

Pennine Petroleum Corporation
Condensed Interim Financial Statements
March 31, 2017
(Unaudited)

Contents

Interim Financial Statements	
Condensed Statements of Financial Position	2
Condensed Statements of Operations and Comprehensive Loss	3
Condensed Statements of Changes in Shareholders' Equity	4
Condensed Statements of Cash Flows	5
Notes to the Condensed Financial Statements	6 – 12

Notice for National Instrument 51-102

The interim condensed financial statements and notes thereto for the three months ended March 31, 2017 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	March 31, 2017	December 31, 2016
Assets			
Current			
Cash		\$ 13,157	\$ 27,528
Accounts receivable		17,511	22,410
Goods and services tax receivable		-	3,702
Deposits and prepaid expenses		<u>33,633</u>	<u>28,579</u>
		64,301	82,219
Restricted cash	5	24,939	24,893
Property and equipment	3	<u>207,422</u>	<u>208,926</u>
		\$ 296,662	\$ 316,038
Liabilities			
Current			
Accounts payable and accrued liabilities		\$ 125,900	\$ 75,226
Promissory notes payable	4	60,000	-
Decommissioning liability	5	<u>542,358</u>	<u>537,733</u>
		728,258	612,959
Shareholders' Equity (Deficiency)			
Share capital	6	7,195,806	7,174,094
Contributed surplus		979,747	979,747
Deficit		<u>(8,607,149)</u>	<u>(8,450,762)</u>
		(431,596)	(296,921)
		\$ 296,622	\$ 316,038

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

Pennine Petroleum Corporation

Condensed Statements of Operations and Comprehensive Loss

For the three month period ended March 31,	Notes	2017	2016
Revenue			
Oil and natural gas		\$ 29,156	\$ 16,999
Finance and other income		46	-
Royalties		(420)	(2,097)
		<u>28,782</u>	<u>14,902</u>
Expenses			
Operating		37,518	22,156
Transportation		3,828	3,893
Administrative		135,466	80,524
Share based compensation		-	31,400
Financing costs	5	5,854	10,078
Depletion, depreciation and impairment	3	2,503	2,050
Gain on disposition of oil and gas properties		-	(26,176)
		<u>185,169</u>	<u>123,925</u>
Net loss and comprehensive loss for the period		\$ (156,387)	\$ (109,023)
Loss per share			
- basic and diluted		\$ (0.00)	\$ (0.00)
Weighted average shares outstanding			
- basic and diluted		137,911,167	101,319,027

(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.

Pennine Petroleum Corporation
Condensed Statements of Changes in Shareholders' Equity

		Share Capital		Contributed Surplus		Deficit		Total Equity (Deficiency)
Balance January 1, 2017	\$	7,174,094	\$	979,747	\$	(8,450,762)	\$	(296,921)
Net loss for the period		-		-		(156,387)		(156,387)
Exercise of warrants		21,712		-		-		21,712
Balance March 31, 2017	\$	7,195,806	\$	979,747	\$	(8,607,149)	\$	(431,596)

		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		-		-		(109,023)		(109,023)
Share based compensation		-		31,400		-		31,400
Balance March 31, 2016	\$	6,528,813	\$	787,407	\$	(7,244,256)	\$	71,964

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

Pennine Petroleum Corporation
Condensed Statements of Cash Flows

For the three months ended March 31,	2017	2016
Cash flows from (used in) operating activities		
Net loss for the period	\$ (156,387)	\$ (109,023)
Items not involving cash:		
Depletion, depreciation and impairment	2,503	2,050
Financing cost accretion	4,625	4,855
Share based compensation	-	31,400
Gain on disposition of oil and gas properties	-	(26,176)
Changes in non-cash working capital balances:	54,221	(12,183)
Cash flow from (used in) operating activities	<u>(95,038)</u>	<u>(109,077)</u>
Cash flows from (used in) financing activities		
Exercise of warrants	21,712	
Issuance of promissory notes	60,000	-
Cash flow from financing activities	<u>81,712</u>	<u>-</u>
Cash flows from (used in) investing activities		
Restricted cash	(46)	-
Expenditures on exploration and evaluation assets	(999)	(11,150)
Proceeds on disposition of property and equipment	-	42,500
Cash flow used in investing activities	<u>(1,045)</u>	<u>31,350</u>
Decrease in cash	(14,371)	(77,727)
Cash, beginning of period	<u>27,528</u>	<u>79,453</u>
Cash, end of period	\$ 13,157	\$ 1,726
Supplemental information		
Interest paid	\$ -	\$ -
Taxes paid	\$ -	\$ -

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

Pennine Petroleum Corporation

Notes to the Condensed Financial Statements

March 31, 2017

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 May 29, 2017. 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, 2016.

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 March 31, 2017, the Company had a working capital deficit of \$121,599 inclusive of long-term payables, does not have a loan facility available, has a deficit of \$8,607,149 and incurred a net loss of \$156,387 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. The Company closed a \$1,019,300 private placement in May 2017 (Note 8(b)). 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 meet 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:

Pennine Petroleum Corporation
Notes to the Condensed Financial Statements

March 31, 2017

2. Basis of Presentation - continued

Going concern

Professional judgment is used in determining if the Company is a going concern. Significant areas of judgment include future expected cash flows, including capital expenditures, commitments, expenses and expected cash inflows. Judgment is also applied when assessing the terms and conditions of financing available for the Company. Changes in operational results and conditions on potential financing deals may require revisions to the original estimates.

Impairment of exploration and evaluation assets

Exploration and evaluation assets require judgment as to whether future economic benefits exist, including the existence of proven or probable reserves and the ability to finance exploration and evaluation projects, where technical feasibility and commercial viability has not yet been determined.

Depletion, impairment and reserves

The amounts recorded for depletion and impairment are based on estimates of proved and probable reserves. Assumptions that are valid at the time of reserve estimation may change materially as new information becomes available. Changes in forward price estimates, production and future development costs, recovery rates or decommissioning costs may change the economic status of reserves and may ultimately result in reserves used for measurement purposes being removed from similar calculations in future reporting periods.

Cash Generating Unit ("CGU")

IFRS requires that the Company's oil and natural gas properties be aggregated into CGUs, based on their ability to generate largely independent cash flows, which are used to assess the properties for impairment. The determination of the Company's CGUs is subject to management's judgment. The Company's assets are currently held in two CGU's.

Decommissioning obligations

Measurement of the Company's decommissioning liability involves estimates as to the cost and timing of incurrence of future decommissioning programs. It also involves assessment of appropriate discount rates, rates of inflation applicable to future costs and the rate used to measure the accretion charge for each reporting period. Measurement of the liability also reflects current engineering methodologies as well as current and expected future environmental legislation and standards.

Share-based compensation and warrants

Grants of stock options and warrants require an estimate of the fair value of those instruments at time of issue. The estimate involves assumptions regarding the life of the option or warrant, dividend yields, interest rates, and volatility of the Company's common shares. The charge is measured using the Black-Scholes option pricing model, which could be replaced by a pricing model producing different results.

Income taxes

The Company recognises deferred tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future and that sufficient taxable income will be generated in the future to recover such deferred tax assets. Assessing the recoverability of deferred tax assets requires the Company to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realise the net deferred tax assets recorded at the reporting date could be impacted. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods.

Pennine Petroleum Corporation
Notes to the Condensed Financial Statements

March 31, 2017

3. Property and Equipment

Balance, January 1, 2017	\$ 341,218
Additions	999
Balance, March 31, 2017	<u>\$ 342,217</u>
Balance, January 1, 2017	\$ (132,292)
Depletion	(2,503)
Balance, March 31, 2017	<u>\$ (134,795)</u>
Balance January 1, 2017	\$ 208,926
Balance March 31, 2017	\$ 207,422

The depletion, depreciation and impairment of property, plant and equipment, and any eventual reversal thereof, are recognized in earnings. At March 31, 2017, the Company included \$Nil of future development costs (December 31, 2016 – \$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. At March 31, 2017, no impairment indicators existed therefore no impairment test was performed.

4. Promissory Notes

In March 2017, the Company issued two secured convertible promissory notes in the amount of \$60,000 to directors of the Company. The notes will reach maturity on March 21, 2019, and have a five percent per year interest coupon. The principal may be converted into units at five cents per unit. Each unit consists 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.

5. 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.

	March 31, 2017	December 31, 2016
Obligation, beginning of period	\$ 537,733	\$ 728,261
Additions	-	-
Change in estimated cash flows	-	(136,862)
Disposition	-	(73,304)
Accretion expenses	4,625	19,638
Obligation, end of period	\$ 542,358	\$ 537,733

The obligation was calculated using a risk free discount rate of 1.5% and an inflation rate of 2.5%. It is expected that the majority of costs are expected to occur between 2023 and 2034. 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 \$610,000.

Pursuant to government regulations, the Company was required to pay a \$24,939 deposit with respect to the Company's Liability Rating Management ("LMR"). The deposit is held by a Canadian Chartered Bank with interest paid to the Company on a monthly basis based on the bank's deposit rate.

Pennine Petroleum Corporation
Notes to the Condensed Financial Statements

March 31, 2017

6. 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

	March 31, 2017		December 31, 2016	
	Shares	Amounts	Shares	Amounts
Common shares				
Balance beginning of period	137,901,527	\$ 6,997,354	101,319,027	\$ 6,412,813
Warrants exercised	434,250	22,971	-	-
Private placement	-	-	24,817,500	424,850
Conversion of loans payable	-	-	11,765,000	201,300
Share issue costs	-	-	-	(41,609)
Balance end of period	138,335,777	7,020,325	137,901,527	6,997,354
Warrants				
Balance beginning of period	47,970,500	176,740	37,132,417	116,000
Exercised	(434,250)	(1,259)	-	-
Private placement	-	-	24,817,500	71,500
Conversion of loans payable	-	-	11,765,000	34,000
Finder's fee warrants	-	-	1,388,000	4,040
Expired	-	-	(27,132,417)	(48,800)
Balance end of period	47,536,250	175,481	47,970,500	176,740
		\$ 7,195,806		\$ 7,174,094

(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 March 31, 2017 and December 31, 2016 and changes during the respective periods ended on those dates is presented below:

	March 31, 2017		December 31, 2016	
Stock Options	Number of options	Weighted average exercise price	Number of Options	Weighted average exercise price
Beginning of period	13,268,986	\$0.05	7,538,986	\$0.06
Granted	-	-	7,280,000	\$0.06
Expired and forfeited	(1,720,000)	\$0.05	(1,550,000)	\$0.09
End of period	11,548,986	\$0.06	13,268,986	\$0.05
Exercisable, end of period	11,548,986	\$0.06	13,268,986	\$0.05

Pennine Petroleum Corporation
Notes to the Condensed Financial Statements

March 31, 2017

6. Share Capital - continued

Date of Grant	Number Outstanding	Exercise Price	Weighted Average Remaining Contractual Life	Date of Expiry	Number Exercisable March 31, 2017
April 2, 2014	3,323,986	\$0.05	2.00 years	April 2, 2019	3,323,986
September 15, 2014	1,305,000	\$0.05	2.46 years	September 15, 2019	1,305,000
January 11, 2016	2,220,000	\$0.05	4.78 years	January 11, 2021	2,220,000
July 7, 2016	500,000	\$0.05	4.27 years	July 7, 2021	500,000
December 14, 2016	4,200,000	\$0.06	4.71 years	December 14, 2021	4,200,000
	11,548,986		3.35 years		11,548,986

(d) Warrants

The following table summarizes the warrants outstanding and exercisable at March 31, 2017:

Number of warrants	Exercise price	Expiry date
6,389,500	\$0.05	May 31, 2017
31,146,750	\$0.05	August 4, 2017
10,000,000	\$0.05	August 21, 2017
47,536,250		

Subsequent to the period ended March 31, 2017, 650,000 warrants were exercised.

7. 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) Credit Risk

Credit risk is the risk of a financial loss as a result of a failure by counter parties to discharge their obligations. 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 period ended March 31, 2017, the Company sold approximately 85% of its oil production to a single purchaser. At March 31, 2017, \$11,934 (2016 - \$17,137) 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 March 31, 2017, the Company had \$2,408 (2016 - \$2,249) of overdue accounts receivable. During the period ended March 31, 2017, management has determined that no allowance is required on the accounts receivable. At March 31, 2017, the Company's two largest joint venture partners represented approximately 59% (2016 - 70%) and 32% (2016 - 23%) of the Company's account receivable balance respectively.

Pennine Petroleum Corporation
Notes to the Condensed Financial Statements

March 31, 2017

7. Financial Instruments

The maximum exposure to credit risk is represented by the carrying amount on the balance sheet of cash, accounts receivable, restricted cash and deposits.

(c) Market Risk

Market risk is comprised of two components: currency risk and interest rate risk.

(d) 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.

(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 was not exposed to material interest rate cash flow risk in 2017 or 2016.

(f) 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 manages its liquidity risk by using budgets that enable it to determine the amounts required to fund its exploration and development programs. The Company endeavors to have sufficient working capital available to meet its day-to-day commitments. As at March 31, 2017, management estimates that funds available will not be sufficient to meet the Company's obligations and budgeted expenditures through December 31, 2017 (Note 2).

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. 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.

8. Subsequent Events

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

- (a) The Company issued 500,000 options with an exercise price of \$0.06 expiring on May 8, 2022.
- (b) In May 2017, Pennine closed a \$1,019,300 private placement. The placement consisted of 16,988,335 units with each issued at \$0.06 per unit with each unit consisting of one common share and one warrant with an exercise price of \$0.10 expiring 12 months after issuance.
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Pennine Petroleum Corporation
Notes to the Condensed Financial Statements

March 31, 2017

8. Subsequent Events - continued

- (c) In May 2017, the Company entered into a credit facility for up to \$2-million with Ionian Refining and Trading Co. BVI (IRTC). Any funds drawn down as part of the credit facility will be subject to an agreed-upon interest rate. The principal and interest of a loan are convertible into units at six cents per unit. The unit consists of one share and one warrant convertible into a share at 10 cents for a period of one year from issuance. Repayment terms and conditions will be determined if and when any funds are requested as part of the credit facility. Proceeds from the financing will be used to define drill targets for the Velca block and to develop domestic operations and general purpose activities.
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