

CROWN POINT ENERGY INC.
Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management is responsible for the preparation of the consolidated financial statements and the consistent presentation of all other financial information that is publicly disclosed. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and include estimates and assumptions based on management's best judgment.

Management maintains a system of internal controls to provide reasonable assurance that assets are safeguarded, and that relevant and reliable financial information is produced in a timely manner.

Independent auditors appointed by the shareholders have examined the consolidated financial statements. The Audit Committee, comprising independent members of the Board of Directors, have reviewed the consolidated financial statements with management and the independent auditors. The Audit Committee is responsible for setting the remuneration of the independent auditors. The Board of Directors has approved the consolidated financial statements on the recommendation of the Audit Committee.

"Brian Moss"

Brian Moss
President and Chief Executive Officer

"Marisa Tormakh"

Marisa Tormakh
Vice President Finance and Chief Financial Officer

Calgary, Alberta
April 23, 2020



Independent auditor's report

To the Shareholders of Crown Point Energy Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Crown Point Energy Inc. and its subsidiaries (together, the Company) as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2019 and 2018;
- the consolidated statements of income and comprehensive income for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

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 *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

PricewaterhouseCoopers LLP
111-5th Avenue SW, Suite 3100, Calgary, Alberta, Canada T2P 5L3
T: +1 403 509 7500, F: +1 403 781 1825

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



Our opinion on the consolidated financial statements does not cover the other information and we do 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, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but 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 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.

- 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 auditor's report to the related disclosures in the consolidated 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 auditor's 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 consolidated 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 consolidated 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 auditor's report is Khurram Asghar.

Chartered Professional Accountants

Calgary, Alberta, Canada
April 23, 2020

CROWN POINT ENERGY INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at December 31
(United States Dollars)

	Note	2019	2018
Assets			
Current assets:			
Cash		\$ 2,695,803	\$ 2,194,072
Trade and other receivables	7	2,766,159	12,029,153
Oil inventory		1,031,685	-
Prepaid expenses and other current assets	8	2,967,728	2,121,612
Current portion of contingent consideration receivable	13(b)	732,649	-
		10,194,024	16,344,837
Exploration and evaluation assets	9	10,920,359	9,032,994
Property and equipment	10	31,151,688	54,750,958
Goodwill	11	1,735,549	4,996,568
Contingent consideration receivable	13(b)	1,634,740	-
Other non-current assets		1,692	3,268
		\$ 55,638,052	\$ 85,128,625
Liabilities and Shareholders' Equity			
Current liabilities:			
Trade and other payables		\$ 3,619,125	\$ 8,299,835
Current taxes payable	23	3,173,027	5,406,520
Bank debt	12	-	1,700,000
Current portion of contingent consideration liability	13(a)	1,147,925	2,321,930
Current portion of decommissioning provision	14	251,548	179,544
Current portion of lease liabilities	15	171,202	-
		8,362,827	17,907,829
Contingent consideration liability	13(a)	2,504,768	4,744,616
Decommissioning provision	14	6,256,147	6,834,757
Lease liabilities	15	779,175	-
Deferred tax liability	23	3,479,723	7,329,504
		21,382,640	36,816,706
Shareholders' equity:			
Share capital	16	56,456,328	131,745,215
Contributed surplus		245,914	6,887,166
Accumulated other comprehensive loss		(18,284,158)	(18,432,797)
Deficit		(4,162,672)	(71,887,665)
		34,255,412	48,311,919
		\$ 55,638,052	\$ 85,128,625

Commitments (Note 28)

Subsequent events (Note 29)

Approved on behalf of the Board of Directors:

"Gordon Kettleson"

Gordon Kettleson, Director

"Pablo Peralta"

Pablo Peralta, Director

See accompanying notes to consolidated financial statements.

CROWN POINT ENERGY INC.
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

For the years ended December 31

(United States Dollars)

	Note	2019	2018
Revenue			
Oil and natural gas sales	19	\$ 41,198,036	\$ 48,667,242
Processing income		534,830	-
Export tax	20	(2,732,394)	(1,872,814)
Royalties		(6,281,807)	(8,072,307)
		32,718,665	38,722,121
Expenses			
Operating		11,883,775	11,468,282
General and administrative		4,037,040	2,466,052
Depletion and depreciation		9,447,797	11,992,141
Exploration and evaluation	9	927,471	-
Allowance for credit losses	7	95,799	-
Transaction costs	5	-	153,405
Fair value adjustment of contingent consideration	13	(922,235)	1,404,858
Gain on decommissioning provision	14	(183,104)	-
Share-based payments	17	466,414	-
Foreign exchange (gain) loss		(460,661)	48,027
		25,292,296	27,532,765
Operating income		7,426,369	11,189,356
Loss on disposition of participating interest	4	(1,717,662)	-
Net finance expense	19	(781,083)	(1,162,234)
Income before taxes		4,927,624	10,027,122
Tax expense	23	(3,560,515)	(4,061,285)
Net income		1,367,109	5,965,837
Other comprehensive income (loss)			
Items that may be subsequently reclassified to profit or loss			
Exchange differences on translation of the Canadian parent company		148,639	(166,196)
Total comprehensive income		\$ 1,515,748	\$ 5,799,641
Net income per share	18	\$ 0.02	\$ 0.10

See accompanying notes to these consolidated financial statements.

CROWN POINT ENERGY INC.
CONSOLIDATED STATEMENTS OF CHANGES IN
SHAREHOLDERS' EQUITY

For the years ended December 31
(United States Dollars)

	Note	2019	2018
Share capital			
Balance, January 1		\$ 131,745,215	\$ 119,982,644
Issuance of share capital, net of costs		-	11,762,571
Reduction of stated capital	16	(74,990,000)	-
Return of capital	16	(298,887)	-
Balance, December 31		56,456,328	131,745,215
Contributed surplus			
Balance, January 1		6,887,166	6,887,166
Reduction of stated capital	16	6,080,510	-
Return of capital	16	(13,188,176)	-
Share-based payments	17	466,414	-
Balance, December 31		245,914	6,887,166
Accumulated other comprehensive loss			
Balance, January 1		(18,432,797)	(18,266,601)
Exchange differences on translation of Canadian parent company		148,639	(166,196)
Balance, December 31		(18,284,158)	(18,432,797)
Deficit			
Balance, January 1		(71,887,665)	(77,853,502)
Net income		1,367,109	5,965,837
Reduction of stated capital	16	68,909,490	-
Dividends declared and paid	16	(2,551,606)	-
Balance, December 31		(4,162,672)	(71,887,665)
Total shareholders' equity		\$ 34,255,412	\$ 48,311,919

See accompanying notes to these consolidated financial statements.

CROWN POINT ENERGY INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31

(United States Dollars)

	Note	2019	2018
Operating activities:			
Net income		\$ 1,367,109	\$ 5,965,837
Items not affecting cash:			
Depletion and depreciation		9,447,797	11,992,141
Exploration and evaluation	9	927,471	-
Loss on disposition of participating interest	6	1,717,662	-
Allowance for credit losses	7	95,799	-
Fair value adjustment of contingent consideration	13	(922,235)	1,404,858
Gain on decommissioning provision	14	(183,104)	-
Share-based payments	17	466,414	-
Unrealized foreign exchange gain		784,518	(18,460)
Finance expense	22	248,025	429,709
Tax recovery	23	(3,849,781)	(553,296)
Funds flow from operating activities		10,099,675	19,220,789
Decommissioning expenditures	14	-	(25,485)
Change in non-cash working capital	24	2,902,488	2,440,227
Net cash from operating activities		13,002,163	21,635,531
Financing activities:			
Bank debt proceeds	12	-	16,013,694
Bank debt repayment	12	(1,700,000)	(14,968,726)
Lease payments	15	(174,010)	-
Proceeds from share issuance, net of costs	16	-	11,762,571
Interest expense	22	(3,069)	(294,015)
Dividend payment	16	(2,551,606)	-
Return of capital	16	(13,487,063)	-
Proceeds from return of deposits		-	215,000
Net cash (used in) provided by financing activities		(17,915,748)	12,728,524
Investing activities:			
Acquisition of St. Patrick Oil & Gas S.A.	5	-	(21,744,682)
Proceeds for disposition of participating interest	6	17,536,795	-
Exploration and evaluation expenditures	9	(2,747,438)	(3,028,110)
Property and equipment expenditures	10	(5,840,877)	(6,348,878)
Settlement of contingent consideration liability	13	(1,150,775)	(353,812)
Collection of contingent consideration receivable	13	123,881	-
Change in other non-current assets		362	(55,858)
Change in non-cash working capital	24	(1,878,368)	(1,032,359)
Net cash provided by (used in) investing activities		6,043,580	(32,563,699)
Change in cash		1,129,995	1,800,356
Foreign exchange effect on cash held in foreign currencies		(628,264)	(326,933)
Cash, January 1		2,194,072	720,649
Cash, December 31		\$ 2,695,803	\$ 2,194,072

See accompanying notes to these consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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1. REPORTING ENTITY:

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 December 31, 2019, Liminar Energía S.A. ("Liminar"), the Company's largest shareholder, owned approximately 59.5% of the Company's issued and outstanding common shares.

2. BASIS OF PRESENTATION:

(a) Statement of compliance

The 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.

The consolidated financial statements were approved and authorized for issuance by the Board of Directors on April 23, 2020.

(b) Basis of measurement

The consolidated financial statements have been prepared in accordance with IFRS on a historical cost basis except as otherwise noted.

(c) Functional and presentation currency

The functional currency of the parent company and its subsidiaries is measured using the currency of the primary economic environment in which that entity operates. The presentation currency for a company is the currency in which the company chooses to present its consolidated financial statements.

The functional currency of CanAmericas (Argentina) Energy Ltd. ("CanAmericas"), Crown Point Energía S.A. ("Crown Point Energía") and St. Patrick is the United States dollar ("USD"); the functional currency of the Company is the Canadian dollar ("CAD").

The presentation currency of the Company is the USD.

(d) Use of judgments and estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The accounting policies subject to such judgments and the key sources of estimation uncertainty that the Company believes could have the most significant impact on the reported results and financial position are as follows:

Critical accounting judgments

▪ Functional currency

The determination of the functional currency for the Company and each of its subsidiaries was based on management's judgment of the underlying transactions, events, and conditions relevant to each entity.

▪ Cash-generating units

The Company's assets are aggregated into cash-generating units ("CGUs") based on an assessment of the unit's ability to generate independent cash in-flows. The determination of the Company's CGUs was based on management's judgment in regard to shared infrastructure, geographical proximity, petroleum type and similar exposure to market risk and materiality. The allocation of assets into CGU's requires significant judgment and interpretations with respect to the way in which management monitors

CROWN POINT ENERGY INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(United States dollars)

operations.

- Impairment

Judgments are required to assess when impairment indicators are evident and impairment testing is required.

- Exploration and evaluation assets

The application of the Company's accounting policy for exploration and evaluation assets requires management to make certain judgments as to future events and circumstances as to whether economic quantities of reserves have been found.

- Current and deferred taxes

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company operates are subject to change. As such, current and deferred taxes are subject to measurement uncertainty. Management uses judgment to assess deferred tax assets at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings.

- Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events. Although the Company believes it has title to its oil and natural gas properties, it cannot control or completely protect itself against the risk of title disputes or challenges.

Key sources of estimation uncertainty

- Reserves

The estimate of petroleum and natural gas reserves is integral to the calculation of the amount of depletion charged to the consolidated statement of loss and comprehensive loss and is also a key determinant in assessing whether the carrying value of any of the Company's development and production assets has been impaired. Changes in reported reserves can impact asset carrying values and the decommissioning provision due to changes in expected future cash flows.

The Company's reserves are evaluated and reported on by independent reserve engineers at least annually in accordance with Canadian Securities Administrators' National Instrument 51-101. Reserve estimation is based on a variety of factors including engineering data, geological and geophysical data, projected future rates of production, commodity pricing and timing of future expenditures, all of which are subject to significant judgment and interpretation.

- Business combination

Management's determination of whether a transaction constitutes a business combination or asset acquisition is determined based on the criteria in IFRS 3 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 property and equipment and exploration and evaluation 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. Future net earnings can be affected as a result of changes in future depletion and depreciation, asset impairment or reversal, or goodwill impairment.

- Carrying value of development and production, exploration and evaluation assets and goodwill

If any indication exists that an asset or CGU may be impaired, the Company estimates the recoverable amount. The recoverable amounts of individual assets and cash-generating units have been determined based on the higher of value-in-use and fair value less costs to dispose.

These calculations require the use of estimates and assumptions, such as estimates of proved plus

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probable reserves, future production rates, oil and natural gas prices, future costs and other relevant assumptions, all of which are subject to change. A material adjustment to the carrying value of the Company's development and production, exploration and evaluation assets and/or goodwill may be required as a result of changes to these estimates and assumptions.

The Company's concessions may be subject to renewal extensions which require approval from local government authorities. The Company has been successful in obtaining approvals for certain of its concessions and is currently awaiting renewal on others. As there is no indication that pending extensions will not be approved, management has used judgment to conclude that all extensions will be approved. If the Company fails to obtain extension renewals, estimates of proved plus probable reserves may be negatively impacted.

- Depletion and depreciation

Amounts recorded for depletion and depreciation and amounts used for impairment calculations are based on estimates of total proved and probable petroleum and natural gas reserves and future development capital. By their nature, the estimates of reserves, including the estimates of future prices, costs and future cash flows, are subject to measurement uncertainty. Accordingly, the impact to the consolidated financial statements in future periods could be material.

- Decommissioning provision

Amounts recorded for the Company's decommissioning provision require the use of management's best estimates of future decommissioning expenditures, expected timing of expenditures and future inflation rates. The estimates are based on internal and third party information and calculations and are subject to change over time and may have a material impact on profit and loss or financial position.

- Deferred taxes

Deferred taxes are based on estimates as to the timing of the reversal of temporary and taxable differences, substantively enacted tax rates and the likelihood of assets being realized.

3. SIGNIFICANT ACCOUNTING POLICIES:

(a) Consolidation

Subsidiaries

These consolidated financial statements include the accounts of the Company and its wholly owned Argentine subsidiaries, CanAmericas, Crown Point Energía and St. Patrick.

Subsidiaries are entities controlled by the Company. The Company controls an entity when it 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. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

The acquisition method of accounting is used to account for acquisitions of subsidiaries and assets that meet the definition of a business under IFRS. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their recognized amounts (generally fair value) at the acquisition date. The excess of the cost of acquisition over the recognized amounts of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, a bargain purchase gain is recognized immediately in earnings. Acquisition costs incurred are expensed.

Joint operations

The Company's oil and natural gas activities involve joint operations. The consolidated financial statements include the Company's share of the jointly controlled assets, liabilities and a proportionate share of the relevant revenue and related costs.

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Transactions eliminated on consolidation

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions are eliminated in preparing the consolidated financial statements.

(b) Foreign currency translation

Foreign currency transactions are translated into the respective functional currencies of the Company and its subsidiaries using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in earnings.

The financial results and position of the Canadian parent whose functional currency is different from the presentation currency are translated as follows:

- Assets and liabilities are translated at period-end exchange rates prevailing at that reporting date; and
- Income and expenses are translated at average exchange rates for the period.

Exchange differences arising on translation of the Canadian parent are transferred directly to the Company's exchange difference on translating foreign operations on the Statement of Comprehensive Loss and are reported as a separate component of shareholders' equity titled "Accumulated Other Comprehensive Loss".

(c) Cash

Cash consists of cash deposits held in Canadian, United States and Argentine banks.

(d) Inventory

Inventory is stated at the lower of cost and net realizable value. Cost of producing crude oil is accounted on a weighted average basis. This cost includes all costs incurred in the normal course of business in bringing each product to its present location and condition. The cost of crude oil is the producing cost, including royalties, export tax and the appropriate proportion of depletion and depreciation. Net realizable value of crude oil and refined products is based on estimated selling price in the ordinary course of business less any expected selling costs.

Crude oil lifted below or above the Company's working interest share of production results in production underlifts or overlifts. Net underlifts are recorded as inventory and net overlifts are recorded in accounts payable and accrued liabilities at fair market value.

(e) Exploration and evaluation assets ("E&E assets")

Exploration and evaluation expenditures

All costs incurred prior to obtaining the legal right to explore an area are expensed when incurred.

Generally, costs directly associated with the exploration and evaluation of crude oil and natural gas reserves are initially capitalized. Exploration and evaluation costs are those expenditures for an area where technical feasibility and commercial viability has not yet been demonstrated. These costs generally include unproved property acquisition costs, geological and geophysical costs, sampling and appraisals, drilling and completion costs, the projected cost of retiring the assets and any directly attributable general and administrative expenses. Interest and borrowing costs incurred on E&E assets are not capitalized.

E&E costs are not depleted and are accumulated in cost centers by well, field or exploration area pending determination of technical feasibility and commercial viability, which is assessed at least annually. Technical feasibility and commercial viability is generally considered to be demonstrable when proved or probable reserves have been assigned and there is a reasonable assessment of the economics associated with the future production of those reserves, required government and regulatory approvals have been obtained or are likely to be obtained, and management has made the decision to proceed with development and production of those reserves by incurring the future capital costs attributed to them. When the technical feasibility and commercial viability of extracting a mineral resource are demonstrable, E&E assets will be tested for impairment and reclassified from exploration assets to development and production assets, a separate category within property and equipment.

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(United States dollars)

Impairment

E&E assets are assessed for impairment when facts and circumstances suggest that the carrying amount exceeds the recoverable amount and when they are reclassified to development and production (“D&P”) assets. For the purpose of impairment testing, E&E assets are grouped by concession or field with other E&E and D&P assets belonging to the same cash-generating unit (“CGU”), which is the lowest level at which there are identifiable cash inflows that are largely independent of the cash inflows of other groups of assets. The impairment loss will be calculated as the excess of the carrying value over recoverable amount of the E&E impairment grouping and any resulting impairment loss is recognized in earnings. Recoverable amount is determined by reference to the greater of value in use or fair value less costs to dispose. 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.

Fair value less cost to dispose is determined as the amount that would be obtained from the sale of the assets in an arm’s length transaction between knowledgeable and willing parties. The fair value less cost to dispose of oil and gas assets is generally determined as the net present value of the estimated future cash flows expected to arise from the continued use of the assets, including any expansion prospects, and its eventual disposal, using assumptions that an independent market participant may take into account. These cash flows are discounted by an appropriate discount rate which would be applied by such a market participant to arrive at a net present value of the assets.

(f) Property and equipment

Development and production expenditures

D&P assets include costs incurred in developing commercial reserves and bringing them into production, together with the E&E expenditures incurred in finding the commercial reserves that have been reclassified from E&E assets as outlined above, the projected cost of retiring the assets and any directly attributable general and administrative expenses. Items of property and equipment, including D&P assets, are carried at cost less accumulated depletion and depreciation and accumulated impairment losses.

When significant parts of an item of property and equipment, including D&P assets, 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, including D&P assets, are determined by comparing the proceeds of disposal with the carrying amount of the item and are recognized in earnings.

Subsequent costs

Costs incurred subsequent to the determination of technical feasibility and commercial viability, costs of replacing parts of property and equipment and workovers of property and equipment are recognized only if they increase the economic benefits of the assets to which they relate. All other expenditures are recognized in earnings when incurred. The carrying amounts of previous inspections or any replaced or sold components are derecognized. The costs of day-to-day servicing of an item of property and equipment are recognized in earnings as incurred.

Depletion and depreciation

The net book value of producing assets are depleted on a field-by-field basis using the unit of production method with reference to the ratio of production in the year to the related proved and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. For purposes of these calculations, relative volumes of natural gas production and reserves are converted at the energy equivalent conversion rate of six thousand cubic feet of natural gas to one barrel of crude oil.

Other assets are depreciated over the estimated useful lives of the assets using a 20% declining balance basis for Canadian office furniture and equipment, a straight line basis over 3 – 10 years for Argentina office furniture and equipment and a straight line basis over the term of the lease for all leasehold improvements.

Impairment

At the end of each reporting period, the Company reviews the D&P assets for circumstances that indicate the assets may be impaired. Assets are grouped together into CGUs for the purpose of impairment testing. If any

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such indication of impairment exists, the Company makes an estimate of its recoverable amount. A CGU's recoverable amount is the higher of its fair value less costs to dispose and its value in use.

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 future cash flows expected to be derived from the production of proved and probable reserves.

Fair value less cost to dispose is determined as the amount that would be obtained from the sale of a CGU in an arm's length transaction between knowledgeable and willing parties. The fair value less cost to dispose of oil and gas assets is generally determined as the net present value of the estimated future cash flows expected to arise from the continued use of the CGU, including any expansion prospects, and its eventual disposal, using assumptions that an independent market participant may take into account. These cash flows are discounted by an appropriate discount rate which would be applied by such a market participant to arrive at a net present value of the CGU.

When the recoverable amount is less than the carrying amount, the asset or CGU is impaired. For impairment losses identified on a CGU, the loss is first allocated to reduce the carrying amount of goodwill, should it exist, then allocated on a pro rata basis to the assets within the CGU. Impairment losses are recognized in profit or loss.

At the end of each subsequent reporting period these impairments are assessed for indicators of reversal. Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss have been recognized for the asset or CGU in prior periods. A reversal of an impairment loss is recognized in earnings. An impairment loss in respect of goodwill is not reversed.

(g) Goodwill

The Company records goodwill relating to a business combination when the purchase price exceeds the fair value of the net identifiable assets and liabilities of the acquired business. Goodwill is reported at cost less any impairment and is not amortized. Goodwill is evaluated when facts and circumstances indicate that it is impaired, or at least on an annual basis.

To test for impairment, goodwill is allocated to the related CGU expected to benefit from the acquisition. Goodwill is tested by comparing the carrying amount of the CGU to the recoverable amount. Fair value less costs of disposal is derived by estimating the discounted after-tax future net cash flows as described in the property and equipment impairment test. Value in use is assessed using the present value of the expected future cash flows. Any excess of the carrying amount over the recoverable amount is recorded as impairment. Goodwill impairments are not reversed.

(h) Value added tax

Value Added Tax ("VAT") on purchases is applied against VAT on sales to reduce the amount paid to the Argentine Government. VAT is included in prepaid expenses when amounts are expected to be offset with VAT on current sales. VAT does not expire and may be carried forward indefinitely.

(i) Decommissioning provision

The Company recognizes a decommissioning provision in the period in which a well is drilled or acquired and a reasonable estimate of the future costs associated with removal, site restoration and asset retirement can be made. The estimated decommissioning provision is recorded with a corresponding increase in the carrying amount of the related cost centre.

Decommissioning obligations are measured at the present value of management's best estimate of the expenditures required to settle the present obligation at the statement of financial position date. Subsequent to the initial measurement, the provision is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are

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charged against the provision to the extent the provision was established.

(j) Taxes

Taxes on earnings for the periods presented are comprised of current and deferred tax. Taxes are recognized in earnings except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded, using the statement of financial position method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. However, deferred tax is not recorded on taxable temporary differences arising on the initial recognition of goodwill or on the initial recognition of assets and liabilities in a transaction other than a business combination that affect neither accounting nor taxable profit or loss. Deferred tax is also not recorded on differences relating to investments in subsidiaries and jointly controlled entities to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

(k) Financial instruments

The Company classifies its financial instruments in the following measurement categories:

- subsequently measured at fair value (either through profit or loss (“FVTPL”) or other comprehensive income (“FVOCI”); and
- subsequently measured at amortized cost.

The classification depends on the Company’s business model for managing the financial instruments and the contractual terms of the cash flows.

Non-derivative financial instruments

Non-derivative financial instruments comprise cash, trade and other receivables, other non-current assets, trade and other payables, bank debt and contingent liability. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at FVTPL, any directly attributable transaction costs. Transaction costs of financial assets measured at FVTPL are expensed in profit or loss. Subsequent to initial recognition, non-derivative financial instruments are measured as described below:

- Financial assets at FVTPL

Financial assets at FVTPL are measured at fair value, and changes therein are recognized in profit or loss. A financial asset is classified at FVTPL unless it is measured at amortized cost or classified as FVOCI. However an entity may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at FVTPL to present subsequent changes in FVOCI with no reclassification of realized gains or losses to profit or loss upon derecognition of the equity instruments.

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- Financial liabilities at FVTPL

The Company classifies the contingent liability as FVTPL. A financial liability is initially classified as measured at amortized cost or FVTPL. A financial liability is classified as measured at FVTPL if it is held-for-trading, a derivative, or designated as FVTPL on initial recognition. The classification of a financial liability is irrevocable.

Financial liabilities at FVTPL (other than financial liabilities designated at FVTPL) are measured at fair value with changes in fair value, along with any interest expense, recognized in net earnings. Other financial liabilities are initially measured at fair value less directly attributable transaction costs and are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in net earnings. Any gain or loss on derecognition is also recognized in net earnings.

A financial liability is derecognized when the obligation is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same counterparty with substantially different terms, or the terms of an existing liability are substantially modified, it is treated as a derecognition of the original liability and the recognition of a new liability. When the terms of an existing financial liability are altered, but the changes are considered non-substantial, it is accounted for as a modification to the existing financial liability. Where a liability is substantially modified it is considered to be extinguished and a gain or loss is recognized in net earnings based on the difference between the carrying amount of the liability derecognized and the fair value of the revised liability. Where a liability is modified in a non-substantial way, the amortized cost of the liability is remeasured based on the new cash flows and a gain or loss is recorded in net earnings.

- Financial assets at FVOCI

Financial assets at FVOCI are measured at fair value, and changes therein are recognized in other comprehensive income. A financial asset is classified as FVOCI if it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

- Financial instruments at amortized cost

The Company classifies cash, trade and other receivables and other non-current assets (non-derivative financial assets with fixed or determinable payments that are not quoted in an active market) and trade and other payables and bank debt as financial instruments at amortized cost. These financial instruments are measured at amortized cost using the effective interest method, less any impairment losses. Any gain or loss arising on de-recognition is recognized directly in profit or loss. Impairment losses are presented as separate line item in the statement of profit or loss.

Derivative financial instruments

The Company has not entered into any financial derivative contracts.

(l) Impairment of financial instruments

The Company assesses, on a forward looking basis, the expected credit losses associated with financial instruments carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade and other receivables, the Company applies the simplified approach permitted by IFRS 9 Financial Instruments.

(m) Share capital

Common and preferred shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity.

(n) Share-based payments

The Company follows the fair value method of accounting for stock options. The fair value of each stock option is calculated on the grant date using the Black-Scholes option pricing model and is charged to income over the

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vesting period of the option, with a corresponding increase recorded in contributed surplus. Forfeitures are accounted for at grant date and adjusted based on actual vesting. Upon exercise of the stock option, the consideration received plus the amount previously recorded in contributed surplus is recorded as an increase to share capital.

(o) Per share amounts

The Company presents basic and diluted per share data for its common shares. Basic per share amounts are calculated by dividing the profit (loss) attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted per share amounts are determined by adjusting earnings attributable to common shareholders and the weighted average number of common shares outstanding, adjusted, for the effects of all dilutive potential common shares.

(p) Revenue recognition

The Company recognizes revenue from the sale of oil and natural gas when control of the product transfers to the buyer and collection is reasonably assured. This is generally at the point in time when the customer obtains legal title to the product which is when it is physically transferred to the pipeline or other transportation method agreed upon. Sales of oil and natural gas are based on variable pricing based on benchmark commodity prices and other variable factors including quality, location and other factors.

(q) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under the Company's short-term incentive bonus plan as a result of service provided by employees once the obligation can be estimated reliably.

(r) Finance income and expenses

Finance expense comprises financing fees and bank charges related to bank stamp taxes charged in Argentina on cash transfers, interest on bank debt and accretion of the decommissioning provision.

Interest income is recognized in earnings as it accrues using the effective interest method.

(s) Changes in accounting standards

IFRS 16 Leases

On January 1, 2019, the Company adopted IFRS 16 Leases ("IFRS 16") using the modified retrospective approach which does not require restatement of prior period financial information as it recognizes the cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively.

On adoption of IFRS 16, the Company's lease liabilities related to contracts classified as leases are measured at the discounted present value of the remaining minimum lease payments, excluding short-term and low-value leases. The right-of-use assets recognized were measured at amounts equal to the present value of the lease obligations. The weighted average incremental borrowing rate used to determine the lease liability at adoption was approximately 8%. The right-of-use assets and lease liability recognized relate to certain office premises and equipment in Argentina. The Company elected not to apply lease accounting to certain leases for which the lease term ends within 12 months of the date of initial application and leases of low dollar value assets.

In applying IFRS 16 for the first time, the Company used the following practical expedients permitted by the standard:

- Use of a single discount rate to a portfolio of leases with similar characteristics;
- Accounting for leases with a remaining term of less than 12 months as at January 1, 2019 as short-term leases;
- Accounting for lease payments as an expense and not recognizing a right-of-use asset if the underlying asset is of low dollar value; and
- The use of hindsight in determining the lease term where the contract contains terms to extend or terminate the lease.

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Upon the adoption of IFRS 16, the Company adopted the following significant accounting policy effective January 1, 2019:

Leases

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. A lease liability is recognized at the commencement of the lease term at the present value of the lease payments that are not paid at that date. At the commencement date, a corresponding right-of-use asset is recognized at the amount of the lease liability, adjusted for lease incentives received, retirement costs and initial direct costs. Depreciation is recognized on the right-of-use asset over the lease term. Interest expense is recognized on the lease liabilities using the effective interest rate method and payments are applied against the lease liability.

Key areas where management has made judgments, estimates, and assumptions related to the application of IFRS 16 include:

- The incremental borrowing rates are based on judgments including economic environment, term, currency, and the underlying risk inherent to the asset. The carrying balance of the right-of-use assets, lease liabilities, and the resulting interest expense and depreciation expense, may differ due to changes in the market conditions and lease term.
- Lease terms are based on assumptions regarding extension terms that allow for operational flexibility and future market conditions.

The cumulative effect of initially applying IFRS 16 was recognized as \$1,439,525 for right-of-use assets (Note 10) with a corresponding amount to lease liabilities (Note 15).

A reconciliation of the impact of adoption of IFRS 16 on January 1, 2019 is provided below:

Leases previously reported as commitments at December 31, 2018	\$	27,875
Non-lease components		(2,000)
Expected lease extensions		239,694
Proportionate share of UTE lease obligations		1,539,163
		<u>1,804,732</u>
Effect of discounting		<u>(365,207)</u>
Lease liabilities recognized January 1, 2019	\$	1,439,525

4. DETERMINATION OF FAIR VALUES:

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Financial instruments

The fair values of cash, trade and other receivables and trade and other payables are estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At December 31, 2019 and 2018, the fair value of these balances approximated their carrying amount due to their short term to maturity.

The fair values of the contingent consideration receivable, contingent consideration liability, lease liability and bank debt are based on the discounted present value of future cash flows and approximate carrying amounts.

The Company determines the fair value of financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument.

Level 1– Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Cash is a Level 1 financial asset.

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Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward rates for interest rate, time value and volatility factors, which can be substantially observed or corroborated in the marketplace. Bank debt is a Level 2 financial instruments.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data. The contingent consideration receivable, contingent consideration liability, lease liability are Level 3 financial instruments.

Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level.

5. 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 a third party (the “Vendor”) for \$28.4 million of cash consideration plus up to \$9 million of contingent royalty payments (Note 13) during a ten-year period commencing on January 1, 2018. \$6.75 million of the cash consideration was paid as a deposit in 2017. In addition, the Company paid \$4.4 million of withholding taxes to Argentine tax authorities pursuant to the provisions of the share purchase agreements entered into in connection with the Acquisition.

St. Patrick held a 25.7796% participating interest (the “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 held a 51.56% interest in the TDF Concessions. As disclosed in Note 6, the Company was subject to arbitration proceedings which resulted in all of the other UTE Partners exercising their right of first refusal to acquire their proportionate share of St. Patrick’s Participating 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	\$ 4,301,368
Non-cash working capital	1,715,300
Property and equipment (Note 10)	35,623,800
Goodwill (Note 11)	4,996,568
Non-current liabilities	(56,684)
Decommissioning provision (Note 14)	(1,989,000)
Deferred tax liability	(5,779,800)
	\$ 38,811,552
Consideration:	
Cash	\$ 32,796,052
Contingent consideration liability (Note 13(a))	6,015,500
	\$ 38,811,552

Goodwill (Note 11) 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.

During 2018, the Company incurred \$153,405 of costs related to the Acquisition.

From June 7, 2018 to December 31, 2018, the Acquisition contributed \$19.1 million of oil and gas revenue and \$10.4 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 revenue from oil and gas sales would have increased by approximately \$6.2 million to \$54.9 million and operating income would have increased by approximately \$4.1 million to \$12.6 million. The pro forma information is not necessarily representative of future revenue and operations.

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6. DISPOSITION OF PARTICIPATING INTEREST:

Pursuant to the Joint Operating and Union Transitoria de Empresas Agreement governing the TDF Concessions (the "UTE Agreement"), the Company's and St. Patrick's partners in the TDF Concessions (each an "UTE Partner") had a right of first refusal ("ROFR") to acquire St. Patrick's participating interest in the TDF Concessions ("Participating Interest"). One of the UTE Partners disputed the validity of the ROFR notices issued by St. Patrick and the Vendor to the UTE Partners and, among other things, commenced arbitration proceedings against St. Patrick and the Vendor under the UTE Agreement in order to have an arbitration tribunal consider and rule on the dispute.

In December 2018, the arbitration tribunal ordered St. Patrick and the Vendor to comply with the provisions of the UTE Agreement that grant the ROFR to acquire St. Patrick's Participating Interest in the TDF Concessions to the other UTE Partners. All of St. Patrick's UTE Partners exercised their ROFRs to acquire their proportionate share of St. Patrick's Participating Interest in the TDF Concessions (the "ROFR Sale").

On April 26, 2019, St. Patrick completed the ROFR Sale of a 16.83% participating interest (representing 65.27% of STP's Participating Interest) in the TDF Concessions to its UTE Partners for \$17.5 million of cash consideration (\$13.5 million plus a \$4 million income tax gross-up). The UTE Partners will also make future payments to St. Patrick equal to their proportionate share of contingent royalty payments that accrue following closing of the ROFR Sale, for which the fair value contingent consideration was estimated to be \$3.8 million (Note 13). As a result of the disposition, the Company's collective participating interest in the TDF Concessions decreased from 51.56% to 34.73%.

The Company recognized a \$1.7 million loss on disposition of a participating interest pursuant to the ROFR Sale as summarized in the following table:

Consideration:	
Cash	\$ 17,536,795
Contingent consideration receivable (Note 13(b))	3,832,113
Total consideration	21,368,908
Carrying amount of net assets sold:	
Property and equipment (Note 10)	22,647,922
Goodwill (Note 11)	3,261,019
Working capital	(294,886)
Decommissioning liability (Note 14)	(2,124,650)
Lease liabilities (Note 15)	(402,835)
Net carrying amount	23,086,570
Loss on disposition of participating interest	\$ (1,717,662)

7. 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.

One major purchaser that represents 100% of oil revenue reported in 2019 comprises \$1,170,040 of accounts receivable at December 31, 2019 (2018 – \$5,761,907) and three major purchasers that represent 73% of natural gas revenue reported in 2019 comprise \$864,477 of accounts receivable at December 31, 2019 (2018 – \$2,654,566 of accounts receivable related to four major purchasers that represented 75% of natural gas revenue) (Note 19).

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The Company's maximum exposure to credit risk at December 31, 2019 and 2018 in respect of trade and other receivables consists of:

	2019	2018
Due from Argentine companies	\$ 1,842,193	\$ 6,403,669
Due from an international company	1,170,040	5,761,907
Other receivables	103,196	133,931
Allowance for credit losses	(349,270)	(270,354)
Total trade and other receivables	\$ 2,766,159	\$ 12,029,153

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

	2019	2018
Not past due (less than 90 days)	\$ 2,315,920	\$ 10,032,806
Past due (more than 90 days)	799,509	2,266,701
	3,115,429	12,299,507
Allowance for credit losses	(349,270)	(270,354)
Total trade and other receivables	\$ 2,766,159	\$ 12,029,153

8. PREPAID EXPENSES AND OTHER CURRENT ASSETS:

	2019	2018
Prepaid expenses	\$ 1,340,231	\$ 988,244
Value Added Tax	1,627,497	1,133,368
	\$ 2,967,728	\$ 2,121,612

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

	2019	2018
Carrying amount, beginning of year	\$ 9,032,994	\$ 6,013,387
Additions	2,747,438	3,028,110
Reclassified to exploration and evaluation expense	(927,471)	-
Decommissioning revisions (Note 14)	67,398	(8,503)
Carrying amount, end of year	\$ 10,920,359	\$ 9,032,994

E&E assets consist of the Company's intangible exploration projects in Argentina which are pending the determination of proven or probable reserves. Additions represent the Company's share of costs incurred on E&E assets during the period. E&E assets are not depreciated or depleted.

In the latter part of 2019, the Company drilled two exploration wells, one of which was abandoned after the absence of hydrocarbons was confirmed. The \$927,471 of costs associated with the abandoned well have been reclassified to exploration and evaluation expense in the 2019 consolidated statement of (loss) income and comprehensive (loss) income.

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10. PROPERTY AND EQUIPMENT:

	Argentina			Canada	
	Development and Production Assets	Right-of-Use Assets	Other Assets	Other Assets	Total
Cost:	\$	\$	\$	\$	\$
Balance, December 31, 2017	52,804,791	–	351,493	279,284	53,435,568
Acquisition (Note 5)	35,616,816	–	6,984	–	35,623,800
Additions	6,262,715	–	69,510	16,653	6,348,878
Decommissioning revisions (Note 14)	940,050	–	–	–	940,050
Effect of change in exchange rates	–	–	–	(22,607)	(22,607)
Balance, December 31, 2018	95,624,372	–	427,987	273,330	96,325,689
Additions	5,736,312	1,439,525	93,902	10,663	7,280,402
Disposition of participating interest (Note 6)	(26,791,982)	(413,287)	(23,091)	–	(27,228,360)
Decommissioning revisions (Note 14)	1,576,491	–	–	–	1,576,491
Effect of change in exchange rates	–	–	–	14,627	14,627
Balance, December 31, 2019	76,145,193	1,026,238	498,798	298,620	77,968,849
Accumulated depletion and depreciation:					
Balance, December 31, 2017	29,681,865	–	281,190	274,055	30,237,110
Depletion and depreciation	11,295,823	–	57,065	6,504	11,359,392
Effect of change in exchange rates	–	–	–	(21,771)	(21,771)
Balance, December 31, 2018	40,977,688	–	338,255	258,788	41,574,731
Depletion and depreciation	9,590,997	150,312	60,118	7,700	9,809,127
Disposition of participating interest (Note 6)	(4,556,593)	(17,220)	(6,625)	–	(4,580,438)
Effect of change in exchange rates	–	–	–	13,741	13,741
Balance, December 31, 2019	46,012,092	133,092	391,748	280,229	46,817,161
Net carrying amount:					
At December 31, 2018	54,646,684	–	89,732	14,542	54,750,958
At December 31, 2019	30,133,101	893,146	107,050	18,391	31,151,688

Right-of-use assets:

The Company recognizes right-of-use assets and corresponding lease liabilities (Note 15) related to certain office premises and equipment in Argentina. Right-of-use assets are depreciated on a straight-line basis over the 10-year term of the related leases.

Future development costs:

The depletion expense calculation for the year ended December 31, 2019 included \$13.2 million (2018 – \$29.8 million) for estimated future development costs associated with proved and probable reserves in Argentina.

11. GOODWILL:

	2019		2018	
Balance, beginning of year	\$	4,996,568	\$	–
Acquisition (Note 5)		–		4,996,568
Disposition of participating interest (Note 6)		(3,261,019)		–
Balance, end of year	\$	1,735,549	\$	4,996,568

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12. BANK DEBT:

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

	2019		2018	
Balance, beginning of year	\$	1,700,000	\$	812,208
Proceeds		–		16,013,694
Repayment		(1,700,000)		(14,968,726)
Effect of change in exchange rates		–		(157,176)
Balance, end of year	\$	–	\$	1,700,000

On December 7, 2018, the Company obtained a \$1.7 million loan facility from Banco Macro secured by certain of the Company's accounts receivable to a maximum of \$1.7 million applied against the loan when collected. The loan bore interest at a rate of 6.75% per annum, calculated and paid monthly, and was repayable on or before February 5, 2019. The loan was repaid on January 10, 2019.

13. CONTINGENT CONSIDERATION (LIABILITY) RECEIVABLE:

A reconciliation of the contingent consideration (liability) receivable is as follows:

	Liability (a)		Receivable (b)		Net
Balance, December 31, 2017	\$	–	\$	–	\$ –
Acquisition (Note 5)		(6,015,500)		–	(6,015,500)
Cash settlement (collection)		353,812		–	353,812
Fair value adjustment		(1,404,858)		–	(1,404,858)
Balance, December 31, 2018		(7,066,546)		–	(7,066,546)
Disposition of participating interest (Note 6)		–		3,832,113	3,832,113
Cash settlement (collection)		1,150,775		(123,881)	1,026,894
Fair value adjustment		2,263,078		(1,340,843)	922,235
Balance, December 31, 2019		(3,652,693)		2,367,389	(1,285,304)
Current portion		1,147,925		(732,649)	415,276
Long-term portion	\$	(2,504,768)	\$	1,634,740	\$ (870,028)

The fair value of contingent consideration as at December 31, 2019 and 2018 was estimated using the Black-Scholes pricing model based on the following assumptions:

	2019	2018
Net revenue volatility	88% - 95%	66% - 77%
Risk-free rate	1.58% - 1.83%	2.67% - 2.83%
Term	7 years	8 years

(a) Contingent consideration liability

As part of the consideration for the Acquisition (Note 5), the Company will make quarterly payments to the vendor until December 31, 2027 equal to 10% of the amount by which net revenue (oil and gas revenue less provincial royalties) received by St. Patrick from its 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.

The fair value of the contingent consideration liability on the June 7, 2018 acquisition date was estimated to be \$6.0 million using the Black-Scholes pricing model based on net revenue volatility of 61% to 76% and a risk-free rate of 2.52% to 2.85%, over a term of 8.5 years.

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During 2019, the Company made \$1,150,775 of cash royalty payments to the vendor. As at December 31, 2019, the Company re-measured the fair value of the contingent consideration liability at \$3,652,693 (2018 – \$7,066,546) resulting in a fair value adjustment of \$2,263,078.

A 10% increase (decrease) in volatility rates would increase (decrease) the December 31, 2019 fair value of the contingent consideration liability by approximately \$105,000 (\$78,000).

(b) Contingent consideration receivable

As part of the consideration for the disposition of a participating interest in the TDF Concessions pursuant to the April 26, 2019 ROFR Sale (Note 6), the UTE Partners will make future payments to St. Patrick equal to their proportionate share of contingent royalty payments that accrue following the closing of the ROFR Sale. The fair value of the UTE Partners' proportionate share of contingent consideration on April 26, 2019 was estimated to be \$3.8 million using the Black-Scholes pricing model based on net revenue volatility of 66% to 77% and a risk-free rate of 2.24% to 2.51%, over a term of 7.7 years.

During 2019, the Company collected \$123,881, of cash royalty payments from the UTE Partners. As at December 31, 2019, the Company re-measured the fair value of the contingent consideration receivable at \$2,367,389 resulting in a fair value adjustment of \$1,340,843.

A 10% increase (decrease) in volatility rates would increase (decrease) the December 31, 2019 fair value of the contingent consideration receivable by approximately \$69,000 (\$51,000).

14. DECOMMISSIONING PROVISION:

The Company's decommissioning provision results from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. At December 31, 2019 the estimated total undiscounted inflation-adjusted amount of cash flows required to settle the Company's obligations were approximately \$7.3 million (2018 – \$8.6 million). These costs are expected to be incurred over the next 6 years. The decommissioning obligations have been estimated using USD inputs, using existing technology at current USD prices and discounted using discount rates that reflect current market assessments of the time value of money and the risks specific to each liability. An average risk-free interest rate of 1.8% (2018 – 2.8%) and an inflation rate of 1.8% (2018 – 2.4%) was used to calculate the fair value of the decommissioning provision.

During 2019, an expired concession, for which the Company had a related decommissioning provision, was granted to another company thereby releasing the Company from the obligation. As a result, the Company recognized a \$183,104 gain on decommissioning provision in the 2019 consolidated statement of (loss) income and comprehensive (loss) income.

A reconciliation of the decommissioning provision is provided below:

	2019		2018	
Balance, beginning of year	\$	7,014,301	\$	3,983,545
Acquisition (Note 5)		–		1,989,000
Disposition of participating interest (Note 6)		(2,124,650)		–
Additions		108,818		40,191
Revisions		1,535,071		891,356
Accretion		157,259		135,694
Expenditures		–		(25,485)
Gain on decommissioning provision		(183,104)		–
Balance, end of year		6,507,695		7,014,301
Current portion of decommissioning provision		(251,548)		(179,544)
Long-term portion of decommissioning provision	\$	6,256,147	\$	6,834,757

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15. LEASE LIABILITIES:

The Company incurs lease payments related to certain office premises and equipment in Argentina. Leases are entered into and exited in coordination with specific business requirements which includes the assessment of the appropriate durations for the related leased assets.

Balance, December 31, 2018	\$	–
Lease liability for right-of-use assets (Note 10)		1,439,525
Disposition of participating interest (Note 6)		(402,835)
Interest		87,697
Payments		(174,010)
Balance, December 31, 2019		950,377
Current portion of lease liabilities		(171,202)
Long-term lease liabilities	\$	779,175

Total expected payments under lease agreements for office and equipment are \$12,749 per month (\$152,988 per year) until December 31, 2026.

16. SHARE CAPITAL:

(a) Authorized

Unlimited number of common shares without par value

Unlimited number of Class “A” preferred shares at CAD 1 each par value, none of which have been issued

(b) Issued and outstanding common shares

	Number of common shares	Amount
Balance, December 31, 2017	32,903,038	\$ 119,982,644
Rights offering (i)	40,000,000	12,000,000
Share issue costs	–	(237,429)
Balance, December 31, 2018	72,903,038	\$ 131,745,215
Reduction of stated capital (ii)	–	(74,990,000)
Return of capital (iii)	–	(298,887)
Balance, December 31, 2019	72,903,038	\$ 56,456,328

- (i) On May 23, 2018, the Company closed a rights offering (the “2018 Rights Offering”), pursuant to which the Company issued 40,000,000 common shares for gross proceeds of \$12 million. Liminar acquired an aggregate of 26,666,667 common shares in connection with the 2018 Rights Offering.
- (ii) On May 28, 2019, the Company’s shareholders approved a special resolution for the reduction of the stated capital account maintained in respect of the Company’s common shares by \$74,990,000 (CAD 100,000,000) on April 1, 2019. The reduction of the stated capital of the Company’s common shares was offset by the elimination of the Company’s April 1, 2019 deficit in the amount of \$68,909,490 and a \$6,080,510 increase to contributed surplus.
- (iii) On November 15, 2019, the board of directors of the Company approved a reduction of the stated capital of the Company’s common shares by way of a special distribution (“Return of Capital”) to the Company’s shareholders in the amount of \$0.185 per common share for a Return of Capital of \$13,487,063. The Return of Capital was first applied against contributed surplus, up to the amount of contributed surplus for share-based payments related to unvested options, resulting in a \$13,188,176 reduction of contributed surplus with the remaining \$298,887 applied against share capital.

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(c) Dividends:

On June 7, 2019, the Company declared a quarterly cash dividend on common shares of \$0.01 per share (\$729,030) for the three months ended June 30, 2019. The dividend was paid on July 15, 2019.

On August 16, 2019, the Company declared a quarterly cash dividend on common shares of \$0.01 per share and a special cash dividend on common shares of \$0.015 per share, for a total cash dividend of \$0.025 per share (\$1,822,576). The quarterly dividend and special dividend were paid on September 30, 2019.

In light of the Return of Capital, the board of directors determined not to declare a fourth quarter dividend and to suspend the Company's quarterly dividend payment until further notice.

17. SHARE-BASED PAYMENTS:

The Company's stock option plan provides for the granting of options to directors, officers, employees and consultants. Under the terms of the option plan, options issued will not exceed 10% of the issued and outstanding shares from time to time. The option price under each option is not less than the market price on the grant date. One third of the options granted vest immediately and the remainder generally vest in equal tranches on the first and second year anniversaries of the date of grant. The expiry date for each option is set by the Board of Directors at the time of issue and cannot be more than five years after the grant date.

Stock option activity for the years ended December 31, 2019 and 2018 is summarized as follows:

	2019		2018	
	Number of Options	Weighted Average Exercise Price (CAD)	Number of Options	Weighted Average Exercise Price (CAD)
Balance, beginning of year	41,000	\$ 8.70	158,250	\$ 5.20
Expired	(41,000)	(8.70)	(117,250)	(3.98)
Granted	2,175,000	0.75	—	—
Balance, end of year	2,175,000	\$ 0.75	41,000	\$ 8.70
Exercisable, end of year	725,000	\$ 0.75	41,000	\$ 8.70

On April 3, 2019, the Company granted 2,175,000 stock options to officers and directors. The stock options are exercisable at \$0.75 per share until April 3, 2024 and vest one-third on the grant date and one-third on the first and second anniversaries of the grant date.

The grant date fair value of the stock options was estimated to be \$661,500 using the Black-Scholes pricing model based on the following assumptions:

Grant date share price	CAD 0.56	Expected dividend	\$0.01 (CAD 0.01)
Exercise price	CAD 0.75	Risk-free interest rate	1.57%
Expected volatility ⁽¹⁾	127%	Forfeiture rate	0%
Expected life	5 years	Fair value per option	\$0.30 (CAD 0.41)

⁽¹⁾ Based on historical market prices of the Company's common shares over the expected life of the stock options.

During 2019, the Company recognized \$466,414 (2018 – \$nil) of share-based payment expense. As at December 31, 2019, the balance of unvested share-based payments was \$195,086.

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18. PER SHARE AMOUNTS:

	2019		2018	
Net income	\$	1,367,109	\$	5,965,837
Opening number of shares		72,903,038		32,903,038
Effect of shares issued (Note 16(b))		–		25,306,132
Basic weighted average number of shares		72,903,038		58,209,170
Net income per share	\$	0.02	\$	0.10

For the years ended December 31, 2019 and 2018, all stock options were excluded from the diluted per share amounts as their effect was anti-dilutive.

19. OIL AND NATURAL GAS SALES:

The following table represents the Company's oil and natural gas sales disaggregated by commodity:

	2019		2018	
Oil	\$	31,720,649	\$	34,817,624
Natural gas		9,416,179		13,757,434
Natural gas liquids		61,208		92,184
	\$	41,198,036	\$	48,667,242

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. 80% of the Company's natural gas revenue earned in 2019 was from sales to the industrial market (2018 – 93% 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 revenue from oil sales earned in 2019 was for export sales to one purchaser (2018 – export sales to three purchasers), of which \$1,170,040 was in accounts receivable at December 31, 2019 (2018 – \$5,761,907).

All of the Company's revenue from natural gas sales earned in 2019 was for domestic sales, of which 73% was to three major purchasers (2018 – domestic sales of which 75% was to four major purchasers), of which \$864,477 was in accounts receivable at December 31, 2019 (2018 – \$2,654,566).

The following table represents the Company's oil and natural gas sales disaggregated by market:

	2019		2018	
Export	\$	31,720,649	\$	34,817,624
Domestic		9,477,387		13,849,618
	\$	41,198,036	\$	48,667,242

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20. EXPORT TAX:

In September 2018, the Government of Argentina imposed a 12% export tax on all goods exported from Argentina, to a maximum of 4 ARS per 1 USD of export sales revenue. In late December 2019, the maximum of 4 ARS per 1 USD of export sales revenue was lifted and export tax rate was reduced to 8%. During 2019, the Company recognized \$2,732,394 of export tax related to oil sales to the export market (2018 – \$1,872,814 for the period from September 1, 2018 to December 31, 2018).

21. IMPAIRMENT:

(a) Property and equipment

The Company identified indicators of impairment in relation to its TDF CGU as at December 31, 2019 (2018 – no indicators of impairment) and performed an impairment test. Management estimated the recoverable amount of the TDF CGU based on the higher of fair value less costs of disposal and its value in use. The estimated recoverable amount for the TDF CGU was based on 15% discounted after-tax cash flows expected to be derived from the TDF CGU's proved plus probable reserves from the externally prepared December 31, 2019 reserve report. As at December 31, 2019, the estimated recoverable amount of the TDF CGU was determined to be higher than the carrying amount resulting in no impairment recognized in 2019.

The following prices were used for the estimate of the December 31, 2019 recoverable amount of the TDF CGU:

Year	Average USD price per barrel of oil	Average USD price per mcf of natural gas
2020	56.00	2.62
2021	59.00	2.72
2022	61.00	3.65
2023	62.40	3.74
2024	63.83	3.87
2025	65.28	3.86
2026	66.77	3.89

A 1% increase (decrease) in the discount rate would not result in any impairment. A 25% decrease in commodity prices would not result in any impairment.

(b) Goodwill

The recoverable amount of goodwill at December 31, 2019 and 2018 was determined as the fair value less costs of disposal using a discounted cash flow method and was assessed at the CGU level. The Company's key assumptions used in determining the fair value less costs of disposal include discounted net present value of the estimated future cash flows expected to arise from the continued use of the TDF CGU using a 15% discount rate (2018 – 13%).

The impairment test of goodwill at December 31, 2019 and 2018 concluded that the estimated recoverable amount was higher than the carrying amount and therefore no goodwill impairment was recognized in 2019 or 2018.

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22. NET FINANCE EXPENSE:

	2019	2018
Interest income	\$ 278,834	\$ 85,314
Financing fees and bank charges	(811,892)	(817,839)
Interest on bank debt	(3,069)	(294,015)
Accretion of decommissioning provision (Note 14)	(157,259)	(135,694)
Interest on lease liabilities (Note 15)	(87,697)	—
	\$ (781,083)	\$ (1,162,234)

23. TAXES:

The reconciliation of the Company's tax provision computed at statutory rates to the reported tax provision (reduction) is as follows:

	2019	2018
Canadian statutory rate	26.5%	27.0%
Current tax expense at statutory rates	\$ 1,305,820	\$ 2,707,323
Non-deductible items and other	199,325	692,529
Effect of tax rate differences	187,013	314,015
Effect of tax return filings	54,928	(40,939)
Foreign exchange	3,068,340	1,815,378
Change in unrecognized deferred tax assets	(1,254,911)	(1,427,021)
Tax provision	\$ 3,560,515	\$ 4,061,285

The reduction in the Canadian statutory income tax rate is due to a reduction in the provincial statutory tax rate from 12% to 11% on July 1, 2019.

The Company's tax provision is comprised of the following current and deferred taxes:

	2019	2018
Current tax expense	\$ 7,410,296	\$ 4,614,581
Deferred tax (recovery) provision	(3,849,781)	(553,296)
Tax provision	\$ 3,560,515	\$ 4,061,285

Current tax expense is related to taxable income in Argentina in excess of Crown Point Energía S.A.'s and St. Patrick's non-capital loss pools available to reduce taxable income. The deferred tax recovery is related to changes in the Company's ARS denominated tax pools combined with the effect of a reduction in the tax rate applied to certain temporary tax differences and the devaluation of the ARS during the period on the translation of ARS denominated tax pools to USD.

Recognized deferred tax assets (liabilities) are attributable to the following:

	2019	2018
Property and equipment and E&E assets	\$ (7,189,324)	\$ (12,483,127)
Contingent consideration (receivable) liability	(591,847)	2,120,314
Decommissioning obligation	1,626,925	2,104,290
Foreign exchange and other	2,674,523	929,019
Deferred tax liability	\$ (3,479,723)	\$ (7,329,504)

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Unrecognized deferred tax assets

Deferred tax assets have not been recognized for the following deductible temporary differences as it is not probable that future taxable profit will be available against which the Company can utilize the benefits:

	2019	2018
Property and equipment and E&E assets	\$ 4,568,030	\$ 4,348,759
Non-capital loss carry forwards	17,979,109	19,247,959
Share issue costs	222,778	268,796
Foreign exchange and other	1,818,670	1,728,133
	\$ 24,588,587	\$ 25,593,647

As at December 31, 2019, the Company has approximately \$18.0 million (2018 – \$19.2 million) of non-capital losses in Canada available to reduce taxable income. The Canadian non-capital losses expire at various times between 2028 and 2039.

The Company has temporary differences associated with its investments in its foreign subsidiaries. At December 31, 2019 and 2018, the Company has no deferred tax liabilities in respect of these temporary differences.

24. SUPPLEMENTAL CASH FLOW INFORMATION:

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

For the years ended December 31	2019	2018
Trade and other receivables	\$ 9,820,131	\$ (5,907,764)
Inventory	(1,028,403)	1,167,078
Prepaid expenses and other current assets	(846,116)	(360,119)
Trade and other payables	(4,680,710)	3,578,270
Current taxes payable	(2,233,493)	2,903,596
Effect of change in exchange rates	(7,289)	26,807
	\$ 1,024,120	\$ 1,407,868
Attributable to:		
Operating activities	\$ 2,902,488	2,440,227
Investing activities	(1,878,368)	\$ (1,032,359)
	\$ 1,024,120	\$ 1,407,868

(b) As at December 31, 2019, the Company held \$2,695,880 (2018 – \$2,194,072) of cash in Canadian, United States and Argentine banks.

(c) During 2019, the Company paid \$3,069 (2018 – \$294,015) of interest expense on bank debt (Note 12).

(d) During 2019, the Company paid \$4,632,159 (ARS 203,555,468) (2018 – \$812,321 (ARS 15,563,979)) to Argentine tax authorities related to 2018 income tax and \$2,545,866 (ARS 152,447,051) related to 2019 income tax.

25. PERSONNEL EXPENSES:

(a) Salaries and benefits

The Company's consolidated statement of loss and comprehensive loss is prepared primarily by nature of expense, with the exception of \$1,299,752 of salaries and benefits for employees and executive management which are included in general and administrative expenses for the year ended December 31, 2019 (2018 – \$935,816).

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(b) Key management compensation

The Company considers its key management personnel to consist of its officers and directors. The Company's directors and officers participate in the Company's stock option plan. As at December 31, 2019, key management personnel included 7 individuals (2018 – 7 individuals) and the related compensation recognized in the consolidated statement of loss and comprehensive loss comprised the following:

	2019	2018
Salaries and benefits	\$ 621,532	\$ 357,417
Director fees	305,942	108,254
Share-based payments	466,414	–
	\$ 1,393,888	\$ 465,671

26. RELATED PARTY TRANSACTIONS:

During 2019, the Tierra del Fuego UTE (of which the Company is a member) 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 \$118,429 (ARS 4,774,529) (2018 – \$233,663 (ARS 7,277,467)), respectively of oil and gas revenue for its working interest share. Included in trade and other receivables as at December 31, 2019 is \$nil (2018 – \$23,045 (ARS 864,431)) in respect of this revenue.

During 2019, the Company was charged \$223,839 by Liminar for legal advisory services pursuant to a services agreement with an effective date of April 1, 2019. Included in trade and other payables as at December 31, 2019 is \$24,200 payable to Liminar.

Messrs. Pablo Peralta and Roberto Domínguez have personally guaranteed the Company's payment obligations under certain loans (collectively, the "Loans"). 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 and annually thereafter on the anniversary date of the first payment. During 2019, the Company recognized a \$48,000 recovery of prior year loan guarantee fees due to the absence of Loans on the anniversary date of the first payment. During 2018, the Company recognized \$152,832 of loan guarantee fees.

During 2018, the Company paid a \$3,340 loan guarantee fee to ST Inversiones S.A. in relation to the guarantee of another bank loan. Messrs. Peralta and Domínguez jointly control 100% of the voting shares of ST Inversiones S.A.

During 2018, the Company paid \$30,342 of interest to CMS de Argentina S.A. in respect of a working capital loan. 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.

27. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT:

The Company is exposed to various risks that arise from its business environment and the financial instruments it holds. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework, policies and procedures. The following outlines the Company's risk exposures and explains how these risks and its capital structure are managed.

(a) Capital management

The Company's objective is to maintain a strong capital position in order to execute on its exploration and development plans and maximize shareholder value.

The Company currently defines its capital as shareholders' equity, working capital and bank debt. Changes to the relative weighting of the capital structure are driven by our business plans, changes in economic conditions and risks inherent in the oil and gas industry. In order to maintain or adjust the capital structure, the Company

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may consider any or all of the following activities, depending on existing economic conditions and access to external capital sources:

- Issue new shares through a public offering or private placement;
- Utilize its working capital;
- Farm-out of existing exploration opportunities; or
- Access other forms of debt.

The Company periodically reviews its capital structure in relation to its exploration and development budgets. The Company's capital management is currently focused on completion of existing exploration commitments and providing for the Company's share of any development programs.

(b) Credit risk

The Company is exposed to credit risk in relation to its cash, trade and other receivables, interest-bearing bonds included in other non-current assets and contingent consideration receivable.

Cash is held with highly-rated Canadian, United States and Argentine banks. Therefore, the Company does not believe these financial instruments are subject to material credit risk.

The Company's trade and other receivables include amounts due from the sale of crude oil and natural gas. See Note 7.

Contingent consideration receivable (Note 13(a)) is due from UTE Partners and includes \$144,813 of invoiced amounts in respect of 2019 net revenues. The Company does not believe this amount is subject to material credit risk.

(c) Liquidity risk

Liquidity risk is the risk that the Company will not meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure, as far as reasonable, that it will have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses.

As of December 31, 2019, the Company has working capital of \$1,831,197 which includes \$6,194,611 of financial assets comprised of cash, trade and other receivables and the current portion of contingent consideration receivable and \$8,111,279 of financial liabilities comprised of trade and other payables, current taxes payable, current portion of contingent consideration liability and current portion of lease liabilities with a contractual maturity of less than one year. During the year ended December 31, 2019, the Company reported net cash from operating activities in the amount of \$13,002,163.

The Company prepares operating and capital expenditure budgets which are regularly monitored and updated as considered necessary. In addition, the Company utilizes authorizations for expenditures to manage capital expenditures.

(d) Market risk

Changes in commodity prices, interest rates and foreign currency exchange rates can expose the Company to fluctuations in its net earnings and in the fair value of its financial assets and liabilities.

(i) Commodity price risk

Price fluctuations for both crude oil and natural gas are influenced by world supply and local demand factors. The Company has no influence over the pricing of oil and natural gas and has not attempted to mitigate commodity price risk through the use of financial derivatives. All of the Company's oil and gas revenue is from Argentina. For the year ended December 31, 2019, a 5% change in the commodity prices earned by the Company would change oil and gas revenue by approximately \$2.1 million (2018 – approximately \$2.5 million) and net income (loss) by approximately \$1.1 million (2018 – \$1.3 million).

(ii) Interest rate risk

The Company is not exposed to interest rate fluctuations at December 31, 2019 as there are no investments of excess cash in short-term money market investments held with international banks and or any bank debt.

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(iii) 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 is denominated in CAD and ARS. The Company has not entered into foreign exchange rate contracts to mitigate this risk.

Foreign currency denominated financial instruments held by the Company:

As at December 31, 2019	Balance denominated in		Total USD equivalents
	CAD	ARS	
Cash	\$ 12,121	\$ 57,370,002	\$ 967,644
Trade and other receivables	\$ 8,654	\$ 38,634,940	\$ 573,107
Trade and other payables	\$ (166,045)	\$ (107,580,009)	\$ (1,925,077)
Current taxes payable	\$ –	\$ (189,959,003)	\$ (3,173,027)

As at December 31, 2018	Balance denominated in		Total USD equivalents
	CAD	ARS	
Cash	\$ 24,155	\$ 69,764,233	\$ 1,870,674
Trade and other receivables	\$ 10,217	\$ 53,841,131	\$ 1,437,532
Trade and other payables	\$ (200,016)	\$ (117,615,405)	\$ (3,270,527)
Current taxes payable	\$ –	\$ (203,555,468)	\$ (5,406,520)

(iv) Currency devaluation:

Exchange rates as at December 31	2019 ⁽¹⁾	2018 ⁽¹⁾
CAD to USD	0.7714	0.7330
ARS to USD	0.0167	0.0266
USD to ARS	59.8700	37.6500

⁽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 Tierra del Fuego ("TDF") concession operating costs and general and administrative expenses incurred in Argentina are denominated in ARS. During 2019, the devaluation of ARS resulted in lower TDF operating costs and general and administrative expenses incurred in Argentina by approximately 25% (2018– devaluation of ARS; lower by approximately 33%).

During 2019, 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 by approximately \$2.3 million (2018 – devaluation of ARS; reduction by approximately \$2.6 million).

(v) 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 December 31, 2019 and 2018:

	Change in exchange rates	2019	2018
Foreign exchange - effect of strengthening USD:			
CAD denominated financial assets and liabilities	5%	\$ 5,600	\$ 6,070
ARS denominated financial assets and liabilities	10%	\$ 336,560	\$ 455,690

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28. COMMITMENTS:

(a) TDF Concessions

As at December 31, 2019, the Company has a 34.73% working interest in the TDF area of Argentina covering approximately 489,000 acres (169,800 net acres) in the Austral Basin and includes the Las Violetas, La Angostura and Rio Cullen exploitation concessions. The term of each concession expires in August 2026. The Company's share of expenditure commitments as at December 31, 2019 with respect to the TDF Concessions are as follows:

<u>Concession</u>	<u>Term of Expenditure Period</u>	<u>Required Expenditure Commitment</u>
Rio Cullen	Until August 2026	\$0.62 million, none of which was spent as of December 31, 2019

(b) Cerro De Los Leones Concession

The Cerro de Los Leones Concession Permit (the "CLL 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 CLL 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 as at December 31, 2019 required to be completed during each of the exploration periods as recently amended:

<u>Period</u>	<u>Term of Exploration Period</u>	<u>Required Work Commitment ⁽¹⁾</u>
Period 3	February 23, 2021 ⁽²⁾	1 exploration well at an estimated cost of \$2.5 million

⁽¹⁾ The required work commitments are expressed as work units in the CLL 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 3 work commitments.

29. SUBSEQUENT EVENTS:

Subsequent to December 31, 2019, crude oil benchmark prices decreased substantially due to a drop in global crude oil demand triggered by the impact of the COVID-19 virus on the global economy. In March 2020, crude oil prices decreased further due to a breakdown in negotiations between OPEC and non-OPEC partners regarding proposed production cuts. A subsequent tentative agreement between these countries to reduce crude oil production failed to have a positive impact on crude oil benchmark prices. The recent significant decline in crude oil prices and volatility in the crude oil pricing environment may continue and could impact the Company's earnings and cash flows.

In addition to these factors, one of the Company's wells had a significant change in performance in January 2020 which resulted in a notable decline in oil production. The full impact of the production decline has yet to be assessed. The Company's independent reservoir engineers did not consider the unexpected production decline in their reserve report as this event is subsequent to December 31, 2019 and the effective date of the reserve report. These factors may continue and could impact the Company's earnings, cash flows and valuation of assets.

On January 10, 2020, the Company obtained an ARS 44 million (\$0.75 million) working capital loan from HSBC Bank Argentina S.A. at an interest rate of 49% per annum, calculated and payable monthly. The loan matured on April 10, 2020 and was renewed for an additional 90 days to July 10, 2020.