CENTAURUS ENERGY INC. (FORMERLY MADALENA ENERGY INC.)

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Centaurus Energy Inc.

## Opinion

We have audited the consolidated financial statements of Centaurus Energy Inc. and its subsidiaries (collectively the "Company"), which comprise the statements of financial position as at December 31, 2019 and 2018, and the statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant account policies.

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

## 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 Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our 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 2 in the consolidated financial statements, which notes the Company needs additional liquidity. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Company'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:

- Management's Discussion and Analysis

Our opinion on the 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 financial statements, our responsibility is to read the other information, 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 Management's Discussion & Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' responsibility for the Audit of Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Ryan MacDonald.

Ernst & Young LLP

Calgary, Canada

April 29, 2020

Consolidated Statements of Financial Position

| USD 000s | Note | As at December 31 2019 | As at December 31 2018 |
|---|---|---|---|
| **Assets** | | | |
| Current assets | | | |
| Cash and cash equivalents | | **599** | 778 |
| Trade and other receivables | 21 | **8,315** | 6,187 |
| Inventory | | **1,105** | 1,167 |
| Other current assets | | **295** | 361 |
| **Total current assets** | | **10,314** | 8,493 |
| Property, plant and equipment | 4 | **22,971** | 22,478 |
| Exploration and evaluation assets | 5 | **30,755** | 30,649 |
| Lease right-of-use assets | 6 | **200** | - |
| Other long-term assets | 7 | **195** | 102 |
| **Total non-current assets** | | **54,121** | 53,229 |
| **TOTAL ASSETS** | | **64,435** | 61,722 |
| **Liabilities** | | | |
| Current liabilities | | | |
| Convertible debentures | 8 | **-** | 1,198 |
| Current Loan | 9 | **8,981** | 52 |
| Short term debt | 10 | **1,979** | - |
| Derivative liability | 10 | **21** | - |
| Trade and other payables | | **19,001** | 7,935 |
| Taxes payable | | **560** | - |
| Short-term lease liability | 11 | **216** | - |
| Decommissioning obligations | 12 | **-** | - |
| **Total current liabilities** | | **30,758** | 9,185 |
| Loan | 9 | **7,189** | - |
| Deferred income tax liability | 18 | **-** | 488 |
| Decommissioning obligations | 12 | **12,664** | 15,621 |
| Other long-term liabilities | 20 | **1,595** | 1,182 |
| **Total non-current liabilities** | | **21,448** | 17,291 |
| **TOTAL LIABILITIES** | | **52,206** | 26,476 |
| **Shareholders' Equity** | | | |
| Share capital | 13 | **239,029** | 239,029 |
| Contributed surplus | | **18,097** | 17,750 |
| Equity component of convertible debentures | 8 | **-** | 76 |
| Accumulated other comprehensive loss | | **(26,941)** | (26,941) |
| Deficit | | **(217,956)** | (194,668) |
| **Total equity** | | **12,229** | 35,246 |
| **TOTAL LIABILITIES AND EQUITY** | | **64,435** | 61,722 |

Commitments and Other Long-term Liabilities (20)
Going Concern (note 2)

*See the accompanying Notes to the Consolidated Financial Statements*

On behalf of the Board:

*[signed] "David Tawil"*
David Tawil
Director

*[signed] "Steven Azarbad"*
Steven Azarbad
Director

Consolidated Statements of Loss and Comprehensive Loss

| USD 000s, except per share amounts | Note | Year ended December 31 2019 | 2018 |
|---|---|---|---|
| **Revenues** | | | |
| Oil and natural gas revenues | 23 | **32,409** | 36,171 |
| Royalties | | **(5,530)** | (5,764) |
| Other income | 23 | **1,643** | 480 |
| | | **28,522** | 30,887 |
| **Expenses** | | | |
| Operating | 22 | **23,381** | 19,854 |
| General and administrative | 22 | **7,072** | 6,216 |
| Finance (income) expenses | 16 | **730** | 2,795 |
| Share-based and long-term incentive compensation | 14, 15 | **214** | 885 |
| Warrants expenses | 14 | **-** | 518 |
| Depletion and depreciation | 4 | **8,075** | 5,727 |
| Depreciation of right-of-use assets | 6 | **232** | - |
| Gain on disposal of assets | 4, 5, 12 | **(3,445)** | (33) |
| Fair value change on derivative liability | 10 | **(49)** | - |
| Impairment | 4 | **17,743** | (899) |
| Other gains and losses | | **(1,672)** | - |
| | | **52,281** | 35,064 |
| **Loss before income taxes** | | **(23,759)** | (4,177) |
| **Income tax recovery (expense)** | | | |
| Current | 18 | **-** | - |
| Deferred | 18 | **471** | 1,005 |
| | | **471** | 1,005 |
| **Loss** | | **(23,288)** | (3,172) |
| **Comprehensive Loss** | | **(23,288)** | (3,172) |
| **Net Loss per share** | | | |
| Basic and diluted – continuing | 13 | **(0.04)** | (0.01) |
| Basic and diluted – total | 13 | **(0.04)** | (0.01) |

*See the accompanying Notes to the Consolidated Financial Statements*

Consolidated Statements of Changes in Shareholders' Equity

| USD 000s | Share Capital (note 13) | Contributed Surplus | Equity Component of Convertible Debentures (note 8) | Accumulated Other Comprehensive Loss | Deficit | Total Equity |
|---|---|---|---|---|---|---|
| **Balance at December 31, 2018** | **239,029** | **17,750** | **76** | **(26,941)** | **(194,668)** | **35,246** |
| Net loss | - | - | - | - | (23,288) | (23,288) |
| Foreign currency translation adjustment | - | - | - | - | - | - |
| Share-based compensation (note 14) | - | 271 | - | - | - | 271 |
| Convertible debentures maturity | - | 76 | (76) | - | - | - |
| Warrants (note 14) | - | - | - | - | - | - |
| **Balance at December 31, 2019** | **239,029** | **18,097** | **-** | **(26,941)** | **(217,956)** | **12,229** |

| USD 000s | Share Capital (note 13) | Contributed Surplus | Equity Component of Convertible Debentures (note 8) | Accumulated Other Comprehensive Loss | Deficit | Total Equity |
|---|---|---|---|---|---|---|
| Balance at December 31, 2017 | 238,989 | 16,371 | 76 | (26,941) | (191,496) | 36,999 |
| Net loss | - | - | - | - | (3,172) | (3,172) |
| Foreign currency translation adjustment | - | - | - | - | - | - |
| Share-based compensation (note 14) | - | 861 | - | - | - | 861 |
| Common shares issued (note 13) | 40 | - | - | - | - | 40 |
| Warrants (note 8) | - | 518 | - | - | - | 518 |
| Balance at December 31, 2018 | 239,029 | 17,750 | 76 | (26,941) | (194,668) | 35,246 |

*See the accompanying Notes to the Consolidated Financial Statements*

Consolidated Statements of Cash Flows

| USD 000s | Note | Year ended December 31 2019 | 2018 |
|---|---|---|---|
| **Cash provided by (used in):** | | | |
| **Operating** | | | |
| Net loss | | **(23,288)** | (3,172) |
| Items not affecting cash: | | | |
| Depletion and depreciation | 4 | **8,075** | 5,727 |
| Depreciation of right-of-use assets | 6 | **232** | - |
| Impairment | 4 | **17,743** | (899) |
| Accretion | 16 | **407** | 657 |
| Fair value change on derivative liability | 10 | **(49)** | - |
| Gain on disposal of assets | 4, 5, 12 | **(3,445)** | (33) |
| Share-based and long-term incentive compensation | 14, 15 | **214** | 885 |
| Warrants expenses | 14 | **-** | 518 |
| Deferred income tax expense (recovery) | 18 | **(471)** | (1,005) |
| Unrealized gain on foreign exchange | 16 | **(656)** | 1,459 |
| Lease commitment liability accreation | 20 | **586** | (160) |
| Non-cash increase of contingent liability | 20 | **10** | 75 |
| Change in non-cash working capital | 19 | **251** | (158) |
| Cash flow from operating activities | | **(391)** | 3,894 |
| **Investing** (1) | | | |
| Property, plant and equipment additions | 4 | **(634)** | (3,298) |
| Exploration and evaluation assets additions | 5 | **(98)** | (2,219) |
| Change in non-cash working capital | 19 | **502** | 1,199 |
| Net cash used in investing activities | | **(230)** | (4,318) |
| **Financing** (2) | | | |
| Short term loan received | 10 | **2,041** | - |
| Interests short term loan payment | 10 | **(66)** | - |
| Convertible debentures repayment | 8 | **(1,468)** | - |
| Lease payment | 11 | **(63)** | - |
| Net cash from (used in) financing activities | | **444** | - |
| Change in cash and cash equivalents | | **(179)** | (424) |
| Cash and cash equivalents, beginning of year | | **778** | 1,202 |
| Cash and cash equivalents, end of year | | **599** | 778 |

(1) Non-cash additions related to CASE $25,065 (note 4)..
(2) Non-cash loan received from PAE $16,170 (note 9)

*See the accompanying Notes to the Consolidated Financial Statements*

## 1. Reporting Entity

On October 25, 2019, Madalena Energy Inc. changed its name to Centaurus Energy Inc. (the "Company" or "Centaurus").

Centaurus Energy Inc. is involved in the exploration, development and production of oil and natural gas in Argentina. Centaurus' registered office is Suite 1600, 333 – 7th Avenue S.W., Calgary, Canada.

The consolidated financial statements include the results of the following wholly-owned subsidiaries:

- Madalena Petroleum Ltd. (Canada) ("MPL")
- Madalena Energy Argentina S.R.L. (Argentina) ("MEA")
- Madalena Petroleum Americas Limited (Barbados) ("MPAL")
- Madalena Petroleum Holdings Limited (Barbados)
- Madalena Ventures International Inc. (Barbados)

On April 1, 2018, the business units of the Argentine branches of Madalena Petroleum Ltd ("MPL Argentina") and the Madalena Petroleum Americas Limited ("MPAL Argentina") were transferred to MEA.
On January 1, 2018, Pet-Ja S.A. (Argentina) amalgamated with MEA.

## 2. Basis of Preparation

These financial statements have been prepared in accordance with generally accepted accounting principles applicable to a going concern, which assumes that Centaurus Energy Inc. will be able to realize its assets and discharge its liabilities in the normal course of business.

Due to significant commodity price volatility due to the COVID-19 pandemic and potential increased production supply from OPEC and Russia, future significant decreases to commodity prices may occur which could impact future cash flows and cause uncertainty as to whether the Company has sufficient liquidity throughout 2020. Furthermore, subsequent to year end the Company received notice of default on the existing credit facilities, being the Working Capital Loan Agreement dated May 8, 2017, as amended April 7, 2019 between the Company and Hispania Petroleum S.A and the Amended and Restated Convertible Loan Agreement made effective as of April 7, 2019 among the Company, Hispania Petroleum S.A. ("Hispania"), and KD Energy International Capital Limited ("KD Energy"). Subsequent to year end the Company has signed a binding term sheet with Maglan Distressed Master Fund LP with respect to debt financing agreement, which will provide access up to $23 million. The parties have until June 30, 2020 to enter into a definitive agreement. While negotiations are ongoing there is no guarantee of agreement on the final terms of the financing. As such, there is a material uncertainty that casts significant doubt on the Company's ability to continue as a going concern. These financial statements do not include adjustments in the carrying values of the assets and liabilities that would be necessary if the going concern assumption were not appropriate. Such adjustments could be material.

**Statement of Compliance**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), and are presented in United States Dollars ("USD") unless otherwise indicated.

These consolidated financial statements follow the same accounting policies and methods of computation for all periods presented as outlined in note 3.

The consolidated financial statements were approved and authorized for issue by the Company's Board of Directors on April 29, 2020.

**Basis of Measurement**
The consolidated financial statements have been prepared on the historical cost basis, except as described in the accompanying notes.

**Functional and Presentation Currency**
The functional and presentation currency is the USD.

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the change is identified, and prospectively in future periods.

**Critical Judgments in Applying Accounting Policies**
The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

- The Company's assets are aggregated into cash-generating units for the purpose of calculating impairment. Cash generating units ("CGU" or "CGUs") are based on an assessment of the unit's ability to generate independent cash inflows. The determination of these CGUs is based on management's judgment in regard to shared infrastructure, geographical proximity of properties, commodity and/or petroleum type and similar exposure to market risk.

- Judgment is required when assessing if indicators of impairment or reversals exist and therefore whether impairment testing is required. In determining the recoverable amount of assets, in the absence of quoted market prices, impairment tests are based on estimates of reserves, production rates, future oil and natural gas prices, future costs, discount rates, market value of land, and other relevant assumptions.

- The Company's concessions in Argentina are, from time to time, subject to renewal which requires approval from regulatory authorities. As there is no indication that pending extensions will not be approved or revised contracts will not be entered into, management has used judgment to conclude that all extensions or a revised form of a block contract will be approved. If the Company fails to obtain block contract renewals, the carrying value of the Company's property, plant and equipment and exploration and evaluation assets could be negatively impacted. Further, commitments entered into for concessions are based on the agreement signed at the time of concession entry, extension or renewal. To the extent that commitments have not been fulfilled by the expiry date, the Company may enter into negotiations to extend or renew. Should the concession not be extended or renewed, the Company could loss the concession.

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

- Management has exercised judgment in concluding that joint arrangements are subject to joint control. Specifically, judgment has been used in determining that decisions concerning the relevant activities of each arrangement require that the specified parties must act together even though the Company's interests in these arrangements may not be the same as the other parties to the arrangement. Centaurus has classified and accounted for its interests in joint arrangements as joint operations.

- Judgments are made by management to determine the likelihood of whether deferred income tax assets at the end of the reporting period will be realized from future taxable earnings.

- Determination of Functional Currency:

  Judgments made by management in determining the appropriate functional currency include an analysis of primary and secondary indicators, as follows:

  (1) Primary indicators of functional currency included the review of the currency that mainly influences sales prices; the currency whose competitive forces and regulations mainly determine sales price; and the currency that mainly influences labour, material and other costs. Specific relevant factors that management considered included:

    - the government of Argentina sets the benchmark price for oil in USD per barrel and although the benchmark prices do not always follow world oil price changes in a predictable manner, the government is aware of and takes into consideration world prices when establishing the benchmark;

    - although settled in the Argentina peso ("ARS"), all oil and gas sales are invoiced in USD and various credits and incentives that the Company is entitled to through the government of Argentina are expected to be denominated in USD;

    - the Company's budget is prepared and managed in USD; and

    - the majority of anticipated spending in the next 3 – 5 years is expected to be weighted to USD denominated expenditures, mainly as a result of the anticipated capital spending budgets in Argentina, although influenced as well by USD denominated operating costs. The size of the expenditures being made will result in the engagement of international companies that will require USD as the invoicing currency.

  (2) Secondary indicators of functional currency determination include the currency in which funds from financing are generated; the currency in which funds from operations are retained; the degree of autonomy of the foreign operation; the frequency of the transactions with the reporting entity; the cash flow impact on the reporting entity and the ability of the foreign operation to finance its own activities. Relevant indicators considered in management's assessment included:

    - as the expectation of growth existed, the anticipated financing currency was and continues to be the USD. Although ARS loans are available, given the Company's planned growth, any financing of significance is expected to be USD denominated; and

    - funds retained in Argentina are in ARS.

While the above noted factors are mixed in support of both the USD and ARS, Management concludes that when considered collectively, it is appropriate to continue the conclusion that the USD is the appropriate functional currency for all subsidiaries.

**Key Sources of Estimation Uncertainty**
The following are key estimates and the assumptions made by management affecting the measurement of balances and transaction in these consolidated financial statements:

- Estimation of recoverable quantities of proven and probable reserves and/or contingent resources include estimates and assumptions regarding future commodity prices, exchange rates, discount rates and production and transportation costs for future cash flows as well as the interpretation of complex geological and geophysical models and data. These estimates are reviewed at least annually, through the engagement of qualified independent reserves evaluators. Changes in reported reserves and resources can affect the impairment of assets, the decommissioning obligations, the economic feasibility of exploration and evaluation assets and the amounts reported for depletion, depreciation and amortization of property, plant and equipment.

- The Company estimates the decommissioning obligations for oil and natural gas wells and their associated production facilities, if applicable. In most instances, removal of assets and remediation occurs many years into the future. Amounts recorded for the decommissioning obligations and related accretion expense require assumptions regarding removal date, the extent of reclamation activities required, the engineering methodology for estimating cost, inflation estimates, and the estimate of the specific discount rates for these liabilities in order to determine the present value of these obligation settlements.
- A number of accounting policies and disclosures require that fair value measurements be determined, specifically, financial instruments. In determining fair value, the Company uses observable market data as much as possible. The fair value hierarchy used:
  - Level 1 – Quoted prices in active markets for identical assets or liabilities. Cash and cash equivalents, and the refundable deposit are Level 1 financial instruments.
  - Level 2 – Observable prices for similar assets or liabilities, either directly or indirectly determined. Long-term debt is a Level 2 financial instrument.
  - Level 3 – Unobservable input sources. Convertible debentures issued and the convertible debenture asset are Level 3 financial instruments.

## 3. Significant Accounting Policies

### (a) Basis of Consolidation

*i. Subsidiaries*

Subsidiaries are entities controlled by Centaurus. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Inter-company balances and transactions, including unrealized income and expenses arising from inter-company transactions, are eliminated in preparing the consolidated financial statements, unless IFRS indicates otherwise.

*ii. Jointly Controlled Operations and Assets*

Some of the Company's oil and natural gas activities involve jointly controlled assets. The consolidated financial statements include the Company's share of these jointly controlled assets and a proportionate share of the related revenue and related costs.

Centaurus currently has 10 concessions in Argentina and 1 operational agreement in Palmar Largo. Of the concessions owned by Cenaurus in Argentina, four are governed by a Union Transitoria de Empresas ("UTE"), which is an agreement entered into between two or more parties with the purpose of gathering human, technological and economic resources temporarily, in order to develop or execute a project, render a service or provide a specific supply. The UTE parties maintain at all times their legal and economic independence. The UTE is not a separate legal entity and no separate legal entities are established by the parties of the UTE to conduct business on behalf of the UTE. The Company has determined these agreements to result in joint operations, and accounts for these operations in accordance with its proportionate working interest ("WI").

The Company's WI at December 31, 2019 in the UTEs is as follows:

- Surubi - (85%)
- Palmar Largo and Balbuena Este - (14%)
- Coirón Amargo-Norte – (35%)
- Coirón Amargo-Sur Este – (35%)
- Curamhuele (90%)

The other 5 concessions are operated by the Company with a 100% WI.

**(b) Foreign Currency**

Centaurus and each of its subsidiaries use US dollar as their functional currency. Foreign currency transactions are translated using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit and loss.

**(c) Financial Instruments**

Centaurus recognizes financial assets and financial liabilities, on the consolidated statement of financial position when the Company becomes a party to the contract. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or when the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized from the consolidated financial statements when the liability is extinguished either through settlement of or release from the obligation of the underlying liability.

*Classification and Measurement of Financial Instruments*

The classification of financial assets is determined by their context in Centaurus' business model and by the characteristics of the financial asset's contractual cash flows.

Financial assets and financial liabilities are measured at fair value on initial recognition, which is typically the transaction price unless a financial instrument contains a significant financing component. Subsequent measurement is dependent on the financial instrument's classification, as described below:

- Cash and cash equivalents (includes cash and bank overdraft), accounts receivable, accounts payable and accrued liabilities and long-term debt are measured at amortized cost.

Financial assets and liabilities are offset and the net amount is reported on the balance sheet when there is a legally enforceable right to offset the recognized amounts, and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

*Impairment of Financial Assets*

Financial assets are assessed with an expected credit loss ("ECL") model. The new impairment model applies to financial assets measured at amortized cost, a lease receivable, a contract asset or a loan commitment and a financial guarantee.

**(d) Cash and cash equivalents**

Cash and cash equivalents in the statement of financial position comprise cash held at banks and short-term deposits with an original maturity of three months or less. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of any outstanding bank overdrafts

**(e) Property, Plant and Equipment and Exploration and Evaluation Assets**

i. *Pre-license costs*

Exploration and evaluation ("E&E") costs incurred prior to receiving the legal rights to explore an area are expensed when incurred.

ii. *Exploration and evaluation assets*

Exploration licenses, unproved property acquisition costs, geological and geophysical costs and costs directly associated with an exploration well and appraisal activities are capitalized within E&E assets. The costs are accumulated in cost centers by well, field or exploration area pending determination of their technical feasibility and commercial viability. Upon determination of technical feasibility and commercial viability, E&E assets are first tested for impairment and then reclassified from E&E assets to property, plant and equipment. E&E assets are not depleted but are assessed for impairment when there are indicators of impairment.

Initial wells on an E&E property that are drilled for the purpose of proving the technical feasibility and commercial viability of a reserve are capitalized and the property remains in the E&E phase pending a decision to fully develop the property. Multiple wells may need to be drilled to determine whether the E&E property will be developed. A review of each exploration area is carried out to ascertain whether technical feasibility and commercial viability has been established and there is a reasonable assessment of the economics associated with the future production of those reserves, required government and regulatory approvals have been obtained, or are likely to be obtained and management has made the decision to proceed with development and production of the project by incurring the future capital costs attributed to them. Upon determination of technical feasibility and commercial viability, E&E assets attributable to those reserves, in that particular area, are first tested for impairment and then reclassified from E&E assets to property, plant and equipment. If the cost of the asset is greater than the fair value, then the excess is written off in profit or loss.

iii. *Property, plant and equipment assets ("PP&E")*

PP&E assets are measured at cost less accumulated depletion, depreciation and amortization and accumulated net impairment losses. Development and production assets are accumulated into major area cost centers and represent the cost of developing the commercial reserves and initiating production. Capitalized costs include the purchase price or construction cost of the asset, any costs directly attributable to bringing the asset into operation, the estimate of any decommissioning obligation and borrowing costs for qualifying assets, if any. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

iv. *Subsequent costs*

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing components of equipment are recognized as PP&E only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are expensed as incurred. Such capitalized amounts generally represent costs incurred in developing proven and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis.

The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of PP&E are recognized in profit or loss as incurred.

An asset within PP&E is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognized.

Exchanges of assets within PP&E are measured at fair value unless the exchange transaction lacks commercial substance or the fair value of neither the asset received nor the asset given up is reliably measurable. Unless the fair value of the asset received is more clearly evident, the cost of the acquired asset is measured at the fair value of the asset given up. Where fair value is not used, the cost of the acquired asset is measured at the carrying amount of the asset given up. The gain or loss on de-recognition of the asset given up is recognized in profit and loss.

v. *Depletion and depreciation*

Depletion of oil and natural gas properties and depreciation of production equipment are calculated based on the establishment of depletable components, using the unit-of-production method. Components are generally determined at a field level. The component's volumes of total proven and probable oil and natural gas reserves and production before royalties, as determined by independent petroleum reservoir engineers is the unit basis for calculating depletion. Natural gas reserves and production are converted to equivalent barrels of oil based upon the energy equivalent conversion ratio of six thousand cubic feet of natural gas to one barrel of oil, calculated in accordance with National Instrument 51-101 - *Standards of Disclosure for Oil and Gas Activities*. The depletion base includes all capitalized costs and estimated future development costs of proven and probable undeveloped reserves.

Corporate assets primarily consist of office furniture and equipment and leasehold improvements, which are stated at cost less accumulated depreciation and are depreciated over the estimated useful lives of the assets. Office furniture and equipment is depreciated at rates ranging from 10 to 33%.

vi. *Impairment*

The carrying amounts of the Company's PP&E and E&E assets are reviewed at each reporting date to determine whether an indication of impairment exists. If any such indication exists, then the asset's recoverable amount is estimated. In addition, E&E assets are assessed for impairment when they are reclassified to PP&E and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

Fair value less costs to sell is determined as the amount that would be obtained for the sale of a CGU in an arm's length transaction between knowledgeable and willing parties. Fair value less costs to sell of a CGU can also be determined by using assumptions that an independent market participant may take into account. This evaluation could use discounted future net cash flows of proved and probable reserves using forecast prices and costs including the development of prospective lands.

Centaurus's management determines value in use for each CGU by estimating the present value of estimated future net cash flows from continued production through exploitation of its proved and probable reserves.

Management applies a present value to these cash flows using pre-tax discount rate range depending on the category of reserves being discounted. The discount rates reflect current market assessments and the risks specific to the assets.

E&E assets are allocated to related CGUs when they are assessed for impairment, both at the time of any triggering facts and circumstances as well as upon their eventual reclassification to PP&E.

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 profit or loss. Impairment losses recognized in respect of CGU's are allocated first to reduce the carrying amount of any goodwill, should it exist, allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

Impairment losses 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 recognized.

Impairment losses related to PP&E can be reversed in future periods if the estimated recoverable amount of the asset exceeds the carrying value. The impairment recovery is limited to a maximum of the estimated depleted historical cost if the impairment had not been recognized. The reversal of the impairment loss is recognized in impairment.

**(f) Share Based Compensation and Long-term Incentive Plan**

i. *Share based compensation*

The grant date fair value of equity settled options granted to employees 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 subsequently adjusted each period to eventually reflect the actual number of options that vest. Upon exercise of the stock options, the consideration received plus the amount previously recorded in contributed surplus is recorded as an increase in share capital.

ii. *Long-term incentive plan*

For cash based incentive plans, units issued are recorded at fair value and recognized over the requisite service period. Changes in fair value each period are recognized in the statement of loss.

**(g) Decommissioning Obligations**

Obligations for dismantling, decommissioning and site disturbance remediation may arise as a result of the Company's activities. Once it is determined that an obligation exists, a decommissioning obligation is recorded for the estimated cost of site restoration, with the offset capitalized in the relevant asset category.

Decommissioning obligations are measured at the present value of management's best estimate of the expected expenditures, including the timing, that is required to remediate the property. The decommissioning obligation reflects current market assessments of the time value of money and the risks specific to the liability. The discount and inflation rates used to present value the obligation is based on the risk free rate associated with the currency by which payment is most influenced. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time, changes in the estimated future cash flows underlying the obligation, and for changes in discount and inflation rates as required. These changes are accounted for prospectively. The increase in the decommissioning obligation due to the passage of time is recognized as finance costs (accretion) whereas increases/decreases due to changes in the estimated future cash flows are capitalized and amortized based on the methodology that is consistent with the asset to which it is capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established. Should the asset to which the obligation is related, be disposed of, the decommissioning obligation associated with it is derecognized.

The Company does not recognize decommissioning obligations on facilities in Argentina where it has determined that there is no legal or constructive obligation to perform such activities.

**(h) Revenue**

Centaurus recognizes crude oil and natural gas revenue when title passes from Centaurus to the purchaser or, in the case of services, as contracted services are performed. Production revenues are determined pursuant to the terms outlined in contractual agreements and are based on fixed or variable price components. The transaction price for crude oil and natural gas is based on the commodity price in the month of production, adjusted for various factors including product quality and location. Commodity prices are based on monthly or daily market indices.

Performance obligations in the contract are fulfilled on the last day of the month.

- The Company considers its performance obligations to be satisfied and control to be transferred when all of the following conditions are satisfied:
- Centaurus has transferred title and physical possession of the commodity to the buyer;
- Centaurus has transferred the significant risks and rewards of ownership of the commodity to the buyer; and
- Centaurus has the present right to payment.

All of the Company's significant revenue streams are located in Argentina.

**(i) 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. Current tax also includes the amounts paid or accrued for minimal presumed income tax, which is an Argentine tax on net assets, levied on those companies with no taxable income.

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.

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. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are offset 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.

**(j) Earnings (Loss) Per Share**

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

**(k) Inventory**

Inventory consists of oil in tanks and third party pipelines, as well as supplies, and is valued at the lower of cost or market value. The cost of inventory is determined using the weighted average method. Oil inventories include expenditures incurred to produce, upgrade and transport the product to the storage facilities and include operating, depletion and depreciation expenses and cash royalties. Allocated to inventory is a relevant share of operating, royalty expense and depletion. Depending on inventory levels, this could increase or decrease inventory otherwise recorded.

**(l) Value added tax ("VAT")**

VAT on purchases is applied against VAT on sales to reduce the amount paid to the Argentine government. VAT is recorded as a receivable when it is expected that it will be recovered through future sales. To the extent that amounts are expected to be recovered over a period greater than a year, the amount is discounted. VAT does not expire and may be carried forward indefinitely.

**(m) Adoption of IFRS 16 Leases**

Centaurus applied IFRS 16 with an initial adoption date of January 1, 2019, resulting in a change to its accounting policy for lease contracts as detailed below. The Company applied IFRS 16 using the modified retrospective approach under which the cumulative effect of initial application is recognized in retained earnings at January 1, 2019. As a result, comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4.

As a lessee, the Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. Under IFRS 16, the Company recognizes right-of-use assets in property, plant and equipment and lease liabilities for most leases.

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company’s incremental borrowing rate as at January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

*i) Practical expedients*
The Company used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:
- Applied the exemption to not recognize right-of-use assets and liabilities for leases with less than 12 months of lease term; and
- Applied the exemption to not recognize leases of low value assets on the consolidated balance sheet. Payments for these leases will be disclosed in the notes to the consolidated financial statements.

(Tabular amounts are stated in thousands of United States dollars ("USD"), except per share amounts and as otherwise stated)

*ii) January 1, 2019 impact*

Upon adoption of IFRS 16, the Company identified a office lease in-scope under the standard. The Company recorded finance lease liability on contracts previously classified as operating lease under IAS 17. The lease liabilities were measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as at January 1, 2019. The incremental borrowing rate used in the calculation was 10.5 percent.

Centaurus has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets, which include information technology equipment and field equipment. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

*iii) Reconcilation of commitments to lease liability*

The following table reconciles the Company's commitments at December 31, 2018 to the Company's lease liabilities as at January 1, 2019:

| | |
|---|---|
| Development and Exploration | 91,848 |
| Office lease | 89 |
| Total at December 31, 2018 | 91,937 |
| Commitments that do not contain a lease | (91,848) |
| Other | 10 |
| Discounting impact | (7) |

| | |
|---|---|
| Lease liabilities as at January 1, 2019 | 92 |

## 4. Property, Plant and Equipment ("PP&E")

| USD 000s | 2019 | 2018 | 2019 | 2018 |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance, beginning of period | 152,435 | 145,522 | | |
| Additions (1) | 25,869 | 3,298 | | |
| Disposals | (72) | (1,188) | | |
| Change in decommissiong liabilities | 514 | (5,847) | | |
| Transfers from E&E assets | - | 10,650 | | |
| Balance, end of period | 178,746 | 152,435 | | |
| **Accumulated depreciation and depletion** | | | | |
| Balance, beginning of period | (129,957) | (125,129) | | |
| Depletion and depreciation | (8,075) | (5,727) | | |
| Impairment | (17,743) | 899 | | |
| Balance, end of period | (155,775) | (129,957) | | |
| Net book value, beginning of period | 22,478 | 20,393 | | |
| **Net book value, end of period** | **22,971** | 22,478 | | |

(3) Includes non-cash additions related to CASE $24,318, subject to PAE loan (note 9).

As at December 31, 2019, Centaurus determined that indicators of impairment existed in each of its Argentine CGUs. These indicators of impairment were the result of a fluctuation in interest rates and decrease in oil and gas prices. However, increased volumes and reserves values in MEA North, resulted in an indicator of impairment reversal for that CGU.

As a result, impairment tests were performed over each CGU and one of them, MEA South, was deemed to be impaired as it´s estimated recoverable amount was lower than the carrying amount by $19.9 million. For MEA North the recoverable amount was higher than it carrying amount by $2.2 million. The combined recoverable amounts, calculated as $14.6 million, resulted impairment expense of $17.7 million (2018 –$0.9 million).

The impaired CGU's recoverable values were estimated using value in use calculations based on future net cash flows expected to be derived from the CGU's proven plus probable reserves from the externally prepared December 31, 2019 reserve report using a discount rate of 17.9% for MEA North and of 19% for MEA South, and the following forecast benchmark commodity price estimates:

(Tabular amounts are stated in thousands of United States dollars ("USD"), except per share amounts and as otherwise stated)

| Year | Brent Oil Price (1) (USD/bbl) | Argentina Domestic Gas Price (1) (USD/mmbtu) |
|---|---|---|
| 2020 | 65.25 | 3.68 |
| 2021 | 67.28 | 3.68 |
| 2022 | 69.98 | 3.68 |
| 2023 | 71.52 | 3.75 |
| 2024 | 73.08 | 3.83 |
| 2025 | 74.42 | 3.91 |
| 2026 | 76.03 | 3.98 |
| 2027 | 77.61 | 4.06 |
| 2028 | 79.15 | 4.14 |
| 2029 | 80.71 | 4.23 |
| 2029+ | +2%/yr | +2%/yr |

(1) The forecast benchmark commodity prices listed above are adjusted for quality differentials, heat content, distance to market and other factors in performing our impairment tests.

Had the discount rate used been 1% higher than the actual discount rate, additional impairment charges of $2.6 million would have resulted for the year ended December 31, 2019.

An additional $1 decrease in the price deck would have resulted in further impairment charges of $7 million for the year ended December 31, 2019.

The depletion expense calculation for the year ended December 31, 2019 included as part of the depletable base, $84.9 million (2018 – $5.5 million) for estimated future development costs associated proved developed non-producing reserves in Argentina.

During the year ended December 31, 2019, approximately $0.3 million (2018 - $0.6 million) of directly attributable general and administration costs were capitalized to property, plant and equipment in Argentina.

Subsequent to December 31, 2019, there has been significant volatility with crude oil prices due to macro-economic uncertainty, mainly due to potential increased supply from OPEC and Russia, the economic impact of the COVID-19 outbreak and potential lack of storage forcing production shut-ins. Based on IFRS guidance, the Company has not reflected these subsequent conditions in the recoverable amount estimates within the Company’s impairment tests as at December 31, 2019. If this commodity price volatility persists, there is potential that indicators of impairment will be present as part of the Company’s impairment assessment in the first quarter of 2020.

## 5. Exploration and Evaluation Assets ("E&E")

| USD 000s | 2019 | 2018 | 2019 | 2018 |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance, beginning of period | 30,649 | 39,869 | | |
| Additions | 98 | 2,219 | | |
| Change in decommissiong liabilities | 8 | (789) | | |
| Transfers to PP&E assets | - | (10,650) | | |
| **Balance, end of period** | **30,755** | 30,649 | | |

E&E assets consist of the Company's intangible exploration projects in Argentina pending determination of proven or probable reserves (see note 20 relating to commitments). Additions represent the Company's share of costs incurred on E&E assets during the period. E&E assets are not depreciated or depleted.

In September 2018, Coiron Amargo Sur Este ("CASE") block in Neuquen, Argentina, was converted in an unconventional exploitation concession with a 35-year term and its assets for $10.6 million was transferred to PP&E assets. Upon determination of technical feasibility and commercial viability, E&E assets attributable to those reserves, in that particular area, are first tested for impairment and then reclassified from E&E assets to property, plant and equipment if the cost did not exceed the fair value.

At December 31, 2019 and 2018, Centaurus determined that no impairment triggers existed relating to its Argentine E&E assets.

Subsequent to December 31, 2019, there has been significant volatility with crude oil prices due to macro-economic uncertainty, mainly due to potential increased supply from OPEC and Russia, the economic impact of the COVID-19 outbreak and potential lack of storage forcing production shut-ins. Based on IFRS guidance, the Company has not reflected these subsequent conditions in the recoverable amount estimates within the Company's impairment tests as at December 31, 2019. If this commodity price volatility persists, there is potential that indicators of impairment will be present as part of the Company's impairment assessment in the first quarter of 2020.

## 6. Lease right-of-use assets

| USD 000s | |
|---|---|
| **Cost** | |
| At January 1, 2019 | 432 |
| **At December 31, 2019** | **432** |

| USD 000s | |
|---|---|
| **Accumulated depreciation** | |
| At January 1, 2019 | - |
| Depreciation | (232) |
| **At December 31, 2019** | **(232)** |

| USD 000s | |
|---|---|
| **Net book value** | |
| At December 31, 2018 | - |
| **At December 31, 2019** | **200** |

## 7. Other Long-term Assets

Other long-term assets are comprised of long-term receivables for which the fair value approximates the carrying value. The long-term receivables primarily relate to ARS denominated taxes receivable of $0.2 million (December 31, 2018 – $0.1 million).

## 8. Convertible Debentures

On July 13, 2016, the Company completed a private placement of $1.2 million (CAD $1.6 million Canadian dollars ("CAD")) 12% secured convertible debentures, net of fees, primarily to insiders or existing shareholders, with a June 30, 2019 maturity date. The debentures were convertible into common shares of the Company at a conversion price of CAD $0.25 per common share, any time after January 13, 2017. Interest on the debentures was payable semi-annually, in arrears, on December 31 and June 30.

These debentures were a level III financial liability with an embedded conversion feature. As a result, the equity and debt components were bifurcated. The value assigned to the liability on July 13, 2016 was the present value of the contractually determined stream of future cash flows discounted at 15% being the rate estimated to be equivalent to that which the market would apply to an instrument with comparable credit status and provide substantially the same cash flows, on the same terms, but without the conversion option. From the date of issuance, the liability component accreted up to its principal value using the effective interest method, with the charge recorded in finance (income) expenses in the consolidated statements of loss.

At the maturity date, June 30, 2019 the principal amount, interest and expenses of all debentures were fully repaid by the Company. In addition, the Company paid $127 thousand related to the 10% premium in accordance with the repayment provisions of the debenture indenture.

The following table reconciles the principal amount, liability and equity components of the convertible debentures:

| USD 000s | Liability Component | Equity Component | Total |
|---|---|---|---|
| At December 31, 2018 | 1,198 | 76 | 1,274 |
| Accretion (note 17) | 40 | - | 40 |
| Repayment | (1,290) | - | (1,290) |
| Impact of foreign exchange | 52 | - | 52 |
| Convertible debentures maturity | - | (76) | (76) |
| **At December 31, 2019** | **-** | **-** | **-** |

## 9. Loan

On December 7, 2016, Centaurus entered into an agreement with Pan American Energy ("PAE") , subject to certain conditions, to provide Centaurus with a loan of up to $40 million, on a limited recourse basis, to be drawn-down as required to fund certain capital expenditures in the CASE block. This limited recourse loan would bear interest at 7% per annum and is repayable in five years from the first to occur between the completion of the investments committed in the Pilot Program or the complete disbursement of the loan. Transaction fees of $0.5 million were incurred in 2017 to complete this agreement.

During the year, $18.3 million (2018 - $2.5 million) had been disbursed under the agreement directly to the operator of CASE to fund capital expenditures. Repayment of $2.1 million (2018 - $2.5 million) was repaid through the sale of the net revenue.

| USD 000s | Total |
|---|---|
| At December 31, 2018 | - |
| Proceeds | 18,280 |
| Interests | 278 |
| Repayment | (2,388) |
| **At December 31, 2019** | **16,170** |
| Current | 8,981 |
| Long-term | 7,189 |
| **Total** | **16,170** |

## 10. Working Capital and Convertible loan

On May 8, 2017, Centaurus entered into a series of agreements (the "Transactions") with Hispania Petroleum S.A., ("Hispania"), a private, family-owned Spanish energy Company and a related party of the Company, where José David Penafiel is a director, which provides for a package of debt and mezzanine financing of up to $23 million through a working capital loan (the "Working Capital Loan") of up to $6.5 million for the purposes of funding the Centaurus' capital expenditure obligations in the Puesto Morales concession or to fund one or more acquisitions of oil and gas assets, under the terms of a convertible loan of up to $16.5 million (the "Capex Loan").

The Working Capital Loan is a multi-drawdown facility, which is available to be used for general working capital purposes. Interest accrues at 7% per annum. Principal and interest on each drawdown will be repayable thirty-six months after an advance of funds.

The Capex Loan is a multi-drawdown convertible loan. The loan accrues interest at 7% per annum, with each drawdown and accrued interest repayable thirty-six months after drawdown. The Capex Loan is convertible into units of the Company ("Units") with each Unit comprised of one common share ("Common Share") and 0.22 of a Common Share purchase warrant ("Warrant"), with each Warrant entitling the holder to purchase an additional Common Share. The Capex Loan was, prior to amendment (as more particularly described below) convertible based on a conversion price equal to a 5% premium to the 20-day volume weighted average price ("VWAP") of the Common Shares on the last trading date prior to a particular drawdown ("Conversion Price") in respect of the Common Shares comprising the Units. The exercise price of the Warrants issued upon conversion was also at a 5% premium to that 20-day VWAP. These Warrants expire 18 months after the date of issuance. Both Hispania and Centaurus have the right to convert the whole or part of the principal and interest owing hereunder into Units on or before repayment, although Centaurus' right to compel conversion is limited in some circumstances.

Both loans are collaterialized, limited to the Company's interests in the Puesto Morales concession.

On September 13, 2017, the shareholders of the Company passed an ordinary resolution approving KD Energy as a new "Control Person" (as such term is defined in the TSX Venture Exchange Corporate Finance Manual) of the Company. In connection therewith, the convertible loan agreement dated May 8, 2017 for an amount up to $16.5 million is now available to be drawn upon by the Company in accordance with the terms thereof.

On April 7, 2019 the Company entered into an amended and restated convertible loan agreement (the "Amended and Restated Loan Agreement") with KD Energy and Hispania, and has extended the term of the Working Capital Loan agreement (the "Working Capital Loan Agreement"). Key amendments include an extension of the expiry date from May 8, 2020 to May 8, 2023, a change in the conversion price and exercise price of the Warrants to CAD 0.225 (subject to standard adjustments) the right of KD Energy to designate Jose David Penafiel and one additional representative to the board of directors during the term of the Amended and Restated Loan Agreement, and an expansion to the purposes for which the Company can draw on the loan to include acquisitions of oil and gas assets, subject to consent of KD Energy. The expiry date of the Working Capital Loan Agreement which is in the aggregate amount of $6.5 million and carries an interest rate of 7% per annum has also been extended to May 8, 2023. The Amended and Restated Loan Agreement was approved on on June 5, 2019 by special a meeting of shareholders.

As at December 31, 2019, $0.3 million has been drawn on the Capex Loan and $1.7 million has been drawn on the Working Capital Loan by the Company.

The fair value of the conversion option component of convertible loan at issuance was determined to be $70 thousand and was estimated using trinomial method with the following assumptions: expected dividend yield of 0%, expected volatility of 73.6%, CDN risk free interest rate of 1.4%, US risk free interest rate of 1.67%, share price of CDN$0.12, an exchange rate volatility of 6.1% and an expected life of 3 years.

The fair value of the conversion option component of the convertible loan as at December 31, 2019 was determined to be $21 thousand using the trinomial method with the following assumptions: expected dividend yield of 0%, expected volatility of 78% based on historical share prices, CDN risk free interest rate of 1.7%, US risk free interest rate of 1.57%, share price of CDN$0.065, an exchange rate volatility of 5.8% and an expected life of 2.50 years.

On March 27, 2020 the Company announced it had received a notice of default and reservation of rights from KD Energy and Hispania. On March 25, 2020, the Corporation announced that Jose Peñafiel and Alejandro Peñafiel had ceased to be officers and directors of the Corporation.

The following table presents the reconciliation of the beginning and ending balances of the components of the loans as at December 31, 2018 an as at December 31, 2019:

| USD 000s | Liability | Derivative Liability | Total |
|---|---|---|---|
| At December 31, 2018 | - | - | - |
| Working Capital loan disbursement | 1,725 | - | 1,725 |
| Convertible loan disbursement | 246 | 70 | 316 |
| Revaluation of conversion option | - | (50) | (50) |
| Interests | 74 | - | 74 |
| Interests repayment | (66) | - | (66) |
| Impact of foreign exchange | - | 1 | 1 |
| **At December 31, 2019** | **1,979** | **21** | **2,000** |

The Company has no bank debt in Canada at December 31, 2019 and 2018.

## 11. Lease liability

| USD 000s | 2019 | 2018 |
|---|---|---|
| Balance at January 1, 2019 | **-** | - |
| IFRS 16 first recognition | **236** | - |
| Accretion expense | **43** | - |
| Obligations settled | **(63)** | - |
| **Balance at December 31, 2019** | **216** | - |
| Current | **216** | - |
| Long-term | **-** | - |
| **Total** | **216** | - |

The total undiscounted amount of finance liabilities debt at December 31, 2019 is $37 thousand (December 31, 2018 – nil). The finance liabilities debt have been discounted using discount rates that reflect current market assessments of the time value of money and the risks specific to each liability.

The incremental borrowing rate used to discount the liability at December 31, 2019 was 10.5% (December 31, 2018 - nill).

## 12. Decommissioning Obligations

| | Year ended December 31 | |
|---|---|---|
| USD 000s | 2019 | 2018 |
| Balance, beginning of year | **15,621** | 21,671 |
| Disposals | **(3,801)** | - |
| Additions from development activities | **86** | - |
| Accretion expense (note, 17) | **324** | 589 |
| Revision of estimates | **434** | (6,639) |
| **Balance, end of year** | **12,664** | 15,621 |
| Current | **-** | - |
| Long-term | **12,664** | 15,621 |
| **Total** | **12,664** | 15,621 |

The total undiscounted amount of cash flows required to settle Centaurus's decommissioning obligations in Argentina only at December 31, 2018 is approximately $13.1 million (December 31, 2018 – $17.1 million) with the majority of the costs to be incurred between 2026 and 2027. The decommissioning obligations have been estimated using existing technology at current prices and discounted using discount rates that reflect current market assessments of the time value of money and the risks specific to each liability.

At December 31, 2019 an inflation rate of 1.86% was used (December 31, 2018 – 1.9%). The risk free rate used to discount the liability at December 31, 2019 was 2.25% (December 31, 2018 – 2.8%). The majority of the Argentine decommissioning obligations are expected to be invoiced in USD and settled through payments in ARS.

The revision of estimates which increased decommissioning liabilities by $0.4 million for the year ended December 31, 2019 relating to change in the discount and inflation rate. For the year ended December 31, 2018, a decrease of $6.1 million for changes in well cost estimates, a decrease of $0.2 million relating to a change in the discount and inflation rate and a decrease of $0.3 million relating to reserve life changes.

In December 2018, the Company entered into an agreement assigning Centaurus' entire interest in the non-core and non-producing El Vinalar concession to a private Argentine oil and gas company. In January 2019, the Company made a payment of $0.3 million. Centaurus has derecognized the related decommissioning obligations of $3.8 million, resulting in a net gain of $3.5 million.

## 13. Share Capital

The Company is authorized to issue an unlimited number of common shares and preferred shares. The holders of common shares are entitled to receive dividends as declared by the Company and are entitled to one vote per share. No preferred shares were outstanding at December 31, 2019 or 2018. No dividends have been declared by the Company for the years ended December 31, 2019 or 2018.

| 14. | 15. Number of Shares | 17. Share Capital 18. 000s |
|---|---|---|

| | 16. 000s | |
|---|---|---|
| Balance at December 31, 2017 | 543,860 | 238,989 |
| Common shares issued | 200 | 40 |
| Balance at December 31, 2018 | **544,060** | **239,029** |
| **Balance at December 31, 2019** | **544,060** | **239,029** |

On January 17, 2018, 200,000 common shares were issued at a price of CAD $0.25 pursuant to the exercise of convertible debenture option of $40 thousand.

**Net Loss Per Share**

As at December 31, 2019, there is no resulting dilutive impact of the convertible loan or share options. The following table provides the weighted average number of common shares used in the per share calculations:

| | **Year ended December 31** | |
|---|---|---|
| | **2019** | **2018** |
| Weighted average number of common shares - basic and diluted – 000s | **544,060** | 544,051 |
| Net loss from continuing operations - USD 000s | **(23,288)** | (3,172) |
| Per share – basic - continuing operations ($/share) | **(0.04)** | (0.01) |

| | **Year ended December 31** | |
|---|---|---|
| | **2019** | **2018** |
| Weighted average number of common shares - diluted – 000s | **545,227** | 579,362 |
| Net loss diluted - USD 000s | **(23,167)** | (2,431) |
| Per share – diluted ($/share) | **(0.04)** | (0.00) |

## 19. Share-based Compensation and warrants

Under the Company's stock option plan, directors, officers, employees and certain consultants are eligible to receive options to acquire common stock of the Company. The exercise price of the granted options is no less than the closing trading price per share on the last day preceding the date of the grant. Total options granted cannot exceed 10% of the issued and outstanding common shares of the Company. Options granted to directors, officers, employees and consultants vest over three years on each anniversary of the grant date. Options expire three to five years from the grant date. There are no cash settlement alternatives for employees under the Company's stock option plan.

During the year ended December 31, 2019 no options were issued (2018 – 11,400,000).

Movements in the number of stock options outstanding and their related weighted average exercise prices are summarized as follows:

| | Number of options 000s | Weighted average exercise price |
|---|---|---|
| Outstanding at December 31, 2017 | 6,348 | 0.27 |
| Granted | 11,400 | 0.22 |
| Forfeited | (107) | 0.31 |
| Expired or cancelled | (758) | 0.34 |
| Outstanding at December 31, 2018 | 16,883 | 0.23 |
| Granted | - | - |
| Forfeited | (1,483) | 0.39 |
| Expired or cancelled | (600) | 0.22 |
| **Outstanding at December 31, 2019** | **14,800** | **0.22** |
| **Exercisable at December 31, 2019** | **10,400** | **0.22** |

*The range of exercise prices of the outstanding options*

| Exercise price (CAD) | Number of Options Outstanding 000s | Weighted Average Contractual Life of options outstanding (years) | Number of outstanding options that are exercisable 000s |
|---|---|---|---|
| 0.17 | 3,000 | 2.50 | 2,000 |
| 0.22 | 10,200 | 3.28 | 6,800 |
| 0.27 | 500 | 1.04 | 500 |
| 0.30 | 1,100 | 0.67 | 1,100 |
| | **14,800** | **2.86** | **10,400** |

The fair value of options granted was estimated at the period end date using the Black-Scholes valuation model, resulting in a per option fair value of CAD nil (2018 – CAD $0.12) with weighed average assumptions as follows:

*Inputs used to fair value share options granted*

| | Year ended December 31 | |
|---|---|---|
| | 2019 | 2018 |
| Share price (CAD $) | - | 0.22 |
| Exercise price (CAD $) | - | 0.22 |
| Expected Volatility (%) | - | 72 |
| Forfeiture rate (%) | - | 9.8 |
| Option life (years) | - | 4.19 |
| Risk-free interest rate (%) | - | 1.97 |

Expected volatility is estimated by considering historic daily share price volatility. The forfeiture estimate is adjusted each period until the vesting date.

Share-based compensation expense arising from the issuance of stock options recognized for the year ended December 31, 2019 was $0.3 million (2018 - $0.9 thousand).

Share-based compensation recovery arising from the forfeitures of stock options recognized for the year ended December 31, 2019 was $19 thousand (2018 – 12 thousand).

The Capex Loan (note 11) can be convertible into Units with each Unit comprised of one Common Share and 0.22 of a Warrant. On April 7, 2019 the Company entered into the Amended and Restated Loan Agreement and extended the term of the Working Capital Loan Agreement. The Amended and Restated Convertible Loan Agreement was approved by the Company's shareholders.

In conjunction with the initial Transactions entered into with Hispania, the Company entered into a services agreement which required the Company to issue six monthly tranches of share purchase warrants to Hispania commencing June 2017. Each monthly tranche included 4,758,333 warrants that are exercisable after 6 months from the date of issuance. Each tranche will expire 18 months from the date of issuance. Each warrant entitles the holder to purchase one common share of the Company. The exercise price for the six tranches of 4,758,333 warrants issued was $0.145/share, $0.165/share, $0.18/share, $0.17/share, $0.17/share and $0.18/share respectively. As of May 8, 2019, all warrants have expired.

The services agreement with Hispania terminated on April 30, 2019.

The Company expensed nil for the three and twelve months periods ended December 31, 2019 in relation to these warrants (Q4-2018 – nil and YTD-2018 $0.5 million).

Movements in the number of warrants outstanding and their related weighted average exercise prices are summarized as follows:

| | Number of options 000s | Weighted average exercise price |
|---|---|---|
| Outstanding at December 31, 2017 | 28,550 | 0.168 |
| Outstanding at December 31, 2018 | 28,550 | 0.168 |
| **Outstanding at December 31, 2019** | **-** | **-** |

## 20. Long-term Incentive Plan

On August 25, 2016, the Board of Directors approved a long-term cash incentive plan ("LTIP"), whereby certain Argentine employees of the Company are provided an opportunity to benefit as a result of appreciation of the trading price of Centaurus's common shares from the issue date, through the payment of cash upon vesting.

On August 26, 2016, 6,505,000 LTIP units (the "Units") were issued to Argentine personnel at an exercise price of CAD $0.145 per common share. The Units vest one-third on each of the first, second and third anniversary dates and are exercisable for a period no later than:

i) December 1 of the third year in which the Units vest; and
ii) Five years from the date of the grant of the Units.

At December 31, 2019 there is 1,186,669 LTIP units outstanding.

The LTIP recovery arising from the forfeitures of units net of LTIP expense, recorded as part of share-based and long-term incentive compensation expense in the consolidated statements of loss for the year ended December 31, 2019 was $58 thousand (2018 –$24 thousand) and is revalued at the end of each reporting period.

At December 31, 2019 the LTIP liability was $13 thousand (2018 - $24 thousand).

## 21. Finance (Income) Expenses

Finance (Income) and Expenses are made up of the following:

| | Year ended December 31 | |
|---|---|---|
| USD 000s | 2019 | 2018 |
| Bank charges and fees | 392 | 802 |
| Foreign exchange (gain) loss | (656) | 1,459 |
| Decommissioning liability accretion (note 12) | 324 | 590 |
| Accretion of debt component of convertible debentures issued (note 10) | 40 | 67 |
| Lease liability accreation | 43 | - |
| Interest and other expenses (recovery of allowance for doubtful account) | 587 | (123) |
| | 730 | 2,795 |

| | Year ended December 31 | |
|---|---|---|
| USD 000s | 2019 | 2018 |
| Unrealized foreign exchange gains | (656) | 1,459 |
| Total | (656) | 1,459 |
| Currency exchange rate at period end: | | |
| $1 USD = CAD | $1.30 | $1.36 |
| $1 USD = ARS | $59.89 | $37.70 |

## 22. Related Parties

In association with the Services Agreement with Hispania, the Corporation incurred fees of $0.6 million during the year ended December 31, 2019 (2018 – 1.8 million).

On September 13, 2017, the shareholders of the Corporation passed an ordinary resolution approving KD Energy as a new "Control Person" (as such term is defined in the TSX Venture Exchange Corporate Finance Manual) of the Corporation. In connection therewith, the convertible loan agreement dated May 8, 2017 for an amount up to $16.5 million is available to be drawn upon by the Corporation in accordance with the terms thereof, as amended by the Amended and Restated Loan Agreement. At December 31, 2019, there were disbursements for $2 million (2018 – nil) and interests related for $73 thousand (2018 – nil).

A former director of the Corporation in Argentina provided professional services to the Corporation until July 23, 2019. During the year ended December 31, 2019, the Corporation incurred professional fees for $132 thousand (2018 - $6 thousand).

The transactions arose during the normal course of business and have been recorded at the exchange amounts, which are the amounts agreed upon by the related parties. The terms and conditions of these transactions were no more favourable than those available, or which might reasonably be expected to be available in similar transactions with arm's length third parties.

(Tabular amounts are stated in thousands of United States dollars ("USD"), except per share amounts and as otherwise stated)

## 23. Income Taxes

The provision for income tax differs from the result that would be obtained by applying the combined Canadian federal and provincial tax rate of 27% (2018 – 27%) to the income (loss) before taxes. The difference results from the following:

| | Year ended December 31 2019 | 2018 |
|---|---|---|
| Income (Loss) before income tax – continuing operations | **(23,759)** | (4,177) |
| Tax rate | **27%** | 27% |
| Expected income tax recovery (expense) | **6,415** | 1,128 |
| Recovery (expense) resulting from: | | |
| Effect of foreign tax rates | **549** | (952) |
| Share-based compensation | **(58)** | (239) |
| Share-based compensation - warrants | **-** | (137) |
| Unrecognized deferred tax benefit and other | **(5,998)** | 1,282 |
| Argentina tax rate adjustments | **(1,908)** | (277) |
| Deductible/non-taxable differences on foreign operation | **1,490** | 283 |
| Other | **(19)** | (83) |
| Total income tax recovery (expense) | **471** | 1,005 |
| | | |
| Attributable to: | | |
| Current tax recovery (expense) | **-** | - |
| Deferred tax recovery (expense) | **471** | (1,005) |
| Total income tax recovery (expense) | **471** | (1,005) |

The current income tax expense relates to current income tax and minimum income tax incurred in Argentina.

Deferred tax assets have not been recognized on the following temporary differences and credits:

| Canada | Year ended December 31 2019 | 2018 |
|---|---|---|
| Property, plant and equipment | **17,356** | 17,398 |
| Share issue costs | **693** | 1,339 |
| Capital losses | **23,566** | 24,253 |
| Non-capital losses (expire 2026 to 2039) | **85,871** | 77,828 |
| Foreign tax credits | **42,905** | 42,905 |
| Other | **1,878** | 766 |
| Total unrecognized temporary differences | **172,269** | 164,489 |

| Argentina | Year ended December 31 2019 | 2018 |
|---|---|---|
| Non-capital losses (expire 2021 to 2022) | **592** | - |
| Total unrecognized temporary differences | **592** | - |

(Tabular amounts are stated in thousands of United States dollars ("USD"), except per share amounts and as otherwise stated)

| | | |
|---|---|---|
| **Barbados** | | |
| Non-capital losses (expire 2018 to 2023) | **4,818** | 4,658 |
| Total unrecognized temporary differences | **4,818** | 4,658 |

The following table summarizes the movements of the deferred income tax liability during the year:

| | Year ended December 31 | | | |
|---|---|---|---|---|
| | **2018** | **Recognized in statement of loss** | **Other** | **2019** |
| Foreign exchange | - | - | - | **-** |
| Property, plant and equipment | (7,087) | 2,476 | 17 | **(4,594)** |
| Decommissioning obligations | 3,904 | (738) | - | **3,166** |
| Non-capital losses | 932 | (547) | - | **385** |
| Accruals and other | 1,905 | (714) | - | **1,191** |
| Unrecognized deferred tax asset | - | (148) | - | **(148)** |
| Minimum tax credits | (142) | 142 | - | **-** |
| | (488) | 471 | 17 | **-** |

No deferred tax liability has been recognized for temporary differences associated with investments in subsidiaries and joint ventures as the Company is in a position to control the entities and it is considered probable that these timing differences will not reverse in the foreseeable future.

## 24. Supplemental Cash Flow Information

*Changes in non-cash working capital*

| USD 000s | Year ended December 31 2019 | 2018 |
|---|---|---|
| Trade and other receivables | **(2,600)** | 3,374 |
| Other current assets, including inventory | **(124)** | 1,342 |
| Lease liabilities | **236** | - |
| Trade, tax and other payables | **3,241** | (3,470) |
| Impact of foreign exchange on working capital | **-** | (205) |
| Change in non-cash working capital | **753** | 1,041 |
| Attributable to: | | |
| Operating activities | **251** | (158) |
| Investing activities | **502** | 1,199 |
| | **753** | 1,041 |

*Other cash flow information- continuing operations*

| USD 000s | Year ended December 31 2019 | 2018 |
|---|---|---|
| Interest paid | **315** | 43 |
| Taxes paid | **-** | 32 |

## 25. Commitments and Other Long-term Liabilities

*Consolidated undiscounted Commitments table*

| USD 000s | Under negotiations | 2020 | 2021 | 2022 | Thereafter | Total |
|---|---|---|---|---|---|---|
| Development and Exploration Commitments | 5,837 | 32,360 | 26,388 | 10,238 | 1,468 | 76,291 |
| **Total** | **5,837** | **32,360** | **26,388** | **10,238** | **1,468** | **76,291** |

*Coirón Amargo Norte ("CA-Norte")*

Centaurus and its partners at the CA concession in the province of Neuquén are responsible for paying 100% of the costs during the exploration and evaluation phase, with Gas y Petróleo del Neuquén S.A. ("GyP"), a provincial government entity, receiving a 10% carry whereby all other partners, including Centaurus, are responsible for paying their proportionate share of GyP's WI. Currently, exploration and evaluation phases are contained in CA-Sur, in the southern portion of CA.

In an exploitation or development phase, GyP is responsible for its 10% interest of the incurred capital costs through an assignment of GyP's 10% interest in future production revenue streams to Centaurus and its partners. Currently, exploitation and development phases are contained in CA-Norte, the northern part of CA, for which there are no current ongoing commitments.

On January 13, 2020, the Corporation received a default notification from the operator, Vista Oil and Gas Argentina S.A., due to a cash calls debt of $0.3 million. Failure to settle the obligation within 5 business days of notification will automatically commence the period of non-compliance with the joint operation in CA-Norte. On February 24, 2020, the Corporation received notification that it will not receive production from these properties until the obligation is settled. Under the Joint Venture agreement, the Corporation has 180 days to settle the obligation. If after that term, the Corporation does not settle the debt, the operator could suspend the Joint Operation.

*Coirón Amargo Sur Este (CASE - 35% WI)*

PAE agreed, subject to certain conditions, to provide Centaurus with a loan of up to $40 million, on a limited recourse basis, to be drawn-down as required to fund certain CASE capital expenditures. This limited recourse loan bears interest at 7% per annum and is repayable in five years from the net revenue generated from the capital expenditure program. Transaction fees of $0.5 million were incurred to complete this agreement. There was a loan draw down of $18.3 million and a repayment of $2.4 million as of December 31, 2019 (2018 - there was a loan draw down of $2.5 million fully repaid as of December 31, 2018).

On September 18, 2018 CASE block was converted in an unconventional exploitation concession with a 35-year term. The concession was awarded after the CASE block successfully completed the evaluation phase.

As part of the terms and conditions for the award of an Unconventional Exploitation Concession, Centaurus work commitments at CASE were amended as follows:

| USD 000s | **2020 (2)** | **2021 (3)** | **Beyond(3)** |
|---|---|---|---|
| Concession commitments at CASE (1) | 4,220 | 9,723 | 9,723 |

(1) Committed values are reflected at Centaurus 35% WI at December 31, 2018 plus Centaurus proportionate share of GyP's carry.
(2) Phase I includes the drilling of five horizontal multifrac wells targeting the Vaca Muerta, the construction of early production facilities, investment for infrastructure improvement and social responsibility commitments.
(3) Subject to the results on Phase I in 2019, three additional wells will be drilled over the following two-year period (Phase II).

On September 26, 2019, the Corporation announced that PAE, Centaurus' partner, successfully completed and tested the first horizontal multi-frac well CASE-101h located in the Vaca Muerta Shale Formation in the CASE block. CASE-101h is the first completed well of the five well program planned for this year.

The first well ("CASE-101h")of a five well program, achieved a 30 day average initial production ("IP30") rate of 1,020 barrels of oil per day, with an average wellhead pressure of 3,775 psi, and a 90 day average initial production ("IP90") of 730 barrels per day, with an average wellhead pressure of 2,975 psi.

The second well ("CASE-501h") has been completed and was connected to early production facilities on November 9, 2019. CASE-501h achieved an IP30 rate of 1,003 barrels of oil per day with an average wellhead pressure of 4,885 psi, significantly higher than the CASE-101h, and an IP90 of 1,020 barrels of oil per day with an average wellhead pressuer of 4,885 psi.

The third well ("CASE-401h") has been completed and was connected to early production facilities on January 7, 2020. CASE-401h achieved an IP30 rate of 950 barrels of oil per day with an average wellhead pressure of 4,600 psi.

The fourth well ("CASE-301h") has been completed and was connected to early production facilities on February 3, 2020. CASE-301h achieved an IP30 rate of 890 barrels of oil per day with an average wellhead pressure of 4,195 psi

The new well CASE-102(h) was drilled in replace of the CASE-201(h) that was temporarily abandoned due to drilling technical problems. The well is currently waiting on completion.

These 5 wells are part of the pilot program (the "Pilot Program") covered by the Loan Facility that Centaurus has with PAE which will be repaid with the net production proceeds from 100% of Centaurus' interest in the CASE Block. Centaurus holds a 35% working interest in the CASE Block.

The Company is in compliance with the commitments.

*Curamhuele Block (90% WI-operated)*

| USD 000s | **2021** |
|---|---|
| Concession commitments | 16,150 |

The Curamhuele Block is operated by Centaurus and covers an area of approximately 56,237 (50,613 net) acres. The block is situated along the east side of the north south trending Andean thrust belt in the middle portion of the Province of Neuquén, approximately 650 miles south and west of Buenos Aires.

Centaurus is responsible for paying 100% of the costs during the exploration or evaluation phase. If reserves are discovered in commercial quantities, the Corporation may convert certain areas of the block into an exploitation (development) concession. Production will be subject to a 12% royalty payable to the province of Neuquén. GyP is responsible for its 10% share of the costs incurred in the exploitation phase.

In December 2015, Centaurus ratified an extension of its second exploration term with the Province of Neuquén to September 9, 2016, and subsequent thereto, the Corporation put forward a proposal to the Province to enter into a four year evaluation period to further appraise the Curamhuele Block with a work commitment of $8.2 million to be incurred by March 9, 2019.

In 2016, the remaining work commitment relating to the existing Curamhuele Block concession agreement were fulfilled by completing the Yapai.x 1001 well in the Mulichinco formation and Lower Agrio Shale.

The Corporation received approval for a 2 year extension on the Curamhuele concession based on its proposal to drill one vertical well in a new location to vertically test the Vaca Muerta and Lower Agrio formations. The extension was initially applied for in December, 2018.

On May 13, 2019 the extension was approved by the Ministry of Energy and Natural Resources for the province of Neuquen (the "Ministry"), which granted an additional twenty-four months expiring March 9, 2021 for the exploratory period of the concession.

On November 14, 2019 the Corporation was notified by the Ministry that the milestones for the vertical test that were agreed as part of the two year extension were not being met. The Corporation entered discussions with the Ministry and GyP with respect to adjusting the milestones schedule. On January 10, 2020, the Corporation received a letter proposal from the Ministry which allowed the Corporation until April 30, 2020 to determine financing to comply with the schedule, conditional upon the Corporation securing a performance bond for a value equal to three thousand two hundred and thirty (3,230) technical units, being $16,150,000, which shall be executed if (i) the Corporation fails to comply with the terms of the extension, including submission of contracts, invoices or other evidence that the Corporation has contracted a drilling rig and has secured the wellhead and all casing necessary; or (ii) the March 9, 2021 deadline for completing the commitments. The Corporation accepted the Ministry's proposal on January 20, 2020 and subsequently secured the performance bond.

The Corporation continues to pursue a potential farm out of Curamhuele.

*Puesto Morales Block (100% WI-operated)*

| USD 000s | Under negotiation | 2020 | 2021 | Beyond |
|---|---|---|---|---|
| Concession commitments | 1,800 | 28,140 | 515 | 1,985 |

On January 4, 2019 the Corporation received approval from the provincial authority to re-schedule and convert the last commitments in a new exploration plan. As of December 31, 2019, the Corporation is in negotiations for re-scheduling 2019 commitment to 2020.

*Santa Victoria Block (100% WI - operated)*

The contract can contain up to three exploration and evaluation phases, of which the second expired in April 2017. The second phase required additional work commitments of $4.037 million for which no qualifying expenditures have been made. A performance bond of $3.6 million is in place over the commitments under this exploration and evaluation permit. Since November 2017, the Corporation has proposed alternatives to the province of Salta in order to reconvert and reschedule pending commitments. As of December 31, 2019 negotiations were continuing and are currently advancing to its final stages with the province of Salta for reconversion of the existing exploration commitment into a new exploration permit for an initial four year term.

*El Vinalar Block (100% WI – operated)*

On September 18, 2018 the Corporation signed an agreement assigning Centaurus' entire interest in the non-core and non-producing El Vinalar concession to a private Argentine oil and gas company. The assignment was approved by the Salta province. In January 2019, the Corporation made a payment of $0.3 million Centaurus has derecognized the related decommissioning obligations of $3.8 million, resulting in a net gain of $3.5 million.

*El Chivil Block (100% WI – operated)*

The concession's one year extension expiry occurred on September 7, 2016 and during the last quarter of 2016, the province of Formosa granted a further six month extension to negotiate a 10-year development period extension, which expired on May 1, 2017. The Corporation remains in discussions with the province of Formosa. There are no current commitments.

*Palmar Largo operation agreement (100% WI – operated)*

Centaurus has signed an operation agreement with Recursos y Energía Formosa SA ("REFSA"), an oil company belonging to the Province of Formosa (the "Province"), over the Palmar Largo Concession in Formosa, Argentina, effective December 1, 2018 (the "Operation Agreement"). The block covers an area of approximately 301,740 acres.

The Operation Agreement has an initial term of two years and provides for a potential extension of one year provided that Centaurus fulfils its investment commitment of $2 million. The Investment Commitment consists of 2 workovers in 2 wells in order to increase production and certain facility improvements. Centaurus will operate 100% of the Palmar Largo Concession and will be required to pay the existing 12% royalty on production revenues to the Province and an additional 5.32% of production revenues is to be paid to REFSA under the agreement.

*Other long-term liabilities*

In November 2016, Centaurus sub-leased its former corporate office premises to the end of 2018, with the expectation of further renewals or alternative sub-lease arrangements to the end of the head lease term of September 2022. The difference between the head lease payments under the existing contract and the sub-lease contract income expected over the period of the lease term, results in an onerous contract and a liability has been recognized of approximately $1.1 million (2018 - $0.7 million), recorded as part of Other long-term liabilities in the consolidated statements of financial position at December 31, 2019 (2018 - $0.2 million recorded as part of Trade and other payables and $0.5 million recorded as part of Other long-term liabilities.

A continuity relating to these liabilities is as follows:

| | Year ended December 31 | |
|---|---|---|
| USD 000s | 2019 | 2018 |
| Balance, beginning of year | **1,182** | 1,977 |
| Lease liability | **(92)** | (164) |
| LTIP liability | **(58)** | 24 |
| New contingencies | **-** | 71 |
| Updated contingencies | **501** | (43) |
| Effect of change in foreign exchange rates | **62** | (683) |
| Balance, end of year | **1,595** | 1,182 |

## 26. Financial Instruments and Risk Management

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

***Capital Management***

The Company's objective has been to maintain its capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Company manages its capital structure and makes adjustments to it, as it is able to, in light of changes in economic conditions and the risk characteristics of the underlying oil and natural gas assets. The Company considers its capital structure to include shareholders' equity and working capital. In order to maintain or adjust the capital structure, the Company may obtain issue shares, adjust its capital spending to manage current and projected debt levels, sell non-core assets, farm-out existing opportunities or attempt to obtain new credit facilities.

In order to facilitate the management of its capital structure, the Company prepares annual capital expenditure budgets, which are updated throughout the year depending on varying factors including current and forecast prices, actual capital deployment and general industry conditions, if necessary.

The Company has not paid or declared any dividends since the date of incorporation, nor are any contemplated in the next twelve months and there are no external restrictions on the Company's capital structure.

At December 31, 2019, the consolidated working capital deficit of the Company was $20.4 million (December 31, 2018 -$0.3million deficit), consisting of working capital deficiency of $10 million (December 31, 2018 – positive working capital of $1.8 million) in Argentina and a working capital deficiency of $10.4 million (December 31, 2018- $2 million working capital deficiency) in Canada.

***Liquidity risk***

At December 31, 2019, cash and cash equivalents of $0.6 million was deposited with banks in Argentina (December 31, 2018 - $0.6 million), and is held in ARS. Cash and cash equivalents of $19 thousand was deposited with banks in Canada and Barbados, and is held in USD.

***Repatriation of Funds to Canada***

Centaurus's corporate office is in Canada. Funds are required to enable the Company to maintain its Canadian corporate office and manage the regulatory, reporting, audit, legal and tax requirements of a TSX-V listed company. During 2019, $2.2 million (2018 - $4.4 million) was repatriated from Argentina. The Company didn't increase its investment in its Argentine subsidiaries (2018 - nill).

***Credit risk***

The Company's primary operations are conducted in Argentina. The Company is exposed to credit risk in relation to its cash and cash equivalents, trade and other receivables, and other long-term assets.

Cash and cash equivalents are held in local short term investments, and therefore the Company does not believe these financial instruments are subject to material credit risk.

Other long-term assets relate to amounts due from various governments in Argentina primarily as it relates to VAT and is collected as revenue is earned. Although collection is slow, it is expected.

In Argentina, the majority of the Company's oil production is sold to the Argentine subsidiaries of major international oil and gas companies. The Company's policy to mitigate credit risk associated with these balances is to establish marketing relationships with large purchasers.

During 2019, no provision for doubtful accounts has been recorded (2018 - $77 thousand).

*Maximum exposure to credit risk for trade and other receivables by type of customer*

| USD 000s | Year Ended December 31 2019 | 2018 |
|---|---|---|
| Oil and natural gas marketing companies | **4,136** | 5,450 |
| Other trade receivables | **183** | 441 |
| Total trade receivables | **4,319** | 5,891 |
| Taxes receivable | **3,996** | 296 |
| Total trade and other receivables | **8,315** | 6,187 |

Amounts due from oil and gas marketing companies were subsequently collected by the Company, with the exception of $0.2 million, which is deemed collectible. Of the $0.1 million recorded in other trade receivables, $0.1 million has been collected subsequent to year end.

*Aged trade and other receivables*

| USD 000s | Year Ended December 31 2019 | 2018 |
|---|---|---|
| Current (less than 90 days) | **4,301** | 5,614 |
| Past due (more than 90 days) | **18** | 277 |
| Total | **4,319** | 5,891 |

Amounts totaling $18 thousand over 90 days were not provided for and has been collected subsequent to year end.

***Market risk***

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

***Commodity price risk***

The refiners used by the Company have paid an average unofficial crude oil price of $45.34 per barrel for the three months ended December 31, 2019 (2018 - $56.50). Since August 2018, domestic price is agreed upon between refiners and producers. Such a price considers the impact of the export withholding imposed by the government and the possibility to increase fuel prices to the final customers. In August 2019, the Argentinian government issued a decree pursuant to which oil prices in USD were affected as a result of the exchange rate being frozen until November 15, 2019, affecting oil prices denominated in USD. The Government authorized certain increases in both the exchange rate and final consumers prices during the three months the Decree was in force. As a result of the decree, and considering the mentioned authorizations, prices in USD decreased due to the ARS devaluation of 35.6%.

Gas prices in Argentina are subject to seasonal demand and are negotiated between the producer and the buyer. Summer pricing for the period from October 2019 to April 2020 was set at $2.00/mmbtu. (October 2018 - April 2019 - $4.10/mmbtu). For the winter season from May to September 2019, the price has been set at $3.70/mmbtu (May to September 2018 - $5.30/mmbtu).

Subsequent to December 31, 2019, there has been significant volatility with crude oil prices due to macro-economic uncertainty, mainly due to potential increased supply from OPEC and Russia, the economic impact of the COVID-19 outbreak and potential lack of storage forcing production shut-ins. Based on IFRS guidance, the Company has not reflected these subsequent conditions in the recoverable amount estimates within the Company's impairment tests as at December 31, 2019. If this commodity price volatility persists, there is potential that indicators of impairment will be present as part of the Company's impairment assessment in the first quarter of 2020.

***Interest rate risk***

The Company entered into a series of agreements with Hispania Petroleum S.A..
The Working Capital Loan is a multi-drawdown facility, which shall be used for general working capital purposes. Interest accrues at 7% in USD per annum. Principal and interest on each drawdown is repayable thirty-six months after an advance of funds.
The Capex Loan is a multi-drawdown convertible loan. The loan similarly accrues interest at 7% in USD per annum, with each drawdown and accrued interest repayable thirty-six months after drawdown.
There is not risk associated with interest rate as a result of the interest fixed in USD at 7% per annum.

***Foreign currency exchange risk***

The majority of the Company's exploration and development activities are conducted in Argentina and the majority of the Company's cash and cash equivalents are denominated in ARS. The Company is exposed to currency risk to the extent that revenue, expenses and monetary assets and liabilities are denominated in currencies that differ from the functional currency of the respective entity within the Company. The company has all its revenue nominated in USD. This mitigate most of the effect associated with foreign currency behaviors.

The impact of a 10% change in foreign exchange rates on gains and losses recorded on financial instruments, when translating from ARS and/or CAD to USD at December 31, 2019 would have changed the unrealized foreign exchange gain recorded in the consolidated statements of loss by $0.2 million for the year ended December 31, 2019.

## 27. Operating Expenses – General and Administrative Expenses

Centaurus's consolidated statements of loss and comprehensive loss are prepared primarily by nature of expenses, with the exception of employee compensation costs which are included in both the operating and general and administrative expense line items in the consolidated statements of loss and comprehensive loss. The following table details the amount of total employee compensation costs included in the operating and general and administrative expenses line items in the consolidated statements of loss and comprehensive loss.

| | Year ended December 31 | |
|---|---|---|
| USD 000s | 2019 | 2018 |
| **Operating expenses** | | |
| Compensation costs | **4,465** | 4,020 |
| Transportation and processing | **6,965** | 5,234 |
| Maintenance, workovers and others | **11,951** | 10,489 |
| | **23,381** | 19,743 |
| **General & Administrative expenses** | | |
| Compensation costs | **2,141** | 1,611 |
| Other | **4,931** | 4,717 |
| | **7,072** | 6,328 |

b) Key management personnel of the Company consist of its directors and executive officers. As at December 31, 2019, the Company had 9 directors and 3 officers (2018 – 7 directors and 2 officers). The table below summarizes all key managament personnel net compensation paid and payable during the years ended December 31, 2019 and 2018.

| USD 000s | Year ended December 31 2019 | 2018 |
|---|---|---|
| Short-term employee benefits, including wages and management fees | **908** | 682 |
| Severance payments | **-** | - |
| Share-based compensation | **216** | 628 |
| | **1,124** | 1,310 |

## 28. Revenues

Centaurus generally recognizes oil and natural gas revenue when title passes from Centaurus to the purchaser or, in the case of services, as contracted services are performed. Production revenues are pursuant to the terms outlined in contractual agreements and are based on fixed or variable price components. The transaction price for crude oil and natural gas is based on the commodity price in the month of production, adjusted for various factors including product quality and location. Commodity prices are based on monthly or daily market indices.

In August 2019, the Argentinian government issued a decree pursuant to which oil prices in USD were affected as a result of the exchange rate being frozen until November 15, 2019, affecting oil prices denominated in USD. The Government authorized certain increases in both the exchange rate and final consumers prices during the three months the Decree was in force. As a result of the decree, and considering the mentioned authorizations, prices in USD decreased due to the ARS devaluation of 35.6%.

*Disaggregated revenue information*

All of the Company's significant revenue streams are located in Argentina and include the following:

| USD 000s | Twelve months ended December 31 2019 | 2018 |
|---|---|---|
| Crude Oil | **30,360** | 33,337 |
| Natural gas | **2,049** | 2,834 |
| Oil and natural gas sales | **32,409** | 36,171 |

| USD 000s | Twelve months ended December 31 2019 | 2018 |
|---|---|---|
| Oil storage services | **162** | 480 |
| Water treatment and other services | **763** | - |
| Vista retroactive agreement related to a gas well in CA- Norte | **718** | - |
| Other income | **1,643** | 480 |

**29.** Subsequent events

- ***New credit facilities and appointment of new Board members and Management changes***

  On March 25, 2020, the Company announced that it had entered into a binding term sheet with respect to a debt financing agreement with Maglan Distressed Master Fund LP pursuant to which the Company will have access of up to $23 million, accruing interests on draws at the rate of 7% per annum, in the form of convertible and non-convertible loan facilities. Proceeds from the convertible loan facility shall be used by the Company to fund capital expenditure while proceeds under the non-convertible loan facility shall be used for the ongoing working capital requirements of the Company.

  The Company also announced on March 25, 2020 that it had appointed David D. Tawil and Steven Azarbad to the board of directors of Centaurus and had terminated the employment of Jose Peñafiel as President and Chief Executive Officer, the employment of Alejandro Peñafiel as Vice President, Growth and Capital and the employment of Ezequiel Martinez Ariet as Chief Financial Officer. In addition, the Company announced that the board had appointed David D. Tawil as interim Chief Executive Officer.

  On March 27, 2020 the Company announced it had received a notice of default and reservation of rights from KD Energy and Hispania Petroleum S.A. On March 25, 2020, the Corporation announced that Jose Peñafiel and Alejandro Peñafiel had ceased to be officers and directors of the Corporation.

- ***Impact of the Coronavirus COVID-19***

  The outbreak of the Coronavirus (COVID-19) will have impact on the world GDP and is expected to have an adverse effect on the Corporation's operations, liquidity and financial results this year, but the extent and duration of these conditions over the longer term remain largely uncertain and dependent on future developments that cannot be accurately predicted at this time. The Corporation is closely monitoring the impact of the ongoing virus outbreak and will implement measures required to minimize the adverse impact on our staff, operations and financial results.