



CENTAURUS ENERGY INC. (FORMERLY MADALENA ENERGY INC.)

CENTAURUS

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018

(UNAUDITED)



Condensed Interim Consolidated Statements of Financial Position
(Unaudited)

USD 000s	Note	As at September 30 2019	As at December 31 2018
Assets			
Current assets			
Cash and cash equivalents		1,227	778
Trade and other receivables		7,129	6,187
Inventory		912	1,167
Other current assets		470	361
Total current assets		9,738	8,493
Property, plant and equipment	4	30,318	22,478
Exploration and evaluation assets	5	30,750	30,649
Lease right-of-use assets	6	46	-
Other long-term assets	7	338	102
Total non-current assets		61,452	53,229
TOTAL ASSETS		71,190	61,722
Liabilities			
Current liabilities			
Convertible debentures	8	-	1,198
Loan	9	7,144	52
Trade and other payables		9,068	7,935
Taxes payable		83	
Short-term lease liability	11	51	-
Total current liabilities		16,346	9,185
Convertible Loan	10	1,628	-
Derivative liability	10	318	-
Loan	9	5,781	-
Deferred income tax liability		2,385	488
Decommissioning obligations	12	12,776	15,621
Other long-term liabilities	16	1,309	1,182
Total non-current liabilities		24,198	17,291
TOTAL LIABILITIES		40,544	26,476
Shareholders' Equity			
Share capital	13	239,029	239,029
Contributed surplus		18,056	17,750
Equity component of convertible debenture		-	76
Accumulated other comprehensive loss		(26,941)	(26,941)
Deficit		(199,498)	(194,668)
Total equity		30,646	35,246
TOTAL LIABILITIES AND EQUITY		71,190	61,722

Commitments and Other Long-term Liabilities (note 16)

See the accompanying Notes to the Condensed Interim Consolidated Financial Statements.



Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
(Unaudited)

USD 000s, except per share amounts	Note	Three months ended September 30		Nine months ended September 30	
		2019	2018	2019	2018
Revenues					
Oil and natural gas revenues	17	7,849	8,269	24,326	27,683
Royalties		(1,211)	(1,305)	(4,267)	(4,391)
Other Income		212	120	718	319
		6,850	7,084	20,777	23,611
Expenses					
Operating	18	5,915	4,321	16,928	14,012
General and administrative	18	1,903	1,603	5,171	4,593
Finance (income) expenses	19	(911)	(267)	(295)	1,271
Share-based and long-term incentive compensation	20, 21	22	165	186	778
Warrants expenses	8	-	4	-	518
Depletion and depreciation	4	2,060	1,369	5,219	4,961
Depreciation of right-of-use assets		15	-	46	-
Gain on disposal of assets	14	10	-	(3,434)	(33)
Fair value change on derivative liability	10, 19	(128)	-	(128)	-
		8,886	7,195	23,693	26,100
Loss before income taxes		(2,036)	(111)	(2,916)	(2,489)
Income tax expense					
Current		(13)	(139)	-	(139)
Deferred		(118)	(2,022)	(1,914)	(3,780)
		(131)	(2,161)	(1,914)	(3,919)
Loss		(2,167)	(2,272)	(4,830)	(6,408)
Comprehensive Loss		(2,167)	(2,272)	(4,830)	(6,408)
Net Loss per share					
Basic and diluted – continuing	13	(0.00)	(0.00)	(0.01)	(0.01)
Basic and diluted – total	13	(0.00)	(0.00)	(0.01)	(0.01)

See the accompanying Notes to the Condensed Interim Consolidated Financial Statements.



Condensed Interim Consolidated Statements of Changes in Shareholders' Equity
(Unaudited)

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	-	-	-	-	(4,830)	(4,830)
Share-based compensation (note 20)	-	230	-	-	-	230
Convertible debentures maturity	-	76	(76)	-	-	-
Warrants (note 8)	-	-	-	-	-	-
Balance at September 30, 2019	239,029	18,056	-	(26,941)	(199,498)	30,646
Balance at December 31, 2017	238,989	16,371	76	(26,941)	(191,496)	36,999
Net Loss	-	-	-	-	(6,408)	(6,408)
Share-based compensation (note 20)	-	722	-	-	-	722
Common shares issue – Convert debentures	40	-	-	-	-	40
Warrants (note 8)	-	518	-	-	-	518
Balance at September 30, 2018	239,029	17,611	76	(26,941)	(197,904)	31,871

See the accompanying Notes to the Condensed Interim Consolidated Financial Statements.



Condensed Interim Consolidated Statements of Cash Flows
(Unaudited)

USD 000s	Note	Three months ended		Nine months ended	
		September 30	September 30	September 30	September 30
		2019	2018	2019	2018
Cash provided by (used in):					
Operating					
Net Loss		(2,167)	(2,272)	(4,830)	(6,408)
Items not affecting cash:					
Depletion and depreciation	4	2,060	1,369	5,219	4,961
Depreciation of right-of-use assets	6	15	-	46	-
Accretion		72	41	308	94
Fair value change on derivative liability	10, 19	(128)	-	(128)	-
Gain on disposal of assets	4, 14	10	-	(3,791)	(33)
Share-based and long-term incentive compensation	20	22	165	186	778
Warrants expenses	8	-	4	-	520
Deferred income tax expense (recovery)		118	2,022	1,914	3,780
Unrealized (gain) loss on foreign exchange	19	(1,139)	(551)	(566)	560
Lease commitment liability		-	(36)	-	(109)
Non-cash increase of other long term liability		85	19	139	103
Change in non-cash working capital	15	(498)	96	516	(1,917)
Cash flow from (used in) operating activities		(1,550)	857	(987)	2,329
Investing					
Property, plant and equipment additions	4	(8,510)	(2,331)	(12,376)	(2,634)
Evaluation and exploration assets additions	5	(64)	91	(86)	(2,206)
Change in non-cash working capital	15	281	11	580	5
Net cash from (used in) investing activities		(8,293)	(2,229)	(11,882)	(4,835)
Financing					
Convertible loan received	8	-	-	2,041	-
Convertible debentures repayment	8	-	-	(1,468)	-
Lease payment		(15)	-	(45)	-
Change in non-cash working capital	15	9,321	414	12,790	1,614
Net cash used in financing activities		9,306	414	13,318	1,614
Change in cash and cash equivalents		(537)	(958)	449	(892)
Cash and cash equivalents, beginning of period		1,764	1,268	778	1,202
Cash and cash equivalents, end of period		1,227	310	1,227	310

See the accompanying Notes to the Condensed Interim Consolidated Financial Statements.



Notes to the Condensed Interim Consolidated Financial Statements

As of and for the Nine Months Ended September 30, 2019 and 2018 (Unaudited)

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

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.

On January 1, 2017, Madalena Austral S.A. (Argentina) ("MASA") and MEA were amalgamated into one legal entity, continuing under the name of MEA.

2. Basis of Preparation

These condensed interim consolidated financial statements have been prepared in accordance with IFRS applicable to a going concern, which contemplate the realization of assets and the settlement of liabilities in the normal course of business as they become due.

Statement of Compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" and are presented in United States Dollars ("USD"), unless otherwise indicated. These condensed interim consolidated financial statements follow the same accounting policies and method of computation as the annual consolidated financial statements for the year ended December 31, 2018. The disclosures provided below are incremental to those included with the annual consolidated financial statements. Certain information and disclosures normally included in the notes to the annual consolidated financial statements have been condensed or have been disclosed on an annual basis only. Accordingly, these condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2018, which have been prepared in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board ("IASB"). These consolidated financial statements follow the same accounting policies and methods of computation for all periods presented as outlined in note 3. The condensed interim consolidated financial statements were approved and authorized for issue by the Company's Board of Directors on November 22, 2019.



3. Significant accounting policies

(a) 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.

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) Reconciliation 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:



Notes to the Condensed Interim Consolidated Financial Statements

As of and for the Nine Months Ended September 30, 2019 and 2018 (Unaudited)

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

Development and Exploration	91,848
Office lease	89
Total at December 31, 2018	91,937
Commitments that do not contain a lease	(91,848)
Discounting impact	(10)
Lease liabilities as at January 1, 2019	79

(b) Policy applicable after January 1, 2019

On transition to IFRS 16 and at inception of entering into a contract, the Company assesses whether a contract is, or contains a lease. A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company considers the following:

- the contract involves the use of an identified asset;
- the Company has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use; and
- the Company has the right to direct the use of the asset, which occurs if either:
 - the Company has the right to operate the asset; or
 - the Company designed the asset in a way that predetermines how and for what purpose it will be used.

Centaurus recognizes a right-of-use asset and a lease liability at the commencement date of the lease. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful life of right-of-use assets are determined based on the length of the lease.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Company's incremental borrowing rate. The consideration used to measure the lease liability includes all fixed or variable lease payments under the arrangement. Subsequently, the lease liability is measured at amortized cost using the effective interest method and is re-measured when there is a change in the future lease payments.



Notes to the Condensed Interim Consolidated Financial Statements

As of and for the Nine Months Ended September 30, 2019 and 2018 (Unaudited)

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

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

USD 000s	Oil and Natural Gas Assets	Corporate	Total
Cost			
At December 31, 2017	143,401	2,121	145,522
Additions	3,142	156	3,298
Disposals	(1,188)	-	(1,188)
Change in decommissioning liabilities	(5,847)	-	(5,847)
Transfers from E&E assets	10,650	-	10,650
At December 31, 2018	150,158	2,277	152,435
Additions	12,371	5	12,376
Disposals	-	(73)	(73)
Change in decommissioning liabilities	756	-	756
At September 30, 2019	163,285	2,209	165,494

USD 000s	Oil and Natural Gas Assets	Corporate	Total
Accumulated depreciation and depletion			
At December 31, 2017	(123,722)	(1,407)	(125,129)
Depreciation and depletion	(5,535)	(192)	(5,727)
Impairment	1,222	(323)	899
At December 31, 2018	(128,035)	(1,922)	(129,957)
Depreciation and depletion	(5,129)	(90)	(5,219)
At September 30, 2019	(133,164)	(2,012)	(135,176)

USD 000s			
Net book value			
At December 31, 2018	22,123	355	22,478
At September 30, 2019	30,121	197	30,318

The additions for the three and nine months period were mainly due to the pilot program in Coiron Amargo Sur Este concession ("CASE"). The CASE-101 well completed during the three months period is the first well out of a five well program. The Case-501 well has been drilled and is waiting for completion.

Depletion expenses calculated for the three and nine months period ended September 30, 2019 included as part of the depletable base, \$4.8 million for estimated future development costs associated with proved developed non-producing reserves (Sept 30, 2018 - \$3.2 million for estimated future development costs associated with proved and probable reserves).



Notes to the Condensed Interim Consolidated Financial Statements

As of and for the Nine Months Ended September 30, 2019 and 2018 (Unaudited)

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

During the three and nine months period ended September 30, 2019, approximately \$0.1 million and \$0.4 million (2018 - \$0.1 million and \$0.4 million) of directly attributable general and administration costs were capitalized to property, plant and equipment.

At September 30, 2019 and 2018, Centaurus determined there were no impairment indicators for any of its CGUs.

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

USD 000s	
Cost	
At December 31, 2017	39,869
Additions	2,219
Change in decommissioning liabilities	(789)
Transfers to PP&E assets	(10,650)
At December 31, 2018	30,649
Additions	86
Change in decommissioning liabilities	15
At September 30, 2019	30,750

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

In September 2018, the 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, were first tested for impairment and then reclassified from E&E assets to property, plant and equipment

At September 30, 2019 and 2018, Centaurus determined there were no impairment indicators relating to E&E assets.

6. Lease right-of-use assets

USD 000s	
Cost	
At January 1, 2019	92
At September 30, 2019	92
Accumulated depreciation	
At January 1, 2019	-
Depreciation	(46)
At September 30, 2019	(46)



Notes to the Condensed Interim Consolidated Financial Statements

As of and for the Nine Months Ended September 30, 2019 and 2018 (Unaudited)

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

USD 000s

Net book value

At December 31, 2018

-

At September 30, 2019

46

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 Argentinian pesos ("ARS") denominated taxes receivable of \$0.3 million (December 31, 2018 – \$0.1 million)

8. Convertible Debentures and Warrants

The Capex Loan (note 10) 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 March 31, 2019.

The Company expensed nil for the three and nine months periods ended September 30, 2019 in relation to these warrants (Q3-2018 – \$4 thousand and YTD-2018 \$0.5 million).

	Number of warrants 000s	Weighted average exercise price
Outstanding at December 31, 2018	28,850	0.168
Expired in period	(28,550)	(0.168)
Outstanding at September 30, 2019	-	-
Exercisable at September 30, 2019	-	-

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

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Notes to the Condensed Interim Consolidated Financial Statements

As of and for the Nine Months Ended September 30, 2019 and 2018 (Unaudited)

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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 14)	40	-	40
Impact of foreign exchange	52	-	52
Repayment	(1,290)	-	(1,290)
Convertible debentures maturity	-	(76)	(76)
At September 30, 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, \$13.8 million (2018 - \$2.6 million) had been disbursed under the agreement directly to the operator of CASE to fund capital expenditures. Repayment of \$1 million (2018 - \$1.9 million) was repaid through the sale of the net revenue.

USD 000s	Total
At December 31, 2018	-
Proceeds	13,818
Interests	85

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Notes to the Condensed Interim Consolidated Financial Statements

As of and for the Nine Months Ended September 30, 2019 and 2018 (Unaudited)

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

Repayment	(978)
At September 30, 2019	12,925
Current	7,144
Long-term	5,781
Total	12,925

10. 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 Peñafiel is a director, which provides for a package of debt and mezzanine financing of up to \$23 million which are expected to alleviate Centaurus' liquidity challenges through a working capital loan (the "Working Capital Loan") of up to \$6.5 million, and to provide the Company access to growth capital 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 similarly 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 collateralized, 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 International Capital Limited 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



Notes to the Condensed Interim Consolidated Financial Statements

As of and for the Nine Months Ended September 30, 2019 and 2018 (Unaudited)

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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 September 30, 2019 and as of November 22, 2019, \$2 million has been drawn on the Capex Loan by the Company.

The fair value of the conversion option component of convertible loan at issuance was determined to be \$451 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 September 30, 2019 was determined to be \$318 thousand using the trinomial method with the following assumptions: expected dividend yield of 0%, expected volatility of 76% based on historical share prices, CDN risk free interest rate of 1.5%, US risk free interest rate of 1.54%, share price of CDN\$0.10, an exchange rate volatility of 5.9% and an expected life of 2.79 years.

The following table presents the reconciliation of the beginning and ending balances of the components of the convertible debt as at December 31, 2018 an as at September 30, 2019:

USD 000s	Liability	Derivative Liability	Total
At December 31, 2018	-	-	-
Convertible loan disbursement	1,590	451	2,041
Revaluation of conversion option	-	(128)	(128)
Impact of foreign exchange	-	(5)	(5)
At September 30, 2019	1,590	318	1,908

The Company has no bank debt in Canada at September 30, 2019 and 2018.

11. Lease liability

USD 000s	2019	2018
Balance at January 1, 2019	-	-

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Notes to the Condensed Interim Consolidated Financial Statements

As of and for the Nine Months Ended September 30, 2019 and 2018 (Unaudited)

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

IFRS 16 first recognition	92	-
Accretion expense	4	-
Obligations settled	(45)	-
Balance at September 30, 2019	51	-
Current	51	-
Long-term	-	-
Total	51	-

The total undiscounted amount of finance liabilities debt at September 30, 2019 is \$51 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 September 30, 2019 was 10.5% (December 31, 2018 – nil).

12. Decommissioning Obligations

The total undiscounted amount of cash flows required to settle Centaurus’ decommissioning obligations in Argentina only at September 30, 2019 is approximately \$13.1 million (December 31, 2018 – \$15.6 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 September 30, 2019 an inflation rate of 1.7% was used (December 31, 2018 – 1.9%). The risk free rate used to discount the liability at September 30, 2019 was 1.94% (December 31, 2018 – 2.87%). The majority of the Argentine decommissioning obligations are expected to be invoiced in USD and settled through payments in ARS.

USD 000s	September 30 2019	December 31 2018
Balance, beginning of year	15,621	21,671
Disposals	(3,801)	-
Additions from development activities	38	-
Accretion expense (note 5a, 17)	263	589
Revision of estimates	655	(6,639)
Balance	12,776	15,621
Current	-	-
Long-term	12,776	15,621
Total	12,776	15,621

13. Share Capital



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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 September 30, 2019 or December 31, 2018. No dividends have been declared by the Company at September 30, 2019 or December 31, 2018.

	Number of Shares 000s	Share Capital 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 September 30, 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 Income (Loss) Per Share

As at September 30, 2019, there is no resulting dilutive impact of the convertible debentures or share options. The following table provides the weighted average number of common shares used in the per share calculations:

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Weighted average number of common shares - basic – 000s	544,059	543,860	544,059	544,048
Weighted average number of common shares - diluted – 000s	-	36,302	-	35,651
Net Loss from continuing operations - USD 000s	(2,167)	(2,272)	(4,830)	(6,408)
Per share – basic & diluted - continuing operations (\$/share)	(0.00)	(0.00)	(0.01)	(0.01)

14. El Vinalar assignment

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.

15. Supplemental Cash Flow Information

Changes in non-cash working capital

USD 000s	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018

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Trade and other receivables	(3,107)	851	(1,414)	2,054
Other current assets, including inventory	2,268	(419)	(106)	458
Lease liabilities	(15)	-	71	
Trade and other payables	9,958	89	15,335	(2,810)
Change in non-cash working capital ⁽¹⁾	9,104	521	13,886	(298)
Attributable to:				
Operating activities	(498)	96	516	(1,917)
Investing activities	281	11	580	5
Financing activities	9,321	414	12,790	1,614
	9,104	521	13,886	(298)

(1) Change in non-cash working capital excludes the current portion of long-term debt, as this is considered part of financing activities.

Other cash flow information

USD 000s	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Interest paid (income)	51	-	108	-
Taxes paid	-	-	-	32

16. Commitments and Other Long-term Liabilities

USD 000s	Under negotiations	2019	2020	2021	2022	2023	Thereafter	Total
Development and Exploration Commitments	4,037	31,803	33,585	10,238	10,238	-	1,470	91,370
Total	4,037	31,803	33,585	10,238	10,238	-	1,470	91,370

Coirón Amargo North ("CA-North")

Centaurus and its partners at the Coirón Amargo ("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. The amounts due to Centaurus from GyP are recorded on Centaurus' books as a receivable. Currently, exploitation and

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development phases are contained in CA-Norte, the northern part of CA, for which there are no current ongoing commitments.

Coirón Amargo Sur Este (CASE - 35% WI)

On September 18, 2018 the CASE block was converted to 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	2019 ⁽²⁾	2020 ⁽²⁾	Beyond ⁽³⁾
Concession commitments at CASE ⁽¹⁾	21,778	5,445	19,445

(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 multfrac 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 Company announced that that Pan American Energy ("PAE"), Centaurus' partner, successfully completed and tested the first horizontal multi-frac well CASE-101h located in the Vaca Muerta Shale Formation at the Coiron Amargo Sur Este block (the "CASE Block") in Argentina. CASE-101h is the first completed well of the five well program planned for this year.

The CASE-101(h), the first of a five well program, which achieved a 30 day average initial production ("IP30") rate of 1,020 barrels of oil per day, remains on production and is performing roughly in line with expectations.

The second well ("CASE-501h") has been completed and began flowing back on November 9, production test is in course.

The third well CASE-401h has been drilled and is waiting on completion. Drilling of the remaining wells of the five well program, the CASE-201h and CASE-301h remains ongoing with two drilling rigs.

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.

Curamhuele Block (90% WI-operated)

The Company 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 Minister of Energy and Natural Resources for the province of Neuquen which granted an additional twenty four months expiring March 9, 2021 for the exploratory period of the concession.

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

Pursuant to the Company's exploration permit in Curamhuele, the Company is responsible for paying 100% of the costs during the exploration phase to maintain its 90% WI.



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On November 14, 2019 the Company was notified by the Province of Neuquen that the milestones for the vertical test that were agreed as part of the 2 year extension were not being met. The Company is in discussion with the province regarding adjustments to the milestone schedule. Failure to meet this commitment or to adjust the milestone schedule could result in the termination of the concession and the Company being responsible for approximately \$8 million of investment commitment obligations.

To manage the conflicts of interest inherent in the Company's capital structure, the Board has formed a special committee of independent directors to evaluate potential financing solutions, including use of the existing Capex Loan, to meet the commitment.

Puesto Morales Block (100% WI-operated)

USD 000s	2019	2020	Beyond
Concession commitments	1,800	28,140	2,500

On January 4, 2019 the Company received the approval from the provincial authority for a re-schedule and conversion of the last commitments in a new exploration plan.

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 Company has proposed alternatives to the province of Salta in order to reconvert and reschedule pending commitments. As of September 30, 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 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 Company has since been in discussions with the province of Formosa with respect to negotiating an extension.

El Vinalar Block (100% WI – operated)

On September 18, 2018 the Company 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 Salta province. 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.

Palmar Larqo 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").

A 2 Year Operation Agreement with a 1 year extension provided that Centaurus fulfills its US\$2M Investment Commitment. The Investment Commitment consists of 2 workovers in 2 wells in order to increase production and



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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

Other long term liabilities includes a provision of office space in Calgary, Alberta which has been under contract negotiations since October, 2017.

17. Revenue

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.

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

USD 000s	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Crude Oil	7,396	7,580	22,653	25,515
Natural gas	453	689	1,673	2,168
Oil and natural gas sales	7,849	8,269	24,326	27,683

USD 000s	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Oil storage services in CA-Norte	-	120	135	319
Water treatment and other services to Surubí Concession	212	-	583	-
Other income	212	120	718	319

18. Operating Expenses – General & Administrative Expenses

Centaurus’ condensed interim consolidated statements of income (loss) and comprehensive income (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 on the condensed interim consolidated statements of income (loss) and comprehensive income (loss). The following table details the amount of total employee compensation costs included in the operating and general and administrative expense line items in the condensed interim consolidated statements of income (loss) and comprehensive income (loss).



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

USD 000s	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Operating expenses				
Compensation costs	964	861	3,007	2,927
Transportation and processing	1,949	1,004	4,849	3,726
Maintenance, workovers and other	3,002	2,456	9,072	7,359
	5,915	4,321	16,928	14,012
General & administrative expenses				
Compensation costs	656	359	1,689	1,189
Other	1,247	1,244	3,482	3,404
	1,903	1,603	5,171	4,593

19. Finance (Income) Expenses

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

USD 000s	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Bank charges	115	316	323	654
Foreign exchange loss (gain)	(1,139)	(551)	(566)	560
Decommissioning obligations accretion (note 12)	70	24	263	44
Accretion of debt portion of convertible debenture issued (note 8)	-	17	40	50
Lease liabilities accretion	1	-	5	-
Interest (income) and other expenses	42	(73)	(360)	(37)
	(911)	(267)	(295)	1,271



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USD 000s	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Unrealized foreign exchange loss (gain)	(1,139)	(551)	(566)	560
Total	(1,139)	(551)	(566)	560
Currency exchange rate at period end:				
\$1 USD = CAD			\$1.32	\$1.29
\$1 USD = ARS			\$57.59	\$41.25

20. Share-based Compensation

During the three and nine months ended September 30, 2019, no options were issued to directors, officers, and employees of the Company, and there were no options exercised during the three and nine months ended September 30, 2019 or 2018.

The share-based compensation expense recorded in the consolidated statements of loss for the three months and nine months ended September 30, 2019 was \$38 thousand and \$231 thousand, respectively (2018 - \$0.2 million and \$0.7 million).

21. Long-term Incentive Plan ("LTIP")

The Company's current LTIP includes its incentive stock option plan. LTIP recovery recorded as part of share-based and long-term incentive compensation expense in the consolidated statements of loss for the three months and nine months ended September 30, 2019 was a recovery of \$16 thousand and \$44 thousand (2018 – expense of \$1 thousand and \$56 thousand) and is revalued at the end of each reporting period.

At September 30, 2019 the LTIP liability was \$23 thousand (December 31, 2018 - \$131 thousand).

22. 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 update to risk exposures and explains how they are managed.

Liquidity risk

In May 2017, the Company entered into a series of financing agreements that are expected to substantially alleviate this risk. (which were amended and extended on April 7, 2019).

At September 30, 2019, cash and cash equivalents of \$1.2 million was deposited with banks in Argentina (December 31, 2018 - \$0.6 million), and is held in ARS. Cash and cash equivalents of \$58 thousand was deposited with banks in Canada and Barbados, \$54 thousand is held in USD and \$4 thousand is held in CAD.

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.



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.

Commodity price risk

The Government of Argentina sets the benchmark (Medanito) price for oil. Although the Argentine refiners used by the Company have paid an average unofficial crude oil price of \$42.24 per barrel for the three months ended September 30, 2019 (2018 - \$59.30). In January 2017, Centaurus was advised that a majority of producers and refiners in Argentina, at the request of the government, have signed a 2017 Medanito crude oil pricing agreement (the "Agreement") allowing for convergence with international Brent pricing over the coming months. Such agreement stated that in case international Brent pricing reached and remained above the monthly Medanito floor price for 10 consecutive days, the Agreement would be suspended. And, in case international Brent pricing fell below \$45.00 for 10 consecutive days, the Agreement would be reviewed. On September 13, 2017 the above suspension condition was reached and the agreement finalized in October, 2017. As of October 2017, market prices were agreed upon between refiners and producers considering the international Brent price as a reference. Since August 2018, due to the ARS devaluation, domestic price has been agreed upon between refiners and producers. This pricing considers the impact of the export withholding tax imposed by the government at that time and the possibility to increase the fuel price to final consumers. 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 at 49.30 ARS per USD until November 15, 2019, affecting oil prices denominated in USD. As a result of the decree, prices in USD decreased due to the ARS devaluation of 35.6%. Prior to the decree, the average oil price was listed at \$50.80 per barrel, with current pricing around \$38.10 per barrel.

Natural 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 2018 to April 2019 was set at \$4.10/mmbtu. (October 2017 - April 2018 - \$4.30/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).