)	**$ (0.003)**	$ (0.003)
Weighted average shares outstanding					
- basic and diluted *(1)*		**126,719,163**	101,210,440	**110,490,241**	92,019,241

(1) The options and warrants have been excluded from the diluted loss per share computation as they are anti-dilutive.

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

	Share Capital	Contributed Surplus	Deficit	Total Equity
Balance January 1, 2016	$ 6,528,813	$ 756,007	$ (7,135,233)	$ 149,587
Net loss for the period	-	-	(332,918)	(332,918)
Common shares and fair value of the warrants value issued in the private placement	694,081	-	-	694,081
Expiry of warrants	(48,800)	48,800	-	-
Share based compensation	-	41,200	-	41,200
Balance September 30, 2016	$ 7,174,094	$ 846,007	$ (7,468,151)	$ 551,950

	Share Capital	Contributed Surplus	Deficit	Total Equity
Balance January 1, 2015	$ 5,809,721	$ 753,907	$ (6,212,441)	$ 351,187
Common issued in the asset acquisition	300,000	-	-	300,000
Common shares and fair value of the warrants value issued in the private placement	361,942	-	-	361,942
Net loss for the period	-	-	(273,337)	(273,337)
Balance September 30, 2015	$ 6,471,663	$ 753,907	$ (6,485,778)	$ 739,792

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

Pennine Petroleum Corporation
Condensed Statements of Cash Flows

For the nine months ended September 30,	2016	2015
Cash flows from (used in) operating activities		
Net loss for the period	$ (332,918)	$ (273,337)
Items not involving cash:		
Depletion, depreciation and impairment	7,639	10,249
Gain on disposition of oil and gas properties	(26,176)	-
Financing cost accretion	14,674	3,398
Share based payments	41,200	-
Changes in non-cash working capital balances:	(86,278)	(109,628)
Cash flow used in operating activities	(381,859)	(369,318)
Cash flows from (used in) financing activities		
Promissory notes	-	161,189
Issue of common shares net of share issuance costs	466,105	361,945
Cash flow from financing activities	466,105	523,134
Cash flows from (used in) Investing activities		
Expenditures on exploration and evaluation	(31,148)	(36,363)
Expenditures on property and equipment	(7,300)	(53,945)
Proceeds on sale of property and equipment	42,500	-
Restricted cash	(24,847)	-
Cash flow used in investing activities	(20,795)	(90,308)
Increase in cash	63,451	63,508
Cash, beginning of period	79,453	9,479
Cash, end of period	$ 142,904	$ 72,987
Supplemental information		
Interest paid	$ -	$ -
Taxes paid	$ -	$ -

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

1. Corporate Information

Pennine Petroleum Corporation ("Pennine" or "the Company") is a public junior oil and gas company engaged in the evaluation, acquisition, exploration and development of oil and gas properties in Western Canada. The Company's shares trade on the TSX Venture Exchange under the symbol PNN.

Pennine was incorporated under the *Business Corporations Act* (Alberta) on September 18, 2001. The head office is located at 315 39th Avenue SE, Calgary, Alberta, T2G 1X5 and the registered office is located at Suite 203, 221 – 10th Avenue SE, Calgary, Alberta, T2G 0V9.

2. Basis of Presentation

Statement of compliance
These condensed interim financial statements ("financial statements") have been prepared in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting. These financial statements were authorized for issue by the Board of Directors on November 29, 2016. They do not contain all disclosures required by IFRS for annual financial statements and, accordingly, should be read in conjunction with the audited financial statements for the year ended December 31, 2015.

Going concern assumption
The Company's ability to continue as a going concern is dependent upon its ability to attain profitable operations, generate sufficient funds therefrom, receive continued support from its creditors and continue to obtain capital from investors sufficient to meet its current and future obligations. As at September 30, 2016, the Company had a working capital surplus of $113,167 inclusive of long-term payables, does not have a loan facility available, has a deficit of $7.47 million and incurred a net loss of $332,918 during the period. Management continues to focus its efforts on completing a reorganization of the Company, raising additional capital through the sale of certain assets or through debt or equity financings with the Company closing a $731,650 private placement in August 2016 and securing a $1.0 million line of credit in October 2016. Although management's efforts to raise capital and monetize assets have been successful in the past, there is no certainty that they will be able to do so in the future. The aforementioned circumstances may create significant doubt as to the ability of the Company to meets its obligations as they come due. These financial statements have been prepared using accounting principles that are applied to a going concern and do not reflect the adjustments that would be necessary to the presentation and carrying amounts of the assets and liabilities if the Company were not able to continue operations. These adjustments and reclassifications may be material.

Functional and presentation currency
These financial statements are presented in Canadian dollars, which is the Company's functional currency.

Basis of measurement
These Financial Statements have been prepared on a historical cost basis except for financial instruments and share based payment transactions that are measured at fair value.

Use of estimates and judgments
The preparation of financial statements requires management to make estimates and use judgment regarding the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the period. By their nature, estimates are subject to measurement uncertainty and changes in such estimates in future periods could require a material change in the financial statements. Accordingly, actual results may differ from the estimated amounts as future confirming events occur. Significant estimates and judgments made by management in the preparation of these financial statements are as follows:

2. Basis of Presentation - continued

i. The financial statements include accruals and provisions based on management's interpretation of the terms of existing agreements and commitments. Best available information is used to determine receivables and payables at each period end. The Company is at varying stages of negotiations with certain partners to settle differences in opinion of the obligations of each party under existing agreements. The accruals made by management in this regard may be significantly different from those determined by the Company's partners or amounts agreed to as a result of negotiations. The effect on the financial statements resulting from such adjustments, if any, may be material and will be reflected prospectively.

ii. Amounts that will be recorded for depletion and depreciation and amounts used for impairment calculations are based on estimates of petroleum and natural gas reserves. By their nature, the estimates of reserves, including the estimates of future prices, costs, discount rates and the related future cash flows, are subject to measurement uncertainty. Accordingly, the impact to the financial statements in future periods could be material.

iii. Amounts recorded for decommissioning obligations and the related accretion expense requires the use of estimates with respect to the amount and timing of decommissioning expenditures. Other provisions are recognized in the period when it becomes probable that there will be a future cash outflow.

iv. Compensation costs recognized for share based compensation plans are subject to the estimation of what the ultimate payout will be using pricing models such as Black-Scholes model which is based on significant assumptions such as volatility, dividend yield and expected term. Several compensation plans are also performance based and are subject to management's judgment as to whether or not performance criteria will be met.

v. Tax interpretations, regulations and legislation in the various jurisdictions in which the Company operates are subject to change. As such, income taxes are subject to measurement uncertainty. Deferred income tax assets are assessed by management at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings.

3. Exploration and Evaluation

Balance, January 1, 2016	$	857,295
Additions		30,339
Capitalized operating losses		809
Balance, September 30, 2016	$	888,443

Exploration and evaluation assets consist of the Company's unproved properties and capitalized exploration drilling and completion costs which are pending the determination of technical feasibility and commercial viability. The Company assesses the recoverability of E&E assets, before and at the moment of reclassification to property and equipment, within the Company's CGU's. The CGU's include both exploration and evaluation assets and assets related to oil and natural gas interests for that area.

In the Chinook area, the Company capitalized operating losses of $809 for the period ending September 30, 2016 pending the determination of commercial viability of the assets.

The Company determined that no E&E impairment indicators existed at September 30, 2016, and as a result, no impairment test was completed.

4. Property and Equipment

Balance, January 1, 2016	$	299,955
Additions		7,340
Balance, September 30, 2016	$	307,295
Balance, January 1, 2016	$	(104,532)
Depletion		(7,639)
Balance, September 30, 2016	$	(112,171)
Balance January 1, 2016	$	195,423
Balance September 30, 2016	$	195,124

The depletion, depreciation and impairment of property, plant and equipment, and any eventual reversal thereof, are recognized in earnings. At September 30, 2016, the Company included $Nil of future development costs (December 31, 2015 – $Nil) in the net carrying value of development or production assets subject to depletion as those costs are necessary to bring the proved and probable reserves into production.

In February 2016, Pennine closed the sale of the Success CGU for gross proceeds of $42,500. The Success CGU had a carrying value of $89,628 and a decommissioning obligation of $73,304 (Note 6), resulting in a $26,176 recognized gain on the disposition.

5. Promissory Notes

(a) In 2015, the Company issued nine secured convertible promissory notes in the amount of $200,000 to directors of the Company. Of the notes $130,000 will reach maturity on December 31, 2017, and have a ten percent per year interest coupon. The principal may be converted into units at five cents per unit. Each unit will consist of one common share and a share purchase warrant exercisable for a share of the Company at five cents for a period of one year from issue. The remaining $70,000 of notes will reach maturity on September 30, 2018 and have a five percent per year interest coupon compounding monthly. The principal may be converted into units at five cents per unit. Each unit will consist of one common share and two share purchase warrants exercisable for shares of the Company at five cents for a period of one year from issue.

In August 2016, the aforementioned promissory notes and accrued interest were converted into 10,790,000 common shares and 10,790,000 warrants exercisable at $0.05 for 12 months (Note 7).

(b) In September 2015, the Company issued promissory notes in the amount of $25,000 to an arm's length party to acquire petroleum and natural gas rights in Western Canada. The promissory notes are not convertible into common shares, bear interest at the Bank of Canada prime rate plus two percent and were due on September 1, 2016.

On April 1, 2016, $4,500 of the promissory note was converted to common shares of the Company at $0.02 per common share (Note 7) and the $14,250 balance and accrued interest was converted into common shares and warrants of the Company at $0.02 per share on July 31, 2016.

6. Decommissioning Liability

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the obligation associated with the decommissioning of oil and gas properties.

	September 30, 2016	December 31, 2015
Obligation, beginning of period	$ 728,261	$ 597,125
Additions	-	111,971
Disposition	(73,304)	-
Accretion expenses	14,674	19,165
Obligation, end of period	$ 669,631	$ 728,261
Current portion of the obligation held for sale (Note 4)	-	73,304
Long-term portion of the obligation	669,631	654,957
	$ 669,631	$ 728,261

The undiscounted amount of cash flows, required over the estimated reserve life of the underlying assets, to settle the obligation, adjusted for inflation, is estimated at $902,000. The obligation was calculated using a credit-adjusted risk free discount rate of 3 percent and an inflation rate of 2.5 percent. It is expected that the majority of costs are expected to occur between 2020 and 2030.

Pursuant to government regulations, the Company was required to put up a $24,847 deposit with respect to the Company's Liability Management Rating ("LMR").

7. Share Capital

(a) Authorized

Unlimited number of:

Common shares without par value

Non-voting shares without par value

First and second preferred shares, assumable in series

(b) Issued

	September 30, 2016		December 31, 2015	
Common shares	**Shares**	**Amounts**	Shares	Amounts
Balance beginning of period	101,319,027	$ 6,412,813	75,786,527	$ 5,718,021
Private placement *(i)*	24,817,500	469,750	13,532,500	381,975
Conversion of loans payable (Note 5)	11,765,000	235,230	-	-
Issued on property acquisition	-	-	12,000,000	360,000
Share issue costs	-	(38,409)	-	(47,183)
Balance end of period	137,901,527	7,079,384	101,319,027	6,412,813
Warrants				
Balance beginning of period	37,132,417	116,000	23,328,834	91,700
Private placement *(i)*	24,817,500	17,140	13,532,500	24,000
Conversion of loans payable (Note 5)	11,765,000	9,560		
Finder's fee warrants *(ii)*	1,388,000	810	1,353,250	2,400
Expired	(27,132,417)	(48,800)	(1,082,167)	(2,100)
Balance end of period	47,970,500	94,710	37,132,417	116,000
		$ 7,174,094		$ 6,528,813

(i) *The Company closed a private placement in two tranches by issuing 25,042,500 units at $0.02 per unit. Each unit consisted of one common share and one share purchase warrant with each warrant being exercisable at $0.05, expiring one year from the date of issuance. The fair value of the warrants was estimated at $17,140 and was determined using the Black-Scholes option pricing model with the following assumptions dividend yield – Nil, expected volatility 67%, risk free rate of return 1.0%, weighted average life – 1.0 year. The Company incurred $37,390 of professional costs.*

7. Share Capital - continued

(ii) The fair value of the finder's fees warrants was estimated at $840 and was determined using the Black-Scholes option pricing model with the following assumptions dividend yield – Nil, expected volatility 67%, risk free rate of return 1.0%, weighted average life – 1.0 year.

(c) Stock options

The Company has a stock option plan that provides for the issuance to its directors, officers, employees and consultants options to purchase from treasury a number of common shares not exceeding 10% of the common shares that are outstanding from time to time which is the number of shares reserved for issuance under the plan. Options currently granted under the plan vest immediately. The options are non-transferable if not exercised. The exercise price is based on the Company's common shares prior to the day of the grant, which may be different from the closing price of such shares on the day of grant for options granted to date. To date the exercise price has not been materially different from the trading price of the shares on the grant date. A summary of the status of the Company's stock option plan as at September 30, 2016 and December 31, 2015 and changes during the respective periods ended on those dates is presented below:

	September 30, 2016		December 31, 2015	
Stock Options	**Number of options**	**Weighted average Exercise price**	Number of Options	Weighted average exercise price
Beginning of period	**7,538,986**	**$0.06**	7,538,986	$0.06
Granted	**3,080,000**	**$0.05**	-	-
Expired and forfeited	**(1,550,000)**	**$0.09**	-	-
End of period	**9,068,986**	**$0.05**	7,538,986	$0.06
Exercisable, end of period	**9,068,986**	**$0.05**	7,538,986	$0.06

The fair value of the options granted in 2016 was determined using Black Scholes model and the following assumptions: dividend yield – nil, expected volatility 100%, risk free rate – 0.8%, expected life – five years and forfeiture - nil. The options vested immediately upon the grant. The volatility was determined based on the Company's trading price.

Date of Grant	**Number Outstanding**	**Exercise Price**	**Weighted Average Remaining Contractual Life**	**Date of Expiry**	**Number Exercisable September 30, 2016**
April 2, 2014	3,323,986	$0.05	2.51 years	April 2, 2019	3,323,986
May 1, 2014	1,000,000	$0.05	2.59 years	May 1, 2019	1,000,000
September 15, 2014	1,665,000	$0.05	2.96 years	September 15, 2019	1,665,000
January 11, 2016	2,580,000	$0.05	4.28 years	January 11, 2021	2,580,000
July 11, 2016	500,000	$0.05	4.78 years	July 11, 2021	500,000
	9,068,986		3.23 years		9,068,986

(d) Warrants

The following table summarizes the warrants outstanding and exercisable at September 30, 2016:

Number of warrants	Exercise price	Expiry date
10,000,000	$0.05	August 21, 2017
6,389,500	$0.05	May 31, 2017
31,581,000	$0.05	August 4, 2017
47,970,500		

8. Financial Instruments

The Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to credit and foreign exchange risks. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

(a) Commodity price risk
The Company is subject to commodity price risk for the sale of its production. The Company may enter into contracts for risk management purposes only, in order to protect a portion of its future cash flow from the volatility of petroleum commodity prices. To date the Company has not entered into any forward commodity contracts.

(b) Market Risk
Market risk is comprised of two components: currency risk and interest rate risk.

(c) Foreign Currency Exchange Risk
The Company does not sell or transact in any foreign currency, however, the US dollar influences the price of petroleum and natural gas sold in Canada. Price fluctuations, as a result can affect the fair value of the Company's property and equipment and future cash flows however, given it is an indirect influence, the impact of changing exchange rates cannot be accurately quantified. The Company's other financial assets and liabilities are not directly affected by a change in currency rates.

(d) Credit Risk
Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date. A majority of the Company's current financial assets at the balance sheet date arise from oil sales and the Company's accounts receivable are with these customers and joint venture participants in the oil and natural gas industry. Industry standard dictates that commodity sales are settled on the 25th day of the month following the month of production. The Company's production is sold to large marketing companies. Typically, the Company's maximum credit exposure to customers is revenue from two months of sales. During the nine months ended September 30, 2016, the Company sold approximately 69% (2015 – 79%) of its oil production to a single purchaser. At September 30, 2016, $16,412 (December 31, 2015 - $13,873) is due from its marketers. These sales were conducted on transaction terms that are typical for the sale of oil in Canada. In addition, when joint operations are conducted on behalf of a joint venture partner relating to capital expenditures, costs of such operations are paid for in advance to the Company by way of a cash call by the partner of the operation being conducted.

Management assesses quarterly if there should be any impairment of the financial assets of the Company. At September 30, 2016, the Company had $2,803 (December 31, 2015 - $5,253) of overdue accounts receivable. During the period ended September 30, 2016, management has determined that no allowance is required on the accounts receivable. At September 30, 2016, the Company's two largest joint venture partners represented approximately 58% (December 31, 2015 - 54%) and 30% (December 31, 2015 - 28%) of the Company's account receivable balance respectively.

The maximum exposure to credit risk is represented by the carrying amount on the balance sheet of cash and cash equivalents, accounts receivable, other receivables and GST receivable.

(e) Interest Risk
Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is not exposed to interest rate cash flow risk.

8. Financial Instruments - continued

Fixed rate debt is subject to interest rate price risk, as the value will fluctuate as a result of changes in market rates. As at September 30, 2016, the Company has no fixed interest bearing obligations.

(f) Fair Value of Financial Instruments
The Company classifies the fair value of these financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument.

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Cash has been classified as Level 1.

All financial assets (except for cash and cash equivalents which are classified as held for trading), are classified as either loans or receivables and are accounted for on an amortized cost basis. All financial liabilities are classified as other liabilities. There have been no changes to the aforementioned classifications during the periods ended September 30, 2016 or December 31, 2015.

(g) Liquidity Risk
Liquidity risk includes the risk that, as a result of the Company’s operational liquidity requirements:

- The Company will not have sufficient funds to settle a transaction on the due date;
- The Company will be forced to sell financial assets at a value which is less than what they are worth; or
- The Company may be unable to settle or recover a financial asset.

The Company's operating cash requirements including amounts projected to complete the Company’s existing capital expenditure program are continuously monitored and adjusted as input variables change. These variables include but are not limited to, oil production from existing wells, results from new wells drilled, commodity prices, cost overruns on capital projects and regulations relating to prices, taxes, royalties, land tenure, allowable production and availability of markets. As these variables change, liquidity risks may necessitate the Company to conduct equity issues or obtain project debt financing.

9. Capital Risk Management

The Company manages its capital with the objective to continue as a going concern, create investor confidence, and meet its capital commitments and to strengthen its working capital position. The capital structure of the Company is primarily composed of shareholders' equity. The Company's strategy is to access capital, primarily through equity issuances, in order to maintain a strong capital base for the objectives of maintaining financial flexibility and to sustain the future development of the business. The Company manages its capital structure and makes adjustments relative to changes in economic conditions and the Company's risk profile.

In order to maintain the capital structure, the Company may from time to time issue shares and adjust its capital spending to manage current working capital levels. Bank debt may be added in future periods. The Company is not currently subject to any externally imposed covenants.

The Corporation's capital includes the following:

	September 30, 2016	December 31, 2015
Shareholder's equity	**$ 551,950**	$ 149,587

10. Subsequent Events

Except as disclosed elsewhere in these financial statements the Company has the following subsequent events:

During 2015, the Company applied to enter into a Production Sharing Agreement ("PSA") on the Velca Block Albania. The company was informed that it was successful in securing the right to negotiate the PSA amongst a group of domestic and international interested parties in late November 2015. On February 3, 2016, the Company signed a "Main Terms and Conditions for Production Sharing Agreement Block Velca." On April 7, 2016, Pennine and Albpetrol Sh. A. the Joint Venture Partner to the PSA forwarded the PSA document to various Ministries of the Republic of Albania for comment prior to signing. Pennine has been informed that the review by the Government of the Republic of Albania is ongoing.

In October 2016, the Company entered into a credit facility letter of intent for the amount of $1 million. The facility can be drawn in whole or in part by mutual consent. Any funds drawn down as part of the credit facility will be subject to an agreed-upon interest rate. Repayment terms and conditions will be determined if and when any funds are requested as part of the credit facility.