



International Petroleum Corporation
Business Acquisition Report

Dated January 25, 2019



**International
Petroleum
Corp.**

Business Acquisition Report

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FORM 51-102F4

BUSINESS ACQUISITION REPORT

Item 1 Identity of Company

1.1 Name and Address of Company

International Petroleum Corporation ("IPC" or the "Corporation")
Suite 2000
885 West Georgia Street
Vancouver, BC
V6C 3E8, Canada

1.2 Executive Officer

Mr. Jeffrey Fountain, General Counsel of IPC, is knowledgeable about the acquisition in respect of which this Business Acquisition Report has been filed. Mr. Fountain may be reached by telephone at +41 22 595 1050.

Item 2 Details of Acquisition

2.1 Nature of Business Acquired

On October 10, 2018, IPC and BlackPearl Resources Inc. ("**BlackPearl**") announced the entering into of an arrangement agreement (the "**Arrangement Agreement**"), a copy of which was filed on SEDAR under IPC's corporate profile. Pursuant to the terms of the Arrangement Agreement, IPC agreed to acquire all of the issued and outstanding common shares of BlackPearl ("**BlackPearl Shares**") by way of a plan of arrangement (the "**Arrangement**") under Section 192 of the Canada Business Corporation Act. Under the terms of the Arrangement, holders of BlackPearl Shares ("**BlackPearl Shareholders**") would be entitled to receive 0.22 of a common share of IPC (each whole share, an "**IPC Share**") for each BlackPearl Share held.

On December 14, 2018, IPC and BlackPearl completed the Arrangement and IPC acquired all of the issued and outstanding BlackPearl Shares. Upon completion of the Arrangement, BlackPearl became a wholly-owned subsidiary of IPC.

A detailed description of the Arrangement can be found under the section titled "The Arrangement" of the joint management information circular of IPC and BlackPearl dated November 9, 2018 (the "**Circular**"), a copy of which has been filed on SEDAR under IPC's and BlackPearl's corporate profiles.

Prior to the completion of the Arrangement, BlackPearl was a Canadian public company engaged in the exploration for, and the acquisition, development and production of, oil and natural gas. BlackPearl's core area properties were Onion Lake Heavy Crude Oil Project (Saskatchewan), Blackrod SAGD Project (Alberta), Mooney Heavy Crude Oil Project (Alberta), and John Lake Heavy Crude Oil Project (Alberta). Additional information concerning BlackPearl and its business and assets can be found under the section of the Circular titled "Information Concerning BlackPearl Resources Inc."

The sections of the Circular referenced herein are incorporated by reference in, and form an integral part of, this Business Acquisition Report, provided that such sections of the Circular are not incorporated by reference herein to the extent that their contents are modified and superseded by a statement contained in this Business Acquisition Report.

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2.2 Acquisition Date

IPC and BlackPearl completed the Arrangement on December 14, 2018.

2.3 Consideration

Pursuant to the Arrangement, each BlackPearl Share was exchanged for 0.22 of an IPC Share. IPC issued an aggregate of 75,798,219 IPC Shares to the former BlackPearl Shareholders pursuant to the Arrangement. Based on the thirty-day volume weighted average trading price of the IPC Shares on the Toronto Stock Exchange prior to closing of the Arrangement, IPC paid an implied acquisition price of approximately CAD 1.14 per BlackPearl Share and an implied aggregate purchase price of approximately CAD 393.4 million (USD 294.5 million) for the BlackPearl Shares acquired by it under the Arrangement.

No fractional IPC Shares were issued to former BlackPearl Shareholders under the Arrangement. In lieu of any fractional IPC Shares, BlackPearl Shareholders otherwise entitled to a fractional interest in an IPC Share received the nearest whole number of IPC Shares, as applicable, with fractions equal to 0.5 or more being rounded up and fractions less than 0.5 being rounded down.

2.4 Effect on Financial Position

For additional information relating to the expected effect of the Arrangement on the financial position of IPC, see the unaudited pro forma combined condensed consolidated financial statements of IPC attached as Appendix A to this Business Acquisition Report and the section of the Circular titled "Information Concerning IPC Following Completion of the Arrangement".

Other than changes occurring as a result of and in connection with, the Arrangement, the Corporation does not have any current plans or proposals for material changes in the Corporation's business affairs or the affairs of BlackPearl which may have a significant effect on the financial performance and financial position of the Corporation.

2.5 Prior Valuations

To the knowledge of the Corporation, no valuation opinion has been obtained within the last twelve months by BlackPearl or the Corporation required by securities legislation or a Canadian stock exchange or market to support the consideration paid by the Corporation pursuant to the Arrangement.

2.6 Parties to Transaction

The Arrangement was not a transaction with an "informed person", "associate" or "affiliate" (as such terms are defined under applicable Canadian securities laws) of the Corporation.

2.7 Date of Report

January 25, 2019

Business Acquisition Report

Dated January 25, 2019

Item 3 Financial Statements

The following financial statements of BlackPearl, which have been filed on SEDAR under BlackPearl's profile, are incorporated by reference in, and form an integral part of, this Business Acquisition Report:

- (a) the audited consolidated financial statements of BlackPearl as at and for the years ended December 31, 2017 and 2016, together with the notes thereto and the auditors' reports thereon, and
- (b) the unaudited consolidated financial statements of BlackPearl as at and for the three and nine months ended September 30, 2018 and 2017, together with the notes thereto.

The following are attached as Appendix A to this Business Acquisition Report:

- (a) the unaudited pro forma combined condensed consolidated financial statements of IPC as at and for the nine months ended September 30, 2018 and for the year ended December 31, 2017.

The unaudited pro forma combined condensed consolidated financial statements of IPC attached to this Business Acquisition Report as Appendix A are not necessarily indicative of the results of operations that would have occurred in the year ended December 31, 2017 and the nine months ended September 30, 2018 had the Arrangement been effective January 1, 2017 or the results of operations for future periods. The actual adjustments may differ from those reflected in such pro forma financial statements and such differences may be material.

APPENDIX A

Unaudited Pro Forma Combined Condensed Consolidated Financial Statements

The following tables set out the unaudited pro forma combined condensed consolidated financial statements of IPC as at and for the nine months ended September 30, 2018 and for the year ended December 31, 2017, including the notes thereto. Reference should also be made to the (i) the unaudited consolidated financial statements of IPC, together with the notes thereto, as at and for the three and nine months ended September 30, 2018 and the audited consolidated financial statements of IPC, together with the notes thereto and the auditors' report thereon, as at and for the year ended December 31, 2017, and (ii) the unaudited consolidated financial statements of BlackPearl, together with the notes thereto, as at and for the three and nine months ended September 30, 2018 and the audited consolidated financial statements of BlackPearl, together with the notes thereto and the auditors' report thereon, as at and for the year ended December 31, 2017, each of which is incorporated by reference herein and have been filed under IPC's and BlackPearl's respective corporate profiles on SEDAR.

Unaudited Pro Forma Combined Condensed Consolidated Balance Sheet as at September 30, 2018

<i>Thousands USD</i>	Unaudited IPC	Unaudited BlackPearl (1)	Unaudited Pro Forma Adjustments	Note	Unaudited Pro Forma IPC
Non-current assets					
Exploration and evaluation assets	9,151	138,402	(138,402)	2.D	9,151
Property, plant and equipment, net	690,709	539,068	(127,909)	2.A	1,101,868
Other tangible fixed assets, net	99,044	-	-		99,044
Derivative instruments	3	99	-		102
Deferred tax assets	2,796	8,903	51,366	2.E	63,065
Total non-current assets	801,703	686,472	(214,945)		1,273,230
Current assets					
Inventories	27,644	168	-		27,812
Trade and other receivables	74,440	15,651	-		90,091
Derivative instruments	28	38	-		66
Current tax	7,182	-	-		7,182
Cash and cash equivalents	8,135	3,044	-		11,179
Total current assets	117,429	18,901	-		136,330
TOTAL ASSETS	919,132	705,373	(214,945)		1,409,560
LIABILITIES					
Non-current liabilities					
Financial liabilities	216,891	94,951	1,106	2.C	312,948
Provisions	174,501	62,846	(25,445)	2.B	211,902
Deferred tax liabilities	58,799	-	-		58,799
Derivative instruments	-	2,215	-		2,215
Deferred consideration	-	10,235	-		10,235
Total non-current liabilities	450,191	170,247	(24,339)		596,099
Current liabilities					
Trade and other payables	76,185	24,947	-		101,132
Provisions	13,640	504	-		14,144
Derivative instruments	460	24,171	-		24,631
Current tax liabilities	2,203	-	-		2,203
Current portion of deferred consideration	-	422	-		422
	-	-	-		-
Total current liabilities	92,488	50,044	-		142,532
EQUITY					
Shareholders' equity	376,660	485,082	(190,606)	2.A	671,136
Non-controlling interest	(207)	-	-		(207)
Net shareholders' equity	376,453	485,082	(190,606)		670,929
TOTAL EQUITY AND LIABILITIES	919,132	705,373	(214,945)		1,409,560

(1) The information is based upon BlackPearl's unaudited numbers for the period in CAD but has for the purposes of this pro forma been converted into USD with a CAD/USD rate of 1.3013

Unaudited Pro Forma Combined Condensed Consolidated Statement of Operations for the nine months ended September 30, 2018

	Unaudited	Unaudited	Unaudited	Unaudited		Unaudited
<i>Thousands USD</i>	IPC	BlackPearl (1)	Reclassification	Pro Forma Adjustments	Note	Pro Forma IPC
Sales of oil and gas	333,672	110,440	-	-		444,112
Change in under/over lift position	397	-	-	-		397
Other Revenue	14,213	-	-	-		14,213
Deferred Consideration	-	320	-	-		320
Royalties	(5,737)	(13,424)	-	-		(19,161)
Total Revenue	342,545	97,336	-	-		439,881
Cost of operations	(95,089)	(35,003)	-	-		(130,092)
Tariff and transportation expenses	(12,397)	(6,504)	-	-		(18,901)
Direct production taxes	(6,206)	-	-	-		(6,206)
Change in inventory position	6,480	-	-	-		6,480
Other costs	(19,834)	-	-	-		(19,834)
Production costs	(127,046)	(41,507)	-	-		(168,553)
Operating income	215,499	55,829	-	-		271,328
Depletion and decommissioning costs	(71,006)	(26,467)	-	3,205	3.2.A	(94,268)
Depreciation of other assets	(23,538)	-	-	-		(23,538)
Exploration and business development costs	(402)	-	-	-		(402)
Impairment costs	-	-	-	-		-
Gross Profit	120,553	29,362	-	3,205		153,120
Loss on risk Management contract	-	(30,925)	-	-		(30,925)
Stock Based Compensation	-	(3,272)	3,272	-	3.1.A	-
General administrative and depreciation expenses	(9,912)	(5,248)	(3,272)	-	3.1.A	(18,432)
Profit before financial items	110,641	(10,083)	-	3,205		103,763
Finance income	889	-	-	-		889
Foreign exchange loss, net	(6,176)	25	-	-		(6,151)
Unwinding of asset retirement obligation discount	(7,035)	(1,103)	-	(818)	3.2.B	(8,956)
Interest expense	(11,820)	(3,115)	-	-		(14,935)
Amortization of loan fees	(2,525)	(479)	-	-		(3,004)
Loan commitment fees	(583)	-	-	-		(583)
Other financial costs	(242)	-	-	-		(242)
Net financial items	(27,492)	(4,672)	-	(818)		(32,982)
Profit before tax	83,149	(14,755)	-	2,387		70,781
Income tax	(8,851)	3,177	-	(645)	3.2.C	(6,319)
Net result	74,298	(11,578)	-	1,742		64,462
Net result attributable to:						
Shareholders of the parent company	74,277	(11,578)	-	1,742		64,441
Non controlling interest	21	0	-	-		21
Earning per share - USD (2)	0.84	-0.03	-	-	3.2.D	0.39
Earning per share fully diluted - USD	0.83	-0.03	-	-		0.39
Weighted average common shares						
Basic	87,921,846	344,537,539	344,537,539	75,798,219		163,720,065
Diluted	89,906,745	344,537,539	344,537,539	75,798,219		165,704,964

(1) The information is based upon BlackPearl's unaudited numbers for the period in CAD but has for the purposes of this pro forma been converted into USD with a CAD/USD rate of 1.2875

(2) Based on net result attributable to shareholders of the Parent Company

Unaudited Pro Forma Combined Condensed Consolidated Statement of Operations for the year ended December 31, 2017

<i>Thousands USD</i>	Audited IPC Consolidated Income Statement	Audited Suffield Assets (4)	Unaudited Pro Forma adjustments regarding Suffield Assets	Unaudited IPC Pro Forma after the Suffield Acquisition (3)	Unaudited BlackPearl (1)	Unaudited Reclassificat ion	Unaudited Pro Forma Adjustments	Note	Unaudited Pro Forma IPC including both Suffield and BlackPearl
Sales of oil and gas	185,182	185,659	-	370,841	116,535	-	-		487,376
Change in under/over lift position	(613)	-	-	(613)	-	-	-		(613)
Other Revenue	18,432	-	-	18,432	-	-	-		18,432
Deferred Consideration	-	-	-	-	423	-	-		423
Royalties	-	(7,183)	-	(7,183)	(16,275)	-	-		(23,458)
Total Revenue	203,001	178,476	-	381,477	100,683	-	-		482,160
Cost of operations	(53,389)	(54,984)	-	(108,373)	(40,680)	-	-		(149,053)
Tariff and transportation expenses	(3,361)	(36,202)	24,172	(15,391)	(6,668)	-	-		(22,059)
Direct production taxes	(3,999)	(112)	-	(4,111)	-	-	-		(4,111)
Change in inventory position	(3,688)	-	-	(3,688)	-	-	-		(3,688)
Other costs	-	-	(24,172)	(24,172)	-	-	-		(24,172)
Production costs	(64,437)	(91,298)	-	(155,735)	(47,348)	-	-		(203,083)
Operating income	138,564	-	-	225,742	53,335	-	-		279,077
Depletion and decommissioning costs	(54,555)	-	(44,315)	(98,870)	(32,372)	-	5,524	4.3.A	(125,718)
Depreciation of other assets	(31,629)	-	-	(31,629)	-	-	-		(31,629)
Exploration and business development costs	(3,786)	-	-	(3,786)	-	-	-		(3,786)
Impairment costs	164	-	-	164	-	-	-		164
Gross Profit	48,758	-	(44,315)	91,621	20,963	-	5,524		118,108
Sales of Assets	-	-	-	-	855	-	-		855
Gain (Loss) on risk Management contract	-	-	-	-	(3,557)	-	-		(3,557)
Stock Based Compensation	-	-	-	-	(1,795)	1,795	-	4.2.A	-
General administrative and depreciation expenses	(10,400)	-	(1,600)	(12,000)	(6,438)	(1,795)	-	4.2.A	(20,233)
Profit before financial items	38,358	-	(45,915)	79,621	10,028	-	5,524		95,173
Finance income	94	-	-	94	123	-	-		217
Foreign exchange loss, net	(8,922)	-	-	(8,922)	(183)	-	-		(9,105)
Unwinding of asset retirement obligation discount	(3,557)	-	(5,346)	(8,903)	(1,281)	-	(824)	4.3.B	(11,008)
Interest expense	(1,378)	-	(12,285)	(13,663)	(926)	-	-		(14,589)
Amortization of loan fees	(700)	-	(2,748)	(3,448)	(317)	-	-		(3,765)
Loan commitment fees	(391)	-	(902)	(1,293)	-	-	-		(1,293)
Other financial costs	(53)	-	-	(53)	-	-	-		(53)
Net financial items	(14,907)	-	(21,281)	(36,188)	(2,584)	-	(824)		(39,596)
Profit before tax	23,451	-	(67,196)	43,433	7,444	-	4,700		55,577
Income tax	(728)	-	(5,395)	(6,123)	5,774	-	(1,269)	4.3.C	(1,618)
Net result	22,723	-	(72,591)	37,310	13,218	-	3,431		53,959
Net result attributable to:									
Shareholders of the parent company	22,718	-	-	37,305	13,218	-	3,431		53,954
Non controlling interest	5	-	-	5	-	-	-		5
Earning per share - USD (2)	0.23	-	-	0.38	0.04	-	-	4.3.D	0.31
Earning per share fully diluted - USD	0.23	-	-	0.38	0.04	-	-		0.31
Weighted average common shares									
Basic	98,587,027	-	-	98,587,027	344,537,539	- 344,537,539	75,798,219		174,385,246
Diluted	99,138,548	-	-	99,138,548	344,537,539	- 344,537,539	75,798,219		174,936,767

(1) BlackPearl's financial information in CAD has been audited but for purposes of this pro forma the information in CAD has been converted into USD with a CAD/USD rate of 1.2982

(2) Based on net result attributable to shareholders of the parent company

(3) Please refer to the note 4.1 for the IPC Pro Forma

(4) Note that the Suffield Assets operating statement was audited to the production costs line only and has been converted into US dollars using the average rate for the year ended December 31, 2017 of 1.2982 CAD/USD

Notes to the Unaudited Pro Forma Combined Condensed Consolidated Financial Statements

On October 9, 2018, International Petroleum Corp. ("IPC" or the "Company") entered into an arrangement agreement to acquire BlackPearl Resources Inc. ("BlackPearl") pursuant to a plan of arrangement under Section 192 of the Canada Business Corporation Act (the "Arrangement").

On December 14, 2018, IPC and BlackPearl completed the Arrangement and IPC acquired all of the issued and outstanding BlackPearl Shares. Upon completion of the Arrangement, BlackPearl became a wholly-owned subsidiary of IPC.

On January 5, 2018, the Company completed the acquisition of the Suffield area oil and gas assets in southern Alberta, Canada (the "Suffield Assets", while the acquisition of those assets is referred to as the "Suffield Acquisition").

1. Basis of presentation

These unaudited pro forma combined financial statements (the "pro forma information") of IPC have been prepared by management and reflect the assumed transaction and assumptions in connection with the Arrangement and the Suffield Acquisition. The pro forma information gives pro forma effect to the Arrangement in accordance with National Instrument 51-102 Continuous Disclosure Obligations by applying pro forma adjustments to IPC's, BlackPearl's and the Suffield Assets' historical consolidated financial statements. The pro forma reporting entity includes IPC and its subsidiaries as well as BlackPearl and the Suffield Assets.

The unaudited pro forma combined condensed consolidated Balance sheet as at September 30, 2018 gives effect to the BlackPearl Arrangement and assumptions described herein as if they had occurred on September 30, 2018.

The unaudited pro forma combined condensed consolidated statement of operations for the nine months ended September 30, 2018, and the unaudited pro forma combined condensed consolidated statement of operations for the twelve months ended December 31, 2017 give effect to the BlackPearl Arrangement, the Suffield Acquisition and assumptions described herein as if they had occurred on January 1, 2017.

The accounting policies used in the preparation of the pro forma information are those set out in IPC's audited consolidated financial statements as at and for the year ended December 31, 2017 which were prepared in accordance with International Financial Reporting Standards ("IFRS") and IPC's unaudited combined condensed consolidated interim financial statements as at and for the nine months ended September 30, 2018, which were prepared in accordance with International Accounting Standard 34, using accounting policies consistent with IFRS. The pro forma information has been prepared from information derived from and should be read in conjunction with:

- IPC's audited consolidated financial statements as at and for the year ended December 31, 2017, together with the accompanying notes;
- IPC's unaudited combined condensed consolidated financial statements for the three and nine months ended September 30, 2018, together with the accompanying notes;
- BlackPearl's audited financial statements as at and for the year ended December 31, 2017, together with the accompanying notes; and
- BlackPearl's unaudited financial statements for the three and nine months ended September 30, 2018, together with the accompanying notes.
- the Suffield Assets' audited operating statement for the year ended December 31, 2017, together with the accompanying notes.

For the purposes of the unaudited pro forma combined statement of operations, the statement of operations for BlackPearl and the Suffield Assets for the year ended December 31, 2017 and the nine month period ended September 30, 2018, which are presented in Canadian dollars, have been translated into US dollars using the following foreign exchange rates:

Average rate for the year ended December 31, 2017: 1.2982 CAD/USD

Average rate for the nine month period ended September 30, 2018: 1.2875 CAD/USD

For the purposes of the unaudited pro forma combined condensed consolidated balance sheet, the consolidated balance sheet for BlackPearl as at September 30, 2018, which is presented in Canadian dollars, has been translated into US dollars using the following foreign exchange rate:

Closing rate on September 30, 2018 1.3013 CAD/USD

The description of certain line items in the Unaudited Combined Condensed Consolidated Statements of Comprehensive Income of BlackPearl and in the audited operating statement for the Suffield Assets have been changed to be consistent with the IPC unaudited interim combined condensed consolidated financial statements terminology and classification.

The pro forma information may not be indicative of the results that would have occurred if the events reflected herein had been in effect on the dates indicated or of the results which may be obtained in the future. No adjustments have been made to reflect the operating synergies and administrative cost savings that could result from the combination of these entities. The allocation of the total consideration to the net assets acquired in the Arrangement is preliminary and based on estimates of fair value and other amounts and such estimates may be adjusted in the future. As these amounts are preliminary, differences in the actual amounts assigned to the fair values of the identifiable assets and liabilities upon the completion of detailed valuations and calculations could differ materially and result in changes in periods subsequent to completion of the Arrangement. In the opinion of management, the pro forma information includes all material adjustments necessary for a fair presentation of the financial results and financial position of IPC.

Pro forma financial information is by its nature intended to describe a hypothetical situation. The Corporation is only presenting the unaudited condensed pro forma financial information for illustrative purposes, and the unaudited condensed pro forma financial information should not be seen as an indication of the actual profits or financial position that would have occurred had the relevant events actually have occurred at the indicated dates. Further, the pro forma financial information should not be seen as an indication of the Corporation's future profit or financial position.

IPC incurred certain transaction costs in connection with the Arrangement of approximately USD 2.3 million. In accordance with IFRS 3, these costs have been expensed as incurred in the income statement for the year ended December 31, 2018. No material acquisition-related costs were recognized in 2019.

2. Pro forma Combined Condensed Consolidated Balance Sheet as at September 30, 2018

The unaudited pro forma combined condensed consolidated balance sheet as at September 30, 2018 gives effect to the Arrangement as if it had occurred on September 30, 2018, considering the assumptions described below.

A. Consideration and Purchase Price Allocation

The final consideration is based on 75,798,219 IPC common shares issued to shareholders of BlackPearl at a share price of CAD 5.19 (USD 3.89) for a total consideration of CAD 393,393 thousand (USD 294,478 thousand). The number of IPC common shares issued is based on the number of BlackPearl common shares outstanding, the numbers of stock options "in the money" and RSUs which both vest on a change of control, multiplied by the 0.22 exchange ratio established in the Arrangement.

The Arrangement has been accounted for as a business combination using the acquisition method of accounting whereby the assets acquired and liabilities assumed are recognized at their fair value. The fair value assigned to the net assets acquired is preliminary and based on estimates and assumptions using information available at the time of preparation of this pro forma financial information.

Number of IPC common shares issued		75,798,219
IPC common share price at December 13, 2018	CAD	5.19
Consideration	CAD'000	393,393
Consideration equivalent at an exchange rate of USD/CAD 1.3359	USD'000	294,478

Thousands USD

Fair value of assets and liabilities of BlackPearl acquired:

Cash and cash equivalents	3,044
Trade and other receivables	14,449
Inventory	168
Prepaid expenses and deposits	1,201
Fair value of risk management assets	137
Deferred tax assets	60,269
Exploration and evaluation assets	-
Property, plant and equipment	411,160
Accounts payable and accrued liabilities	(24,946)
Fair value of risk management liabilities	(26,386)
Decommissioning liabilities	(37,905)
Deferred consideration	(10,657)
Long-term debt	(96,057)
Net assets acquired	294,478

No goodwill or negative goodwill has been recognized in the preliminary allocation of the purchase price.

The amounts disclosed above were determined provisionally pending the finalization of the valuation for those assets and liabilities. Up to twelve months from the Effective Date of the Arrangement, further adjustments may be made to the fair values assigned to the identifiable assets acquired and liabilities assumed, as well as to the fair value of the consideration transferred.

B. Asset retirement obligations

The book value of asset retirement obligations as reflected in BlackPearl's balance sheet was measured using a risk-free rate of 2.45 per cent. For the purpose of the preliminary purchase price allocation, the fair value of asset retirement obligations was adjusted to use a credit adjusted risk-free rate of 8 per cent. As a result of the change in the discount factor used, an adjustment of USD 25,445 thousand has been recognized.

C. Financial liabilities

The fair value of the long term debt as recognized by BlackPearl has been adjusted for the capitalized borrowing costs for an amount of USD 1,106 thousand to recognize the full outstanding liability under the BlackPearl credit facilities being CAD 125,000 thousand (USD 96,057 thousand).

D. Exploration and evaluation ("E&E") assets

No value has been allocated to contingent resources and therefore IPC has not allocated any of the preliminary purchase price to the E&E assets.

E. Deferred Tax Assets

The net deferred tax assets was adjusted by USD 51,366 thousand by applying the Canadian income tax rate of 27% to the temporary differences identified within the preliminary purchase price allocation.

3. Pro forma Combined Condensed Consolidated Statement of Operations for the nine month period ended September 30, 2018

The unaudited pro forma combined condensed consolidated statement of operations for the nine month period ended September 30, 2018 gives effect to the Arrangement as if it had occurred on January 1, 2017, considering the assumptions described below.

3.1 Reclassifications

Certain items have been reclassified in the unaudited pro forma combined condensed consolidated statement of operations to align revenues and expenses of BlackPearl to IPC's statement of operations presentation as follows:

A. Stock based compensation

The stock based compensation amount has been reclassified within the line "general administrative and depreciation expenses".

Other than this reclassification, management did not identify any material differences between the accounting policies applied by IPC and the accounting policies used in the preparation of the unaudited statement of operations of BlackPearl.

3.2 Pro forma adjustments relating to the BlackPearl Acquisition

Pro forma adjustments have been made in the following lines of the unaudited pro forma combined condensed consolidated statement of operations.

A. Depletion and decommissioning costs

A decrease in the depletion charge of USD 3,205 thousand has been reflected to recognize the revised depletion base of the property, plant and equipment following the preliminary purchase price allocation. To calculate the adjustment, an average depletion rate per boe of USD 7.30 was calculated and has been applied to total production volumes produced by BlackPearl as stated in their MD&A for the nine month period ended September 30, 2018.

B. Unwinding of asset retirement obligation discount

The unwinding of the discounting of the asset retirement obligation for BlackPearl has been adjusted based on the calculation made for the preliminary allocation of the purchase price. The discount rate assumed is 8 per cent and the discounting is being assumed to be unwound to the estimated dates of abandoning each well and facility belonging to BlackPearl. The adjustment amounts to USD 818 thousand for the nine month period ending September 30, 2018.

C. Income tax

A deferred tax credit has been recognised for an amount of USD 645 thousand to reflect the deferred tax impact on the pro forma adjustments. This adjustment was recorded using the Canadian income tax rate of 27%.

D. Earnings per share

Pro forma basic and diluted earnings per share was calculated using the pro forma net result divided by the weighted average number of IPC shares outstanding after giving effect to the Arrangement (see Note 2A).

4. Pro forma Combined Condensed Consolidated Statement of Operations – for the year ended December 31, 2017

4.1 IPC Combined Condensed Consolidated Pro Forma Statement of Operations

The IPC combined condensed consolidated pro forma statement of operations gives effect to the Suffield Acquisition as if it had occurred on January 1, 2017.

Unaudited Pro Forma Income Statement for 2017

	Audited IPC Consolidated Income Statement	Audited Suffield Assets Operating Statement ¹	Unaudited Pro Forma Adjustments	Unaudited IPC Condensed Pro Forma Income Statement
USD Thousands				
Sales of oil and gas	185,182	185,659	–	370,841
Change in under/over lift position	(613)	–	–	(613)
Other revenue	18,432	–	–	18,432
Royalties	–	(7,183)	–	(7,183)
Total Revenue	203,001	178,476	–	381,477
Cost of operations	(53,389)	(54,984)	–	(108,373)
Tariff and transportation expenses	(3,361)	(36,202)	24,172	(15,391)
Direct production taxes	(3,999)	(112)	–	(4,111)
Change in inventory position	(3,688)	–	–	(3,688)
Other costs	–	–	(24,172)	(24,172)
Production costs	(64,437)	(91,298)	–	(155,735)
Depletion and decommissioning costs	(54,555)		(44,315)	(98,870)
Depreciation of other assets	(31,629)		–	(31,629)
Exploration and business development costs	(3,786)		–	(3,786)
Impairment costs	164		–	164
Gross Profit	48,758		(44,315)	91,621
General administrative and depreciation expenses	(10,400)		(1,600)	(12,000)
Profit before financial items	38,358		(45,915)	79,621
Finance income	94		–	94
Foreign exchange loss, net	(8,922)		–	(8,922)
Unwinding of asset retirement obligation discount	(3,557)		(5,346)	(8,903)
Interest expense	(1,378)		(12,285)	(13,663)
Amortization of loan fees	(700)		(2,748)	(3,448)
Loan commitment fees	(391)		(902)	(1,293)
Other financial costs	(53)		–	(53)
Net financial items	(14,907)		(21,281)	(36,188)
Profit before tax	23,451		(67,196)	43,433
Income tax	(728)		(5,395)	(6,123)
Net result	22,723		(72,591)	37,310

¹ Note that the Suffield Assets operating statement was audited to the production costs line only and has been translated into US dollars using the average rate for the year ended December 31, 2017 of 1.2982 CAD/USD.

See the accompanying notes to the Unaudited Condensed Pro Forma Income Statement.

Pro Forma adjustments

The Unaudited Condensed Pro Forma Income Statement gives effect to the Acquisition as if it had occurred on January 1, 2017, considering the assumptions described below.

Certain items have been reclassified in the Unaudited Condensed Pro Forma Operating Statement to appropriately align the revenues and expenses of the Suffield Assets to IPC's financial statements presentation. Cenovus purchased condensate to dilute oil production and meet pipeline specification for its Suffield oil products. A pro forma adjustment of USD 24,172 thousand relating to condensate used for blending, has been reflected in the Unaudited Condensed Pro Forma Income Statement to reclassify such item from the line "Tariff and transportation expenses" as reported under the Suffield Assets information into the line "Other costs".

Other than this reclassification, management did not identify any material difference between the accounting policies applied by IPC and the accounting policies used in the preparation of the audited operating statements for the Suffield Assets.

Pro forma Adjustments have been made in the following lines of the Unaudited Condensed Pro Forma Income Statement:

(i) *Depletion and decommissioning costs*

A depletion rate of CAD 6.44 per boe has been applied to total production volumes produced by the Suffield Assets for the year ended 2017. This depletion rate is based on the rate calculated for the financial statements for the first quarter of 2018 following the preliminary allocation of the purchase price. There have been no material changes to the preliminary allocation of the purchase price.

(ii) *General administrative and depreciation expenses*

Additional general, administrative and depreciation expenses have been included in the pro forma to reflect the estimated annual amount that would have been charged to the income statement had the Acquisition completed on January 1, 2017.

(iii) *Unwinding of asset retirement obligation discount*

The unwinding of the discounting of the abandonment retirement obligation for the Suffield Assets has been included based on the calculation made for the preliminary allocation of the purchase price. The discount rate assumed is 8 per cent and the discounting is being assumed to be unwound to the estimated dates of abandoning each well and facility belonging to the Suffield Assets.

(iv) *Interest expense, amortization of loan fees and loan commitment fees*

The interest expense, amortization of loan fees and loan commitment fees have been calculated assuming that the financing associated with the Acquisition was entered into on January 1, 2017. All cash flow generated for 2017 from the Suffield Assets has been assumed to have been used to partly repay the Canadian loan facility. Average 2017 floating interest rates of 1.2 percent and 1.1 percent were applied for the International reserve-based lending facility and the Canadian loan facility respectively.

(v) *Income tax*

Income tax on the pro forma Canadian taxable income for 2017 has been applied at the Canadian tax rate of 27 percent.

4.2 Reclassifications relating to the BlackPearl Acquisition

Certain items have been reclassified in the unaudited pro forma combined condensed consolidated statement of operations to align revenues and expenses of BlackPearl to IPC's statement of operations presentation as follows.

A. Stock based compensation

The stock based compensation amount has been reclassified within the line "general administrative and depreciation expenses".

Other than this reclassification, management did not identify any material differences between the accounting policies applied by IPC and the accounting policies used in the preparation of the unaudited statement of operations of BlackPearl.

4.3 Pro Forma Adjustments relating to BlackPearl Acquisition

Pro forma adjustments have been made in the following lines of the unaudited pro forma combined condensed consolidated statement of operations.

A. Depletion and decommissioning costs

A decrease in the depletion charge of USD 5,524 thousand has been reflected to recognize the revised depletion base of the property, plant and equipment following the preliminary purchase price allocation. To calculate the adjustment, an average depletion rate per boe of USD 7.30 was calculated and has been applied to total production volumes produced by BlackPearl as stated in their MD&A for the year ended December 31, 2017.

B. Unwinding of asset retirement obligation discount

The unwinding of the discounting of the asset retirement obligation for BlackPearl has been included based on the calculation made for the preliminary allocation of the purchase price. The discount rate assumed is 8 per cent and the discounting is being assumed to be unwound to the estimated dates of abandoning each well and facility belonging to BlackPearl. The adjustment amounts to USD 824 thousand for year ended December 31, 2017.

C. Income tax

A deferred tax credit has been recognised for an amount of USD 1,269 thousand to reflect the deferred tax impact on the pro forma adjustments. This adjustment was recorded using the Canadian income tax rate of 27%.

D. Earnings per share

Pro forma basic and diluted earnings per share was calculated using the pro forma net result divided by the weighted average number of IPC shares outstanding after giving effect to the Arrangement (see Note 2A).

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