# CROWN POINT ENERGY INC.

## Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2020
(Unaudited)

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

| As at | Note | June 30 2020 | December 31 2019 |
|---|---|---|---|
| **Assets** | | | |
| Current assets: | | | |
| Cash | | $ 1,275,406 | $ 2,695,803 |
| Trade and other receivables | 3 | 1,094,034 | 2,766,159 |
| Oil inventory | | 1,646,229 | 1,031,685 |
| Prepaid expenses and other current assets | 4 | 2,644,940 | 2,967,728 |
| Current portion of contingent consideration receivable | 8(b) | 70,116 | 732,649 |
| | | 6,730,725 | 10,194,024 |
| Exploration and evaluation assets | 5 | 11,148,966 | 10,920,359 |
| Property and equipment | 6, 11(a) | 20,252,175 | 31,151,688 |
| Goodwill | 11(b) | - | 1,735,549 |
| Contingent consideration receivable | 8(b) | - | 1,634,740 |
| Other non-current assets | | 4,841 | 1,692 |
| | | $ 38,136,707 | $ 55,638,052 |
| **Liabilities and Shareholders' Equity** | | | |
| Current liabilities: | | | |
| Trade and other payables | | $ 2,031,967 | $ 3,619,125 |
| Current taxes payable | 14 | 1,378,325 | 3,173,027 |
| Bank debt | 7 | 1,209,840 | - |
| Current portion of contingent consideration liability | 8(a) | 164,344 | 1,147,925 |
| Current portion of decommissioning provision | | 253,560 | 251,548 |
| Current portion of lease liabilities | 9 | 167,054 | 171,202 |
| | | 5,205,090 | 8,362,827 |
| Contingent consideration liability | 8(a) | - | 2,504,768 |
| Decommissioning provision | | 6,302,112 | 6,256,147 |
| Lease liabilities | 9 | 738,616 | 779,175 |
| Deferred tax liability | 14 | 916,209 | 3,479,723 |
| | | 13,162,027 | 21,382,640 |
| Shareholders’ equity: | | | |
| Share capital | | 56,456,328 | 56,456,328 |
| Contributed surplus | | 357,444 | 245,914 |
| Accumulated other comprehensive loss | | (18,348,485) | (18,284,158) |
| Deficit | | (13,490,607) | (4,162,672) |
| | | 24,974,680 | 34,255,412 |
| | | $ 38,136,707 | $ 55,638,052 |

Approved on behalf of the Board of Directors:

*“Gordon Kettleson”*
Gordon Kettleson, Director

*“Pablo Peralta”*
Pablo Peralta, Director

See accompanying notes to condensed interim consolidated financial statements.

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

| | | For the three months ended June 30 | | For the six months ended June 30 | |
|---|---|---|---|---|---|
| | Note | 2020 | 2019 | 2020 | 2019 |
| Revenue | | | | | |
| Oil and natural gas sales | 10 | $ 949,305 | $ 13,749,812 | $ 5,269,544 | $ 25,761,997 |
| Processing income | | 38,806 | 644,320 | 84,686 | 644,320 |
| Export tax | | (4,102) | (1,054,440) | (266,071) | (1,890,644) |
| Royalties | | (143,646) | (2,122,148) | (785,239) | (3,886,318) |
| | | 840,363 | 11,217,544 | 4,302,920 | 20,629,355 |
| Expenses | | | | | |
| Operating | | 804,882 | 3,313,198 | 3,325,244 | 6,240,893 |
| General and administrative | | 443,848 | 1,272,037 | 1,015,922 | 2,045,343 |
| Exploration and evaluation | 5 | - | - | 141,909 | - |
| Depletion and depreciation | 6 | 817,532 | 2,602,302 | 3,112,765 | 5,536,339 |
| Fair value adjustment of contingent consideration | 8 | - | (183,764) | (1,262,953) | (284,785) |
| Impairment of property and equipment | 11(a) | - | - | 8,250,000 | - |
| Impairment of goodwill | 11(b) | - | - | 1,735,549 | - |
| Share-based payments | 12 | 29,257 | 300,060 | 111,530 | 300,060 |
| Foreign exchange gain | | (335,696) | (391,661) | (538,186) | (969,006) |
| | | 1,759,823 | 6,912,172 | 15,891,780 | 12,868,844 |
| Operating (loss) income | | (919,460) | 4,305,372 | (11,588,860) | 7,760,511 |
| Net finance expense | 13 | (160,346) | (479,132) | (302,589) | (617,218) |
| Loss on disposition of participating interest | | - | (1,717,662) | - | (1,717,662) |
| (Loss) income before taxes | | (1,079,806) | 2,108,578 | (11,891,449) | 5,425,631 |
| Tax recovery (provision) | 14 | 428,421 | (5,296,425) | 2,563,514 | (5,635,303) |
| **Net loss** | | (651,385) | (3,187,847) | (9,327,935) | (209,672) |
| **Other comprehensive (loss) income** | | | | | |
| Items that may be subsequently reclassified to profit or loss | | | | | |
| Exchange differences on translation of the Canadian parent company | | 57,691 | (12,217) | (64,327) | 11,504 |
| **Total comprehensive loss** | | $ (593,694) | $ (3,200,064) | $ (9,392,262) | $ (198,168) |
| Net loss per share | 15 | $ (0.01) | $ (0.04) | $ (0.13) | $ (0.00) |

**CROWN POINT ENERGY INC.**
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**
For the six months ended June 30
(Unaudited)
(United States Dollars)

| | Note | 2020 | 2019 |
|---|---|---|---|
| Share capital | | | |
| Balance, January 1 | | $ 56,456,328 | $ 131,745,215 |
| Reduction of stated capital | | - | (74,990,000) |
| Balance, June 30 | | 56,456,328 | 56,755,215 |
| Contributed surplus | | | |
| Balance, January 1 | | 245,914 | 6,887,166 |
| Reduction of stated capital | | - | 6,080,510 |
| Share-based payments | 12 | 111,530 | 300,060 |
| Balance, June 30 | | 357,444 | 13,267,736 |
| Accumulated other comprehensive loss | | | |
| Balance, January 1 | | (18,284,158) | (18,432,797) |
| Exchange differences on translation of Canadian parent company | | (64,327) | 11,504 |
| Balance, June 30 | | (18,348,485) | (18,421,293) |
| Deficit | | | |
| Balance, January 1 | | (4,162,672) | (71,887,665) |
| Net loss | | (9,327,935) | (209,672) |
| Reduction of stated capital | | - | 68,909,490 |
| Dividend declared | | - | (729,030) |
| Balance, June 30 | | (13,490,607) | (3,916,877) |
| Total shareholders' equity | | $ 24,974,680 | $ 47,684,781 |

See accompanying notes to these condensed interim consolidated financial statements.

**CROWN POINT ENERGY INC.**
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**
For the six months ended June 30
(Unaudited)
(United States Dollars)

| | Note | 2020 | 2019 |
|---|---|---|---|
| Operating activities: | | | |
| Net loss | | $ (9,327,935) | $ (209,672) |
| Items not affecting cash: | | | |
| Exploration and evaluation | 5 | 141,909 | - |
| Depletion and depreciation | 6 | 3,112,765 | 5,536,339 |
| Fair value adjustment of contingent consideration | 8 | (1,262,953) | (284,785) |
| Impairment of property and equipment | 11(a) | 8,250,000 | - |
| Impairment of goodwill | 11(b) | 1,735,549 | - |
| Share-based payments | 12 | 111,530 | 300,060 |
| Unrealized foreign exchange gain | | (10,169) | (101,441) |
| Finance expense | | 184,471 | 139,327 |
| Loss on disposition of participating interest | | - | 1,717,662 |
| Tax recovery | 14 | (2,563,514) | (1,004,421) |
| Funds flow provided by operating activities | | 371,653 | 6,093,069 |
| Change in non-cash working capital | 16 | (1,356,590) | 3,586,818 |
| Net cash (used in) provided by operating activities | | (984,937) | 9,679,887 |
| Financing activities: | | | |
| Bank debt proceeds | 7 | 1,461,300 | - |
| Bank debt repayment | 7 | (134,640) | (1,700,000) |
| Lease payments | 9 | (79,710) | (97,080) |
| Interest expense | 7, 16 | (101,491) | (3,069) |
| Net cash provided by (used in) financing activities | | 1,145,459 | (1,800,149) |
| Investing activities: | | | |
| Exploration and evaluation expenditures | 5 | (370,516) | (35,386) |
| Property and equipment expenditures | 6 | (522,451) | (3,933,661) |
| Proceeds from disposition of participating interest | | - | 17,536,795 |
| Settlement of contingent consideration liability | 8 | (3,355) | (652,688) |
| Collection of contingent consideration receivable | 8 | 75,232 | - |
| Change in other non-current assets | | (3,536) | (1,186) |
| Change in non-cash working capital | 16 | (586,898) | 218,575 |
| Net cash (used in) provided by investing activities | | (1,411,524) | 13,132,449 |
| Change in cash | | (1,251,002) | 21,012,187 |
| Foreign exchange effect on cash held in foreign currencies | | (169,395) | (199,082) |
| Cash, January 1 | | 2,695,803 | 2,194,072 |
| Cash, June 30 | | $ 1,275,406 | $ 23,007,177 |

See accompanying notes to these condensed interim consolidated financial statements.

## 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.

Effective January 1, 2020, the Company's wholly-owned subsidiaries Crown Point Energía S.A. and St. Patrick Oil & Gas S.A. were amalgamated and continued under the name Crown Point Energía S.A. These unaudited condensed interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, CanAmericas (Argentina) Energy Ltd. and Crown Point Energía S.A..

As at June 30, 2020, 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:

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

The Company has consistently applied the same accounting policies throughout all periods presented. These unaudited condensed interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2019.

In early March 2020, the World Health Organization declared the coronavirus outbreak ("COVID-19") to be a pandemic. Responses to the spread of COVID-19 have resulted in a significant disruption to business operations and a significant increase in economic uncertainty in Argentina and elsewhere, with more volatile commodity prices, currency exchange rates and a marked decline in long-term interest rates. These events have resulted in a volatile and challenging economic climate which has adversely affected the Company's operational results and financial position. The current economic climate is having and may continue to have significant adverse impacts on the Company, which may include, but are not limited to:

- material reductions in revenue and cash flows due to significantly reduced commodity prices;
- material reductions in revenue and cash flows and operating activities due to prolonged closure of offshore loading facilities, international borders and related delivery terminals, reduced capital programs and the shut-in of production, all of which could negatively impact the Company's ability to produce and sell oil;
- inability to access equity and/or debt financing;
- material declines in future revenue, which has resulted in impairment of property and equipment and goodwill and could result in additional impairment of property and equipment; and
- increased risk of non-performance by the Company's customers which could materially increase collection risk of accounts receivable and the risk of customer defaults on contracts.

The current situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on the Company is not known at this time. Estimates and judgements made by management in the preparation of the Company's June 30, 2020 condensed interim consolidated financial statements are increasingly difficult and subject to a higher degree of measurement uncertainty during this volatile period.

These unaudited condensed interim consolidated financial statements were authorized for issue by the Board of Directors on August 18, 2020.

(United States dollars)

## 3. 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 the six months ended June 30, 2020 comprises $nil of accounts receivable at June 30, 2020 (December 31, 2019 – $1,170,040) and three major purchasers that represent 60% of natural gas revenue reported in the six months ended June 30, 2020 comprise $233,166 of accounts receivable at June 30, 2020 (December 31, 2019 – two major purchasers represent $864,477 of accounts receivable) (Note 10).

The Company's maximum exposure to credit risk in respect of trade and other receivables consists of:

| | June 30 2020 | December 31 2019 |
|---|---|---|
| Due from Argentine companies | $ 1,244,516 | $ 1,842,193 |
| Due from an international company | – | 1,170,040 |
| Other receivables | 198,788 | 103,196 |
| Allowance for credit losses | (349,270) | (349,270) |
| Total trade and other receivables | $ 1,094,034 | $ 2,766,159 |

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

| | June 30 2020 | December 31 2019 |
|---|---|---|
| Not past due (less than 90 days) | $ 641,799 | $ 2,315,920 |
| Past due (more than 90 days) | 801,505 | 799,509 |
| | 1,443,304 | 3,115,429 |
| Allowance for credit losses | (349,270) | (349,270) |
| Total trade and other receivables | $ 1,094,034 | $ 2,766,159 |

## 4. PREPAID EXPENSES AND OTHER CURRENT ASSETS:

| | June 30 2020 | December 31 2019 |
|---|---|---|
| Prepaid expenses | $ 880,772 | $ 1,340,231 |
| Value Added Tax | 1,764,168 | 1,627,497 |
| | $ 2,644,940 | $ 2,967,728 |

(United States dollars)

## 5. EXPLORATION AND EVALUATION ASSETS (''E&E''):

| | | |
|---|---|---|
| Carrying amount, December 31, 2019 | $ | 10,920,359 |
| Additions | | 370,516 |
| Reclassified to exploration and evaluation expense | | (141,909) |
| Carrying amount, June 30, 2020 | $ | 11,148,966 |

$141,909 of costs incurred during the six months ended June 30, 2020 associated with an exploration well that was drilled and abandoned in the latter part of 2019 have been reclassified to exploration and evaluation expense in the June 30, 2020 consolidated statement of (loss) income and comprehensive (loss) income.

## 6. PROPERTY AND EQUIPMENT:

| | Argentina | | | Canada | |
|---|---|---|---|---|---|
| | Development and Production Assets | Right-of-Use Assets | Other Assets | Other Assets | Total |
| **Cost:** | $ | $ | $ | $ | $ |
| Balance, December 31, 2019 | 76,145,193 | 1,026,238 | 498,798 | 298,620 | 77,968,849 |
| Additions | 516,133 | – | 6,318 | – | 522,451 |
| Effect of change in exchange rates | – | – | – | (14,207) | (14,207) |
| Balance, June 30, 2020 | 76,661,326 | 1,026,238 | 505,116 | 284,413 | 78,477,093 |
| **Accumulated depletion and depreciation:** | | | | | |
| Balance, December 31, 2019 | 46,012,092 | 133,092 | 391,748 | 280,229 | 46,817,161 |
| Depletion and depreciation | 3,081,271 | 64,212 | 22,986 | 2,617 | 3,171,086 |
| Impairment (Note 11) | 8,250,000 | – | – | – | 8,250,000 |
| Effect of change in exchange rates | – | – | – | (13,329) | (13,329) |
| Balance, June 30, 2020 | 57,343,363 | 197,304 | 414,734 | 269,517 | 58,224,918 |
| **Net carrying amount:** | | | | | |
| At December 31, 2019 | 30,133,101 | 893,146 | 107,050 | 18,391 | 31,151,688 |
| At June 30, 2020 | 19,317,963 | 828,934 | 90,382 | 14,896 | 20,252,175 |

Future development costs:

The June 30, 2020 depletion expense calculation included $5.1 million (December 31, 2019 – $13.2 million) for estimated future development costs associated with proved and probable reserves in Argentina.

(United States dollars)

## 7. BANK DEBT:

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

| | | |
|---|---|---|
| Balance, December 31, 2019 | $ | – |
| Proceeds | | 1,461,300 |
| Repayment | | (134,640) |
| Effect of change in exchange rates | | (116,820) |
| Balance, June 30, 2020 | $ | 1,209,840 |

### (a) HSBC Bank Argentina S.A.

On January 10, 2020, the Company obtained an ARS 44 million ($0.73 million) working capital loan from HSBC Bank Argentina S.A. (the "HSBC Loan") at an interest rate of 49% per annum, calculated and payable monthly. The HSBC Loan was to mature on April 10, 2020 but prior to the maturity date it was renewed for an additional 90 days to July 10, 2020. On April 14, 2020, the Company repaid ARS 8.8 million ($0.13 million) of the HSBC Loan and renewed the remaining ARS 35.2 million ($0.54 million) at an interest rate of 30% per annum, calculated and payable at maturity on August 27, 2020. During the three and six months ended June 30, 2020, the Company recognized $49,380 and $128,362 of interest on the HSBC loan of which $101,491 was paid and $26,871 is included in trade and other payables as at June 30, 2020.

### (b) Banco Hipotecario

On May 31, 2020, the Company obtained an ARS 15 million ($0.22 million) working capital loan from Banco Hipotecario at an interest rate of 24% per annum. 50% of the loan principal and accrued interest is repayable on September 28, 2020 and the remaining loan principal and accrued interest is repayable on November 27, 2020.

On June 9, 2020, the Company obtained an ARS 35 million ($0.51 million) working capital loan from Banco Hipotecario at an interest rate of 24% per annum. 50% of the loan principal and accrued interest is repayable on October 7, 2020 and the remaining loan principal and accrued interest is repayable on December 6, 2020.

During the three and six months ended June 30, 2020, the Company recognized $11,076 of interest on the Banco Hipotecario loans, all of which is included in trade and other payables as at June 30, 2020.

Liminar has provided a guarantee of the Banco Hipotecario loans for which the Company is charged loan guarantee fee 1% of the loan balance per annum (Note 17).

## 8. CONTINGENT CONSIDERATION (LIABILITY) RECEIVABLE:

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

| | | Liability (a) | | Receivable (b) | | Net |
|---|---|---|---|---|---|---|
| Balance, December 31, 2019 | $ | (3,652,693) | $ | 2,367,389 | $ | (1,285,304) |
| Cash settlement (collection) | | 3,355 | | (75,232) | | (71,877) |
| Fair value adjustment | | 3,484,994 | | (2,222,041) | | 1,262,953 |
| Balance, June 30, 2020 | | (164,344) | | 70,116 | | (94,228) |
| Current portion | | 164,344 | | (70,116) | | 94,228 |
| Long-term portion | $ | – | $ | – | $ | – |

### (a) Contingent consideration liability

Pursuant to the 2018 acquisition of St. Patrick, 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.

(United States dollars)

The forecast net revenues based on the internally prepared mechanical update of the externally prepared December 31, 2019 reserve report do not exceed the base net revenue for future quarters. As a result, the estimated fair value of the contingent consideration liability at December 31, 2019 was $nil (2018 – $7,066,546). The $164,344 reported current portion of contingent consideration liability relates to the amount payable for the third quarter of 2019 and was paid on July 16, 2020.

**(b) Contingent consideration receivable**

As part of the consideration for the 2019 disposition of a 16.83% participating interest in the TDF Concessions, 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 forecast net revenues based on the internally prepared mechanical update of the externally prepared December 31, 2019 reserve report do not exceed the base net revenue for future quarters. As a result, the estimated fair value of the contingent consideration receivable at December 31, 2019 was $nil. The $70,116 reported current portion of contingent consideration receivable related to the amounts receivable for the second and third quarters of 2019.

## 9. 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, 2019 | $ | 950,377 |
| Interest | | 35,003 |
| Payments | | (79,710) |
| Balance, June 30, 2020 | | 905,670 |
| Current portion of lease liabilities | | (167,054) |
| Long-term lease liabilities | $ | 738,616 |

Total expected payments under lease agreements for office and equipment are $13,858 per month ($166,296 per year) until December 31, 2026.

## 10. OIL AND NATURAL GAS SALES:

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

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Oil | $ – | $ 11,242,413 | $ 3,364,390 | $ 19,211,346 |
| Natural gas liquids | 5,035 | 18,101 | 10,035 | 42,261 |
| Natural gas | 944,270 | 2,489,298 | 1,895,119 | 6,508,390 |
| | $ 949,305 | $ 13,749,812 | $ 5,269,544 | $ 25,761,997 |

All of the Company's revenue from oil sales earned in the three and six months ended June 30, 2020 was for export sales to one purchaser (three and six months ended June 30, 2019 – export sales to three purchasers), of which $nil was in accounts receivable at June 30, 2020 (December 31, 2019 – $1,170,040).

All of the Company's revenue from natural gas sales earned in the three and six months ended June 30, 2020 was for domestic sales, of which 60% was to two major purchasers (three months ended June 30, 2019 – domestic sales of which 80% was to three major purchasers), of which $233,166 was in accounts receivable at June 30, 2020.

(United States dollars)

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

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Export | $ – | $ 11,242,413 | $ 3,364,390 | $ 19,211,346 |
| Domestic | 949,305 | 2,507,399 | 1,905,154 | 6,550,651 |
| | $ 949,305 | $ 13,749,812 | $ 5,269,544 | $ 25,761,997 |

## 11. IMPAIRMENT:

### (a) Property and equipment

During the previous quarter ended March 31, 2020, the Company identified indicators of impairment in relation to its TDF CGU 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 determined to be lower than the March 31, 2020 carrying amount based on 15% discounted after-tax cash flows expected to be derived from the TDF CGU's proved plus probable reserves from the internally prepared mechanical update of the externally prepared December 31, 2019 reserve report. During the three and six months ended June 30, 2020, the Company recognized $nil and $8.25 million, respectively, of impairment in the consolidated statement of (loss) income and comprehensive (loss) income. Impairment of property and equipment may be reversed in future periods if there are indicators of reversal, such as an improvement in commodity price forecasts.

The following prices were used for the estimate of the March 31, 2020 recoverable amount of the TDF CGU:

| Year | Average USD price per barrel of oil | Average USD price per mcf of natural gas |
|---|---|---|
| 2020 | 41.00 | 2.62 |
| 2021 | 41.00 | 2.72 |
| 2022 | 47.00 | 3.65 |
| 2023 | 51.00 | 3.74 |
| 2024 | 52.18 | 3.87 |
| 2025 | 53.38 | 3.86 |
| 2026 | 54.61 | 3.89 |

These future prices were based on forecasted commodity prices adjusted for commodity price differentials and transportation specific to the Company's production. Management's estimates also include financial assumptions regarding royalty rates, operating costs, and future development capital that can significantly impact the recoverable amount which are assigned based on historic rates and future anticipated activities of the Company.

A 1% increase in the discount rate would result in $0.1 million of additional impairment. A 5% decrease in commodity prices would result in $1.9 million of additional impairment.

### (b) Goodwill

Due to the identification of indicators of impairment in relation to its TDF CGU during the previous quarter ended March 31, 2020, the Company performed an impairment test of goodwill. The recoverable amount of goodwill at March 31, 2020 based on the fair value less costs of disposal using a discounted cash flow method assessed at the CGU level was determined to be lower than the carrying amount of goodwill. 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.

During the three and six months ended June 30, 2020, the Company recognized $nil and $1.74 million, respectively, of impairment in the consolidated statement of (loss) income and comprehensive (loss) income. Goodwill impairment is not reversed.

(United States dollars)

## 12. SHARE-BASED PAYMENTS:

As at June 30, 2020 and December 31, 2019, the Company had 2,175,000 stock options outstanding, of which 725,000 were exercisable. The stock options are exercisable at $0.75 per share until April 3, 2024.

During the three and six months ended June 30, 2020, the Company recognized $111,530 (six months ended June 30, 2019 – $300,060) of share-based payment expense. As at June 30, 2020, the balance of unvested share-based payments was $83,556.

## 13. NET FINANCE EXPENSE:

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Interest income | $ 6,534 | $ 76,389 | $ 34,616 | $ 151,561 |
| Financing fees and bank charges | (60,589) | (494,410) | (114,787) | (629,452) |
| Interest on bank debt (Note 7) | (60,456) | – | (139,438) | (3,069) |
| Accretion of decommissioning provision | (28,617) | (39,477) | (47,977) | (87,757) |
| Interest on lease liabilities (Note 9) | (17,218) | (21,634) | (35,003) | (48,501) |
| | $ (160,346) | $ (479,132) | $ (302,589) | $ (617,218) |

## 14. TAXES:

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

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Current tax expense | $ – | $ 4,253,878 | $ – | $ 6,639,724 |
| Deferred tax provision (recovery) | (428,421) | 1,042,547 | (2,563,514) | (1,004,421) |
| Tax (recovery) provision | $ (428,421) | $ 5,296,425 | $ (2,563,514) | $ 5,635,303 |

Current tax expense is related to taxable income in Argentina generated by Crown Point Energía S.A. The deferred tax recovery is related to the reduction in the carrying amount of property and equipment (Note 6) and contingent consideration receivable (Note 8(b)) combined with changes in the Company's ARS denominated tax pools and the devaluation of the ARS during the period on the translation of ARS denominated tax pools to USD.

(United States dollars)

## 15. PER SHARE AMOUNTS:

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Net loss for the period | $ (651,385) | $ (3,187,847) | $ (9,327,935) | $ (209,672) |
| Basic weighted average number of shares | 72,903,038 | 72,903,038 | 72,903,038 | 72,903,038 |
| Net loss per share | $ (0.01) | $ (0.04) | $ (0.13) | $ (0.00) |

For the three and six months ended June 30, 2020 and 2019, all stock options were excluded from the diluted per share amounts as their effect was anti-dilutive.

## 16. SUPPLEMENTAL CASH FLOW INFORMATION:

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

| For the six months ended June 30 | 2020 | 2019 |
|---|---|---|
| Trade and other receivables | $ 1,672,125 | $ 7,913,086 |
| Inventory | (556,223) | (868,995) |
| Prepaid expenses and other current assets | 322,788 | (349,442) |
| Trade and other payables | (1,587,158) | (4,588,369) |
| Current taxes payable | (1,794,702) | 1,704,598 |
| Effect of change in exchange rates | (318) | (5,485) |
| | $ (1,943,488) | $ 3,805,393 |
| Attributable to: | | |
| Operating activities | $ (1,356,590) | 3,586,818 |
| Investing activities | (586,898) | $ 218,575 |
| | $ (1,943,488) | $ 3,805,393 |

(b) As at June 30, 2020, the Company held $1,275,406 (December 31, 2019 – $2,695,880) of cash in Canadian, United States and Argentine banks.

(c) During the three and six months ended June 30, 2020, the Company paid $43,904 and $101,491, respectively (six months ended June 30, 2019 – $nil and $3,069, respectively), of interest expense on bank debt (Note 7).

(d) During the three and six months ended June 30, 2020, the Company paid $1,493,838 (ARS 92,848,395) to Argentine tax authorities related to 2019 income tax (six months ended June 30, 2019 – $3,604,188 (ARS 159,450,546) related to 2018 and 2019 income tax.

## 17. RELATED PARTY TRANSACTIONS:

During the three and six months ended June 30, 2020, 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 $nil (three and six months ended June 30, 2019 – $12,114 (ARS 534,842) and $65,272 (ARS 2,654,686), respectively), of oil and gas revenue for its working interest share. Included in trade and other receivables as at June 30, 2020 is $nil (December 31, 2019 – $nil) in respect of this revenue.

Mr. Pablo 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. Liminar owns approximately 59.5% of the Company's outstanding common shares. During the three and six months ended June 30, 2020, the Company (recovered)/was charged $(20,000) and $40,000, respectively (three and six months ended June 30, 2019 – $60,000) by Liminar for legal advisory services pursuant to a services agreement with an effective date of April 1, 2019 which was temporarily suspended on March 1, 2020. During the three and six months ended June 30, 2020, Liminar also charged the Company $584 in loan guarantee fees (Note 7(b)). Included in trade and other payables as at June 30, 2020 is $10,000 (December 31, 2019 – $24,200) payable to Liminar.

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

## 18. FOREIGN CURRENCY EXCHANGE 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.

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

| As at June 30, 2020 | Balance denominated in | | Total USD equivalents |
|---|---|---|---|
| | CAD | ARS | |
| Cash | $ 37,336 | $ 30,134,800 | $ 455,145 |
| Trade and other receivables | $ 7,380 | $ 29,096,966 | $ 339,490 |
| Trade and other payables | $ (67,044) | $ (74,604,413) | $ (1,309,683) |
| Bank debt | – | $ (85,200,000) | $ (1,209,840) |
| Current taxes payable | $ – | $ (97,110,522) | $ (1,378,325) |

| 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) |

(b) Currency devaluation:

| Exchange rates (1) as at | June 30 2020 | December 31 2019 |
|---|---|---|
| CAD to USD | 0.7347 | 0.7714 |
| ARS to USD | 0.0142 | 0.0167 |
| USD to ARS | 70.4555 | 59.8700 |

(1) Source OFX (previously known as 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 the six months ended June 30, 2020, the devaluation of ARS resulted in lower TDF operating costs and general and administrative expenses incurred in Argentina by approximately 5% (six months ended June 30, 2019 – devaluation of ARS; lower by approximately 8%).

During the six months ended June 30, 2020, the devaluation of ARS since the previous year end date resulted in a decrease in the USD equivalent of ARS denominated foreign currency denominated financial instruments, excluding bank debt, by approximately $393,000 million (six months ended June 30, 2019 – devaluation of ARS; reduction by approximately $765,000 million).

The effect of currency devaluation on ARS denominated bank debt during the six months ended June 30, 2020 was a $116,820 reduction in the USD equivalent amount (Note 7).

(United States dollars)

(c) Sensitivity analysis:

The following table presents an estimate of the impact on net loss for the market risk factors discussed above and is calculated based on the noted change in exchange rates applied to balances as at June 30, 2020:

| Market risk | Change in exchange rates | Impact on net income (loss) |
|---|---|---|
| Foreign exchange - effect of strengthening USD: | | |
| CAD denominated financial assets and liabilities | 5% | $ 820 |
| ARS denominated financial assets and liabilities | 10% | $ 280,710 |

## 19. 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 at June 30, 2020, the Company has working capital of $1,525,635 (December 31, 2019 – $1,831,197) which includes $2,439,556 (December 31, 2019 – $6,194,611) of financial assets comprised of cash, trade and other receivables and the current portion of contingent consideration receivable and $4,951,530 (December 31, 2019 – $8,111,279) of financial liabilities comprised of trade and other payables, bank debt, 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 six months ended June 30, 2020, the Company reported $946,990 of net cash used by operating activities.

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.