CROWN POINT ENERGY INC.

Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2018
(Unaudited)

CROWN POINT ENERGY INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Unaudited)
(United States Dollars)

As at	September 30 2018	December 31 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 618,403	$ 720,649
Trade and other receivables (Note 5)	7,416,246	1,490,466
Inventory	1,808,897	1,190,402
Prepaid expenses	1,060,865	1,269,962
Deposits (Note 10)	-	215,000
	10,904,411	4,886,479
Exploration and evaluation assets (Note 6)	9,493,018	6,013,387
Property and equipment (Note 7)	47,969,815	23,198,458
Other non-current assets (Note 8)	2,985	6,758,046
Goodwill (Note 4)	4,827,660	-
	$ 73,197,889	$ 40,856,370
Liabilities and Shareholders' Equity		
Current liabilities:		
Trade and other payables	$ 6,988,914	$ 2,395,679
Current taxes payable (Note 17)	3,025,689	812,231
Bank debt (Note 10)	4,000,000	812,208
Current portion of contingent liability (Note 11)	1,681,300	-
Current portion of decommissioning provision (Note 12)	183,001	180,708
	15,878,904	4,200,826
Contingent liability (Note 11)	921,577	-
Decommissioning provision (Note 12)	7,401,963	3,802,837
Deferred tax liability (Note 17)	7,669,400	2,103,000
	31,871,844	10,106,663
Shareholders' equity:		
Share capital (Note 13)	131,745,215	119,982,644
Contributed surplus	6,887,166	6,887,166
Accumulated other comprehensive loss	(18,418,634)	(18,266,601)
Deficit	(78,887,702)	(77,853,502)
	41,326,045	30,749,707
	$ 73,197,889	$ 40,856,370

Reporting entity and going concern (Note 1)
Commitments (Note 22)
Contingency (Note 23)

Approved on behalf of the Board of Directors:

"Gordon Kettleson" — Gordon Kettleson, Director

"Pablo Peralta" — Pablo Peralta, Director

See accompanying notes to condensed interim consolidated financial statements.

CROWN POINT ENERGY INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)
(Unaudited)
(United States Dollars)

	For the three months ended September 30		For the nine months ended September 30	
	2018	2017	2018	2017
Revenue				
Oil and gas (Note 15)	$ 16,560,691	$ 3,072,252	$ 29,260,963	$ 9,854,676
Royalties	(2,927,811)	(588,141)	(4,956,844)	(1,816,627)
	13,632,880	2,484,111	24,304,119	8,038,049
Expenses				
Operating	3,046,104	1,264,815	6,503,978	3,975,934
General and administrative	536,591	742,016	1,660,101	2,134,614
Depletion and depreciation	4,173,456	1,295,317	7,748,646	4,190,191
Transaction costs (Note 4)	124,063	-	4,586,312	-
Fair value adjustment of contingent liability (Note 11)	839,777	-	839,777	-
Foreign exchange (gain) loss	(317,485)	(7,978)	(834,462)	6,183
	8,402,506	3,294,170	20,504,352	10,306,922
Results from operating activities	5,230,374	(810,059)	3,799,767	(2,268,873)
Net finance expense (Note 16)	(349,754)	(162,793)	(829,517)	(566,451)
Other income	-	2,919,415	-	2,984,092
Income before taxes	4,880,620	1,946,563	2,970,250	148,768
Tax expense (Note 17)	(806,010)	(1,142,324)	(4,004,450)	(950,324)
Net income (loss)	4,074,610	804,239	(1,034,200)	(801,556)
Exchange differences on translation of the Canadian parent company	273,663	(17,816)	(152,033)	(26,029)
Comprehensive income (loss)	$ 4,348,273	$ 786,423	$ (1,186,233)	$ (827,585)
Net income (loss) per share - basic and diluted	$ 0.06	$ 0.05	$ (0.02)	$ (0.05)
Weighted average shares outstanding - basic and diluted (Note 18)	72,903,038	16,451,522	51,950,657	16,451,522

See accompanying notes to condensed interim consolidated financial statements.

CROWN POINT ENERGY INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Unaudited)
(United States Dollars)

For the nine months ended September 30		2018		2017
Share capital				
Balance, January 1	$	119,982,644	$	116,003,355
Issuance of share capital, net of costs (Note 13)		11,762,571		-
Balance, September 30		131,745,215		116,003,355
Contributed surplus				
Balance, January 1 and September 30		6,887,166		6,887,166
Accumulated other comprehensive loss				
Balance, January 1		(18,266,601)		(18,028,606)
Exchange differences on translation of Canadian parent company		(152,033)		(26,029)
Balance, September 30		(18,418,634)		(18,054,635)
Deficit				
Balance, January 1		(77,853,502)		(76,308,237)
Net loss		(1,034,200)		(801,556)
Balance, September 30		(78,887,702)		(77,109,793)
Total shareholders' equity	$	41,326,045	$	27,726,093

See accompanying notes to condensed interim consolidated financial statements.

CROWN POINT ENERGY INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(United States Dollars)

For the nine months ended September 30	2018	2017
Operating:		
Net loss	$ (1,034,200)	$ (801,556)
Items not affecting cash:		
Depletion and depreciation	7,748,646	4,190,191
Unrealized foreign exchange (gain) loss	24,749	(232,178)
Finance expense (Note 16)	290,047	398,993
Other income	-	(1,884,915)
Fair value adjustment of contingent liability (Note 11)	839,777	-
Tax expense (Note 17)	1,613,600	659,000
Short-term bond proceeds	-	(2,200)
Decomissioning expenditures (Note 12)	(20,980)	(25,119)
	9,461,639	2,302,216
Change in non-cash working capital (Note 19)	27,418	136,457
Operating cash flows	9,489,057	2,438,673
Financing:		
Bank debt proceeds (Note 10)	14,313,694	1,134,246
Bank debt repayment (Note 10)	(10,968,726)	(1,189,562)
Proceeds from return of deposits (Note 10)	215,000	950,000
Proceeds from share issuance, net of costs (Note 13)	11,762,571	-
Interest expense (Note 16)	(199,446)	(329,675)
Financing cash flows	15,123,093	565,009
Investing:		
Exploration and evaluation - expenditures (Note 6)	(3,483,692)	(2,178,901)
Property and equipment - expenditures (Note 7)	(5,491,119)	(480,172)
Property and equipment - VAT (expenditures) recoveries (Note 7)	(230,601)	998,244
Property and equipment - proceeds from disposition	-	19,734
Acquisition of St. Patrick Oil & Gas S.A., net of cash and cash equivalents acquired (Note 4)	(17,311,776)	-
Change in other non-current assets	(55,930)	19,558
Change in non-cash working capital (Note 19)	2,197,540	6,804
Investing cash flows	(24,375,578)	(1,614,733)
Change in cash and cash equivalents	236,572	1,388,949
Foreign exchange effect on cash held in foreign currencies	(338,818)	105,131
Cash and cash equivalents, January 1	720,649	521,185
Cash and cash equivalents, September 30	$ 618,403	$ 2,015,265

See accompanying notes to condensed interim consolidated financial statements.

1. REPORTING ENTITY AND GOING CONCERN:

Crown Point Energy Inc. ("Crown Point" or the "Company") was incorporated under the laws of British Columbia and continued under the laws of Alberta on July 27, 2012. Crown Point is based in Calgary, Alberta and is involved in the exploration for, and development and production of petroleum and natural gas in Argentina.

The Company's registered office is Suite 2400, 525 – 8th Avenue SW, Calgary, Alberta, T2P 1G1.

As at September 30, 2018, Liminar Energía S.A. ("Liminar"), the Company's largest shareholder, owned approximately 59.5% of the Company's issued and outstanding common shares.

These condensed interim consolidated financial statements have been prepared on a going concern basis which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. During the nine months ended September 30, 2018, the Company generated net loss of approximately $1 million. As at September 30, 2018, the Company has a working capital deficit of approximately $5 million, $4 million of bank debt repayable in December 2018 (Note 10) and significant future capital commitments (Note 22) to develop its properties.

The following events have had a significant impact on the future liquidity position of the Company:

- On April 17, 2018, the Company filed a final prospectus for a rights offering and a commitment letter for debt financing. The Company closed the rights offering on May 23, 2018, pursuant to which the Company issued 40,000,000 common shares at $0.30 per share for gross proceeds of $12 million (Note 13) and obtained four loans between June 7, 2018 and July 27, 2018 totaling $13.5 million (Note 10).
- On June 7, 2018, the Company acquired of all of the issued and outstanding shares of St. Patrick Oil & Gas S.A. (formerly Apco Austral S.A.) for $28.4 million of cash consideration plus up to $9 million of contingent royalty payments during a ten-year period commencing on January 1, 2018 (Note 4).

The ability of the Company to continue as a going concern and the recoverability of its assets is dependent upon the existence of economically recoverable reserves and upon the Company's ability to obtain additional financing to continue the development of the Company's properties and generate funds there from and to meet current and future obligations. The need to obtain capital to fund the existing and ongoing operations creates a material uncertainty that may cast significant doubt about the Company's ability to meet its obligations as they become due, and accordingly, the appropriateness of the use of accounting principles applicable to a going concern. These consolidated financial statements do not reflect adjustments in the carrying values of the assets and liabilities, expenses and the statements of financial position classifications that would be necessary if the going concern assumption were not appropriate. Such adjustments could be material.

2. BASIS OF PRESENTATION:

The unaudited condensed interim consolidated financial statements of the Company and its subsidiaries have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board, including International Accounting Standard 34 – Interim Financial Reporting.

The Company has consistently applied the same accounting policies throughout all periods presented (see Note 3 for impact of new accounting policies). These unaudited condensed interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2017.

These unaudited condensed interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, CanAmericas (Argentina) Energy Ltd., Crown Point Energía S.A. and St. Patrick Oil & Gas S.A. (Note 4).

These unaudited condensed interim consolidated financial statements were authorized for issue by the Board of Directors on November 16, 2018.

(United States dollars)

3. CHANGES IN ACCOUNTING STANDARDS:

On January 1, 2018, the Company retrospectively adopted IFRS 9 Financial Instruments ("IFRS 9") which includes new requirements for the classification and measurement of financial assets, a new credit loss impairment model and new model to be used for hedge accounting for risk management contracts. The Company does not currently have any risk management contracts. The adoption of IFRS 9 did not have a material impact on the Company's financial statements and management applied the provision matrix practical expedient as part of the adoption of the standard. The additional disclosures required by IFRS 9 are detailed in Note 5.

On January 1, 2018, the Company adopted IFRS 15 Revenue from Contracts with Customers ("IFRS 15") using the retrospective method of adoption. The adoption of IFRS 15 did not have a material impact on the Company's unaudited condensed interim consolidated financial statements and as a result, the Company did not apply any practical expedients as part of the adoption of IFRS 15. The additional disclosures required by IFRS 15 are detailed in Note 15.

4. ACQUISITION OF ST. PATRICK OIL & GAS S.A.

On June 7, 2018, the Company closed the acquisition (the "Acquisition") of all of the issued and outstanding shares of St. Patrick Oil & Gas S.A. ("St. Patrick"), formerly named Apco Austral S.A., from Pluspetrol Resources Corporation ("Pluspetrol") for $28.4 million of cash consideration plus up to $9 million of contingent royalty payments (Note 12) during a ten-year period commencing on January 1, 2018. $6.75 million of the cash consideration was paid as a deposit in 2017 (Note 8).

St. Patrick holds a 25.7796% participating interest in the Rio Cullen, Las Violetas and La Angostura hydrocarbon exploitation concessions located in the Tierra del Fuego ("TDF") region of the Austral basin in southern Argentina (the "TDF Concessions"). Following the completion of the Acquisition, the Company holds a 51.56% interest in the TDF Concessions,

The Acquisition was accounted for as a business combination in accordance with IFRS 3 Business Combinations using the acquisition method of accounting whereby the assets acquired and liabilities assumed were recorded at their estimated fair values on the June 7, 2018 acquisition date as follows:

Fair value of net assets:		
Cash and cash equivalents	$	4,301,368
Non-cash working capital		1,715,300
Property and equipment		25,280,400
Goodwill		4,827,660
Non-current liabilities		(56,684)
Decommissioning provision		(1,989,000)
Deferred tax liability		(3,952,800)
	$	30,126,244
Consideration:		
Cash	$	28,363,144
Contingent liability (Note 11)		1,763,100
	$	30,126,244

The preliminary estimates of fair value were made by management at the time of preparation of these consolidated financial statements based on available information and may be adjusted as the amounts subject to estimates are finalized.

Goodwill is attributed to the doubling of daily production and usage of excess capacity in existing Company-owned field infrastructure to gather, process and transport new gas production to market at minimal on-stream cost. Subsequent measurement of goodwill is at cost less any accumulated impairments. Goodwill is assessed for impairment at least annually. If the carrying amount of the related cash-generating unit ("CGU") exceeds the recoverable amount of the CGU, including goodwill, the associated goodwill is written down with an impairment recognized in net earnings. Goodwill impairments are not reversed. Goodwill is not tax deductible.

(United States dollars)

During the nine months ended September 30, 2018, the Company incurred $4.6 million of costs related to the Acquisition, including $4.4 million of withholding taxes payable to Argentine tax authorities in connection with the Acquisition (year ended December 31, 2017 – $264,630, of which $216,131 was paid to Liminar as a fee for its guarantee of the Company's payment obligations under the Acquisition agreements).

Since June 7, 2018, the Acquisition contributed $8.9 million of oil and gas revenue and $5.7 million of operating income (oil and gas revenue less royalties and operating expenses). Had the Acquisition occurred on January 1, 2018, the Company estimates that oil and gas revenue would have increased by approximately $6.2 million and operating income would have increased by approximately $4.1 million. The pro forma information is not necessarily representative of future revenue and operations.

5. TRADE AND OTHER RECEIVABLES:

The Company's trade and other receivables are exposed to the risk of financial loss if the counterparty fails to meet its contractual obligations. The Company's trade and other receivables include amounts due from the sale of crude oil and natural gas. The majority of the Company's oil production is exported by the Company to two international traders and to a Chilean public company; the majority of the Company's natural gas production is sold by the Company to several Argentine companies.

Three major purchasers that represent 100% of oil revenue reported in the nine months ended September 30, 2018 comprise $2,363,201 of accounts receivable at September 30, 2018 (December 31, 2017 – $42,380) and three major purchasers that represent 74% of natural gas revenue reported in the nine months ended September 30, 2018 comprise $3,090,569 of accounts receivable at September 30, 2018 (December 31, 2017 – $962,146) (Note 15).

The Company evaluated the collectability of a receivable due from an Argentine operator in a previous year and recorded a $249,804 allowance for credit losses. The allowance for credit losses was increased at September 30, 2018 in relation to trade and other receivables acquired from St. Patrick (Note 4).

The Company's maximum exposure to credit risk at September 30, 2018 is in respect of $7,416,246 (December 31, 2017 – $1,490,466) of trade and other receivables. The Company's trade and other receivables consist of:

	September 30 2018	December 31 2017
Due from Argentine companies	$ 7,595,082	$ 1,695,207
Other receivables	84,055	45,063
Allowance for credit losses	(262,891)	(249,804)
Total trade and other receivables	$ 7,416,246	$ 1,490,466

The Company's trade and other receivables are aged as follows:

	September 30 2018	December 31 2017
Not past due (less than 90 days)	$ 6,940,604	$ 1,407,083
Past due (more than 90 days)	738,533	333,187
	7,679,137	1,740,270
Allowance for credit losses	(262,891)	(249,804)
Total trade and other receivables	$ 7,416,246	$ 1,490,466

(United States dollars)

6. EXPLORATION AND EVALUATION ASSETS ("E&E"):

Carrying amount, December 31, 2017	$	6,013,387
Additions		2,896,540
VAT additions		587,152
Decommissioning revision (Note 12)		(4,061)
Carrying amount, September 30, 2018	$	9,493,018

7. PROPERTY AND EQUIPMENT:

	Argentina		Canada	
	Development and Production Assets	Other Assets	Other Assets	Total
Cost:	$	$	$	$
Balance at December 31, 2017	52,804,791	351,493	279,284	53,435,568
Acquisition (Note 4)	25,273,416	6,984	–	25,280,400
Additions	5,405,298	69,168	16,653	5,491,119
VAT additions	230,601	–	–	230,601
Decommissioning revision (Note 12)	1,546,859	–	–	1,546,859
Effect of change in exchange rates	–	–	(7,281)	(7,281)
Balance at September 30, 2018	85,260,965	427,645	288,656	85,977,266
Accumulated depletion and depreciation:				
Balance at December 31, 2017	29,681,865	281,190	274,055	30,237,110
Depletion and depreciation	7,731,635	41,122	4,882	7,777,639
Effect of change in exchange rates	–	–	(7,298)	(7,298)
Balance at September 30, 2018	37,413,500	322,312	271,639	38,007,451
Net carrying amount:				
At December 31, 2017	23,122,926	70,303	5,229	23,198,458
At September 30, 2018	47,847,465	105,333	17,017	47,969,815

Future development costs:

The September 30, 2018 depletion expense calculation included $47.8 million (December 31, 2017 – $26.2 million) for estimated future development costs associated with proved and probable reserves in Argentina.

8. OTHER NON-CURRENT ASSETS:

		September 30 2018		December 31 2017
Interest-bearing bonds	$	5,849	$	23,833
Long-term receivables		2,985		8,046
Acquisition deposit (Note 4)		–		6,750,000
		8,834		6,781,879
Current portion of interest-bearing bonds included in trade and other receivables		(5,849)		(23,833)
Total non-current assets	$	2,985	$	6,758,046

(United States dollars)

9. VALUE ADDED TAX:

		September 30 2018		December 31 2017
Included in prepaid expenses	$	112,712	$	9,848
Included in E&E assets (Note 6)		2,104,556		1,517,404
Included in property and equipment (Note 7)		1,182,294		951,693
	$	3,399,562	$	2,478,945

10. BANK DEBT:

A continuity of the Company's bank debt is as follows:

		September 30 2018
Balance, December 31, 2017	$	812,208
Proceeds		14,313,694
Repayment		(10,968,726)
Effect of change in exchange rates		(157,176)
Balance, September 30, 2018	$	4,000,000

Bank debt as at September 30, 2018 and December 31, 2017 was classified as current and comprised of the following:

		September 30 2018		December 31 2017
Loan facility (a)	$	–	$	351,172
Loan facility (b)		–		461,036
Acquisition loan (c)		2,900,000		–
Working capital loan (e)		1,100,000		–
Total bank debt	$	4,000,000	$	812,208

(a) The Company had an ARS denominated loan facility with HSBC Argentina at an interest rate of 19%, calculated and paid monthly commencing on the date the amounts are drawn.

On July 17, 2015, the Company drew ARS 9,500,000 ($1,038,512) of proceeds under the loan facility obtained with HSBC Argentina on June 30, 2015, at which time the Company provided the lender security in the form of a $350,000 (December 31, 2017 – $90,500) US denominated letter of credit held as a GIC with a major Canadian financial institution. The loan principal was repayable in 24 monthly installments commencing August 17, 2016.

On October 23, 2015, the Company drew an additional ARS 9,500,000 ($997,941) of proceeds under this loan facility, at which time the Company provided the lender security in the form of a USD denominated $350,000 (December 31, 2016 – $124,500) letter of credit held as a GIC with a major Canadian financial institution. The ARS 9,500,000 loan principal was repayable in 24 monthly installments commencing November 23, 2016.

As at December 31, 2017, the balance owing under this loan facility was ARS 6,729,166 ($351,172)) which was repaid in monthly installments during the first three months of 2018 with a final payment of ARS 4,354,166 ($216,227) made in April 2018. The $215,000 of USD denominated GICs on deposit as security were released to the Company in February and May 2018.

(b) On December 26, 2016, the Company obtained a $900,000 loan facility with Banco Industrial. The loan is denominated in USD, unsecured, bears interest at 9.5%, calculated and paid monthly commencing on January 26, 2017 and is repayable in one installment on December 26, 2017. On January 19, 2018, the Company repaid the remaining balance ($461,036) of the Banco Industrial loan.

(c) On June 7, 2018, the Company obtained a $2.9 million loan facility from Banco Hipotecario (the "Acquisition Loan"). The Acquisition Loan is secured against certain accounts receivable to a maximum of $2.9 million that will be applied against the loan when collected. The Acquisition Loan bears interest at a rate of 8% per annum, calculated and paid monthly, and is repayable in one installment on December 7, 2018. The Company paid a $29,000 fee to Banco Hipotecario for providing the Acquisition Loan. The Acquisition Loan proceeds were used to pay a portion of the purchase price for the Acquisition (Note 4). Personal loan guarantees were provided by two individuals as disclosed in Note 20(d).

(d) On June 7, 2018, the Company obtained a $7.5 million bridge loan facility at an interest rate of 8% per annum from Banco Macro (the "Bridge Loan") which was repaid in one installment on June 27, 2018. The Bridge Loan was secured against certain accounts receivable to a maximum of $3.0 million that were applied against the loan when collected. The Bridge Loan proceeds were used to pay a portion of the purchase price for the Acquisition (Note 4). Personal loan guarantees were provided by two individuals as disclosed in Note 20(d).

(e) On June 19, 2018, the Company obtained a $1.1 million loan from Banco Hipotecario (the “Working Capital Loan”). The Working Capital Loan bears interest at a rate of 8% per annum, calculated and paid monthly, and is repayable in one installment on December 19, 2018. The Company paid a $13,750 fee to Banco Hipotecario for providing the Working Capital Loan. Personal loan guarantees were provided by two individuals as disclosed in Note 20(d).

(f) On July 12, 2018, the Company obtained an ARS 13 million ($0.5 million) working capital loan from CMS de Argentina S.A. (the "CMS Working Capital Loan"). The CMS Working Capital Loan bore interest at a rate of 63% per annum, calculated and paid monthly, and was repaid in one installment on August 31, 2018.

(g) On July 27, 2018, the Company obtained a $2 million loan facility from Banco Macro (the “Macro Working Capital Loan”) secured by certain of the Company’s accounts receivable to a maximum of $2 million applied against the loan when collected. The Macro Working Capital Loan bore interest at a rate of 7% per annum from the disbursement date to August 24, 2018 and at a rate of 10.5% per annum from August 24, 2018 to the date of repayment, calculated and paid monthly. The Macro Working Capital Loan was repaid in two installments of $1.2 million on September 4, 2018 and $0.8 million on September 17, 2018. Personal loan guarantees were provided by two individuals as disclosed in Note 20(d).

(h) On August 30, 2018, the Company obtained an ARS 13 million ($0.3 million) overdraft agreement with Banco Saenz (the “Banco Saenz Overdraft”) at an interest of 65% per annum, calculated and paid monthly. The Banco Saenz Overdraft was repaid in one installment on September 26, 2018. A loan guarantee was provided by ST Inversiones S.A. as disclosed in Note 20(e).

(United States dollars)

11. CONTINGENT LIABILITY:

On June 7, 2018, the Company recognized a liability of $1,763,100 representing the estimated fair value of contingent royalty payments associated with the Acquisition (Note 4). Under the terms of the royalty agreement, the Company will make quarterly payments over a ten-year period commencing on January 1, 2018 equal to 10% of the amount by which net revenue (oil and gas revenue less provincial royalties) received by St. Patrick from its 25.7796% participating interest in the TDF Concessions for the quarter exceeds certain base net revenue thresholds for such quarter. If in any quarter the net revenues received by St. Patrick do not exceed the base net revenue threshold for that quarter, then no royalty payment will be payable.

A reconciliation of the contingent liability as at September 30, 2018 is provided below:

Balance, December 31, 2017	$	–
Acquisition (Note 4)		1,763,100
Fair value adjustment		839,777
Balance, September 30, 2018	$	2,602,877
Current portion of contingent liability		(1,681,300)
Long-term portion of contingent liability	$	921,577

The fair value of the contingent liability as at September 30, 2018 was estimated based on $5.1 million of undiscounted cash flows over 10 years at a discount rate of 17%.

12. DECOMMISSIONING PROVISION:

A reconciliation of the decommissioning provision is provided below:

Balance, December 31, 2017	$	3,983,545
Acquisition (Note 4)		1,989,000
Additions		40,191
Accretion		90,601
Expenditures		(20,980)
Revision		1,502,607
Balance, September 30, 2018	$	7,584,964
Current portion of decommissioning provision		(183,001)
Long-term portion of decommissioning provision	$	7,401,963

13. SHARE CAPITAL:

	Number of common shares		Amount
Balance, December 31, 2017	32,903,038	$	119,982,644
Rights offering	40,000,000		12,000,000
Share issue costs	–		(237,429)
Balance, September 30, 2018	72,903,038	$	131,745,215

On May 23, 2018, the Company closed a rights offering (the "Rights Offering"), pursuant to which the Company issued 40,000,000 common shares at $0.30 per share for gross proceeds of $12 million.

Liminar acquired an aggregate of 26,666,667 common shares in connection with the Rights Offering (Note 20(b)).

(United States dollars)

14. SHARE-BASED PAYMENTS:

Stock option activity for the three months ended September 30, 2018 is summarized as follows:

	Number of options	Weighted average exercise price (CAD)
Balance, December 31, 2017	158,250	$ 5.20
Expired	(117,250)	(3.98)
Balance, September 30, 2018	41,000	$ 8.70

All stock options outstanding and exercisable at September 30, 2018 expire on May 9, 2019.

15. REVENUE:

The following table represents the Company's petroleum and natural gas revenue disaggregated by commodity:

	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Oil	$ 11,896,232	$ 486,062	$ 19,546,130	$ 2,466,072
Natural gas liquids	16,156	18,952	67,065	101,720
Natural gas	4,648,303	2,567,238	9,647,768	7,286,884
	$ 16,560,691	$ 3,072,252	$ 29,260,963	$ 9,854,676

All of the Company's production is produced in Argentina. The Company sells its production pursuant to fixed and variable price contracts with varying length terms up to 1 year. Under the contracts, the Company is required to deliver a fixed or variable volume of light oil, natural gas or natural gas liquids to the contract counterparty. The transaction price is based on the commodity price, adjusted for quality, location or other factors. Pricing for contracts vary depending on the commodity.

- The transaction price for oil is determined for each shipment from the storage point at Tierra del Fuego to mainland Argentina or abroad. For oil transported by tanker, delivery charges are free on board; for oil transported by truck, delivery charges are paid by the Company.
- Natural gas is sold to the Argentine industrial and residential markets. All of the Company's natural gas revenue for the three and nine months ended September 30, 2018 was from sales to the industrial market (three and nine months ended September 30, 2017 – 87% and 79%, respectively, from sales to the industrial market). The transaction price for natural gas sales to the industrial market are negotiated between the TDF UTE (of which the Company is a member) and the customer. The transaction price for natural gas sales to the residential market is set by the Argentine government.

All of the Company's oil revenue earned in the three and nine months ended September 30, 2018 was for export sales to three purchasers (three and nine months ended September 30, 2017 – domestic sales to one purchaser), of which $2,363,201 was in accounts receivable at September 30, 2018 (December 31, 2017 – $42,380).

All of the Company's natural gas revenue earned in the three and nine months ended September 30, 2018 was for domestic sales, of which 74% was to three major purchasers (three and nine months ended September 30, 2017 – domestic sales of which 74% was to five major purchasers), of which $3,090,569 was in accounts receivable at September 30, 2018 (December 31, 2017 – $962,146).

(United States dollars)

The following table represents the Company's petroleum and natural gas revenue disaggregated by market:

	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Export	$ 11,896,232	$ –	$ 19,546,130	$ –
Domestic	4,664,459	3,072,252	9,714,833	9,854,676
	$ 16,560,691	$ 3,072,252	$ 29,260,963	$ 9,854,676

16. NET FINANCE EXPENSE:

	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Interest income	$ 2,350	$ 68,904	$ 12,030	$ 86,313
Financing fees and bank charges	(136,937)	(101,482)	(412,328)	(253,771)
Interest on bank debt (Note 10)	(135,997)	(106,633)	(199,446)	(329,675)
Loan guarantee fees (Note 20)	(34,340)	–	(139,172)	–
Accretion of decommissioning provision	(44,830)	(23,582)	(90,601)	(69,318)
	$ (349,754)	$ (162,793)	$ (829,517)	$ (566,451)

17. TAXES

During the nine months ended September 30, 2018, the Company recognized $4,004,450 of tax expense comprised of $2,390,850 of current tax and a $1,613,600 deferred tax provision (nine months ended September 30, 2017 – $659,000 deferred tax provision).

Current tax expense is related to taxable income in Argentina generated by the Company's Argentine subsidiaries, Crown Point Energía S.A. and St. Patrick. During the nine months ended September 30, 2018, the Company paid ARS 15,563,977 ($812,231) of taxes payable related to 2017. As at September 30, 2018, the Company's current taxes payable were $3,025,689 (December 31, 2017 – $812,231).

The deferred tax provision is primarily related to the effect of the devaluation of the ARS during the period on the translation of ARS denominated tax pools to USD. As at September 30, 2018, the Company's deferred tax liability was $7,669,400 (December 31, 2017 – $2,103,000).

18. PER SHARE AMOUNTS:

	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Net income (loss)	$ 4,074,610	$ 804,239	$ (1,034,200)	$ (801,556)
Opening number of shares	32,903,038	16,451,522	32,903,038	16,451,522
Effect of shares issued	40,000,000	–	19,047,619	–
Basic and diluted weighted average number of shares	72,903,038	16,451,522	51,950,657	16,451,522
Basic and diluted net loss per share	$ 0.06	$ 0.05	$ (0.02)	$ (0.05)

(United States dollars)

For the three and nine months ended September 30, 2018 and 2017, all stock options were excluded from the diluted per share amounts as their effect was anti-dilutive.

19. SUPPLEMENTAL CASH FLOW INFORMATION:

(a) Change in non-cash working capital items:

For the nine months ended September 30	2018	2017
Trade and other receivables	$ (1,294,857)	$ 269,323
Inventory	19,923	(51,581)
Prepaid expenses	700,628	130,610
Trade and other payables	2,267,349	(177,967)
Current taxes payable	522,765	–
Effect of change in exchange rates	9,150	(27,124)
	$ 2,224,958	$ 143,261
Attributable to:		
Operating activities	$ 27,418	$ 136,457
Investing activities	2,197,540	6,804
	$ 2,224,958	$ 143,261

(b) As at September 30, 2018, the Company held $618,403 (December 31, 2017 – $707,430) of cash in Canadian and Argentine banks and $nil (December 31, 2017 – $13,219) of short-term deposits.

20. RELATED PARTY TRANSACTIONS:

(a) During the three and nine months ended September 30, 2018, the UTE sold a portion of natural gas production to Energía y Soluciones S.A., a company controlled by Gabriel Obrador, who is a director of the Company, for which the Company recognized $100,937 (ARS 3,425,351) and $183,316 (ARS 5,416,555) (three and nine months ended September 30, 2017 – $88,124 (ARS 1,539,407) and $288,097 (ARS 4,683,167)), respectively, of oil and gas revenue for its working interest share. Included in trade and other receivables as at September 30, 2018 is $41,449 (ARS 1,702,537) (December 31, 2017 – $21,435 (ARS 399,786)) in respect of this revenue.

(b) On May 23, 2018, Liminar acquired an aggregate of 26,666,667 common shares of the Company at $0.30 per share for gross proceeds of $8 million (Note 13).

(c) In connection with the final short form prospectus for the Rights Offering (Note 13), Banco de Servicios y Transacciones S.A. (“BST”) provided a commitment letter confirming that up to $14 million will be available to the Company under a new credit facility provided by BST and/or one or more lenders sourced by BST for the purposes of funding a portion of the purchase price for the Acquisition (Note 4). The Company and BST share a common director, Pablo Peralta, who also controls significant shareholdings in both companies.

The Company obtained the Acquisition Loan, the Bridge Loan, the Working Capital Loan and Macro Working Capital Loan as disclosed in Note 10.

(d) Messrs. Pablo Peralta and Roberto Domínguez have personally guaranteed the Company's payment obligations under the Acquisition Loan, the Bridge Loan, the Working Capital Loan and the Macro Working Capital Loan (collectively, the "Loans") disclosed in Note 10. Mr. Peralta is a director of the Company and is the President and a director of Liminar and controls 30% of the voting shares of Liminar. Mr. Domínguez controls approximately 30% of the voting shares of Liminar. In consideration for the provision of the guarantee of the Loans, the Company has agreed to pay to Messrs. Peralta and Domínguez an annual fee during the term of the Loans equal to 1% of the principal amount outstanding under the Loans on the date of such payment. During the three and nine months ended September 30, 2018, the Company recognized $31,000 and $135,832, respectively, of loan guarantee fees, of which $104,382 was paid on July 27, 2018. Subsequent payments will be made annually on the anniversary date of the first payment.

(e) On September 20, 2018, the Company paid a $3,340 loan guarantee fee to ST Inversiones S.A. in relation to the guarantee of the Banco Saenz Overdraft (Note 10 (h)). Messrs. Peralta and Domínguez jointly control 100% of the voting shares of ST Inversiones S.A.

(f) During the three and nine months ended September 30, 2018, the Company paid $30,342 of interest to CMS de Argentina S.A.in respect of the CMS Working Capital Loan (Note 10 (f)). Messrs Peralta and Dominguez jointly control 66% of the voting shares of CMS de Argentina S.A.

Transactions with related parties are conducted and recorded at the exchange amount.

21. FOREIGN CURRENCY EXCHANGE RATE RISK:

A substantial portion of the Company's exploration and development activities are conducted in foreign jurisdictions and a portion of the Company's cash and cash equivalents are denominated in CAD and ARS. The Company has not entered into foreign exchange rate contracts to mitigate this risk.

(a) Foreign currency denominated financial instruments held by the Company:

As at September 30, 2018		Balance denominated in				Total USD
		CAD		ARS		equivalents
Cash and cash equivalents	$	26,210	$	15,215,197	$	389,357
Trade and other receivables	$	9,689	$	47,282,901	$	1,154,419
Trade and other payables and current taxes payable	$	(203,420)	$	(213,760,429)	$	(5,342,555)
Bank debt	$	–	$	–	$	–

As at December 31, 2017		Balance denominated in				Total USD
		CAD		ARS		equivalents
Cash and cash equivalents	$	88,024	$	11,858,207	$	688,930
Trade and other receivables	$	16,476	$	4,985,325	$	273,272
Trade and other payables and current taxes payable	$	(446,078)	$	(44,848,496)	$	(2,695,301)
Bank debt	$	–	$	(6,726,166)	$	(351,172)

(b) Currency devaluation:

Exchange rates (1) as at:	September 30 2018	December 31 2017
CAD to USD	0.7741	0.7954
ARS to USD	0.0243	0.0522
USD to ARS	41.226	19.1620

(1) Source Canadian Forex Exchange

Currency devaluation in Argentina impacts the cost of ARS denominated items which are translated to the USD functional currency of the Argentine subsidiaries. A portion of TDF operating costs and general and administrative expenses incurred in Argentina are denominated in ARS. During the nine months ended September 30, 2018, the devaluation of ARS resulted in lower TDF operating costs and general and administrative expenses incurred in Argentina by approximately 27% (nine months ended September 30, 2017 – devaluation of ARS; lower by approximately 5%).

During the nine months ended September 30, 2018, the devaluation of ARS since the previous year end date resulted in a decrease in the USD equivalent of ARS denominated foreign currency denominated financial instruments, excluding bank debt, by approximately $2.5 million (nine months ended September 30, 2017 – devaluation of ARS; decrease by approximately $34,000).

(United States dollars)

(c) Sensitivity analysis:

The following table presents an estimate of the impact on net loss for the market risk factors discussed above and is calculated based on the noted change in exchange rates applied to balances as at September 30, 2018:

Market risk	Change in exchange rates	Nine months ended September 30 2018
Foreign exchange - effect of strengthening USD:		
CAD denominated financial assets and liabilities	5%	$ 6,480
ARS denominated financial assets and liabilities	10%	$ 367,570

22. COMMITMENTS:

(a) TDF Concessions

The Company has a 51.56% working interest in the TDF Concessions covering approximately 489,000 acres (252,100 net acres) in the Austral Basin. The term of each concession expires in August 2026. The Company's share of expenditure commitments with respect to the TDF Concessions are as follows:

Concession	Term of Expenditure Period	Required Expenditure Commitment
Las Violetas	Until May 1, 2019	18 [(1)] gross wells with a minimum of $24.2 million of exploration and development net investment, all of which was fulfilled as of September 30, 2018.
Rio Cullen	Until August 2026	$0.92 million, none of which was spent as of September 30, 2018
La Angostura	Until August 2026	$1.92 million which was fulfilled as of September 30, 2018

(1) The 18 gross well drilling commitment is an aggregate commitment for all three concessions. As at September 30, 2018, the Company had drilled a total of 18 gross wells comprised of 14 gross wells on the Las Violetas concession, 1 gross well on the Rio Cullen concession and 3 gross well on the La Angostura concession.

(b) Cerro De Los Leones Concession

The Cerro de Los Leones Concession Permit (the "Permit") confers upon its holders the exclusive right to explore for hydrocarbons during three successive exploration periods lasting three, two and one year(s), respectively. Fifty percent of the acreage of the Permit shall be relinquished at the end of each of the first two exploration periods or converted into an exploitation concession or evaluation block.

The following provides details of the work commitments required to be completed during each of the exploration periods:

Period	Term of Exploration Period	Required Work Commitment [(1)]
Period 1	Expired	Transferred to Period 2
Period 2	Extended to January 22, 2019 [(2)]	A minimum of approximately $4.6 million in expenditures plus a minimum of 1 exploration well at an estimated cost of $2.5 million. $2.9 million of expenditures had been incurred as of September 30, 2018
Period 3	1 year commencing upon expiry of Period 2	1 exploration well at an estimated cost of $2.5 million

(1) The required work commitments are expressed as work units in the Permit. Each work unit has an approximate dollar value of $5,000, however, other factors may be considered when determining whether work units have been satisfied.

(2) Should the Company fail to complete its work commitments within the specified time period, it must surrender the concession exploration lands and will be obligated to make a payment equal to the value of the Company's outstanding Period 2 work commitments.

23. CONTINGENCY:

Pursuant to the joint venture agreement governing the TDF Concessions (the "JV Agreement"), the Company's and St. Patrick's partners in the TDF Concessions (each a "JV Partner") had a right of first refusal ("ROFR") that allowed them to participate in the Acquisition at a level that was equivalent to their participating interest in the TDF Concessions. Roch S.A. ("Roch"), one of the JV Partners, disputed the validity of the ROFR notices issued by Pluspetrol to the JV Partners and obtained an injunction (the "Injunction") from an Argentine court prohibiting Pluspetrol from selling the shares of St. Patrick to the Company. Both Pluspetrol and the Company successfully challenged the Injunction and the Argentine court ordered that the Injunction be revoked and that instead Roch's claim be recorded in St. Patrick's share register to give notice of the claim to potential purchasers (a legal remedy known as "lis pendens" or "Anotación de Litis" in Argentina) (the "Lis Pendens Remedy"). However, Roch immediately appealed this decision to an Argentine Court of Appeal, which had the effect of reinstating the lower court's initial decision (which kept the Injunction in place). The Argentine Court of Appeal subsequently rejected Roch's appeal, with the result that the lower court's decision to revoke the original Injunction and impose the Lis Pendens Remedy was restored. Roch did not appeal the Court of Appeal's decision by the applicable deadline, with the result that the Injunction was permanently revoked and the Lis Pendens Remedy remains in effect.

Roch has also commenced arbitration proceedings against Pluspetrol and St. Patrick under the JV Agreement in order to have an arbitration panel consider and rule on the dispute (the "Arbitration"). The Arbitration is currently in its last stages. The Company is unable to predict when the Arbitration will be concluded or what the outcome of the Arbitration proceedings will be. Pluspetrol has provided certain indemnities to the Company in connection with the Arbitration proceedings.