

TENTH AVENUE PETROLEUM CORP.
CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019
AND DECEMBER 31, 2018



Tel: 403 266 5608
Fax: 403 233 7833
www.bdo.ca

BDO Canada LLP
903 - 8th Avenue SW, Suite 620
Calgary AB T2P 0P7
Canada

Independent Auditor's Report

To the Shareholders of Tenth Avenue Petroleum Corp.

Opinion

We have audited the consolidated financial statements of Tenth Avenue Petroleum Corp. and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of loss and comprehensive loss, shareholders' equity (deficit) and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

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 are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements that indicates the Group has a history of losses and an accumulated deficit of \$23,105,913. As stated in Note 1, these events or conditions, along with other matters set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Management Discussion and Analysis for the year ended December 31, 2019.

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.

We obtained the Management Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. 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 IFRSs, 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 Group'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 Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group'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 Group'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 Group'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 Group 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 Group 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 Justin Friesen.

BDO Canada LLP

Chartered Professional Accountants

Calgary, Alberta

April 15, 2020

TENTH AVENUE PETROLEUM CORP.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

In Canadian Dollars

FOR THE YEARS ENDED

	Note	December 31, 2019	December 31, 2018
ASSETS			
Current			
Cash and cash equivalents	\$	2,849	\$ 9,139
Trade and other receivables		161,179	130,112
Short term investments		14,214	14,211
Prepaid expenses and deposits		76,852	27,166
		255,094	180,628
Long term			
Restricted cash held in trust	4	211,013	211,582
Property and equipment	5	1,505,882	1,664,525
	\$	1,971,989	\$ 2,056,735
LIABILITIES			
Current			
Accounts payable and accrued liabilities	\$	197,450	\$ 200,030
Loan payable	6	1,305,798	219,420
Deferred income		5,668	-
Asset retirement obligation	7	65,501	67,859
		1,574,417	487,309
Loan payable	6	-	685,670
Asset retirement obligation	7	807,420	769,447
Total liabilities		2,381,837	1,942,426
SHAREHOLDERS' EQUITY (DEFICIT)			
Share capital	8	12,544,623	12,544,623
Contributed surplus	9	10,151,442	10,151,442
Deficit		(23,105,913)	(22,581,756)
		(409,848)	114,309
	\$	1,971,989	\$ 2,056,735
Going concern	1		

Signed "Gregory J. Leia"
Gregory J. Leia Director

Signed "Craig Leggatt"
Craig Leggatt Director

The accompanying notes are an integral part of these consolidated financial statements

TENTH AVENUE PETROLEUM CORP.

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

In Canadian Dollars

FOR THE YEARS ENDED

	Note		December 31, 2019		December 31, 2018
REVENUE					
Oil & natural gas sales	18	\$	864,571	\$	834,591
Royalties			(75,410)		(75,980)
Other revenue			185		71
			789,346		758,682
EXPENSES					
Production and transportation			378,812		362,927
General and administrative			233,523		195,473
Accretion	7		50,128		47,202
Depletion and depreciation	5		150,703		215,319
			813,166		820,921
OPERATING LOSS FROM OPERATIONS			(23,820)		(62,239)
Other income (expense) items					
Interest income			1,822		1,684
Interest expense			(104,393)		(135,793)
Loss on modification of debt	6		(399,408)		-
Foreign exchange			1,642		(4,102)
NET LOSS AND COMPREHENSIVE LOSS			\$ (524,157)	\$	(200,450)
LOSS PER SHARE					
Basic and diluted		\$	(0.05)	\$	(0.02)

The accompanying notes are an integral part of these consolidated financial statements

TENTH AVENUE PETROLEUM CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

In Canadian Dollars

FOR THE YEARS ENDED

	Note	December 31, 2019	December 31, 2018
Operating activities			
Net loss	\$	(524,157)	\$ (200,450)
Items not affecting cash:			
Depletion and depreciation	5	150,703	215,319
Loan interest accrued		1,301	69,444
Accretion	7	50,128	47,202
Loss on modification of debt	6	399,408	-
Foreign exchange		(2,704)	953
Settlement of asset retirement obligations	7	(919)	-
Changes in non-cash working capital	17	(77,668)	(158,178)
CASH USED IN OPERATING ACTIVITIES		(3,908)	(25,710)
Private placement		-	80,000
Share issuance costs		-	(1,208)
Repayment of loan		-	(52,170)
CASH PROVIDED BY FINANCING ACTIVITIES		-	26,622
Purchase of property and equipment	5	(2,382)	-
CASH USED IN INVESTING ACTIVITIES		(2,382)	-
NET CHANGE IN CASH AND CASH EQUIVALENTS		(6,290)	912
CASH AND CASH EQUIVALENTS, beginning of year		9,139	8,227
CASH AND CASH EQUIVALENTS, end of year		\$ 2,849	\$ 9,139
Interest paid	\$	95,876	\$ 115,756
Taxes paid		-	-

The accompanying notes are an integral part of these consolidated financial statements

TENTH AVENUE PETROLEUM CORP.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (DEFICIT)

In Canadian Dollars

FOR THE YEARS ENDED

	Note	December 31, 2019	December 31, 2018
SHAREHOLDERS' EQUITY (DEFICIT)			
<u>Share capital</u>			
Balance, beginning of year	\$	12,544,623	\$ 12,465,831
Private placement		-	78,792
Balance, end of year	\$	12,544,623	\$ 12,544,623
<u>Contributed surplus</u>			
Balance, beginning and end of year	\$	10,151,442	\$ 10,151,442
<u>Deficit</u>			
Balance, beginning of year	\$	(22,581,756)	\$ (22,381,306)
Net loss		(524,157)	(200,450)
Balance, end of year	\$	(23,105,913)	\$ (22,581,756)
TOTAL SHAREHOLDERS' EQUITY (DEFICIT)	\$	(409,848)	\$ 114,309

The accompanying notes are an integral part of these consolidated financial statements

TENTH AVENUE PETROLEUM CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In Canadian Dollars

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Tenth Avenue Petroleum Corp. (“the Company”) is in the business of exploring for, developing, and producing petroleum and natural gas properties in Western Canada. Tenth Avenue Petroleum Corp. is a company domiciled in Canada. The address of the Company’s registered office is 203, 221 10th Avenue SE, Calgary, Alberta.

1. GOING CONCERN

These consolidated financial statements do not reflect the adjustments and classifications of assets, liabilities, revenues and expenses which would be necessary if the Company were unable to continue as a going concern. The accompanying consolidated financial statements have been prepared using the going concern assumption which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business.

As the Company incurred losses, has a working capital deficit, and will need capital to fund its planned operating, exploration and development activities, there is a material uncertainty which casts significant doubt on the Company’s ability to continue as a going concern. For the year ended December 31, 2019, the Company incurred a net loss of \$524,157 and has current liabilities in excess of current assets of \$1,319,323 and an accumulated deficit of \$23,105,913.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and measurement

Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and International Financial Reporting Interpretations Committee (“IFRIC”). The consolidated financial statements of the Company include the accounts of Tenth Avenue Petroleum Corp. and its wholly owned subsidiaries; Jadela Disposal Well Corp and Jadela Oil (US) Operating LLC (collectively referred to as (“the Company”) and have been prepared by management. These financial statements were authorized for issue by the Board of Directors on April 15, 2020.

These consolidated financial statements have been prepared on a historical cost basis, except for financial instruments at fair value through profit or loss, share based compensation, and business acquisitions which are measured at fair value. The consolidated financial statements are presented in Canadian dollars, which is the Company’s functional currency, as well as the functional currency of the Company’s subsidiaries.

Property and equipment and exploration and evaluation assets

Exploration and evaluation assets

Costs of exploring for and evaluating oil and natural gas properties (exploration and evaluation assets or (“E&E Assets”) are capitalized within exploration assets. These costs include lease acquisition costs, geological and geophysical expenditures, costs of drilling and completion of wells, plant and production equipment costs and related overhead charges. E&E assets do not include costs of general prospecting, or evaluation costs incurred prior to having obtained the legal rights to explore an area, which are expensed as incurred. Interest is not capitalized on E&E Assets.

E&E Assets are not depleted or depreciated and are carried forward until technical feasibility and commercial viability is considered to be determined. The technical feasibility and commercial viability is

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generally considered to be determined when proved plus probable reserves are determined to exist and the production of oil and gas has commenced. A review of each exploration license or field is carried out, at least annually, to ascertain whether proved plus probable reserves have been discovered and production has commenced. Upon determination of proved plus probable reserves and commencement of production, E&E Assets attributable to those reserves are first tested for impairment and then reclassified from E&E assets to oil and natural gas interests, a separate category within Property Plant and Equipment (“PP&E”).

Property and equipment

PP&E is stated at cost; less accumulated depletion, depreciation and amortization, and accumulated impairment losses. The initial cost of an asset comprises its purchase price or construction cost, and costs attributable to bring the asset into operation, and the initial estimate of decommissioning obligation. Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of PP&E are recognized as oil and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis.

Depletion and depreciation

The net carrying value of developed and producing fields are depleted using the unit of production method by reference to the ratio of production in the period to the related proved plus probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers at least annually. Total proved plus probable reserves are estimated using independent reserve engineer reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrated with a 50 percent statistical probability.

Other property and equipment are depreciated over their estimated useful lives at the following annual rates and methods:

Water-well disposal assets	10%	straight line
Other assets - Vehicles	20%	declining balance
Other assets - Computer equipment	30%	declining balance
Other assets - Office equipment	20%	declining balance

Depreciation methods, useful lives and residual values are reviewed at least annually.

Impairment – Property and equipment

For the purpose of impairment testing, PP&E are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets – cash generating unit (“CGU”).

The carrying amounts of PP&E are reviewed at each reporting date to determine whether there is any indication of impairment, such as decreased commodity prices or downward revisions in reserves

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volumes. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount is the greater of the value in use or fair value less costs to sell.

Value in use is based on the estimated future cash flows 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. The recoverable amount is generally computed by reference to the present value of the future cash flows expected to be derived from production of proved and probable reserves. An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in the statement of income.

Impairment losses recognized in respect of CGU's are allocated to reduce the carrying amounts of the assets in the unit on a pro rata basis.

Impairment losses, except those on goodwill, recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been permitted to be recognized.

Asset retirement obligations

Asset retirement obligations include legal obligations to retire tangible long-lived assets such as well sites, pipelines, and production facilities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

Asset retirement obligations are measured at the present value of management's best estimate of expenditure required to settle the present obligation at the balance sheet date. Subsequent to the initial measurement, the obligations are 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 charged against the provision to the extent the provision were established.

The Company's estimates of future asset retirement obligations are based on reclamation standards that meet current regulatory requirements. The estimate of the total liability of future site restoration costs may be subject to change based on amendments to laws and regulations and as new information concerning the Company's operations becomes available. Accordingly, the amount of the liability will be subject to re-measurement at each reporting period. Any adjustments to this liability will impact the related asset.

Share based compensation

The grant date fair value of options granted to employees, officers, and directors is recognized as share based compensation expense with a corresponding increase in contributed surplus over the vesting period. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest. A Black-Scholes option pricing model was used to estimate share based compensation with various assumptions that are detailed in note 11. As the Company does not pay dividends a dividend rate was not considered in the Black-Scholes model. For options and other share based payments to non-employees, compensation costs are generally measured based on the estimated fair value of the goods or services received.

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Warrants

When warrants are issued with share capital as part of a private placement, the entire value of the issuance is included in share capital and the value of the warrants is not recorded separately.

Revenue recognition

Revenue from the sale of oil, natural gas and NGLs is recognized when performance obligations in the sales contract are satisfied and it is probable that the Company will collect the consideration to which it is entitled. Performance obligations are satisfied at the point in time when the product is delivered to a location specified in the contract and control passes to the customer. The Company assesses customer creditworthiness before entering into contracts and throughout the revenue recognition process.

Contracts for sale of the Company's oil, natural gas and NGL products generally have terms of less than a year. These contracts specify delivery of product throughout the term of the contract. Sales of the Company's oil, natural gas, and NGLs are made pursuant to contracts based on prevailing commodity pricing at or near the time of delivery and volumes of product delivered.

Revenues are typically collected in the month following delivery and accordingly, the Company has not adjusted for the effects of a financing component.

Revenue in the consolidated statement of loss represents the Company's share of product sales and excludes amounts collect on behalf of third parties.

Loss per share

Loss per share is computed by dividing the loss for the period by the weighted average number of common shares outstanding during the period. Diluted per share calculations reflect the exercise or conversion of potentially dilutive securities or other contracts to issue shares at the later of the date of grant of such securities or the beginning of the period.

Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

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A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Jointly owned assets

A percentage of the Company's exploration and production activities are conducted jointly with others, whereby two or more parties jointly own the assets. These financial statements reflect only the Company's share of these jointly owned assets and, once production commences, a proportionate share of the relevant revenue and related costs.

Financial instruments

Financial instruments are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are not offset unless the Company has the legal right to offset and intends to settle on a net basis or settle the asset and liability simultaneously.

The Company initially measures all financial assets at fair value. Financial assets are subsequently classified as measured at fair value through profit and loss ("FVPL"), fair value through other comprehensive income ("FVOCI"), or amortized cost. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

The Company's financial assets are classified into the following categories:

Amortized cost

A financial asset is measured at amortized cost if it is held within a business model of holding financial assets and collecting contractual cash flows and those cash flows are comprised solely of payments of principal and interest. Financial assets classified at amortized cost are initially recorded at fair value and subsequently at amortized cost using the effective interest rate method. The Company classifies cash and cash equivalents, trade and other receivables, short term investments, and restricted cash held in trust in this category.

Fair value through other comprehensive income

A financial asset is measured at FVTOCI if the financial asset is held within a business model of both collecting contractual cash flows and selling the financial assets or through an irrevocable election for equity instruments that are not held for trading. Financial assets classified as FVTOCI are carried at fair value and any gains or losses are recorded in other comprehensive income in the period which they arise. The Company does not hold any instruments in this category.

Fair value through profit and loss

A financial asset is measured at FVTPL unless it is measured at amortized cost or at FVTOCI. Financial assets classified as FVTPL are carried at fair value and any gains or losses are recorded in net income in the period which they arise. The Company does not hold any instruments in this category.

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The Company's financial liabilities are classified into the following categories:

Amortized cost

Financial liabilities measured at amortized cost are initially measured at fair value, and, where applicable, adjusted for transaction costs. Subsequently, financial liabilities are measured at amortized cost using the effective interest method. The Company classifies accounts payable and accrued liabilities and the loan payable at amortized cost.

Fair value through profit and loss

Financial liabilities measured at FVTPL are initially measured at fair value and the subsequently at fair value with gains or losses recognized in net income. The Company does not hold any financial liabilities in this category.

Impairment of Financial Assets

The Company recognizes loss allowances for expected credit losses (ECLs) on its financial assets measured at amortized cost. Expected credit losses are measured as the difference between the cash flows that are due to the Company and the cash flows that the Company expects to receive, discounted at the effective interest rate determined at initial recognition. Changes in the provision for expected credit loss are recognized in net earnings.

For accounts receivable, the Company assesses the lifetime ECL applicable to its commodity product sales receivable and joint venture receivables at initial recognition and re-assesses the provision at each reporting date. In making an assessment as to whether the Company's financial assets are credit impaired, the Company considers historical bad debts, the counterparties financial condition, credit rating and total financial exposure. The carrying amounts of receivables are reduced by the amount of the ECL through an allowance account and losses are recognized within general and administrative expense in comprehensive loss.

Leases

Definition of a lease

At inception of a contract, the Company assesses whether a contract is, or contains a lease. 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. All leases are accounted for by recognizing a right-to-use asset and a lease liability except for:

- i. Leases of low value assets (based on the value of the underlying asset when new); and
- ii. Short-term leases with a lease term of twelve months or less.

Recognition and initial measurement

The Company recognizes right-of-use assets and lease liabilities at the lease commencement date.

The right-of-use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for lease payments made at or before commencement of the lease and for initial direct costs incurred.

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Lease liabilities are initially measured at the present value of the lease payments owed subsequent to the commencement date. The discount rate may be the interest rate implicit in the lease. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate (e.g. CPI or inflation). In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments that are not dependent on an index or rate are expensed in the period to which they relate.

Foreign currency translation and transactions

These consolidated financial statements are presented in Canadian dollars. The functional currency of the Canadian parent entity and its Canadian subsidiaries is the Canadian dollar and the functional currency of the Company's US subsidiary, which operations were discontinued in 2015, is also the Canadian dollar.

Transactions in foreign currencies are translated to the functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the period end exchange rate. Non-monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate at the date of the transaction. Foreign currency differences arising on translation are recognized in profit or loss.

Monetary assets and liabilities of the US subsidiary are translated to Canadian dollars at exchange rates at the reporting date. The income and expenses of the US subsidiary are translated to Canadian dollars at exchange rates at the dates of transactions. Non-monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate at the date of the transaction. Foreign currency differences arising on translation are recognized in profit or loss. Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognized directly in equity in other comprehensive income.

Presentation of statement of loss

The Company's consolidated statement of loss is prepared primarily by the nature of the expenses.

Changes in accounting policies

IFRS 16 - Leases

As of January 1, 2019, the Company was required to adopt IFRS 16 Leases, which replaced IAS 17 Leases. For lessees applying the new standard, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases.

The Company used the modified retrospective approach under IFRS 16.C8(b) (ii). The modified retrospective approach does not require restatement of prior period financial information as it recognized the cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively. Accordingly, comparative information in the Company's financial statements is not restated.

As the Company had not entered into any leases which would require recognition of a right-of-use asset and lease liability, the adoption of the new standard did not have any impact on the Company's financial statements.

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IFRIC 23 – Uncertainty over Income Tax Treatments

The IASB issued International Financial Reporting Interpretations Committee (“IFRIC”) 23 Uncertainty over Income Tax Treatments in June 2017. IFRIC 23 is effective beginning January 1, 2019 and applies to the determination of the accounting tax position when there is uncertainty over income tax treatments under IAS 12 Income Taxes. Management has assessed the requirements of IFRIC 23 and concluded that the adoption of this interpretation does not have a material impact on the financial statements.

New Accounting Pronouncements

The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Financial results as determined by actual events may differ from these estimates. These consolidated financial statements have, in management’s opinion, been properly prepared using careful judgment within reasonable limits of materiality.

The significant estimates and judgments in the consolidated financial statements include:

Estimating oil and gas reserves

The Company engages a qualified, independent oil and gas reserves evaluator to perform an estimation of the Company’s oil and gas reserves annually. Reserves form the basis for the calculation of depletion charges and assessment of impairment of oil and gas assets. Reserves are estimated using the reserve definitions and guidelines prescribed by National Instrument 51-101 and the Canadian Oil and Gas Evaluation Handbook.

Proved plus probable reserves are defined as the “best estimate” of quantities of oil, natural gas and related substances estimated to be commercially recoverable from known accumulations, from a given date forward, based on drilling, geological, geophysical and engineering data, the use of established technology and specified economic conditions. It is equally likely that the actual remaining quantities recovered will be greater than or less than the sum of the estimated proved plus probable reserves. The estimates are made using all available geological and reservoir data as well as historical production data. Estimates are reviewed and revised as appropriate. Revisions occur as a result of changes in prices, costs, fiscal regimes and reservoir performance or a change in the Company’s plans with respect to future development or operating practices.

Determination of cash generating units

The recoverability of development and production asset carrying values are assessed at the CGU level. Determination of what constitutes a CGU is subject to management’s judgment. The asset composition of a CGU can directly impact the recoverability of the assets included therein. In assessing the recoverability of oil and gas properties, each CGU’s carrying value is compared to its recoverable amount, defined as the greater of fair value less costs to sell and value in use.

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Asset retirement obligation

The Company estimates obligations under environmental regulations in respect of decommissioning and site restoration. These obligations are determined based on the expected present value of expenses required in the process of plugging and abandoning wells, dismantling of wellheads, production and transportation facilities and restoration of producing areas in accordance with relevant legislation, discounted from the date when expenses are expected to be incurred. Most of the abandonment of future expenses, estimated logistics of performing abandonment work and the discount rate used to calculate the present value of future expenses would have a significant effect on the carrying amount of the decommissioning provision.

Recoverability of assets

The Company assesses impairment on its assets that are subject to amortization when it has determined that a potential indicator of impairment exists. Impairment exists when the carrying value of a non-financial asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs to sell ("FVLCTS") and its value in use. The Company used the calculation of FVLCTS to determine the fair value of its CGUs. In determining the FVLCTS, the amount is most sensitive to the future commodity prices, discount rates, and estimates of proved and probable reserves, to determine an implied fair value of the CGU being tested.

Fair value of related party loans

The Company estimates the fair value of its related party loan obligations. The Company estimates the market interest rate they would pay on a similar loan to an arm's length party, and then uses this market rate to discount the estimated cash flows of the loan in order to determine the fair value. The market interest rate and amount and timing of cash flows are subject to measurement uncertainty and may impact financial statements in future periods.

4. RESTRICTED CASH HELD IN TRUST

Restricted cash held in trust includes \$53,913 (2018 - \$52,847) held by the Alberta Energy Regulator, \$124,629 (2018 - \$124,629) held by British Columbia Minister of Energy, Mines and Petroleum Resources and \$32,471 (USD \$25,000) (2018 - \$34,106 (USD \$25,000)) held by the Texas Railway Commission.

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5. PROPERTY AND EQUIPMENT

COSTS	Oil and Natural Gas Assets	Water-well assets	Other assets	Total
Balance, December 31, 2017 and 2018	\$ 2,622,185	\$ 155,800	\$ 72,678	\$ 2,850,663
Additions	-	-	2,382	2,382
ARO change in estimate	(10,322)	-	-	(10,322)
Balance, December 31, 2019	\$ 2,611,863	\$ 155,800	\$ 75,060	\$ 2,842,723
ACCUMULATED DEPLETION AND DEPRECIATION				
Balance, December 31, 2017	\$ 756,045	\$ 144,492	\$ 70,282	\$ 970,819
Depletion and depreciation	203,390	11,308	621	215,319
Balance, December 31, 2018	\$ 959,435	\$ 155,800	\$ 70,903	\$ 1,186,138
Depletion and depreciation	150,070	-	633	150,703
Balance, December 31, 2019	\$ 1,109,505	\$ 155,800	\$ 71,536	\$ 1,336,841
CARRYING AMOUNT				
December 31, 2018	\$ 1,662,750	\$ -	\$ 1,775	\$ 1,664,525
December 31, 2019	\$ 1,502,358	\$ -	\$ 3,524	\$ 1,505,882

6. LOAN PAYABLE

	2019	2018
Loan payable, beginning of year	\$ 905,090	\$ 887,208
Modification of loan	399,408	-
Repayments	(95,876)	(115,148)
Interest	97,176	133,030
Loan payable, end of year	\$ 1,305,798	\$ 905,090

On July 31, 2017, the Company entered into a Loan and Participation Agreement with Smoky Oil & Gas Corp (“**Smoky**”) and Batoche Oil & Gas Exploration Ltd. (“**Batoche**”) which are related companies by way of common directors and officers. Pursuant to the terms of the Loan and Participation Agreement (“**LPA**”), Smoky lent the Company the sum of \$1,326,593 to make the acquisition of the Waskahigan Assets. The interest rate on the loan principal is 6% per annum. All obligation owing are secured by a general security agreement charging all of the assets of the Company. The LPA had provided, that, subject to an agreed upon general and administrative expense payment, Smoky shall be entitled to all net cash flow from the Waskahigan Assets until the loan is repaid.

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On July 31, 2017, the Company had agreed to farmout to Batoche the Waskahigan Assets (other than existing wells and applicable spacing units) ("Waskahigan Participation Assets"). By amending agreement, the Company and Batoche agreed to terminate the farm in rights effective July 31, 2017.

Pursuant to the original LPA, as additional consideration, Smoky was entitled to receive post payout of the loan: (a) 80% of net cash flow from the Waskahigan Assets (less agreed general and administrative expenses) until December 31, 2021 (subject to farmout rights); (b) 80% of net sale proceeds of Waskahigan Assets (subject to farmout rights); (c) right to compel the Company to buy Smoky's right to 80% of the net cash flow from the Waskahigan Assets (subject to farmout rights) for 2.5 times net cash flow; and (d) right to compel the Company to buy Smoky's right to 24% of the net cash flow from the Waskahigan Participation Assets (subject to farmout rights) for 2.5 times net cash flow from the Waskahigan Participation Assets (hereinafter called the "Post Payout Additional Consideration").

Pursuant to the LPA, the Company had the right to compel Smoky to sell its right to Post Payout Additional Consideration for 2.5 times net cash flow on trailing 12 month basis. This amount was \$1.00 for the fiscal period ended December 31, 2018. The Company exercised its right to buyout the right of Smoky to the Post Payout Additional Consideration.

The loan is a related party loan and the interest rate charged on the loan was deemed to be below the interest market rate which was estimated to be 15%. The expected future cash flows from the loan were discounted by 15% and the resulting difference of \$491,920 between the fair value of the loan and the face value was charged to contributed surplus when the loan was initially recognized. A 1% change in the interest rate used to discount the loan would result in a \$23,135 change to the value of the loan. Annual interest was accruing at the market rate of 15% however this accounting treatment did not change the legal obligation of the Company to repay \$1,325,810 with interest at 6%. On May 6, 2019 the LPA was amended and the loan was converted to a demand loan. When the loan was modified to a demand loan, the entire value became a current liability and was required to be shown at face value which resulted in a \$399,408 loss on the modification of the debt which was included in profit and loss. Subsequent to the modification of the loan, the interest on the loan will be recorded at the 6% stated rate from the loan agreement rather than the 15% market rate.

7. ASSET RETIREMENT OBLIGATIONS

The Company estimates the total undiscounted cash flows to settle its asset retirement obligations are approximately \$1,485,044 (2018 - \$1,507,970). A risk-free interest rate of 6.0% (2018 - 6.0%) and an estimated inflation rate of 1.4% (2018 - 1.4%) was used to calculate the present value of asset retirement obligations.

The following table reconciles the asset retirement obligations:

	2019		2018	
Balance, beginning of year	\$	837,306	\$	784,458
Change in estimate		(10,322)		-
Reclamation expenditures		(919)		-
Foreign exchange		(3,272)		5,646
Accretion		50,128		47,202
Balance, end of year		872,921		837,306
Less: current portion		(65,501)		(67,859)
Long term portion	\$	807,420	\$	769,447

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8. SHARE CAPITAL

Authorized:

Unlimited Common voting shares with no par value
Unlimited First Preferred shares, issuable in series, with rights and privileges to be determined at time of issue

Issued:

Common shares	Number of shares	Value
Balance, December 31, 2017	8,912,658	\$ 12,465,831
Issued	1,600,000	78,792
Balance, December 31, 2018 and 2019	10,512,658	12,544,623

During 2018, the Company issued a private placement of 1,600,000 units at a price of \$0.05 per unit for gross proceeds of \$80,000 less \$1,208 in share issuance costs. Each unit consisted of one common share in the capital of the Company and one common share purchase warrant. Each warrant allows the holder to purchase one common share at a price of \$0.075 per common share within five years of issuance. All of the shares issued in the private placement were issued to a director of the Company.

9. CONTRIBUTED SURPLUS

The Company's contributed surplus consists of value assigned to issued options and other contributions from related parties. The following table reconciles the Company's contributed surplus:

Balance, December 31, 2017, 2018 and 2019	\$	10,151,442
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10. WARRANTS

The following table reflects share purchase warrants activity from January 1, 2018 to December 31, 2019 and the weighted average exercise price.

	Number	Average
Balance, December 31, 2017	2,000,000	0.075
Issued	1,600,000	0.075
Balance, December 31, 2018 and 2019	3,600,000	0.075

Details of warrants outstanding at December 31, 2019:

Year Issued	Exercise Price (\$)	Number	Years to expiry
2017	0.075	2,000,000	0.3
2018	0.075	1,600,000	4.0

Subsequent to year end, 2,000,000 warrants issued in 2017 for an exercise price of \$0.075 expired.

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11. STOCK OPTIONS

The Company has a stock option plan available to directors, officers, employees and consultants. The maximum number of common shares reserved for issuance pursuant to the plan cannot exceed 10 percent of the issued and outstanding common shares. Options vest on grant, are generally exercisable for five years from the date of grant and are exercisable at prices equal to or greater than the market value of the shares at the date of the grant less the maximum discount permitted by the stock exchange. At December 31, 2019, there were an additional 271,266 common shares that are still available to be reserved for the granting of stock options.

A summary of the status of the Company's stock option plan as at December 31, 2019 and December 31, 2018 and changes during the years ending on those dates is as follows:

	2019		2018	
	Number of Options	Weighted Average Exercise Price (\$)	Number of Options	Weighted Average Exercise Price (\$)
Outstanding, beginning of year	780,000	0.075	780,000	0.075
Expired	(270,000)	0.075	-	-
Outstanding, end of year	510,000	0.075	780,000	0.075
Exercisable, end of year	510,000	0.075	780,000	0.075

Outstanding and exercisable stock options as at December 31, 2019 have a weighted average remaining contractual life of 2.28 years (2018 – 2.39 years).

12. RELATED PARTY TRANSACTIONS

The Company has determined that the key management personnel of the Company consist of its officers and directors. The following table provides information on compensation expense related to officers and directors.

	2019	2018
Consulting fees to a company controlled by directors	\$ 114,640	\$ 122,632
Consulting fees to an officer/director	\$ 1,000	\$ -

Included in accounts payable is a balance owing to a company controlled by directors of \$Nil (2018 - \$24,889).

The Company entered into a LPA with Smoky and Batoche on July 31, 2017. Pursuant to the terms of the LPA, Smoky lent the Company the sum of \$1,326,593 to make the Waskahigan Asset acquisition. The interest rate on the loan principal is 6% per annum, however this was deemed to be below the market interest rate of 15%. The fair value of the loan was calculated as the present value of the expected future cash flows of the loan at 15%, and then 15% interest is charged annually on the balance of the loan. On May 6, 2019 the loan was modified and was converted to a demand loan which was required to be shown at face value as a current liability. This resulted in a \$399,408 loss on modification of debt recorded in income as well as interest being recorded at the 6% face value rate starting at that date rather than the

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15% market rate. Interest incurred during 2019 was \$97,176 (2018 - \$133,030). All obligations owing are secured by a general security agreement charging all of the assets of the Company. Gregory J. Leia is President and a director of the Company. Gregory J. Leia is an officer and director of Smoky and Batoche. Gregory J. Leia owns approx. 65% of the common shares and preferred shares of Smoky.

The Company had agreed to farmout to Batoche the Waskahigan Participation Assets on the terms and conditions set out in the Batoche Farmout Agreement. The farmout agreement has been terminated.

13. PER SHARE AMOUNTS

Basic loss per share has been calculated using the weighted average number of common shares outstanding during the period of 10,512,667 (2018 – 8,925,818). As the Company was in a loss position, there was no change in the numerator or denominator in calculating diluted loss per share. The effect of all stock options and warrants has been excluded from the calculation as they are anti-dilutive.

14. FINANCIAL INSTRUMENTS

The Company's financial instruments are exposed to certain financial risks, including credit risk, capital market risk and liquidity risk, interest rate risk, commodity price risk and foreign exchange risk.

Financial instruments, consisting of cash and cash equivalents, short term investments, trade and other receivables, restricted cash held in trust, accounts payable and accrued liabilities, and loan payable, are recorded at amortized cost. There are no financial instruments recorded at fair value. The Company classifies the fair value of these transactions according to the following hierarchy based on the amount of observable inputs used to value the instrument.

The significance of inputs used in making fair value measurements are examined and classified according to a fair value hierarchy as following:

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.

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

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

At December 31, 2019, the Company's financial instruments approximate their fair value due to their current nature. The loan payable's fair value in 2018 was determined using a Level 3 valuation (Note 6). In 2019 the loan payable's fair value approximates its carrying value as it is now payable on demand.

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Financial instrument	Classification	Carrying Value (\$)	Fair Value (\$)
Cash and cash equivalents	Amortized cost	2,849	2,849
Trade and other receivables	Amortized cost	161,079	161,079
Short term investments	Amortized cost	14,214	14,214
Prepaid expenses and deposits	Amortized cost	76,852	76,852
Restricted cash held in trust	Amortized cost	211,013	211,013
Accounts payable and accrued liabilities	Amortized cost	197,350	197,350
Loan payable	Amortized cost	1,305,798	1,305,798

Credit risk – Consists of cash and cash equivalents, restricted cash held in trust and accounts receivable. A portion of the Company's accounts receivable are with joint venture partners in the petroleum and natural gas industry and are subject to normal credit terms. The Company generally extends unsecured credit to these customers and, therefore, the collection of accounts receivable may be affected by changes in economic or other conditions. The carrying value of accounts receivable reflects management's assessment of the associated credit risk. The Company is also exposed to credit risk on certain deposits to the extent that the Company may not be refunded these amounts. The Company does not anticipate any default or non-performance by its oil and gas sales customers. As such a provision for doubtful accounts has not been recorded at December 31, 2019 and 2018.

Liquidity risk - The Company approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its obligations when due, under normal and stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation. The Company has to date, required funds from private placements to finance capital expenditures and operations (see note 1).

The Company's financial liabilities and contractual obligations as at December 31, 2019 are due as follows:

Accounts payable and accrued liabilities	\$	197,450	Due within 90 days
Loan payable	\$	1,305,798	Due on demand

Commodity price risk - The Company is exposed to oil and gas commodity price risk and has not entered any financial derivatives to manage this risk.

Commodity price risk sensitivity	2019		2018	
		Increase (decrease) to net income		Increase (decrease) to net income
Increase of \$1.00/bbl oil	\$	1,368	\$	479
Decrease of \$1.00/bbl of oil	\$	(1,368)	\$	(479)
Increase of \$0.10/Mcf of natural gas	\$	35,818	\$	36,434
Decrease of \$0.10/Mcf of natural gas	\$	(35,818)	\$	(36,434)

Interest rate risk – The risk that future cash flows will fluctuate as a result of changes in market rates. The Company is exposed to fair value interest rate risk on its loan payable as the rate is fixed.

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15. CAPITAL DISCLOSURES

The Company' has defined its capital to mean its consolidated shareholders' equity and long-term debt. The Company's objective when managing capital is to maintain the confidence of shareholders and investors in the implementation of its business plans by maintaining sufficient levels of liquidity to fund and support its exploration and development as well as other corporate activities. The Company's capital historically has been derived from the issuance of equity or debentures. Management monitors its financial position on an ongoing basis. Equity or debentures are issued to finance drilling programs and the Company's operations (see notes 1 and 2).

16. INCOME TAXES

The provision for income tax differ from the results that would be obtained by applying the combined Canadian and Provincial tax rates of approximately 26.5% (2018 – 27%). The reasons for these differences are as followed:

	2019	2018
Income (loss) before income taxes	\$ (524,157)	\$ (200,450)
Statutory tax rate	26.50%	27.00%
Expected income tax expense (recovery)	(138,902)	(54,122)
Share issuance costs	(64)	(1,718)
Foreign exchange	140,880	(234,901)
Non-deductible debt modification	105,843	-
Non-deductible interest	5,115	14,048
Other non-deductible items	(409)	-
Effect of changes in tax rates	728,364	-
Valuation allowance	(840,827)	276,693
Deferred income tax provision	\$ -	\$ -

The following deferred tax assets have not been recognized in the consolidated financial statements because it is not probable that future taxable profits will be available against which they can be utilized.

	2019	2018
Property and equipment tax value in excess of book value	\$ 99,362	\$ 73,165
Asset retirement obligation	200,772	226,073
Non-capital losses carried forward	6,667,109	7,508,832
Total deferred tax assets	\$ 6,967,243	\$ 7,808,070

The Company has Canadian non-capital loss carry forwards of \$16,917,062 (2018 - \$17,010,569) that will expire between 2026 and 2038 and U.S. non-capital loss carry forwards of USD \$10,178,573 (2018 – USD \$10,178,573) that expire between 2031 and 2035.

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17. CHANGES IN NON-CASH WORKING CAPITAL

The breakdown of the changes in the non-cash working capital is as follows:

	2019	2018
Trade and other receivables	\$ (31,067)	\$ (77,962)
Short term investments	(3)	(189)
Prepaid expenses and deposits	(49,686)	(26,178)
Accounts payable and accrued liabilities	(2,580)	(53,849)
Deferred income	5,668	-
Total	\$ (77,668)	\$ (158,178)

18. REVENUE

The following table presents the Company's production revenue disaggregated by revenue source:

	2019	2018
Crude oil	\$ 78,724	\$ 33,446
Natural gas	632,530	597,405
Condensate	153,317	203,740
Total	\$ 864,571	\$ 834,591

19. SUBSEQUENT EVENTS

Subsequent to year end, the impact of COVID-19 in Canada and on the global economy increased significantly. If the impacts of COVID-19 continue there could be further impact on the entity and its major customers, suppliers, and other third party business associated that could impact the timing and amounts realized on the Company's assets and future profitability. At this time, the full potential impact of COVID-19 on the Company is not known.