



## **Perisson Petroleum Corporation**

Consolidated Financial Statements

**For the years ended December 31, 2018 and 2017**

(Expressed in CDN dollars)

## **MANAGEMENT'S REPORT**

The accompanying consolidated financial statements of Perisson Petroleum Corporation (the "Company") for the years ended December 31, 2018 and 2017 are the responsibility of Management and have been prepared by Management in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and include certain estimates that reflect Management's best judgments. The Company's Board of Directors has approved the consolidated financial statements. The Board of Directors fulfills its responsibility regarding the financial statements through its Audit Committee, which has a written mandate that complies with the current requirements of Canadian securities legislation. The Audit Committee has reviewed these statements with Management and with the auditors and has reported to the Board of Directors.

The consolidated financial statements as at and for the years ended December 31, 2018 and 2017, have been audited by Manning Elliott, Chartered Professional Accountants, the Company's external auditors, in accordance with auditing standards generally accepted in Canada on behalf of the shareholders.

("Signed") Gary Chen  
Chief Executive Officer

("Signed") Brad R. Perry, CPA, CMA  
Chief Financial Officer

**June 27, 2019**

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## **INDEPENDENT AUDITORS' REPORT**

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To the Shareholders and the Board of Directors of  
Perisson Petroleum Corporation

### **Opinion on the Financial Statements**

We have audited the accompanying consolidated financial statements of Perisson Petroleum Corporation (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the year ended December 31, 2018, and the related notes, including a summary of significant accounting policies and other explanatory information (collectively referred to as the "consolidated financial statements").

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

### **Basis for Opinion**

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Material Uncertainty Related to Going Concern**

We draw attention to Note 3 in the financial statements which indicates the Company does not generate sufficient profits or cash flows from operations to cover its planned operating and capital expenditures, has a working capital deficit and relies on additional financing for its activities. As stated in Note 3, these matters and conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### **Other Matter**

The consolidated financial statements of the Company as at December 31, 2017 and for the year then ended, which are presented for comparative purposes, were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements in their report dated June 14, 2018.

### **Other Information**

Management is responsible for the other information, which comprises the information included in the Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.



## **INDEPENDENT AUDITORS' REPORT (Continued)**

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Our opinion on the consolidated financial statements does not cover the other information and do not and will not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit and remain alert for indicators that the other information appears to be materially misstated. We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report. We have nothing to report in this regard.

### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### **Auditors' Responsibilities for the Audit of the Financial Statements**

Our responsibility is to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, not is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of the users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

## **INDEPENDENT AUDITORS' REPORT (Continued)**

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- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditors' report is Joseph Bonvillain, CPA, CA.

*Manning Elliott LLP*

CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, British Columbia

June 27, 2019

**Perisson Petroleum Corporation**  
**Consolidated Statements of Financial Position**  
**As at December 31, 2018 and December 31, 2017**

<i>(Cdn \$)</i>	<i>Note</i>	2018	2017
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		\$ 158,706	\$ 676,841
Accounts receivable		1,660,144	1,362,318
Prepaid expenses		12,835	12,835
Restricted assets	6, 7	1,475,692	250,000
		3,307,377	2,301,994
<b>Non-current assets</b>			
Property, plant and equipment	8	4,010,801	5,141,801
Exploration and evaluation assets	9	1	1
		\$ 7,318,179	\$ 7,443,796
<b>LIABILITIES AND DEFICIENCY</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		\$ 2,685,840	\$ 1,387,063
Interest payable	6	528,068	-
Debentures, current portion	6	714,819	364,311
Loan payable	6	1,364,200	-
Asset retirement obligation	10	127,000	127,000
		5,419,927	1,878,374
<b>Non-current liabilities</b>			
Debentures, non-current portion	6	6,221,738	6,378,064
Accrued interest	6	718,572	178,572
Asset retirement obligation	10	3,603,657	3,835,643
		15,963,894	12,270,653
<b>DEFICIENCY</b>			
Share capital	11	15,776,393	14,253,994
Share capital - subscriptions received	11	176,217	-
Contributed surplus		16,283,762	16,158,676
Deficit		(44,997,076)	(39,357,162)
Accumulated other comprehensive income		4,114,989	4,117,635
		(8,645,715)	(4,826,857)
		\$ 7,318,179	\$ 7,443,796

Going Concern (Note 3)

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) "Wayne Rousch" Director

**Perrison Petroleum Corporation**  
**Consolidated Statement of Loss and Comprehensive Loss**  
**For the years ended December 31, 2018 and 2017**

<i>(Cdn \$, except per share amounts)</i>	<i>Note</i>	2018	2017
<b>Revenues</b>			
Petroleum and natural gas sales, net of royalties	17	\$ 2,305,940	\$ 2,369,360
<b>Expenses</b>			
Production operating costs		1,949,501	1,760,872
General and administrative	17	2,424,555	1,675,541
Costs associated with acquisitions		(2,115)	(8,397)
Share based compensation	12	455,018	953,497
Finance expense	17	1,395,377	938,696
Impairment of assets	8	154,290	529,519
Depletion and depreciation	8	667,251	828,361
Bad debt	7	642,675	499,521
Loss on settlement	7	168,160	-
Foreign currency exchange loss		91,142	35,143
		7,945,854	7,212,753
<b>Net loss</b>		(5,639,914)	(4,843,393)
Other comprehensive income		(2,646)	185,490
<b>Comprehensive loss</b>		\$ (5,642,560)	\$ (4,657,903)
<b>Net loss per share</b>			
	11		
Basic & diluted		\$ 0.01	\$ 0.01

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

**Perisson Petroleum Corporation**  
**Consolidated Statements of Cash Flows**  
**For the years ended December 31, 2018 and 2017**

<i>(Cdn \$)</i>	2018	2017
Cash provided by (Used in):		
<b>OPERATING ACTIVITIES</b>		
Net loss	\$ (5,639,914)	\$ (4,843,393)
Adjustments for items not involving cash:		
Share based compensation	455,018	953,497
Accrued expense payable on debentures	1,068,067	178,572
Finance expense, accretion portion	80,321	30,510
Loss on settlement	168,160	-
Bad debt expense	642,675	499,521
Impairment of assets	154,290	529,519
Depletion and depreciation	667,251	828,361
Unrealized foreign currency exchange loss	16,554	(224,464)
Change in non-cash working capital		
Accounts receivable	(940,501)	(1,049,122)
Restricted assets	(1,225,692)	(254,835)
Accounts payable and accrued liabilities	1,130,618	(214,681)
<b>Cash used in Operating Activities:</b>	<b>(3,423,153)</b>	<b>(3,566,515)</b>
<b>FINANCING</b>		
Debtures, issued	-	7,000,000
Debtures, repayment	(85,070)	(1,759,610)
Accrued debenture payments	279,252	-
Loan payable, financing deposit	1,345,000	-
Share capital issued for cash, net of issue costs	1,192,467	16,250
Subscriptions received	176,217	-
Increase (decrease) in shareholder loan	-	(941,132)
<b>Cash provided by Financing Activities:</b>	<b>2,907,866</b>	<b>4,315,508</b>
<b>INVESTING</b>		
Property, plant and equipment expenditures	(2,848)	(161,293)
<b>Cash used in investing activities</b>	<b>(2,848)</b>	<b>(161,293)</b>
<b>Change in cash</b>	<b>\$ (518,135)</b>	<b>\$ 587,700</b>
Cash, beginning of period	676,841	89,141
<b>Cash, end of period</b>	<b>\$ 158,706</b>	<b>\$ 676,841</b>

**Supplemental cash flow information**

Interest paid	\$ (167,144)	\$ (583,088)
Income taxes paid	\$ -	\$ -

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



**Perisson Petroleum Corporation**  
**Consolidated Statements of Changes in Equity**  
**For the years ended December 31, 2018 and 2017**

<i>(Cdn \$, except common shares issued)</i>	Common shares issued	Share capital	Subscriptions received	Contributed surplus	Deficit	Accumulated other comprehen- sive income	Total Deficiency
<b>Balance December 31, 2016</b>	866,656,570	14,233,494	-	15,209,429	(34,513,769)	3,932,145	(1,138,701)
Options exercised	1,250,000	20,500	-	(4,250)	-	-	16,250
Share based payments	-	-	-	953,497	-	-	953,497
Net loss and other comprehensive income	-	-	-	-	(4,843,393)	185,490	(4,657,903)
<b>Balance December 31, 2017</b>	867,906,570	14,253,994	-	16,158,676	(39,357,162)	4,117,635	(4,826,857)
Common shares issued, net of costs	20,000,000	1,000,000	-	-	-	-	1,000,000
Options exercised	5,000,000	522,399	176,217	(329,932)	-	-	368,684
Share based payments	-	-	-	455,018	-	-	455,018
Net loss and other comprehensive income	-	-	-	-	(5,639,914)	(2,646)	(5,642,560)
<b>Balance December 31, 2018</b>	892,906,570	15,776,393	176,217	16,283,762	(44,997,076)	4,114,989	(8,645,715)

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

**Perisson Petroleum Corporation**  
**Notes to the Consolidated Statements**  
**For the years ended December 31, 2018 and 2017**

**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 exploration for oil & gas in 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 are listed on the TSX Venture Exchange under the symbol “POG”.

**2. Basis of Presentation**

These consolidated financial statements (“**Statements**”) have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”) as issued by the IASB. Certain prior year comparative figures have been reclassified to conform to the current year presentation.

The Statements have been prepared on a historical cost basis.

The Statements were approved and authorized for issue by the Board of Directors on June 27, 2019.

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

**3. Going Concern**

The Statements have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities in the ordinary 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 incurred a net loss of \$5,639,914 and used cash in operating activities of \$3,423,153 for the year ended December 31, 2018, and has a working capital deficit of \$2,112,550 as at December 31, 2018. The Company must secure sufficient external funding to meet its obligations and commitments as they come due to pay ongoing general and administrative costs. This external funding may be achieved 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 as a going concern.

These aforementioned circumstances indicate the existence of a material uncertainty that may cast significant doubt on the Company’s ability to continue as a going concern. The 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.

**Perisson Petroleum Corporation**  
**Notes to the Consolidated Statements**  
**For the years ended December 31, 2018 and 2017**

**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, and Perisson Enterprise Management Consulting (Shenzhen) Co., Limited (incorporated in China) from incorporation date. 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. The functional of Perisson Petroleum parent, Perisson Petroleum Panama Corporation (incorporated in Panama), Morichal Sinoco, SA (incorporated in Venezuela and Perisson Enterprise Management Consulting (Shenzhen) Co. is the Canadian dollar. The functional currency of Morichal Sinoco, SA's Colombian branch is the Columbian peso, which is determined to be the currency of the primary economic environment in which the subsidiary operates. The reporting currency used in preparation of these consolidated financial statements is the Canadian dollar.

*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.

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**Notes to the Consolidated Statements**  
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*E)* Financial instruments

Financial assets are classified and measured based on the business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. IFRS 9 contains three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income and fair value through profit and loss. Financial assets are recognized in the statements of financial position if the Company has a contractual right to receive cash or other financial assets from another entity. Financial assets are derecognized when the rights to receive cash flows from the asset have expired or were transferred and the Company has transferred substantially all risks and rewards of ownership.

All financial liabilities are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instruments. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

Financial instruments are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

The Company has classified its cash as a financial asset measured at fair value through profit and loss.

The Company has classified its accounts receivable and restricted assets as a financial asset measured at amortized cost. The Company has classified its accounts payable, debentures and loan payable as financial liabilities measured at amortized cost. Such assets and liabilities are recognized initially at fair value inclusive of any directly attributable transaction costs and subsequently carried at amortized cost using the effective interest method, less any impairment losses.

Financial assets and financial liabilities are offset and the net amount presented in the statements of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

*F)* Compound Financial Instruments

Compound financial instruments issued by the Company comprise convertible debentures in Canadian dollars that can be converted into common shares at the option of the holder, when the number of shares to be issued is fixed and does not vary with changes in fair value.

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The liability component of compound financial instruments is initially recognized at the fair value of a similar liability that does not have a conversion option. The conversion component is initially recognized at the difference between fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and conversion components in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the discounted cash flows. Interest related to the financial liability is recognized in profit or loss. On conversion, the financial liability is reclassified to equity and no gain or loss is recognized.

*G) Impairment of financial assets*

The Company recognizes loss allowances for expected credit losses on financial assets measured at amortized cost. Loss allowances for accounts receivables are always measured at an amount equal to lifetime expected credit losses if the amount is not considered fully recoverable. A financial asset carried at amortized cost is considered credit-impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Individually significant financial assets are tested for credit-impairment on an individual basis. The remaining financial assets are assessed collectively.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

In assessing collective impairment, the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

Losses are recognized in the statements of comprehensive loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the statements of comprehensive loss.

*H) 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:

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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.

*I)* 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.

*J)* 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 the 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.

*K)* 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 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

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**Notes to the Consolidated Statements**  
**For the years ended December 31, 2018 and 2017**

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 loss.

*L)* 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 the 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.

*M)* 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 of other assets, the Company estimates the recoverable amount of the cash generating unit ("CGU") to which the asset belongs. CGUs represent the smallest

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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 an 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.

*N)* 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 risk-free 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 on the Statement of Income as a gain or loss from abandonment and reclamation expenditures.



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*O)* 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 usually 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.

*P)* 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.

*Q)* 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.

*R)* 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 operating 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

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ownership of these assets and accordingly, whether the lease requires an asset and liability to be recognized on the consolidated statement of financial position.

5) 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.

7) New accounting standards adopted

On January 1, 2018, the Company adopted the requirements of IFRS 9. IFRS 9 provides a revised model for recognition and measurement of financial instruments and a single, forward-looking “expected-loss” impairment model. The Company has elected to apply the limited exemption in IFRS 9 paragraph 7.2.15 relating to transition for classification and measurement and impairment, and accordingly has not restated comparative periods in the year of initial application. IFRS 9 did not impact the Company’s classification and measurement of financial assets and liabilities, and there was no significant impact on the carrying amounts of the Company’s financial instruments at the transition date. The introduction of the new ‘expected credit loss’ impairment model had negligible impact on the Company, given the Company sells its conducts sales with known organizations with no historical level of customer default, and the corresponding receivables from these sales are short-term in nature. The Company currently has no hedging arrangements, and will apply the new accounting requirements under IFRS 9 as required.

The Company’s financial instruments are accounted for and classified as follows under IFRS 9 as compared to the Company’s previous policy in accordance with IAS 39:

<b>January 31, 2018</b>	<b>IAS 39</b>	<b>IFRS 9</b>
<b>Financial Asset</b>		
Cash	Fair value through profit and loss (“FVTPL”)	FVTPL
Accounts receivable	Loans and receivables	Amortized cost
Restricted assets	Loans and receivables	Amortized cost
<b>Financial Liability</b>		
Accounts payable and accrued liabilities	Other financial liabilities	Other financial liabilities at amortized cost
Debentures and loan payable	Other financial liabilities	Other financial liabilities at amortized cost

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On January 1, 2018, the Company adopted a new accounting standard IFRS 15 – *Revenue from Contracts with Customers*, using the retrospective method of adoption. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customer. The Company generates revenue from sale of oil and gas products with various customers. The Company has reviewed its sources of revenue using the guidance found in IFRS 15 and determined that there are no material changes to the timing and measurement of the Company’s revenue from there sources as compared to other standards.

U) 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 January 1, 2019. Certain of these updates are not relevant to the Company and are therefore not discussed herein.

The following new accounting standards have not been applied in these consolidated financial statements. The standards applicable to Perisson are as follows and will be adopted on their respective effective dates:

IFRS 16, “Leases”: In January 2016, the IASB issued the standard to replace IAS 17 “Leases”. For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019. Management is in the process of evaluating the impact the standard will have on the consolidated financial statements and has not completed the determination yet.

## **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

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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 create 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 details on future commodity prices, expected production volumes, the 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 the 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.

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*Measurement of the 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, convertible debentures, and loan payable**

*Debentures*

The following table summarizes changes in the debentures balance for the years ended December 31, 2018 and December 31, 2017.

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Debtentures	Year Ended December 31	
	2018	2017
Debtentures outstanding, total, beginning of year	\$ 6,742,375	\$ -
Secured debtentures issued in 2017 (a)	-	4,000,000
Unsecured debtentures issued in 2017 (b)	-	3,000,000
	6,742,375	7,000,000
Repayment of debtentures (a)	(85,070)	(257,625)
Accrued debtenture payments (a)	279,252	-
Total outstanding	6,936,557	6,742,375
Less: current portion	(714,819)	(364,311)
Debtentures outstanding, long-term, end of year	\$ 6,221,738	\$ 6,378,064

Upon recognition of these convertible debtentures in fiscal 2017, the total value of the debtentures was allocated to liability as the estimated fair value of the liability was equal to the face value of the convertible debtentures.

a) In February 2017, the Company issued a non-convertible debtenture 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 debtenture are as follows:

- Debtenture matures on February 1, 2024
- Monthly installments of \$84,000 applied first to interest and then to principal
- Interest at 1.5% per month
- The principal is repaid monthly over the 84-month term
- The Company can repay the debtentures after February 1, 2021, at face value plus any accrued and unpaid interest
- The company must maintain a positive working capital position defined as total current assets less total current liabilities

During the year ended December 31, 2018, the Company had missed nine months of payments, and the debtenture was in default at December 31, 2018. The Company has accrued for the additional interest charges on unpaid amounts calculated at 2% per month according with the terms of the agreement. The Company and the debtenture holder agreed that the outstanding payments are to be made in fiscal 2019 once the Company completes an equity financing.

b) During 2017, the Company issued convertible debtentures as part of a bridge financing. The terms of the debtentures are as follows:

- Debtentures mature on January 3, 2020
- Total principal value is \$3,000,000
- Interest at 1.5% per month, paid at maturity
- Principal paid at maturity
- After January 3, 2018, the principal can be converted at the option of the debtenture holder to common shares of the Company at \$0.05 per share. The debtenture holder can elect to receive outstanding interest converted to common shares or as a cash settlement.

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- The Company can elect to repay the debentures at face value plus any accrued and unpaid interest at any time. If so elected, the debenture holder can still choose to convert.

*Loan payable*

In December 2018, the Company received a short term loan of USD \$1,000,000 which represents a deposit for then equity financing that the Company is undertaking. The deposit is due on demand and has no interest or maturity date. The loan was initially recorded at \$1,345,000. The Company recognized an unrealized foreign exchange loss during the year ended December 31, 2018 of \$19,200 resulting in the ending balance of loan payable of \$1,364,200 at December 31, 2018. The deposit received is recorded as restricted cash because its use requires the joint approval of the Company and the lender.

**7. Restricted assets, loss on settlement and bad debt expenses**

a) 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 (see Note 14). ANH called the letter of credit in October 2017 and maintains the funds. As a result of the uncertainty concerning the ultimate recovery of these funds, the Company wrote down the restricted assets to nil at December 31, 2017, resulting in an impairment expense of \$529,519 for the year ended December 31, 2017.

b) On December 5, 2017, the Company agreed to pay \$250,000 to the Court Appointed Receiver (the “Receiver”) of Forent Energy Ltd. (“Forent”) for outstanding management fees and has deposited this amount as a restricted asset with its legal representatives. In return, the Receiver agreed to transfer the Company’s oil & gas properties held by Forent and all income from the properties since the Forent receivership process began on May 5, 2017. Related to this agreement, the Company wrote down its net accounts receivable position with Forent, calculated at the date of receivership, resulting in a bad debt expense of \$499,521 for the year ended December 31, 2017. At December 31, 2018, the amount held on deposit was reduced by \$150,000 to reflect net operating revenues being held by the Receiver owed to Perisson. The amount of restricted funds on deposit at the end of 2018 was \$100,000 (\$250,000 -2017). During the year ended December 31, 2018, the Company received an offer from the Receiver for the settlement of the outstanding claim and has adjusted the amounts receivable and payable to the Receiver in accordance with the offer received. As a result, the Company recognized a loss on settlement of \$168,160 related to the Forent receivership process in 2018. As at June 27, 2019 the case has not been finally settled and while the Company is aware of the potential costs of settlement the amounts have not been accrued because the amounts are expected to be immaterial.

Included in accounts receivable at December 31, 2018 is \$958,168 in accounts receivable from the Receiver (December 31, 2017 - \$454,205). Included in accounts payable at December 31, 2018 is \$995,042 in accounts payable to the Receiver (December 31, 2017 - \$587,644). The amounts of the receivable and payable are expected to be settled in 2019.

c) During the year ended December 31, 2018, the Company recognized a bad debt in the amount of \$642,672 (2017 - \$Nil) in relation to accounts receivable due from a debenture holder which has not been collected yet and there uncertainty over collectability of this amount.

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**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	129,584	31,709	-	161,293
Changes in ARO (note 10)	1	-	-	1
Balance, December 31, 2017	\$ 6,597,889	\$ 36,199	\$ 4,768	\$ 6,638,856
Additions	-	2,848	-	2,848
Changes in ARO (note 10)	(312,307)	-	-	(312,307)
Impairment of assets	(154,290)	-	-	(154,290)
Balance, Dec. 31, 2018	\$ 6,131,292	\$ 39,047	\$ 4,768	\$ 6,175,107
Accumulated depletion, depreciation and impairment losses				
Balance, December 31, 2016	659,436	4,490	4,768	668,694
Depletion and depreciation	828,361	-	-	828,361
Balance, December 31, 2017	\$ 1,487,797	\$ 4,490	\$ 4,768	\$ 1,497,055
Depletion and depreciation	660,340	6,911	-	667,251
Balance, Dec. 31, 2018	\$ 2,148,137	\$ 11,401	\$ 4,768	\$ 2,164,306
Net carrying value:				
Balance, December 31, 2017	\$ 5,110,092	\$ 31,709	\$ -	\$ 5,141,801
Balance, Dec. 31, 2018	\$ 3,983,155	\$ 27,646	\$ -	\$ 4,010,801

On December 31, 2018, the Company completed a review of its capitalized oil & gas property costs and determined that an accumulated balance of \$154,290 capitalized at December 31, 2017 had no demonstrable future value as at December 31, 2018 and was written off as an impairment of assets in expenses in 2018.

**9. Intangible exploration and evaluation assets**

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

**Net book value at December 31, 2018 and 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.

**10. Asset retirement obligation**

Asset retirement obligations ("ARO") 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.



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The Company has estimated the present value of its total decommissioning provision to be \$3.7 million at December 31, 2018 (December 31, 2017 – \$4.0 million), based on a total future undiscounted liability of \$5.4 million (December 31, 2017 – \$5.8 Million). Payments to settle the obligations occur over the operating lives of the underlying assets and are estimated to be incurred primarily from 5 to 18 years. The risk-free rate used to calculate the present value of the decommissioning liability used average rates of 1.93% to 2.15% (2017 – 1.82% to 2.20%). The estimated inflation rate was 2.00% (2017 – 2%).

Asset retirement obligations shown as current on the Company’s statement of financial position reflect the current ARO plans for the next year.

	Year ended Dec. 31, 2018	Year ended Dec. 31, 2017
Changes to the decommissioning provision are:		
ARO, beginning of year	\$ 3,962,643	\$ 3,877,617
Effect of change in risk free rate	29,474	82,198
Revisions in estimated cash outflows	(341,781)	(82,197)
Accretion expense	80,321	85,025
ARO, end of year	\$ 3,730,657	\$ 3,962,643

**11. Share capital**

In January 2018, the Company completed a 1:10 stock split of its common shares. All references to common shares and per share amounts for all periods in these consolidated financial statements reflect this stock split.

*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

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*Net earnings (loss) per share amounts:*

Net earnings (loss) per share	Year ended Dec 31	
	2018	2017
Net loss - basic and diluted \$	\$(5,639,914)	\$(4,843,393)
Basic weighted average shares	884,290,132	866,656,570
Diluted weighted average shares	884,290,132	866,656,570
Net loss per share \$		
Basic & diluted	\$ (0.01)	\$ (0.01)

As a result of the net loss incurred in all periods presented, all potentially dilutive securities were anti-dilutive.

In April 2018, the Company completed a \$1,000,000 private placement issuing 20,000,000 common shares at a price of \$0.05 per common share. In September 2018 and in December 2018, a total of 8,750,000 stock options were exercised for \$368,684 resulting in the issuance of 5,000,000 common shares in 2018 and 3,750,000 common shares issued in January 2019.

**12. Share based compensation**

In January 2018, the Company completed a 1:10 stock split of its common shares. All references to stock options in these consolidated financial statements reflect this stock split.

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.

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At December 31, 2018, 74,207,300 (December 31, 2017 – 82,957,300) stock options were issued and outstanding summarized in the table below.

	Dec. 31, 2018		Dec. 31, 2017	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
<b>Stock Options</b>				
Outstanding, beginning of year	82,957,300	\$ 0.031	83,957,300	\$ 0.030
Granted	-	\$ -	5,000,000	\$ 0.025
Exercised	(8,750,000)	\$ 0.042	(1,250,000)	\$ 0.013
Expired or forfeited	-	\$ -	(4,750,000)	\$ 0.013
Outstanding, end of period	74,207,300	\$ 0.030	82,957,300	\$ 0.031
Options exercisable, end of period	62,957,300	\$ 0.028	48,780,475	\$ 0.028

  

<b>Exercise price</b>	Weighted Ave	Outstanding	Remaining	Exercisable
	Strike Price	December 31, 2018	(years)	December 31, 2018
\$0.013	\$ 0.013	34,207,300	1.8	34,207,300
\$0.025	\$ 0.025	5,000,000	3.7	2,500,000
\$0.047	\$ 0.047	35,000,000	3.0	26,250,000
	\$ 0.030	74,207,300	2.5	62,957,300

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
2017	1.81%	5.0	0.00%	2.83	\$ 0.018	\$ 0.03	\$ 0.018

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 the Year ended December 31, 2018, of \$455,018 (2017 – \$953,497). 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. Key management compensation and related party transactions**

The Company has identified its director and officer as its key management personnel.

During the year ended December 31, 2018, \$571,000 (2017 - \$537,250) was paid in salaries to officers of the Company.

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Remuneration of Directors and Officers	Year ended	
	Dec 31	
	2018	2017
Salaries, consulting & benefits	\$ 571,000	\$ 537,250
Other short term compensation		
Share based compensation	430,106	878,051
<b>Gross expenses</b>	<b>1,001,106</b>	<b>1,415,301</b>

At December 31, 2018, the balance due to officers and directors totalled approximately \$56,000 (2017 – \$109,000) officers and directors. At December 31, 2018, the balance due from officers and directors for advances provided to them totalled approximately \$107,277 (2017 – \$Nil).

During the year ended December 31, 2017, the Company repaid the shareholder loan outstanding on December 31, 2016, of \$941,132.

**14. Commitments**

**Colombian Concession obligations**

Pursuant to the VMM-17 Contract, the Company is committed to carrying 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 was extended to September 17, 2017. An additional extension has been granted by the regulator to March 2020.

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 one slim hole test well and three A3 exploratory wells (USD \$1,800,000).

**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 agreement are met. Approximately \$129,350 (2016 - \$136,000) will be payable by the Company if an environmental and related drilling license is granted on the VMM-17 land block.

**15. Capital management**

The Company defines capital as equity, which was a deficit of \$8,645,715 as at December 31, 2018 (December 31, 2017 – a deficit of 4,826,857).

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.

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There were no significant changes in the Company's approach to capital management during the year ended December 31, 2018. 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 except a covenant in a debenture agreement to maintain a positive working capital position.

**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:

<b>FX Exposure to PESOS</b>	<b>December 31, 2018</b>	<b>Dec 31, 2017</b>
Cash	21,364,436	198,835,418
AP and Accrued liabilities	(121,321,029)	(292,195,553)
NET exposure	(99,956,593)	(93,360,135)
rate	2,380.0830	2,346.8242
CAD equivalent	(41,997)	(39,781)
10% variance	4,666	4,421

Assuming that all other variables are constant, a variation of 10% in the Colombian peso exchange rate would generate an impact of \$4,666 on net loss for the year ended December 31, 2018 (2017 – \$4,421).

***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. The Company's issued debentures are fixed rate financial instruments and therefore are not subject to interest rate risk.

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***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 of approximately \$175,521 (2017 – \$111,000). Additional receivable amounts relate to normal oil & gas operations.

As at December 31, 2018, \$1,236,417 of the Company's trade receivables are considered past due (more than 31 days old), of this amount \$Nil has been collected subsequent to year end, and has \$958,168 in accounts payable with the same corporation (Note 7). The remaining balance is expected to be fully collected.

***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 December 31, 2018, the Company has a working capital deficit of \$2,112,500 and requires additional financing to meet its short-term obligations.

The Company endeavours to have sufficient working capital available to meet its day-to-day obligations and outstanding commitments, Note 14. Due to the working capital deficit, management estimates that funds available will not be adequate to meet the Company's requirements and budgeted expenditures through December 31, 2019 (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.

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**17. Supplemental information**

Expenses by nature:

<b>Netbacks</b>	Year ended Dec 31	
	2018	2017
<b>Revenue</b>		
Oil	\$ 2,334,095	\$ 2,302,778
Natural gas	154,861	247,745
Revenue	2,488,956	2,550,523
Royalty expense	(183,016)	(181,163)
<b>Revenue, net of royalty</b>	2,305,940	2,369,360
Operating expense	(1,949,501)	(1,760,872)
<b>Netback</b>	\$ 356,439	\$ 608,488

<b>Finance expense</b>	Year ended Dec 31	
	2018	2017
Interest expense	\$ 1,315,056	\$ 809,430
Interest revenue	-	(10,274)
Accretion of debentures	-	54,515
Accretion of ARO	80,321	85,025
<b>Total</b>	\$ 1,395,377	\$ 938,696

<b>General &amp; administrative expense</b>	Year ended Dec 31	
	2018	2017
Salaries	\$ 622,163	\$ 576,012
Management fees	180,000	(7,691)
Professional and consulting fees	877,836	645,555
Accommodation and travel	472,163	209,363
Listing fees	98,015	49,125
Office and general	174,378	203,177
Third party recovery	(74,675)	-
<b>Total</b>	\$ 2,349,880	\$ 1,675,541

**18. Income tax**

The provision for income taxes differs from the amount obtained by applying the combined federal and provincial income tax rate to the loss before income taxes in relation to the following items:

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<b>Rate reconciliation</b>	Years ended	
	December 31	
	<b>2018</b>	2017
Expected Rate	<b>26.55%</b>	26.44%
Loss before income tax expense	<b>(5,639,914)</b>	\$ (4,843,393)
Expected income tax (recovery)	<b>(1,497,397)</b>	(1,280,593)
Permanent differences and other	<b>87,041</b>	263,566
Foreign tax rate differential and rate changes	<b>(15,444)</b>	43,072
Change in deferred tax assets not recognized	<b>1,425,800</b>	<b>973,955</b>
	<b>\$ -</b>	<b>\$ -</b>

At December 31, 2018, and 2017, the Company had the following tax deductions available to reduce future taxable income:

	<b>Dec 31, 2018</b>	Dec 31, 2017
Non-capital loss carry-forward	<b>\$ 16,127,126</b>	\$ 11,647,848
Canadian oil and gas property expense	<b>1,623,638</b>	1,804,042
Cumulative eligible capital	<b>539,739</b>	580,364
Undepreciated capital cost	<b>317,871</b>	567,967
Share issue costs	<b>17,666</b>	26,553
<b>Total</b>	<b>\$ 18,608,661</b>	<b>\$ 14,639,146</b>

The Company has non-capital losses that begin to expire in 2026; however, only \$179,711 will expire between 2026 and 2031 with \$15,947,415 expiring between 2032 and 2038. The Company has deferred tax assets that have not been recognized because it is not probable that future taxable profit will be available against which the Company can utilize these benefits.

**19. Subsequent events**

On April 24, 2019, the Company announced the issuance of 10,000,000 stock options with an exercise price of \$0.20 per stock option to an officer of the Company.