ORIONOIL ER S.A.

Notes to Financial Statements
As of December 31, 2019
With corresponding figures for 2018
(Expressed in U.S. dollars)

1. Identification of the Company

OrionOil ER SA, ("the Company"), was incorporated through public deed on September 11, 2013, and Registered in the Mercantile Registry on October 7, 2013, with the aim of providing exploration and exploitation services of hydrocarbons (crude oil), in the Ecuadorian East.

The Company is a subsidiary of ORION ENERGY ER S.L. (company domiciled in Spain), which in turn is 95% controlled by Orion Energy PTE. LTD of Singapore, Trayectoria Oil & Gas S.A. of Panama with 1.40%, Fagery Trade S.A. from Uruguay with 3.10% and Admes Corporation S.A. from Uruguay with 0.50%.

The Company is domiciled in the city of Quito, Republic of Ecuador.

Cession of rights

The Marañón Consortium (former contractor) signed the Contract for the provision of services with the Ecuadorian State for the exploration and exploitation of hydrocarbons at the ENO-RON Block (Block 54) of the Amazon region on April 30, 2012, contract that was registered in the Hydrocarbon Registry of the Ministry of Non-Renewable Natural Resources on May 29, 2012, date from which the Consortium had been operating.

The Marañón Consortium assigned 100% of the rights and obligations of the Contract for the provision of services for the exploration and exploitation of the Eno-Ron Block of the Amazon region to OrionOil ER SA. This was done through public deed of July 29, 2014, registered in the Hydrocarbon Registry on July 31, 2014, and this process was authorized by the Hydrocarbons Secretariat on May 12, 2014.

As a consequence of the transfer of rights and obligations, the Company signed the amending contract number one for the provision of hydrocarbon exploration and exploitation services with the Hydrocarbon Secretary on August 26, 2014 which was registered in the Hydrocarbon Registry on August 29, 2014. With this, the change of Contractor and Head Office was made. The other contractual clauses were not amended, considering that the contract with the State is valid until 2032.

2. Operations

The Company began its operations on September 1, 2014, date from which it continued with the operation of block 54 and since that date it has complied with all the contractual aspects that consist of:

In 2014, the Company drilled two development wells (Eno 2 and Ron 2) and the installation of electrical distribution lines was carried out, with the necessary adaptations within the well drilling platforms; the topographic survey of the right-of-way for the construction of oil pipelines and flow lines.

During 2015, prior to the drilling of the wells the following work was carried out: the adaptation of the Eno platform, and the Drilling campaign of 3 wells: Eno 3, Eno 4 and Eno 5; the construction of storage tanks and delivery of production located on said platform; the acquisition of generators and the installation and inspection of the LACT unit; the acquisition of transfer pumps and interconnection to the RODA pipeline.

In addition, the topographic survey work was carried out, also the engineering of DDV for the constructions pipeline and flow line, and the engineer and studies were contracted for the construction of definitive production facilities.

The Company incurred start-up costs and early production delivery facilities, pre-operational costs/expenses, updating costs of environmental impact study, environmental license, and others necessary to start operations.

In 2016, the Company complied with all the investments committed in Annex "B" of the contract signed with the Ecuadorian State. Additionally, the mobilization and preparation of facilities for the drilling of the new wells Eno 3, Eno 4 and Eno 5 were carried out; as well as the analysis, chemicals, drilling muds, production logs and tests, geological supervision and technical support of the new wells.

Bond issuer

The National Securities Council authorized on February 22, 2016, through Resolution No. SVCS.IRQ.DRMV.2016.0353 its registration in the Stock Market as a Private Issuer of the Non-Financial Sector in accordance with the provisions of the Securities Market Law.

On March 27, 2018, the Company canceled its obligations from the first issue and in the same year it issued new obligations that were canceled in April 2019, which is disclosed in note 21. Additionally, on January 10, 2020, The Company canceled its registration in the National Stock Market System through Resolution No. SCVS-IRQ-DRMV-2020-00000276.

Accounting effects from changes in the legislation on hydrocarbons in Ecuador

According to the considerations made by management, the accounting policy to account for the infrastructure ("operating rights" - see Note 5h) is based on IFRIC 12 Service Concession Agreements. The consideration of service contracts should be accounted for in accordance with the approach for the intangible asset.

3. Statement of compliance with IFRSs

The financial statements of the Company have been prepared in accordance with the International Financial Reporting Standards (IFRS) in force and translated into Spanish from the International Financial Reporting Standards (IFRS) and issued by the International Accounting Standards Board (IASB), which have been adopted by the Superintendency of Companies, Securities and Insurance of Ecuador and represent the comprehensive, explicit and unreserved adoption of said international standards.

The financial statements for the year ended December 31, 2018 will be approved by the board after the issuance of the audit report in accordance with the requirements of the Companies Law. However, management believes there will be no changes to the accompanying financial statements.

4. Changes in accounting policies

a) New and revised standards in force for annual periods starting on January 1, 2019 and relevant to the Company

From January 1, 2019 there are new and revised regulations in force for the annual period beginning on that date. A detail of the information on these standards is presented below:

- IFRS 16 - Leases
- Characteristics of early cancellation with negative compensation (amendments to IFRS 9) (1)
- Modification, reduction or liquidation of the plan (modifications to IAS 19) (1)
- Annual Improvements to IFRS® Standards Cycle 2015–2017 (1)
- IFRIC 23 - Uncertainty regarding income tax treatments

(1) Pronouncements that, due to the nature of the Company's operations or the policies adopted, have not had an impact on the accompanying financial statements.

The detail of the pronouncements approved and in force for the year that began on January 1, 2019 and that have taken effect in the Company's financial statements is the following:

- *IFRS 16 - Leases*

In January 2016, the IASB published IFRS 16 “Leases”, which establishes the principles for the recognition, measurement, presentation and disclosure of leases. This standard applies to the exercises that started on January 1, 2019.

The main change that this rule incorporates is that a lessee must consider all lease agreements (with limited exceptions) within the lessee's statement of financial position. This will imply that:

- in the initial recognition of the contract, the lessee should:
  - recognize an asset for the right to use the asset under lease (the underlying asset of the lease); and,
  - recognize an obligation for the discounted value of the lease installments;

- at later times, the lessee should:
  - recognize the amortization expense of the asset; and,
  - recognize the financial cost of the liability.

A lessor will continue to classify its leases as operating leases or finance leases, and accounting for each type of lease in different ways. New disclosure requirements on lease contracts are incorporated.

By adopting IFRS 16, the Company accounted for each component of the lease within the contract as a lease separately from the components of the contract that do not constitute a lease.

Considering that previously the Company registered the lease contracts as operating leases, it used the following practical solutions:

- In accordance with the provisions of paragraphs (a) and (b) of paragraph C8 of IFRS 16- Leases, the Company adopted the accumulated update transition method, through which it did not generate an impact on accumulated results for the previous years of the contracts in force at the date of conversion to IFRS 16, but as of January 1, 2019, as date of initial application, it recorded the assets and liabilities at the present value of the remaining lease installments, discounted at their incremental rate at initial application date.

- Instead of performing an impairment review of right-of-use assets on the initial application date, the Company has relied on its historical assessment considering that lease contracts were not onerous immediately before the date of initial application of the IFRS 16, as established in literal (b) of paragraph C10 of the standard.

- For leases whose term ended within 12 months from the date of initial application (January 1, 2019) and for leases of low-value assets, the Company has applied the exemption option, so it does recognize right-of-use assets nor the lease liability, but to account for the lease expenses on a linear basis over the remaining term of the lease.

For the initial application of IFRS 16, the Company used the weighted average incremental interest rate to determine the lease liability, which was 8.27%.

The effect within the statement of financial position of the adoption of IFRS 16 - Leases as of January 1, 2019 was the following:

	Effect to Jan1, 2019 Db (Cr)
Assets	
Right of use assets	763.603
Liabilities	
Short term lease liability	(187.037)
Non-current lease liabilities	(576.566)

- *Modification, reduction or liquidation of the plan (amendments to IAS 19)*

In February 2018, the IASB approved the document “Modification, reduction or liquidation of the plan (amendment to IAS 19)”. An entity will apply those amendments to plan modifications, reductions, or settlements that occur from the first annual period reported starting from January 1, 2019.

This amendment requires an entity to use updated actuarial assumptions to determine the cost of services for the current period and the net interest for the remainder of the annual period that is reported after the plan modification, reduction or liquidation when the entity measures again its net defined benefit liability (asset). In doing so, an entity will not consider the effect of the asset ceiling. An entity will then determine the effect of the asset ceiling after the plan is modified, reduced, or liquidated and will recognize changes in that effect.

The application of this modification is included in the actuarial study carried out by the expert in 2019 for the determination of the labor liability of the plan of unfair dismissal and eviction provision (see Note 25).

- *IFRIC 23 - Uncertainty regarding income tax treatments*

IFRIC 23 "Uncertainty regarding Income Tax Treatments" was issued by the IASB in June 2017. This interpretation was developed by the IFRS Interpretations Committee (IFRIC). An entity will apply this Interpretation for annual periods beginning on or after January 1, 2019.

This Interpretation clarifies how to apply the recognition and measurement requirements of IAS 12 when there is uncertainty regarding income tax treatments. In this circumstance, an entity will recognize and measure its deferred or current tax assets or liabilities applying the requirements of IAS 12 based on tax profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Interpretation.

Specifically, this Interpretation addresses the following questions:

- whether an entity will consider uncertain tax treatment separately;
- the assumptions that an entity makes about the review of tax treatments by tax authorities;

- how an entity will determine the tax profit (tax loss), tax bases, unused tax losses, unused tax credits, and tax rates; and
- how an entity will consider changes in facts and circumstances.

The Company's management, together with its tax advisors, as of December 31, 2019, has analyzed the existence of uncertainties over income tax treatment. On this analysis, Management includes a detail of the uncertain treatments adopted to determine current and deferred income tax in note 24 (f) a detail of the uncertain treatments adopted to determine current and deferred income tax.

b) Standards, modifications and interpretations of existing standards that have not yet come into force, and that have not been adopted early by the Company

As of the date of authorization of these financial statements, the IASB has published new standards, modifications and interpretations made to existing standards, which have not yet entered into force and have not been adopted in advance by the Company.

Management anticipates that all pertinent pronouncements will be adopted in the Company's accounting policies for the first period that begins from the effective date of said pronouncement.

A list of the pronouncements approved by the IASB that have not yet entered into force, and that the Company has not applied in advance for the closing ended on December 31, 2019, are as the following:

- Long-term interests in associates and joint ventures (amendments to IAS 28) (1).
- IFRS 17 Insurance contracts (1).
- Conceptual Framework for Financial Information.
- Definition of a business (amendments to IFRS 3) (1).
- Definition of “material” or “with relative importance” (modifications to IAS 1 and IAS 8).
- Interest rate benchmark reform (amendments to IFRS 9, IAS 39 and IFRS 7)
- Sales or contributions of assets between an investor and its associate/joint venture (amendments to IFRS 10 and IAS 28) (1) (2)

(1) Pronouncements that, due to the nature of the Company's operations or the policies adopted, are estimated to have no impact on the financial statements.

(2) Application postponed indefinitely by the IASB.

Below, there is a detail of the approved pronouncements that are not yet in force, and which are estimated to have effect on the Company but have not been applied early:

- *Conceptual Framework for Financial Reporting*

In March 2018, the IASB approved the "Conceptual Framework for Financial Reporting", which will replace the Conceptual Framework, revised in 2010.

An entity will use the new Conceptual Framework (when applicable) for periods beginning on January 1, 2020. Earlier application is supported. However, it should be noted that:

- the 1989 Conceptual Framework and the 2010 Conceptual Framework stated that the Conceptual Framework is not a Standard and does not override any specific Standard;
- in the 2018 Conceptual Framework, the Council reconfirmed this status.

For the development of the 2018 Conceptual Framework, the IASB used the 2010 Conceptual Framework - filling in gaps as well as clarifying and updating it, but without fundamentally reconsidering all aspects of the 2010 Conceptual Framework.

The Company considers that the change in the Conceptual Framework will not generate significant effects in its financial statements and plans to apply it on its mandatory adoption date.

- *Definition of "material" or "with relative importance" (amendments to IAS 1 and IAS 8)*

In October 2018, the IASB approved the document "Definition of 'material' or 'with relative importance' (amendments to IAS 1 and IAS 8)". An entity will apply those modifications prospectively to annual periods beginning on or after January 1, 2020. Earlier application is permitted. If an entity applies those modifications in a period beginning earlier, it must disclose this fact.

The new definition of "material" or "relative importance" in IAS 1 and IAS 8 determines that the information is material or has relative importance if its omission, inappropriate expression or misrepresentation could reasonably be expected to influence the decisions that the main users of the financial statements make based on the financial information of a specific reporting entity.

The Company considers that the amendment to IAS 1 and IAS 8 in relation to the definition of "material" or "relative importance" will not generate significant effects on its financial statements and plans to apply it on its mandatory adoption date.

- *Interest Rate Benchmark Reform (amendments to IFRS 9, IAS 39 and IFRS 7)*

In September 2019, the IASB issued the document "Interest Rate Benchmark Reform", which amended IFRS 9, IAS 39 and IFRS 7. An entity shall apply these modifications to annual periods beginning on or after January 1, 2020. Earlier application is allowed. If an entity applies those modifications during an earlier beginning period, it must disclose this fact.

The Company considers that the application of this reform will not generate significant effects, its Management plans to adopt it on the dates specified for its application.

5. Accounting Policies

The main accounting policies adopted in the preparation of the financial statements, as required by IAS 1 "Presentation of Financial Statements", are described below. These policies have been designed based on IFRSs in force as of December 31, 2019 and have been applied uniformly to all periods presented.

a) Measurement Basis

The Company's financial statements have been prepared on the basis of historical cost, modified by the liability for termination benefits due to the eviction bonus and untimely dismissal that is recorded at the present value of estimated future payments in accordance with the actuarial study carried out by an independent expert.

b) Functional and presentation currency

All figures presented in the financial statements of the Company and their notes are expressed in dollars of the United States, which is the functional currency.

The dollar of the United States was adopted by Ecuador as its official currency in March 2000, so the dollar of the United States is used from that date on for all transactions in the country, and accounting records are made in that currency. The Ecuadorian economy depends on the country's ability to obtain a steady flow of US dollars to allow the continuation of the current monetary scheme.

c) Use of estimates and judgments by management

The preparation of financial statements in accordance with International Financial Reporting Standards (IFRS) requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income and expenses reported. Management reviews estimates and relevant assumptions on a regular basis, however, due to the subjectivity inherent in this accounting process, actual results may differ from the amounts estimated by management.

Any event that may occur in the future and that requires these estimates to be modified in the coming years, is recorded on a prospective basis at the time the variation is known.

The following describes the significant judgments and estimates of management in the application of the Consortium's accounting policies, which have a significant effect on the financial statements:

- *Determination of income tax*

The Company's operates in Ecuador, so it is subject to income tax in that jurisdiction. Determining the provision for income tax requires significant criteria. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Such determination is also subject to observations derived from the audits performed by the Agency for Regulation and Control of Hydrocarbons - ARCH (formerly National Hydrocarbons), which controls the companies operating in the oil sector, and by the Internal Revenue Service - IRS. These entities may not share the criteria used by the Company in the application of tax regulations. Where the fiscal final settlement of these matters is different from the values that were initially recorded, such differences could impact the provisions of current and deferred income tax in the periods for which such assessments were made. The current regulations in Ecuador determine that the assessments of income tax performed by tax authorities also result in a retroactive reassessment of workers` participation for the years concerned.

On the other hand, the amount by which a deferred tax asset can be recognized is based on the assessment of the probability of future taxable income for which the deferred tax assets of the Company may be used. In addition, significant judgment is required to evaluate the impact of certain legal or economic limits or uncertainties existing in the country on the current tax legislation.

- *Determination of the charge for depreciation and amortization*

    o *Useful life other properties and equipment*

    Determining the useful lives of the defined useful life components involves judgments and assumptions that could be affected if circumstances change. Management reviews these assumptions periodically and adjusts them on a prospective basis in the event of any change being identified, however, actual results in the future may vary due to technical obsolescence if it exists. especially with regard to plant equipment and machinery.

    The useful life of the assets is reviewed at least at the end of each annual period and, if the expectations differ from the previous estimates, the changes will be accounted for as a change in an accounting estimate prospectively. As of December 31, 2019 and 2018, there have been no changes in estimates of useful lives of property and equipment.

    o *Calculation of depretiation and amortization*

    The calculation of amortization of production and development investments and the depreciation of other properties and equipment is based on the determination of the existing reserves and the useful lives of the defined useful life components, respectively; And involves judgments and assumptions that could be affected if circumstances change. Management reviews these assumptions periodically and adjusts them on a prospective basis in the event any changes are identified.

- *Impairment loss of non-financial assets*

The Company recognizes an impairment loss when the carrying amount of an asset, or of a cash-generating unit, exceeds its recoverable amount.

The Company estimates the recoverable amount of non-financial assets, regardless of whether there are indications that they may be impaired or not. This implies that Management assumes a stricter criterion than that required by International Accounting Standard No. 36 - Impairment of Assets.

The measurement of the recoverable amount requires the use of estimates and significant assumptions. Since these estimates and assumptions are subject to risks and uncertainties, there is a possibility that changes in such circumstances may affect Management's assessments for the preparation of the financial statements.

- *Inventory*

The Company's Management estimates the net realizable values of inventories taking into account the most reliable evidence that is available at the reporting date.

These judgments were made on the basis of the best available information on the events analyzed as of December 31, 2019 and 2018. Any events that may occur in the future and that require the modification of these estimates in the coming years, will be recorded in the moment the variation is known, recognizing the effects of said changes in the corresponding financial statements in the income or equity accounts as the case may be.

- *-Income recognition*

To determine when the income from services should be recognized, an understanding of the probability that the Company receives the economic benefits associated with the transaction is required, based on the record, market knowledge and in accordance with the calculation of disposable income.

However, actual results in the future may vary due to changes in estimates.

Causes of uncertainty in estimates

Information on estimated and assumed, that could potentially incorporate causes of uncertainties in the estimates and that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses, is provided below:

- *Crude oil Reserves*

Production investments are amortized on the basis of production units based on a rate calculated on the total developed proven reserves, certified by independent experts in relation to geological and technical data on size, depth, type, degree of hydrocarbon and rates of recovery, as well as using crude oil estimates, tariffs, recovery factors and future crude oil prices. The developed proven reserves are reserves that are expected to be recovered through existing wells with the existing equipment and operating methods. The economic assumptions used could change based on additional geological information obtained during field operation, as well as recoverable estimates and reserves.

The economic parameters used for the specialist evaluation include the price of the product, operating expenses, and capital costs.

The production of crude oil in Block 54 has an average quality of 27.54 ° API. It is transported by SOTE and its exploitation is carried out in accordance with the Contract for the provision of services for the exploration and exploitation of hydrocarbons.

Because economic assumptions can vary and more geological information is obtained during field operation, recoverable reserve reserves may change. Such changes may affect the Company's reported financial position and results, which include:

- The carrying value of exploration and evaluation assets, production and development investments and other property and equipment could be affected by changes in estimates of future cash flows.

- Amortization costs may change if the respective rates are determined using the units of production method, or when the useful life of the related assets change.

- The provision for abandonment of wells could change when changes in estimates of reserves affect expectations about when the abandonment activities and associated cost thereof will be realized.

- The recognition and the book value of deferred income tax assets may change due to changes in the criteria on the existence of such assets and estimates of the likely recovery of such assets.

The book value of investments as of December 31, 2019 and 2018 are detailed in note 18.

- *Expenditure on exploration and evaluation*

The application of the accounting policy of the Company for the cost of exploration and evaluation requires a criterion to determine the likelihood of having future economic benefits either for use or sale, or where activities have not reached a stage that allows a reasonable assessment of the existence of reserves. The determination of reserves and resources is by itself an estimation process that requires a degree of uncertainty in terms of the sub-classification, and these estimates directly impact the deferral point or the exploration and evaluation expenses. The deferral policy requires management to make certain estimates and assumptions regarding future events and circumstances, in particular if an economically viable extraction operation can be established. Such estimates and assumptions may change as new information becomes available. If the available information suggests that expenditure recovery is unlikely after the capitalization of expenses, the relevant capitalized amount is written off in profit or loss in the accounting period in which the new information becomes available.

- *Recovery of investments in production*

The Company applies a conservative policy to each cash-generating unit (CGU), because it assesses impairment on an annual basis, regardless of whether there is an indication of impairment. On this basis, a formal estimate of the recoverable value is made, which is considered as the highest between the fair value less selling costs and value in use, using a discount rate of 10% in 2019 and 2018.

At the date of issuance of the financial statements, international crude oil prices fluctuate around US $ 20 (US $ 58 per barrel at the date of issuance of the 2018 report). In accordance with the conditions established in the service provision contract signed with the Ecuadorian State for the exploration and exploitation of crude oil, a decrease in the international price of crude oil temporarily affects the rate paid to the contractor until said price recovers. In this case, the Ecuadorian State will return the pending values that could not be paid due to the lower price. Only in the event that the decrease in said price remains until the end of the service contract, said obligation will be extinguished. The Company's management considers that the increase in crude oil prices will allow the Company to recover the unpaid rate in previous years, in the course of 2020. The company’s management performs daily monitoring of the behavior of the price of crude oil in the market to anticipate any effect on the financial statements.

The book value of investments in production as of December 31, 2019 and 2018 are detailed in note 18.

- *Field abandonment costs*

Abandonment costs will be incurred by the Company at the end of each contract for some of the Company's facilities and properties and in the medium term for other facilities and properties. The Company evaluates the provision for abandonment on each reporting date. Final closing costs are uncertain and cost estimates may vary based on many factors, including changes in relevant legal requirements, the emergence of new restoration techniques, or experience in other fields of production. The timing, scope, and estimated amounts of expenses may also change, for example, based on changes in the reserves or changes in the laws and regulations, or their respective interpretation. Therefore, significant estimates and assumptions are made to determine the abandonment provision for closing. As a result, there could be significant adjustments to the established provisions that could affect future financial results. The abandonment liability as of the reporting date represents the best estimate of the present value of the costs necessary for the future abandonment liability.

A summary of the assumptions applied is detailed below:

- 100% probability of not being in operation at the end of the contract was assigned to the installation of operation, pipes and complementary installations.
- The abandonment liability for operating assets has been discounted until the end of each contract.
- The discount rate that has been applied to the abandonment liability for the year 2019 and 2018 was 8.27%.

The Company defined as its best estimate the consideration of the wells that, according to the production curve made by the operations division, will finish their production before the end of the contract signed with the Ecuadorian State, this is in the year 2032.

d) Going concern

At the date of these financial statements, and considering what is detailed in the note 33, there are no uncertainties regarding events or conditions that may raise doubts about the possibility of the Company continuing to operate normally as a going concern.

e) Revenues from ordinary activities

Revenues from ordinary activities are recognized at the transaction price in accordance with the rate established for the service when each performance obligation is met as detailed in note 9, excluding estimates of the variable consideration that are limited due to:

i) Considerations highly sensitive to be recovered due to the influence of the price of crude oil in the market.
ii) The time that must wait until the contract ends and determine the recoverable amount of the consideration.
iii) The existence of additional contracts with the Ecuadorian State, leading to the withdrawal of accumulated debts existing at the date of negotiation.

Description of the facts

In the Contract Amendment of the Contract for the Provision of Services for the Exploration and Exploitation of Hydrocarbons (Crude Oil), the parties agreed that, as of the effective date, the cancellation of the fixed amount owed to the contractor (Company) shall be made in species (rights on crude oil) and its recovery is based on the "Available Income", as the formula in note 9 details. If the disposable income is not enough to cover the tariff payment, the monthly balance accumulates during the relevant fiscal month or year until the disposable income is sufficient for the Hydrocarbons Secretariat to make the payment.

The same contract amendment establishes that any difference transferred, originated by insufficient disposable income, that has not been paid by the Secretariat upon termination of the Contract, will be extinguished and will not be paid to the Company, leaving the Hydrocarbons Secretariat automatically released from this payment obligation at that time.

After considering the basic principle of IFRS 15 (that an entity recognizes income from ordinary activities in a way that reflects the consideration to which the entity expects to be entitled in exchange for said committed goods or services that it has transferred), Management has concluded that the uncertainties regarding the recovery of certain amounts give rise to an implicit variable consideration, and that this issue should not be considered when checking the deterioration of the accounts receivable of the Company, given that such uncertainty is not associated with changes in the customer's credit quality, but to contractual clauses on how the amounts to which the Company will be entitled are determined.

The variable consideration will only be included in the price of the service when the Company expects it to be 'highly probable' that the resolution of the associated uncertainty does not result in a significant reversal of ordinary income, considering an amount that reflects the best estimate for this concept.

Requirements of IFRS 15 and its application

The Company must include in the price of each service the estimated amount of the variable consideration, only to the extent that it is highly probable that a significant reversal of the accumulated revenue from ordinary activities recognized will not occur when the uncertainty regarding this consideration is lately resolved.

The Management of the Company has concluded that some of the variable considerations are restricted for the following reasons:

a) The amount of the consideration is highly sensitive to factors that are outside the influence of the entity such as the price of oil in international markets;
b) Contracts have a large number and wide range of possible counter-provision amounts.

f) Costs of production y transportation

The costs paid for the production, sale and transportation of crude oil are recognized when products are delivered, and the services are provided.

g) Investments in exploration and investments in production and development, net ("operating rights")

These investments represent the right the Company has to operate the built infrastructure ("operating right "), which allows it to fulfill the service contract for the exploration and exploitation of hydrocarbons, explained in note 2.

Selection of accounting policy

The amendment of the hydrocarbons law of Ecuador led to the review of the accounting treatment for the infrastructure used to comply with service contracts.

Based on current accounting regulations, the Company has concluded that these infrastructures should be accounted for under the proposed IFRIC 12 Service Concession approach because the following conditions are met:

a) The State controls or regulates what services the Company must provide with the infrastructure, to whom it must provide them, and at what price; and
b) The State controls any significant residual interest on the infrastructure at the end of the contract.

According to this approach, infrastructure should not be accounted for as "property, plant and equipment" in the Company´s financial statements, but the Company must assess whether the consideration must be accounted for in accordance with one of the following three approaches:

1) Intangible asset approach
2) Financial asset approach
3) "Mixed" approach

According to the judgments made by the Company, the proper approach in this case is the "intangible asset approach". All sub-items that make up the intangible asset of the contract are grouped under the heading "Exploration investments and Production and development investments, net ("operating rights ")," according to the explanations given below.

Exploration Investments

Once the legal right to explore (as part of the right to operate that has been granted to the Company) has been acquired, the costs directly associated with an exploration well are capitalized as assets for exploration and evaluation until the perforation of the well is complete and the results have been evaluated. Such costs include the directly attributable compensation of employees, materials and fuel used, drilling costs and payments made to contractors.

Exploration costs (geological and geophysical expenditures, expenditures associated with the maintenance of unproven reserves and other exploration activity related costs), excluding the costs of exploratory drilling are recognized to results, as incurred.

The exploratory drilling costs, including those relating to stratigraphic exploration wells, are recognized as assets until it is determined whether proven reserves have been found to justify commercial development. If proven reserves are not found, capitalized drilling costs are charged to income. However, if as a result of exploratory drilling, including stratigraphic exploration wells, reserves that can not be classified as proven are found, their recognition depends on the following:

- If the area requires additional investments before production can start, the drilling costs remain capitalized only during the accounting period in which the following requirements are met:

    i. the amount of proven reserves found justifies the completion of a productive well if the required investment is made; and,

    ii. the drilling of additional exploratory or stratigraphic wells is underway or planned for the future. If any of the above conditions is not met, the drilling costs or the cost of the stratigraphic wells are charged to income.

- In all other circumstances, the existence of reserves that could be classified as proven has to be determined within one year from the completion of the prospecting work. Otherwise, the related drilling costs are recorded against the results.

Development costs

Expenditure incurred in the construction, installation or completion of infrastructure such as platforms, pipelines and the drilling of development wells, including unsuccessful development or delineation wells are capitalized on investments in production and development.

Production and development investments

The accounting treatment of the various costs is as follows:

- Costs incurred in the acquisition of new interests in areas with proven and unproven reserves (including bonds, legal costs, etc.) are capitalized as incurred in the "Investments in production" account associated with proven and unproven reserves, as appropriate, representative of the right of operation of the Company in the areas that were granted by the state.

- The acquisition costs in exploration permits for a given accounting year are capitalized at acquisition cost and are amortized with a charge to income (for the maximum period of the contract term regulating these permits) in accordance with the policy established in the "exploration and evaluation costs" section. If reserves are not found, the amounts previously capitalized are recognized as an expense in the statement of comprehensive income. If exploration work yield positive results, leading to the drilling of commercially exploitable wells, the costs are reclassified to its book value as "production investments " at the time it is determined that the wells are "commercially exploitable". The wells are classified as "commercially exploitable" only if they are expected to generate a volume of reserves that justify commercial development based on the conditions prevailing when the costs are recognized (eg prices, costs, production techniques, regulatory framework, etc.).

Drilling costs that have given rise to a positive discovery of commercially exploitable reserves are reclassified as "investments in drilling".

- The development costs incurred in extracting proven reserves and in processing and storage of oil (including costs incurred in drilling production wells under development, improved recovery systems, etc.) are recognized as assets of "investments in production and development." At the end of each drilling work the Company assesses whether the wells were successful before capitalization or not.

- The future field abandonment and the abandonment costs (environmental, safety, etc.) are estimated from field to field, and are capitalized at their current value when they are initially recognized in the statement of financial position, with a credit to "ARO Provision".

Amortization

The capitalized investments described above are amortized as follows:

- The investments related with the acquisition of proven reserves are depreciated over the estimated commercial life of the field, according to the unit of production method for the year according to the proved developed reserves of the field at the beginning of the financial year of amortization. Amortizable investments include investments that were capitalized the immediately preceding year. In the case of assets whose useful life is shorter than the life of the field, the straight-line method is applied.

- The investments related to unproven reserves or fields under evaluation are not amortizable investments. Such reserves are evaluated at least once a year or more frequently if there is any indication that they could have been impaired and, if damaged, the corresponding loss is recognized with charge to income for the year.

- The cost caused by the drilling works and the related properties to develop and extract oil reserves are amortized under the units of production method over the estimated commercial life of the field according to the production of the year, in proportion to the proved developed reserves of the field at the beginning of the amortization period.

The changes in the estimated reserves are considered on a prospective basis when calculating depreciation. Asset residual values, useful lives and method of depreciation / amortization are reviewed for each year for which figures are reported and adjusted prospectively as appropriate.

Abandonment costs

The future abandonment of the field and the abandonment costs (environmental, security, etc.) are estimated on a well-by-well basis and are initially recorded at their current value in the statement of financial position and their impact is recorded on the income statement.

The costs related to the removal of assets represent the best estimate of the Company's Management regarding the costs at present value to be incurred to rehabilitate the area of operation at the end of the contract. This estimate is reviewed annually (see note 23).

h) Other property and equipment, net

Measurement and recognition

Other property and equipment are recorded at their historical cost less depreciation.

Cost includes disbursements directly attributable to the acquisition or construction of the asset. Post-purchase or acquisition disbursements are only capitalized when it is likely that future economic benefits will flow to the Company and can be reasonably measured.

The depreciation expense is recorded with a charge to the result of each period and is calculated based on the years of the estimated useful life of the different assets.

Disbursements for repair and maintenance made to repair or maintain the expected future economic benefit from furniture and equipment are recognized as an expense when incurred, while major improvements or maintenance that lengthen the useful life of the asset are capitalized as long as It is probable that future economic benefits will flow to the Company and can be reasonably measured.

The depreciation of furniture and equipment is calculated using the straight-line method to allocate its use over the estimated useful life, whose years of life are as follows:

Type of asset	Useful life (years)
Buildings and structures	10
Production machinery and equipment	10
Furniture and office equipment	10
Computer equipment and software	3

The depreciation method, the estimates of useful lives and residual values of the furniture and equipment and their components, are reviewed, and adjusted if necessary, annually at the closing date of the financial statements.

Withdrawals and sale

Other property and equipment (primarily furniture, data processing equipment, and other equipment) may not be sold, unless such sale has been expressly authorized by the Hydrocarbon Regulatory and Control Agency (ARCH, by its acronym in Spanish), and will be delivered to the Ecuadorian State upon expiration of the service provision contract. For this reason, the residual value of the assets will be considered equal to zero for the purposes of applying the aforementioned depreciation policy.

The cost and accumulated depreciation of the furniture and equipment withdrawn are reduced from the respective accounts and the difference is recognized in the results for the year in which the transaction took place.

The useful life of assets is reviewed, and adjusted if necessary, on each reporting date.

i) Impairment of long-lived assets

At each closing date, the Company analyzes the value of the assets subject to depreciation and amortization to determine if there is any impairment. When the carrying amount of the asset, or of a cash-generating unit exceeds its recoverable amount, the asset or the cash-generating unit is considered to show impairment, and an impairment loss is recognized in profit or loss for the period.

The recoverable amount is defined as the higher between the fair value of the asset less selling costs and its value- in-use.

The fair value less costs to sell is the amount obtainable from the sale of the asset or the cash-generating unit, in an orderly transaction between market participants at the measurement date, net of costs of disposal.

On the other hand, the value-in-use of an asset or a cash-generating unit is the present value of the estimated future flows from the continuous use of the asset or the cash-generating unit, and of its disposal at the end of its useful life.

To determine the recoverable amount, the Management estimates the expected future cash flows of each cash-generating unit and determines an appropriate interest rate in order to be able to calculate the present value of said cash flows. The data used for the impairment testing procedures is directly linked to the Company's most recent approved budget, adjusted as necessary to exclude the effects of future asset improvements. Discount factors are determined individually for each cash-generating unit and reflect the current assessment of market conditions on the value of money over time and asset-specific risk factors.

Management's judgment is required to estimate future discounted cash flows. Actual cash flows and values may vary significantly from projected future cash flows and related derivative values using discount techniques.

Non-financial assets subject to depreciation and amortization that experience impairment are reviewed for possible reversal at each reporting period. An impairment value is reversed with a charge to the results of the period, when the recoverable value of the cash generating unit exceeds the book value.

As of December 31, 2019 and 2018, the Company did not present an impairment as explained in note 18 in its Production and Development Investments.

j) Financial instruments

Recognition and withdrawal

Financial assets and liabilities are recognized when the Company is part of the contractual provisions of a financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows of a financial asset expire, or when the financial asset and all the risks and benefits have been substantially transferred. A financial liability is derecognized when the obligation is extinguished, discharged, canceled or expires.

Financial assets and liabilities are recognized and derecognized on the date the transaction occurs.

Classification and initial measurement of financial assets

Financial assets are initially measured at fair value adjusted for transaction costs (where applicable), except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with the provisions of IFRS 15.

The classification is determined by:

- Financial assets at amortized cost
- Financial assets at fair value with changes in results
- At fair value with change in other comprehensive income

In the periods presented, the Company does not have financial assets classified at fair value with changes in profit or loss or other comprehensive income.

The classification is determined by:

- The entity's business model for managing financial assets; and,
- The contractual characteristics of the cash flows.

Management determines the classification of its financial assets at the time of initial recognition.

Subsequent recognition of financial assets

Financial assets are recognized as described below:

Financial assets at amortized cost

Financial assets are measured at amortized cost if the assets meet the following conditions (and are not designated as at fair value through profit or loss):

- they are maintained within a business model whose objective is to keep the financial assets and collect their contractual cash flows; and,

- the contractual terms of financial assets give rise to cash flows that are only payments of principal and interest on the outstanding principal.

After initial recognition, these are measured at amortized cost using the effective interest method. The discount is omitted when the effect of the discount is irrelevant. Cash and cash equivalents, trade accounts receivable and most other accounts receivable are included in this category of financial instruments.

Impairment of financial assets

The impairment requirements of IFRS 9 use forward-looking information to recognize credit losses through the expected credit loss model.

Instruments within the scope of the new requirements included trade accounts receivables, and contractual assets recognized and measured under IFRS 15.

The recognition of credit losses no longer depends on the Company first identifying a credit loss event. Instead, the Company considers a broader range of information by evaluating credit risk and measuring expected credit losses, including past events, current conditions, reasonable conditions and bearable forecasts that affect the expected collection capacity of future cash flows of the instrument.

In applying this prospective approach, a distinction is made between:

- Financial assets that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1'); and,

- Financial assets that have deteriorated significantly in credit quality since initial recognition. and whose credit risk is not low ("Stage 2").

"Stage 3" would cover financial assets that have objective evidence of impairment as of the reporting date.

“12-month expected credit losses” are recognized within the first category, while “expected credit losses throughout the life of the asset” are recognized within the second category.

The measurement of expected life-time credit losses applies if the credit risk of a financial asset as of the reporting date has increased significantly since initial recognition, and the measurement of 12-month expected credit losses applies if this risk has not increased. The Company determines that the credit risk of a financial asset has not increased significantly if the asset has a low credit risk at the presentation date. However, the Company always measures the expected credit losses over the life time for trade receivables and contract assets without a significant financing component.

The carrying amount of the asset is reduced through the use of an estimation account and the amount of the loss is recognized in the statement of comprehensive income. If, in a subsequent year, the estimated amount of the impairment loss increases or decreases due to an event that occurs after the impairment has been recognized, the previously recognized impairment loss is increased or decreased by adjusting the estimation account.

As of December 31, 2019, the Company applied the expected credit loss over the life of trade accounts receivable model that does not have a significant financing component. The calculation of the provision is based on the adoption of the simplified approach using a matrix of provisions (see note 6-c).

The provision estimates the expected deficits in contractual cash flows, considering the potential for default at any time during the life of the financial instrument. In the calculation, the Company uses its historical experience, external indicators and prospective information to calculate the expected credit losses using a matrix of provisions.

Classification and measurement of financial liabilities

Financial liabilities are initially measured at fair value and, when applicable, the costs associated with the transaction are adjusted, unless the Company has designated a financial liability at fair value with changes in results.

Subsequently, financial liabilities are measured at amortized cost using the effective interest method, except for derivatives and financial liabilities designated at fair value with changes in results, which are subsequently recorded at fair value with a charge to gains or losses recognized in results (which are not designated derivative financial instruments and are effective as hedging instruments).

All charges related to interest and, if applicable, to changes in the fair value of an instrument that are reported in results are included within financial costs and/or income.

As of December 31, 2019, the Company's financial liabilities mainly represent payment obligations for the purchase of goods and/or services that have been acquired from suppliers, as well as tax obligations generated in the ordinary course of operations and are managed in normal credit conditions, so they do not include financing transactions granted by creditors, and are recorded at the nominal value of the counterpart received and are not discounted as they are settled in the short term.

Provisions for accumulated obligations record the estimated amount to cover present obligations, whether legal or implicit as a result of past events, for which it is probable that an outflow of resources will be necessary in order to settle them. Provisions are periodically evaluated and updated taking into account the best information available as of the closing date of the financial statements (includes financial cost if applicable).

Compensation of financial instruments

Financial assets and financial liabilities are offset so that the net amount is reported in the statement of financial position, only if there is a current legally enforceable right to offset the recognized amounts, and there is an intention to settle them for their net amount, or to realize the assets and cancel the liabilities simultaneously.

k) Right-of-use Assets

As described in note 4 (a), the Company has applied IFRS 16 using the accumulated update transition method and, therefore, the comparative information for 2018 has not been restated. This means that comparative information is still reported under IAS 17 and IFRIC 4.

Accounting policy applicable from January 1, 2019

- <u>The Company as lessee</u>

  For any new contract entered into as of January 1, 2019, the Company considers whether a contract is or contains a lease. A lease is defined as "a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration".

  To apply this definition, the Company evaluates whether the contract meets three key evaluations, which are:

  - The contract contains an identified asset, which is explicitly identified in the contract or is implicitly specified when identified at the time the asset is made available to the Company.
  - The Company has the right to obtain substantially all the economic benefits of the use of the identified asset during the entire period of use, considering its rights within the defined scope of the contract.
  - The Company has the right to control the use of the identified asset throughout the period of use.

  The Company assesses whether it has the right to control "how and for what purpose" the asset is used throughout the period of use.

Measurement and recognition of leases as lessee

<u>Right-of-use Asset</u>

On the lease start date, the Company recognizes a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, the initial direct costs incurred by the Company, an estimate of the costs to dismantle and eliminate the asset at the end of the period, lease and any lease payments made before the lease start date (net of any incentive received).

The Company depreciates the right-of-use assets linearly from the start date of the lease to the beginning of the end of the useful life of the right-of-use asset or at the end of the lease term. The Company also evaluates the right-of-use asset for impairment when such indicators exist.

Lease liability

At the commencement date, the Company measures the lease liability at the present value of the unpaid lease payments on that date, discounted using the Company's incremental borrowing rate of 8.27%.

The lease payments included in the measurement of the lease liability are made up of fixed payments (including in-substance fixed payments), variable payments based on an index or rate (if any), amounts expected to be paid under a residual value guarantee (if any) and payments arising from reasonably safe options to be exercised (if any).

After the initial measurement, the liability will be reduced by the payments made and increased by the interest. It is remeasured to reflect any reevaluation or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or in profit and loss if the right-of-use asset is already reduced to zero.

The Company has chosen to account for short-term leases and low-value asset leases using the practical exemptions, so instead of recognizing a right-of-use asset and a lease liability, payments in connection with these are recognized as a linear expense in results during the lease term.

In the statement of financial position, right-of-use assets have been included separately from furniture and equipment, and lease liabilities have been included as a separate liability from trade accounts payable and other accounts payable.

- The Company as lessor

  The Company's accounting policy under IFRS 16 has not changed since the comparative period. As lessor, the Company classifies its leases as operating or financial leases.

  A lease is classified as a financial lease if it substantially transfers all the risks and rewards related to ownership of the underlying asset, and it is classified as an operating lease if it does not.

Amortization of the right of use

The Company has determined the lease term as the non-cancellable period of each lease, which includes the following strategic and business decisions: a) the periods covered by the lease extension option, if applicable; and, b) the periods covered by an option to end the lease before the end of the lease term if that was the decision of Management.

In accordance with the aforementioned, the terms estimated by the Company's management of the rights of use are as follows:

Type of asset	Estimated time in years
Electro submersible pumps	based on the estimated life per well
Offices	5
Parking lot	5
Vehicles	3

l) Inventories

Inventories are recorded as follows:

- Materials purchased at acquisition cost
- Inventories in transit are accounted for at the cost of the values incurred.

The cost of inventories and the materials and supplies consumed is determined by the weighted average method.

The cost of the inventory is compared to the Net Realization Value, which is determined based on the replacement price plus the estimated costs of completion, and the adjustment is recognized in the results for the period.

m) Provisions (Other than those explained in note 5-p)

i. Abandonment liability

The Company recognizes a liability by default when there is a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and thus a reliable estimate of the amount of the obligation can be made.

The obligation generally arises when the asset is installed or when the soil/ environment is disturbed at the field place. When the liability is initially recorded, the present value of the estimated costs is capitalized by increasing the carrying amount of the investment in production to the extent that they were incurred for the development/construction of the field.

The changes in the estimated timeframe or in the estimated costs of abandonment are treated prospectively by recording an adjustment to the provision, and the corresponding adjustment to property, plant and equipment.

Any reduction in the abandonment liability and therefore, any deduction from the assets to which they refer, shall not exceed the carrying amount of those assets. If it does, any excess over the carrying amount is recognized immediately to income.

Over time, the discounted liability is increased due to the change in the current value, depending on the discount rate that reflects current market assessments and the risks specific to the liability. The periodic unwinding of the discount should be recognized in profit or loss as a financial expense.

n) Income tax

The Company records the income tax on the basis of the net taxable income determined according to the rules established in the Internal Tax Regime Law and its Regulations. The income tax expense recognized in the income statement for the period includes the sum of deferred tax and current tax, which has not been recognized in other comprehensive income or directly in equity.

i. Current Income tax

The current income tax payable is calculated on the taxable income for the year. The taxable income differs from profit because it excludes items of income or expense that are taxable or deductible in other years or that will never be taxable or deductible. The Company's liability for current income tax is calculated using a tax rate approved at the end of the reporting period.

ii. Deferred Income tax

Deferred tax is calculated using the balance sheet method that identifies the temporary differences arising between the amounts recognized for financial reporting purposes and the amounts used for tax purposes. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction, affects neither the accounting profit nor taxable profit or tax loss.

Deferred tax is determined using tax rates (and laws) enacted or substantially enacted at the balance sheet date and are expected to apply when the related deferred tax asset is realized or when the deferred tax liability is settled. Deferred taxes are recognized as income or expense and included in the determination of net profit or loss for the period unless they have arisen from a transaction which is recognized directly in equity, in which case it is initially recorded as a charge or credit to equity.

Deferred tax assets are recognized only to the extent that future tax benefits are likely to be offset against: (a) temporary differences; and (b) unused tax losses or credits, but only to the extent that future taxable profit will be available, against which such unused tax losses or credits can be utilized.

The deferred tax assets and deferred tax liabilities are offset if, and only if, there is a legally recognized right to offset the current tax assets with current tax liabilities and when the deferred tax assets and deferred tax liabilities are derived from income tax corresponding to the same fiscal authority, which fall on the same taxable entity, or entities or taxable person, who intend to settle current tax assets and liabilities for their net value.

Deferred tax assets and liabilities are recognized in the financial statements as non-current assets and liabilities, regardless of their expected date of realization or settlement.

o) Employee benefits

Short-term employee benefits

The Company grants short-term benefits to its employees as part of its employee retention and compensation policies. They are measured on an undiscounted basis and recognized as expenses as the service is received.

Profit sharing

The Company recognizes profit sharing to be paid to employees, as a liability and expense which is calculated at a rate of 15% on taxable income, determined in accordance with Ecuador´s tax regulations for subsidiaries operating a contract for provision of services for exploration and exploitation of hydrocarbons.

The Hydrocarbons Law published in the Supplement to Official Gazette No 244 of July 27, 2010 determined that the workers involved in oil and gas activity will receive 3% of the profit share percentage and the remaining 12% will be paid to the Ecuadorian State for investment in the communities where the exploration and exploitation contract operates.

Social benefits bonus

The Company recognizes the expense for social benefits and its corresponding liability on the basis of the respective legal provisions in force in Ecuador. The benefits are the following:

- ***Thirteenth salary*. -** Or Christmas bonus, it is a benefit received by workers under an employment contract and corresponds to a remuneration equivalent to one twelfth of the remuneration they have received during the calendar year. Workers have the right to be paid by their employers on a monthly basis, proportionally to one-twelfth of the remuneration they receive during the calendar year.

- ***Fourteenth salary.* -** Or school bond, it is a benefit and received by all workers under an employment contract, regardless of their position or salary. Only workers and apprentices of artisans are excluded in accordance with article 115 of the Labor Code. It consists of a unified basic salary in force at the date of payment.

- ***Reserve fund.* -** Benefit for the worker who provides services for more than one year corresponding to a monthly salary for each full year after the first of his services.

- ***Employee contribution to the IESS. –*** It is the monthly value that the employer must pay for its workers affiliated to the IESS, which corresponds to 12.15% of monthly salary.

Staff bonuses

For its first-line Managers the Company contemplates an incentive plan for meeting objectives and individual contribution to results. The accounting record is made at the time when the existence of compensation is determined, and it is charged to results.

Vacation

The Company recognizes an expense and a liability for vacations in the period in which they are generated, in accordance with the Labor Code, according to which every employee should be entitled to an uninterrupted period of fifteen days of rest, including non-working days; And those who have rendered services for more than five years in the Company, shall be entitled to enjoy of an additional day of vacation for each one of the surplus years, or receive in money the remuneration corresponding to the excess days, however, the excess days shall not exceed fifteen.

Post-employment and termination benefits

The Company provides post-employment benefits through defined benefit plans established under the labor laws of Ecuador. The legal obligation for benefits remains with the Company.

The Company has the following defined benefit plans:

Eviction Bonus

In addition, the Labor Code also stipulates that in cases of termination of employment by eviction, the Company will bonus the worker with twenty-five percent of the equivalent to the last monthly remuneration for each of the years of service rendered to the same Company or employer. The same bonus will be paid in cases in which the employment relationship ends by agreement between the parties.

The eviction bonus recognized in the statement of financial position is the present value at the reporting date without consideration of the fair value of the assets of the plan, since the Company does not maintains assets related to the existing plan.

The Company's management estimates the obligations annually with the help of qualified independent actuaries in Ecuador for this purpose, which are based on standard inflation rates, staff turnover rates, the rate of growth of wages and the mortality. Discount factors are determined at the end of the year with reference to the rate of return for high-quality corporate bonds issued in US dollars, which refers to the currency and the term of the corporate bonds are consistent with the currency and the term estimated payment of the obligations for termination benefits maintained by the Company.

The effect of new measurements (including actuarial gains and losses) arising in the period are recognized in equity - other comprehensive income, and are not reclassified to profit or loss for the period. The effect of the current service cost for defined benefits is included in personnel costs, while the net financial expense in the defined benefit liability is included in the financial expenses.

Untimely dismissal

These are the employee benefits payable as a consequence of the Company's decision to terminate an employee's contract before the normal retirement date. In accordance with labor legislation, the termination benefit that the Company pays when it unilaterally terminates the employment relationship with an employee is the untimely dismissal. Since the contract that it maintains with the Ecuadorian State expires in 2032 as detailed in note 1, and that as of to date there is no change in said decision, the Company's Management considers that until 2032, date on which the contract with the State ends, it must have liquidated all the personnel who are still working on that date.

The Company recognizes termination benefits as a liability and as an expense when, and will only eliminate said liability when an employee voluntarily terminates the link that binds him with the Company.

As of December 31, 2019, the Company has determined the amount of this liability based on the study carried out by an independent actuary.

Other benefits

As of December 31, 2019, due to the term of the contract signed with the State for the exploration and exploitation of oil, the Company has determined that none of its workers will comply with the number of years of work determined by law to obtain the benefit of employer retirement, for which it has not recognized this liability.

p) Contingent liabilities and contingent assets

Provisions are recognized when there are present obligations as a result of a past event and are likely to lead to an outflow of economic resources by the Company and the amounts can be estimated with some reliability, and the time or amount of that outflow may still be uncertain. No provisions are recognized for future operating losses.

Provisions are measured based on the estimated expense required to settle the present obligation, in light of the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. In cases where there is a similar number of obligations, the possibility that an outflow is required for settlement is determined by the consideration of that kind of obligation as a whole. Provisions are discounted to their present values, in cases where the value in time of money is material.

Any reimbursement that the Company considers to be receivable from a third party in respect of an obligation is recognized as a separate asset. However, this asset can not exceed the amount of the relative provision.

No liability is recognized in cases where a possible outflow of economic resources as a result of a present obligation is considered unlikely. These situations are disclosed as contingent liabilities unless the outflow of resources is remote.

The possible entry of economic benefits to the Company that does not yet meet the asset recognition criteria is considered a contingent asset.

q) Share capital, reserves and distribution of dividends

The statement of changes in equity includes: share capital, legal and optional reserves, other comprehensive income and accumulated results.

The capital stock constitutes the contributions of the shareholders and is represented in common, registered and outstanding shares.

The other components of the shareholders' equity include the following:

Other accumulated comprehensive income:

Actuarial gains (losses) on remeasurement of the defined benefit liability:

That includes actuarial gains and/or losses due to changes in the demographic and financial assumptions of the defined benefits.

Accumulated results

They include all current and prior periods profit.

Legal reserve

In accordance with the Companies Law on annual profits, an amount of not less than 10% must be transferred to form the legal reserve until it reaches at least 50% of the share capital. Said reserve is not available for the payment of cash dividends, and may be fully capitalized or used to absorb losses.

Accumulated results

In accordance with the Companies Law, annual liquid profits must allocate at least fifty percent for dividends in favor of shareholders, unless otherwise unanimously decided by the general meeting. In accordance with the current legislation, the Companies must consider that all the remainder of the liquid and realized profits that are obtained in the financial years, and that have not been distributed or destined to the constitution of legal and optional reserves, must be capitalized.

r) Earnings per share

The comprehensive income per common share is calculated considering the weighted average number of shares outstanding during the year. The average number of shares outstanding in 2019 and 2018 is detailed in note 27.

s) Statement of Cash Flow

For purposes of preparing the cash flow statement, the Company has defined the following:

Cash and banks: Cash and banks is made up of the available cash and cash deposits held in banks. Assets recorded in cash and banks are recorded at their historical cost.

In the statement of financial position, bank overdrafts are classified as external resources in current liabilities.

For purposes of the cash flow statement, cash and banks is presented by the Company net of bank overdrafts, if any.

Operating activities: are the activities that constitute the main source of revenue of the Company, as well as other activities that can not be classified as investing or financing activities.

Investing activities: correspond to acquisition, sale or other disposal activities of of non-current assets and other investments not included in cash and its equivalents.

Financing activities: activities that produce changes in the size and composition of equity and financial liabilities.

t) Classification of balances as current non-current

In the statement of financial position, balances are classified as current and non-current.

The Company classified and presented an asset as current when it met any of the following criteria:

i) Its consumption is expected to occur during the normal operating cycle of the Company;
ii) it is primarily held for trading purposes;
iii) it is expected to be realized within twelve months after the balance sheet date; or
iv) it is cash or a cash equivalent (as defined in IAS 7), whose use was not restricted from being exchanged or used to settle a liability, at least within twelve months after the balance sheet date.

All other assets are classified as non-current.

Additionally, liabilities were classified and presented as current when they met any of the following criteria:

i) they are expected to be settled in the normal operating cycle of the Company;
ii) they are basically held for trading
iii) they should be settled within twelve months after the balance sheet date; or
iv) the Company did not have an unconditional right to defer the settlement of the liability for at least twelve months after the date of the financial statements.

All other liabilities were classified as non-current.

According to the provisions of IAS 1, the normal operating cycle of an entity is the period of time between the acquisition of the tangible assets entering the production process, and the realization of products in the form of cash or cash equivalents. In the case of the Company it has been considered an operating cycle of 12 months.

u) Income Statement

The income statement for the period was prepared presenting all items of income and expenses in a single statement.

Operating income of other income for the period is presented separately. Expense items have been exposed according to their function.

6. Financial instruments risk

a) Risk management objectives and policies

The Company is exposed to various risks related to financial instruments. The Company's financial assets and liabilities by category are summarized in note 7. The main types of risks are market risk, credit risk and liquidity risk.

The Company's Risk Management is coordinated with Senior Management and the Board of Directors, and actively focuses on ensuring the Company's cash flows in the short and medium term by minimizing exposure to financial markets. Investments are managed to generate necessary returns.

The Company is not actively involved in trading financial assets for speculative purposes and does not write options. The most significant financial risks to which the Company is exposed are described below.

b) Market risk analysis

The Company is exposed to market risk through the use of financial instruments and specifically to interest rate risk and oil price risk, which are the result of its operating and investment activities.

Price sensitivity

The Company is exposed to price risk considering that there are variations in the oil prices that it receives as payment for the service provided for the exploration and exploitation of hydrocarbons with the Ecuadorian State, however, since the end of 2014 and during 2015 the prices worldwide decreased significantly under pressure from excess supply and have begun to increase despite the fact that in 2018 and 2019 prices have stabilized, this risk in the sale price of crude oil is mitigated because the value it obtains for the sale is the same as the amount of income paid by the Ecuadorian State.

In terms of supplies and inputs, as part of the internal policies and procedures for suppliers' selection, Management maintains permanent price negotiations with its suppliers of goods and services, in order to have the best alternatives.

Interest rate risk

The financing structure of the Company is supported from previous years, mainly through the financing with financial institutions and through a process of issuance of obligations since 2016. The Company is exposed to interest rate risks in relation to the issuance of obligations.

The average interest rate on the obligations during the year 2019 was 7.90% annually (7.95% annual average in the year 2018).

Due to the fact that as detailed in note 21, the obligations were canceled in April 2019, currently, the Management supports its financing structure on obligations with related parties to guarantee the necessary flows to meet the agreed payments for their obligations.

c) Credit risk analysis

The Company is entitled to the payment of a fixed fee for the provision of its services for the exploration and exploitation of hydrocarbons in Block 54. Because the Secretary of Hydrocarbons (now the Ministry of Energy and Non-Renewable Resources) makes the payment to the Company with the Available Income, in the event that said Available Income was not sufficient to cover the payment of the Fee, the monthly outstanding balance would accumulate during the pertinent fiscal month or year until the Available Income is sufficient, in which case the Ministry must make the payment. Any accumulated difference, caused by insufficient Available Income, which has not been paid by the Ministry of Energy and Non-Renewable Resources, would be extinguished at the end of the Contract, generating a risk of non-payment for the services rendered that would affect the economic situation of the company. However, the initial application of IFRS 15 led Management to review its criteria for managing its credit risk, concluding that the question of "Available income" affects the estimation of variable consideration, but not the credit quality of the contractual counterparty. Therefore, the credit risk management focuses on the evaluation of the State's ability to pay the firm amounts to which the Company is entitled.

From the foregoing, it follows that the Company's financial instruments are exposed to the concentration of credit risk mainly in trade accounts receivable. Said accounts are mainly made up of the balances receivable from the Hydrocarbons Secretariat (now the Ministry of Energy and Non-Renewable Resources) for the service fee paid based on available income. The Company is exposed to credit risk to the extent that such amounts are uncollectible, which is directly affected by the price of crude oil in the international market.

The Company's maximum credit risk exposure is limited to a recorded amount of the financial assets recognized at the reporting date, as summarized below:

	2019	2018
Cash on hands and banks (note 13)	4.814.510	40.261.047
Trade receivables and other receivables, net (note 14)	13.519.429	19.345.290
Other receivables non current	37.335	37.335

Cash on hand and banks

The credit risk for cash and banks is considered not significant, since the counterparties where its funds are kept are local and foreign reputable financial institutions with high ratings from independent rating companies, as follows:

	2019	2018
Banco del Pichincha C.A. (1)	AAA-	AAA-
Banco de la Producción S.A. Produbanco (1)	AAA-	AAA-
Banco Central del Ecuador (2)	AAA	AAA

(1) Risk Rating issued by Watch Bank Rating S.A. y Pacific Credit Rating S. A.
(2) Es el banco central del Estado Ecuatoriano

Trade accounts receivable

The Company continuously monitors breaches and delays in collections from the Hydrocarbons Secretariat (now the Ministry of Energy and Non-Renewable Resources) and others as related Companies, identified either individually or by group, and incorporates this information into its control of credit risk. Ongoing credit risk is managed through the periodic review of the seniority analysis of the State as the main client.

The trade accounts receivable are basically made up of the account receivable from the Hydrocarbons Secretariat (now the Ministry of Energy and Non-Renewable Resources).

The Company applies the simplified model of IFRS 9 for the recognition of expected credit losses during the life of trade accounts receivable (those from IFRS 15), since these items do not have a significant financing component.

When measuring expected credit losses, trade accounts receivable have been evaluated on a collective basis as they have similar credit risk characteristics. Expected loss rates are based on the payment profile of the services during the last 12 months prior to December 31, 2019 and January 1, 2019, as well as the corresponding historical credit losses during that period. Historical data does not generate risk data since, given the short period exposed to credit risk, the impact of macroeconomic factors has not been considered significant within the reported period, since the registered balance receivable is equivalent only to disposable income.

Trade credits are written off when there is no reasonable expectation of recovery. The lack of payment from the first day from the invoice due date and the lack of commitment with the Company regarding alternative payment agreements, among others, are considered indicators of an unreasonable expectation of recovery, which have not been evidenced.

Based on the foregoing, the expected credit loss for trade accounts receivable as of December 31, 2019 and December 31, 2018 were determined as low risk, therefore, it considers that it is not exposed to any significant credit risk problem, since it has estimated that all balances are recoverable, therefore the only effect is the cost of money over time due to the delay in receiving the payments, which is immaterial since everything is in the short term.

Other accounts receivable

Other financial assets at amortized cost include: accounts receivable from the Internal Revenue Service for tax claims and accounts receivable from employees.

The provision for impairment of other accounts receivable has been made through the evaluation of the general method based on an individual evaluation of each debtor.

d) Liquidity Risk Analysis

The liquidity risk is the risk that the Company may be unable to meet its obligations.

The Company's Management tracks its cash needs and availability on the basis of budgets approved by management with respect to the amount of funds necessary to fulfill its exploration and production activities, production costs and expenses, and debt payments to shareholders. Such budgets are typically confirmed with shareholders to assess the need for additional funds, if necessary, in order to meet their obligations. If necessary, the Company's shareholders must allocate additional funds and adjust the amount of debt payable within each year to overcome an eventual shortage of projected operating cash.

The Company considers the expected cash flows of financial assets when evaluating and managing liquidity risk, in particular its cash resources and accounts receivable. The Company's resources held in cash or in bank deposits, as well as trade accounts receivable (see note 14) significantly exceed the current cash flow requirements. Cash flows from customers and other accounts receivable, mostly expire in 180 days.

As of December 31, 2019 and 2018, the Company's non-derivative financial liabilities such as trade accounts payable and other accounts payable (note 22) have maturities of less than one year, that is, in the short term.

e) Operational Risk Analysis

The operational risk includes the possibility of incurring losses due to deficiencies or failures or inadequacies of the following aspects or risk factors:

- Processes, which are actions that interact for hydroelectric generation.
- Technology, which is the set of hardware, software and communications that support the processes of the Company.
- Infrastructure, which are elements of support for the implementation of activities.

The Company has procedures defined to effectively manage its operating risk in accordance with the guidelines of the control bodies, based on internal and external reporting systems.

f) Legal, political and social risk

To the extent that changes in legal matters arise, that is, in the hydrocarbon, tax, corporate labor, environmental legislation, among others, such changes could produce a variety of effects not foreseen in the Contracts at the time of their subscription. Likewise, changes in political structures and government decisions could carry risks of economic significance in the event that the original will of the Parties to the Contracts is not honored. Finally, in the social sphere, the particular expectations of communities settled in the areas where the Company operates (Blocks 54 - Amazon Region) and the border limits with Colombia that are not related to the purpose of the operation and common interest and that hinder the normal execution of the activities by the Company could result in economic losses in the execution of the Contracts.

7. Fair value measurements

Financial instruments by category

A breakdown of the financial instruments by category is as follows:

As of December 31, 2019	At fair value with change in results	Amortized cost	Total
Assets according to statement of financial position:			
Short term:			
Cash on hands and banks	4.814.510		4.814.510
Trade receivables and other receivables, net		13.519.429	13.519.429
	4.814.510	13.519.429	18.333.939
Long term:			
Other receivables non current		37.335	37.335
Total	**4.814.510**	**13.556.764**	**18.371.274**

As of December 31, 2019	Other financial liabilities	Total
Liabilities according to statement of financial position:		
Short term:		
Trade payables and other payables	7.032.801	7.038.801
Long term:		
Other payables non-currents	1.650.654	1.650.654
Total	**8.683.455**	**8.683.455**

As of December 31, 2018	At fair value with change in results	Amortized cost	Total
Assets according to statement of financial position:			
Short term:			
Cash on hands and banks	40.261.047		40.261.047
Trade receivables and other receivables, net		19.345.290	19.345.290
	40.261.047	19.345.290	59.606.337
Long term:			
Other receivables non current		37.335	37.335
Total	**40.261.047**	**19.382.625**	**59.643.672**

Liabilities according to statement of financial position:	Other financial liabilities	Total
Short term:		
Trade payables and other payables	11.819.061	11.819.061
Other payables non-currents	2.078.617	2.078.617
Bond issue	16.835.069	16.835.069
	30.732.747	30.732.747
Trade payables and other payables	1.501.578	1.501.578
Total	**32.234.325**	**32.234.325**

Measurement of financial instruments at fair value

The Company measures its financial instruments at fair value at each reporting date the statement of financial position is generated for its disclosure in notes.

The fair value is the price that would be received when selling an asset, or paid to transfer a liability in an agreed transaction between market participants on the measurement date.

The fair value of an asset or liability is measured using the assumptions that market participants would use to set a value to the asset or liability, assuming that market participants act in their best economic interest. The Company uses valuation techniques that are appropriate to the circumstances and for which it has sufficient information available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable data.

All assets and liabilities for which fair values are determined or disclosed in the financial statements are classified within the fair value hierarchy described below, based on the lowest level of the used data that is meaningful for measuring the fair value as a whole:

a) Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
b) Level 2 - Items other than the quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
c) Level 3 - Items not observable for the asset or liability.

For fair value disclosure purposes, the Company has determined types of assets and liabilities based on their nature, characteristics and risks and the level of the fair value hierarchy as explained above.

In the years ended December 31, 2019 and 2018, no transfers have been made between Level 1 and Level 2.

8. Error correction

The Company's management determined that there was an error in the financial statements of previous years that had to be corrected for their proper presentation, a situation that will be submitted for approval at the shareholders' meeting that will approve the financial statements for the year 2019. The adjustments that generated the restatement of the previous financial statements were the following:

- Recognition of the provision for untimely dismissal where the portion of previous years was recorded against accumulated results.
- Adjustment of the amortization of the investments maintained as exploration which was enhanced based on the production units.
- Recognition of the provision for removal of assets, affecting assets and liabilities.

Based on the aforementioned, the Company reestablished the financial statements for 2018 as a comparative year and the beginning of the same period, this is as of January 1, 2018, in order to recognize the aforementioned effects; Below there is a summary of the adjustments:

ORIONOIL ER S.A.

	December 31, 2018 previously informed	Error correction settings	December 31, 2018 restructured	January 1, 2018 previously informed	Error correction settings	January 1, 2018 restructured
Assets						
Current						
Total current assets	**60.044.058**	**-**	**60.044.058**	**61.150.187**	**-**	**61.150.187**
Non current						
Exploration investments	880.186	(880.186)	-	1.940.475	(1.940.475)	-
Production and development investments, net	56.336.452	1.490.869	57.827.321	52.199.121	1.671.695	53.870.816
Other property and equipment, net	130.549		130.549	149.607		149.607
Intangible assets	127.265		127.265	125.905		125.905
Deferred tax assets	194.827		194.827	184.390		184.390
Right of use assets	-		-	-		-
Other receivables non current	37.335		37.335	2.467		2.467
Total non current	**57.706.614**	**610.683**	**58.317.297**	**54.601.965**	**(268.780)**	**54.333.185**
Total assets	**117.750.672**	**610.683**	**118.361.355**	**115.752.152**	**(268.780)**	**115.483.372**

ORIONOIL ER S.A.

	December 31, 2018 previously informed	Error correction settings	December 31, 2018 restructured	January 1, 2018 previously informed	Error correction settings	January 1, 2018 restructured
Liabilities						
Current						
Obligations with short-term financial institutions	2.078.617		2.078.617	2.060.067		2.060.067
Debt Securities Issued	16.835.069		16.835.069	7.192.437		7.192.437
Trade payables and other payables	13.273.532	(1.454.471)	11.819.061	13.729.908		13.729.908
Current tax liabilities	7.210.061	1.454.471	8.664.532	2.329.268	6.819.045	9.148.313
Short-term employee benefits	55.393		55.393	50.591		50.591
Total current liabilities	**39.452.672**	**-**	**39.452.672**	**25.362.271**	**6.819.045**	**32.181.316**
Non current						
Other payables non-currents	539.602	961.976	1.501.578	25.705.445	772.920	26.478.365
Deferred tax liabilities	-		-	6.819.045	(6.819.045)	-
Obligations for termination benefits	63.538	304.043	367.581	120.415	215.978	336.393
Total non current liabilities	**603.140**	**1.266.019**	**1.869.159**	**32.644.905**	**(5.830.147)**	**26.814.758**
Equity						
Share capital	9.234.435		9.234.435	9.234.435		9.234.435
Reserves	4.617.218		4.617.218	-		-
Accumulated results	63.860.052	(625.323)	63.234.729	48.521.240	(1.257.678)	47.263.562
Other comprehensive result	(16.845)	(30.013)	(46.858)	(10.699)		(10.699)
Total equity	**77.694.860**	**(655.336)**	**77.039.524**	**57.744.976**	**(1.257.678)**	**56.487.298**
Total liabilities and equity	**117.750.672**	**610.683**	**118.361.355**	**115.752.152**	**(268.780)**	**115.483.372**

	December 31, 2018 previously informed	Error correction settings	December 31, 2018 restructured
Income from ordinary activities	74.637.345	(5.764.791)	68.872.554
Production cost	(23.825.152)	753.722	(23.071.430)
Administrative Expenses	(11.599.339)	(229.618)	(11.828.957)
Financial Expenses	(2.532.594)		(2.532.594)
Other expenses	(108.251)	108.251	0
Other income	307.148	5.764.791	6.071.939
Profit before tax	**36.879.157**	**632.355**	**37.511.512**
Income tax	(10.722.769)		(10.722.769)
Net result for the year	**26.156.388**	**632.355**	**26.788.743**

9. Income from ordinary activities

Information on customer contracts

a) Description of contracts

Once the transfer of rights was approved by the competent hydrocarbon authorities, on August 26, 2014 the Company signed the amending Contract number one to the contract for the provision of services for the exploration and exploitation of hydrocarbons in the Eno-Ron Block of the Amazon region, with the Secretary of Hydrocarbons (Ecuadorian State). Said contract was registered on August 29, 2014 in the Hydrocarbon Registry of the Ministry of Non-Renewable Natural Resources, and through this the Company undertakes to provide exploration and exploitation services to the State, investing its own economic, technological and human resources, in exchange for the payment of a fixed fee.

This contract is guaranteed by a solidarity guarantee issued by the Headquarters Orion Energy ER S. L.

The main aspects of the Contract are the following:

i. The duration of the contract is 20 years from the date of initial registration, which was May 29, 2012.

ii. Investment commitment during the years 2012 to 2032 in development and additional exploration activities for a total of US $ 46,537,000 in the Eno - Ron Block.

iii. Service rate of US $ 36.60 and US $ 38.42 per barrel produced and delivered at the inspection point (Eno) for the years 2019 and 2018, respectively.

The fee includes the amortization estimate of historical and future investments, the estimate of operating costs (OPEX) and a reasonable rate of return (profit).

This fee can be paid in cash or in kind (crude oil) and its recovery is based on "disposable income", which is calculated using the following formula:

(IB)	Gross income	Production delivered as inspection product by monthly average price of the contract area
(MS)	Sovereignty margin	25%
(CI)	Transportation costs	US$ 0,71
(CC)	Marketing costs	US$ 0,10
(IE)	ECORAE taxes	US$ 1,05
(ID)	Disposable income	IB-MS-CI-CC-IE

In the event that the available income is lower than the rate, the outstanding balance is accumulated in the rate until the available income is sufficient to cover this difference. The balance pending for the difference will expire on the termination date of the Contract.

The rate can be adjusted for inflation or for a correction factor; as well as for the breach of the investment activities committed, which will imply the re-settlement of the payment to the Company of the amounts equivalent to the corresponding estimated investments for the activities not executed.

The Company's Management considers that it has fulfilled all its commitments with respect to the Contract for the provision of services signed with the Government.

iv. The value added tax (VAT) will be entitled to tax credit and will be offset by the VAT on the charged service fee to the Secretariat of Hydrocarbons (now Ministry of Energy and Non-Renewable Natural Resources).

v. A correction factor will be applied to counteract the economic imbalance when any of the following events occur:

a) Changes in the rates of taxes, creation of new taxes, elimination of taxes
b) Changes in laws related to the calculation of the tax base for income tax calculation.
c) Changes in the rate of workers' participation.
d) Changes in the tax credit for VAT.
e) Changes in the hydrocarbons law
f) Changes in the environmental legislation.
g) The imposition, removal or modification of taxes, royalties, entry bonus, surperficiary rights, payment of compensation and / or any other levies, non-tax contributions or participations.
h) Reduction of the maximum production rate.
i) Changes in the monetary regime (US dollars).

vi. The Company is responsible for all environmental/social liabilities in accordance with applicable laws and the Constitution.

vii. The Company presented the final 3D Geophysical Prospecting report for the Eno - Ron Block, in compliance with the "Environmental Management Plan" with 99% compliance and terminating with this the exploration phase of the block.

viii. The Company began the scope of the environmental impact study and environmental management plan for the development and production phase, installation of flow lines and communication antennas, continuing with the development phase of Block 54.

The service provision contract establishes that the Ecuadorian State and the Public Hydrocarbons Company of Ecuador - EP Petroecuador will not assume the exploration and exploitation risks and that all the hydrocarbons that are found will be the property of the Ecuadorian State.

At the end of the exploitation period, the Company must deliver to EP Petroecuador, without cost and in good condition, the wells that were in operation at that time, considering natural wear and tear, as well as all the equipment, tools, machinery, facilities and other furniture and property that had been acquired for the purposes of the contract.

The Company had to carry out a socio-environmental audit within the first year of the Contract. Here is a summary of the status:

Subject	Status as of December 31, 2019	Observations
Auditoria de Cambio de Operador B54	In review of the MAE of the Response to AACO Observations sent by Orion Energy with official notice OE-ER-2018-365 of Nov 7, 201	In review of the MAE of the Environmental Audit
First year of operation audit B54 (2014-2015)	In review of the MAE of the Environmental Audit sent by Orion Energy with official notice OE-ER-2017-189 of May 24, 2017.	In review of the MAE of the Environmental Audit
Conjunction Audit B54 (2015 - 2017) and (2017 and 2019)	In review of the MAE of Terms of Reference of the Environmental Audit sent by Orion Energy with notice OE-ER-2019-452 of October 15, 2019 *Note: Terms of reference Audit Period 2015-2017 not approved, last communication: OE-ER-2018-413 of December 17, 2018 (Response to TDRS Observations)..*	In review of the MAE of the Audit Terms of Reference

The production of Block 54 is transported through the TransEcuadorian Pipeline System (SOTE).

b) Disaggregation of revenue from ordinary activities

Below, we present the breakdown of revenues from ordinary activities of the Company as of December 31, 2019 and 2018:

	2019	2018
Oil exploration and exploitation services revenue (1)	50.036.781	68.872.554

(1) A detail of the composition of revenues from oil exploration and exploitation services, as well as a composition of their amount, is as follows:

	2019	2018
Barrels produced	1.361.545	1.779.299
Adjusted rate in US $ dollars	36,75	36,38
Adjusted rate in US $ dollars (compensation for self-generation of energy)	-	2,53
Income from service fee according to contract	**50.036.781**	**68.872.554**

c) Contract balances

Following there is some relevant information about the contract balances for the year ended December 31, 2019 and 2018:

Contract assets (note 14)	2019	2018
Balance at the beginning of the year	12.210.881	29.340.571
Recovery (1)	(7.841.032)	(17.129.690)
Adding accumulation	60.800	-
Balance at the end of the year	**4.430.649**	**12.210.881**

i. Corresponds to compensations made by the State, or duties payable to the State for services rendered that reverse the amount of the asset of the contract.

d) Price of the transaction assigned to outstanding performance obligations

The price of the oil exploration and exploitation service is established through the tariff set in the service contract adjusted by the production of the fields in the period measured in barrels and by the adjustment factor for the inflation of operating costs.

For this, the Company has proven oil reserves, which are the estimated amounts of crude oil that the geological and engineering data demonstrate with reasonable certainty could be recovered in future years in known fields under the existing economic and operating conditions (for example, costs from the date the estimate is made). Proved developed reserves are reserves that are expected to be recovered through existing wells with existing equipment and operating methods. The economic parameters used for the specialist evaluation include the price of the product, operating expenses, and capital costs. The crude oil production of Block 54 of 27.54 ° API, is transported by SOTE and its exploitation is carried out in accordance with the Contract for the provision of services for the exploration and exploitation of hydrocarbons.

For the estimation of the developed proved reserves, Management used the certification made by an independent specialist. The reserves for 2019 and 2018 were as follows:

	Proven reserves developed (Bbl)	
	2019	**2018**
Block 54	328.000	418.000

10. Production costs

Production costs for the years ended December 31, 2019 and 2018, were formed as follows:

	2019	2018
Amortization of investments (nota 18)	11.046.983	12.434.357
Well reconditioning	1.901.879	3.916.870
Maintenance and spare parts and general materials	1.622.793	1.856.793
Fuel and lubricants	1.187.427	2.198.721
Remuneration and social benefits	1.107.328	948.088
Catering service	288.046	389.612
Cost environment safety and RRCC	251.871	246.574
Surveillance service	264.741	260.939
Chemical treatment cost	233.636	257.555
Ground and air transportation	104.491	217.679
Equipment leasing for facilities	218.429	173.223
Water treatment cost	195.486	115.693
Amortization lease (note 19)	166.266	-
ARO-abandonment expenses (note 18)	106.931	100.557
Other minor expenses	26.467	42.453
Depreciations	13.480	12.673
Technical assistance	-	200
Total	**18.736.254**	**23.171.987**

11. Administrative expenses

Administrative expenses for the years ended December 31, 2019 and 2018, were formed as follows:

	2019	2018
Employee participation (note 22)	4.138.300	6.734.124
Remuneration and social benefits	989.906	882.375
Taxes rates and others	913.992	1.088.708
Professional services	523.046	509.097
Office supplies	394.017	1.656.233
Contribution unique (note 24- b)	402.721	-
Insurance	325.966	383.385
Travel, accommodation and management expenses	169.343	198.331
Eviction - Dismissal (note 25)	104.153	64.950
Amortization lease (note 19)	38.510	-
Currency Exit Tax	27.210	19.163
Depreciations	25.610	34.273
Intangible amortization	22.924	18.696
Other minors	15.320	58.243
Surveillance service	6.035	388
Total	**8.097.053**	**11.647.966**

12. Other expenses

Other expenses in 2019 correspond to the plugging of the Ron 6 well, which was approved on May 10, 2019 by resolution No. MERNNR-SEEPGN-2019-0498-RM issued by the Ministry of Energy and non-renewable Natural Resources in the amount of US $ 814.853.

13. Cash on hand and banks

The composition of cash on hand and banks as of December 31, 2019 and 2018, was as follows:

	2019	2018
Cash on hand	1.100	900
Local Financial Institutions:		
Banco de la Producción S.A. Produbanco	4.206.041	40.203.685
Banco del Pichincha C.A.	599.491	42.589
Banco Central del Ecuador	7.877	13.873
Total	**4.814.510**	**40.261.047**

As of December 31, 2019 and 2018, cash on hand and banks have no restrictions on their use.

14. Accounts receivable and other accounts receivable, net

The composition of trade accounts receivable and other accounts receivable - net, as of December 31, 2019 and 2018, was as follows:

	2019	2018
Trade accounts receivable:		
Hydrocarbons Secretariat / Ministry of Energy and Non-Renewable Resources (1)	8.279.680	7.791.541
Contract asset (note 9-c)	4.430.649	12.210.881
Bad debt provision (2)	-	(993.931)
	12.710.329	19.008.491
Other accounts receivable:		
Taxes to recover (3)	638.350	237.902
Loans to employees	93.104	71.002
Related (note 15)	54.171	-
Other accounts receivable	23.475	27.895
	809.100	336.799
Total	**13.519.429**	**19.345.290**

(1) Corresponds to the account receivable for the service fee related to crude oil production in Block 54.
(2) Provision for bad debts that in 2019 was reversed with a charge to other income.

(3) The Company maintains receivables from the Internal Revenue Service - SRI and according to the criteria of the administration and its advisers, said tax credit will be fully recovered.

As of December 31, 2019 and 2018, the fair value of the accounts receivable is substantially close to the book value due to the fact that the financing operations include interests determined at an effective annual rate.

15. Balances and Transactions with Related Parties

The Company carries out operations and transactions with related parties, which are carried out under the same conditions as those carried out with third parties, which are part of the Company's normal operation regarding its object and conditions. A summary of the balances of the transactions held with related parties as of December 31, 2019 and 2018 were as follows:

	2019	2018
Accounts receivable and other accounts receivable - other accounts receivable (note 14):		
Orion Energy OcanoPB S.A.	54.171	-
Accounts payable and other accounts payable - other long-term accounts payable (note 22):		
Trayectoria Oil & Gas (1)	111.908	345.642

(1) Corresponds to the account receivable generated in the assignment of rights and obligations of the service provision contract carried out during 2014, which originally had a payment agreement with the Consortium shareholders, which is classified as long-term due Although there is no established deadline, the Company's management does not foresee any payment on this value during the year 2020 for this concept.

The following are the amounts of the operations carried out with related parties during the years ended December 31, 2019 and 2018, including those operations for which balances pending collection and / or payment are not maintained during said periods:

	2019	2018
Dividends Paid:		
Orion Energy ER S.L.	32.499.997	5.439.999
Orion Energy OcanoPB S.A.	3	1
Total	**32.500.000**	**5.440.000**
Expenses:		
Altima Partners LLP	257.760	224.801
Orion Energy OcanoPB S.A.	5.506	1.763
Total	**263.266**	**226.564**

Transactions with the Key Personnel of the Company's Key Management

The key Management of the Company is made up of the General Manager and the Planning and Control Management.

During the year ended December 31, 2019 and 2018, the Company has generated salary expenses and other expenses with key personnel for US$284,743 and US$287,144, respectively. As well as a reimbursement of expenses for the year 2019 by US$1.098

16. Inventory

A summary of the inventory as of December 31, 2019 and 2018, was as follows:

	2019	2018
Materials and spare parts:		
Supplies and materials	133.697	91.502
Pipeline	90.714	88.046
Fuel	34.286	61.347
Total	**258.697**	**240.895**

As of December 31, 2019, the Company's inventories have not required an obsolescence provision due to the policy detailed in note 5 (l).

17. Current tax assets

As of December 31, 2019, current tax assets include the tax credit for Value Added Tax (VAT) of US $ 830,063 (US $ 196,826 in 2018).

18. Exploration investments and Production and development investments, net ("operating rights")

a) Investments in production and development, net

As of December 31, 2019 and 2018, the movements in production investments and their amortization were as follows:

	Block 54	ARO (1)	Total
Balances as of January 1, 2018 previously presented	**54.139.596**		**54.139.596**
Error correction (Exploration Investments) (note 8)	(681.680)	412.900	(268.780)
Balances as of January 1, 2018, restructured	**53.457.916**	**412.900**	**53.870.216**
Additions of the year	16.265.121	226.299	16.491.420
Amortization of the year	(12.434.357)	(100.558)	(12.534.915)
Balance as of December 31, 2018, restructured	**57.288.680**	**538.641**	**57.827.321**
Additions of the year (2)	9.426.883	287.215	9.714.098
Amortization of the year (3)	(11.046.983)	(106.931)	(11.153.914)
Balance as of December 31, 2019	**55.668.580**	**718.925**	**56.387.505**

(1) The field abandonment costs are activated at discounted values, along with the assets that gave rise to them, and are depreciated using the unit of production method. As a counterpart, a liability is recognized for this concept at the same estimated value of the discounted amounts payable (see note 23).

(2) Correspond mainly to the drilling of the Ron 6 well for US $ 4,266,997 and the completion of a secondary Ron 6Re (re entry) well for US $ 2,255,600.

(3) The amortization expenses for the years ended December 31, 2019 and 2018 have been recorded as part of the production costs (see note 10) within the comprehensive income statements.

b) Assesment of impairment of assets

Assets that are subject to amortization are tested for impairment whenever any change or event suggest that the book value thereof can not be recovered. An asset impairment loss is recognized by the carrying amount that exceeds their recoverable value. The recoverable amount is the fair value of an asset less costs of sale or use.

As of December 31, 2019 and 2018 it has not been determined an impairment loss of assets for the Tarapoa Block.

Disposable income

With regard to actual oil prices in the market, as of the date of the assets impairment analysis, these prices were significantly lower than the minimum reference price used to determine the disposable income.

The projected cash flow from new contracts with the Ecuadorian State, represented by the Secretariat of Hydrocarbons (now Ministry of Energy and Non-Renewable Natural Resources) considered an available future income according to a minimum reference price, as detailed below:

Rate calculation according to WTI price in the years ended December 31, 2019 and 2018:

	Block 54	
	2019	**2018**
WTI minimum price	**63,81**	**62,12**
Differential	(3,67)	
Minimum reference price (Napo)	**60,14**	**62,12**
Quality Adjustment	4,97	5,33
Price per block	**65,11**	**67,45**
25% margin of sovereignty	(16,28)	(16,86)
Shipping Cost	(2,15)	(1,24)
Law 10	(2,00)	(1,00)
Selling costs	(0,20)	(0,06)
Disposable income	**44,48**	**48,29**
Rate	**36,60**	**38,42**
Difference	**7,88**	**9,87**

In addition to the assumptions set forth above with respect to the minimum reference prices that allow the recovery of the net carrying value of investments in production, the recovery also depends on the volume of proved developed reserves.

For the estimation of proved developed reserves management used a certification performed by an independent specialist.

19. Right of use assets, net

A detail of the assets by right of use, net as of and for the year 2019, was as follows:

	IFRS 16 / Jan-2019 Adoption	Amortization (note 11)	Balances as of Dec 31, 2019
Right-of-use assets:			
Electro-submersible pumps	328.291		328.291
Vehicles	251.885		251.885
Offices	163.825		163.825
Parking lot	19.602		19.602
	763.603	**-**	**763.603**
Less - Accumulated amortization	-	(204.776)	(204.776)
Total	**-**	**(204.776)**	**558.827**

The charge to costs and expenses for amortization for the rights of use of the lease agreements was US $ 166,266 and US $ 38,510 respectively in 2019.

The movement of the lease liability in 2019 was as follows:

	Total
Initial application of IFRS 16	763.603
Finance lease expense	44.749
Lease payments	(231.786)
Balance as of December 31, 2019	**576.566**

As of December 31, 2019, the long-term obligation for the lease liability amounts to US$379.673, while the current portion of the liability amounts to US$196.893.

20. Obligations with financial institutions

In 2019, the Company canceled its obligations as of December 2018, the same as detailed below:

2018				
Entity	**No. of operation**	**Interest rate**	**Expiration**	**Capital**
Short term:				
Banco de la Producción S.A. PRODUBANCO	CAR10100455135001	7,95%	02-01-2019	2.000.000
Accrued interest payable				78.617
Total obligations with financial institutions				**2.078.617**

These obligations were guaranteed by a Bond granted by Orion Energy PTE in favor of Banco de la Producción S.A. Produbanco (Beneficiary) to cover obligations with Orion Energy OcanoPB S.A. and OrionOil ER S.A. for a maximum amount of US$7,000,000, which expired when all the debtors' obligations have been settled.

21. Issuance of obligations

In the months of: February, March and April of the year 2019, the Company canceled the obligations issued as of December 31, 2018.

The interest accrued in 2019 was US $ 172,914 (US $ 1,098,257 in 2018)

The detail of the obligations as of December 2018 is presented below:

ORIONOIL ER S.A.

				2018				
Serie	**Date of issue**	**Due date**	**Term**	**Approved issue amount**	**Cash value**	**Placement value**	**Accrued value**	**Total**
Serie A-B	03-04-2018	28-03-2019	359	41.000	40.906	40.906	1.684	42.590
Serie A-B	05-04-2018	30-03-2019	359	9.000	8.979	8.979	502	9.481
Serie A-B	09-04-2018	03-04-2019	359	20.000	19.954	19.954	1.359	21.313
Serie A-B	09-04-2018	03-04-2019	359	20.000	19.954	19.954	1.359	21.313
Serie A-B	11-04-2018	05-04-2019	359	10.000	9.977	9.977	1.184	11.161
Serie C	07-02-2018	01-02-2019	359	5.000.000	4.619.917	4.619.917	344.972	4.964.889
Serie C	09-02-2018	03-02-2019	359	50.000	46.189	46.189	3.437	49.626
Serie C	14-02-2018	08-02-2019	359	3.000.000	2.771.949	2.771.949	202.394	2.974.343
Serie C	21-02-2018	15-02-2019	359	50.000	46.199	46.199	3.297	49.496
Serie C	22-02-2018	16-02-2019	359	2.500.000	2.308.980	2.308.980	165.140	2.474.120
Serie C	01-03-2018	23-02-2019	359	16.100	14.870	14.870	1.039	15.909
Serie C	01-03-2018	23-02-2019	359	2.600.000	2.401.339	2.401.339	167.760	2.569.099
Serie C	09-03-2018	03-03-2019	359	227.000	209.700	209.700	14.214	223.914
Serie C	15-03-2018	09-03-2019	359	500.000	461.796	461.796	30.732	492.528
Serie C	16-03-2018	10-03-2019	359	100.000	92.379	92.379	6.109	98.488
Serie C	16-03-2018	10-03-2019	359	2.000.000	1.847.575	1.847.575	122.183	1.969.758
Serie C	16-03-2018	10-03-2019	359	16.500	15.242	15.242	1.008	16.250
Serie C	19-03-2018	13-03-2019	359	64.000	59.135	59.135	3.858	62.993
Serie C	23-03-2018	17-03-2019	359	110.000	101.617	101.617	6.553	108.170
Serie C	23-03-2018	17-03-2019	359	24.600	22.725	22.725	1.465	24.190
Serie C	26-03-2018	20-03-2019	359	21.500	19.866	19.866	1.264	21.130
Serie C	28-03-2018	22-03-2019	359	40.300	37.237	37.237	2.351	39.588
Serie D	07-08-2018	03-02-2019	180	45.000	43.470	43.470	1.237	44.707
Serie D	08-08-2018	04-02-2019	180	150.000	144.928	144.928	4.072	149.000
Serie D	16-08-2018	12-02-2019	180	105.000	101.449	101.449	2.691	104.140
Serie E	08-08-2018	05-02-2019	181	180.000	173.880	173.880	4.886	178.766
Serie F	11-10-2018	10-04-2019	181	100.000	96.600	96.600	1.507	98.107
	Total			**17.000.000**	**15.736.812**	**15.736.812**	**1.098.257**	**16.835.069**

On January 10, 2020 and through resolution: SCVS-IRQ-DRMV-2020-00000276, the Regional Securities Market Directorate resolved to cancel the registrations in the Public Registry of the Stock Market, of the Company as a national issuer of the private non-financial sector and the issuance of short-term obligations.

The issuance of commercial paper is guaranteed by: (i) General guarantee, which means that all of the issuer's unencumbered assets are not affected by a specific guarantee, in accordance with the rules determined for this purpose by the National Securities Council, and (ii) Specific guarantee - Solidarity Mercantile Bond, which corresponds to a guarantee by Orion Energy PTE Limited, held in favor of the Representative of the Bondholders, a guarantee of up to US $ 20,000,000 in accordance with Article 15, Chapter I, Subtitle I, Title III of the Codification of Resolutions issued by the National Securities Council

22. Trade payables and other payables

The item of trade accounts payable and other accounts payable as of December 31, 2019 and 2018 is detailed below:

	2019	2018
Accounts payable and other short-term accounts payable		
Trade accounts payable:		
Nacionales suppliers	1.198.184	1.773.552
Internacional suppliers	34.512	50.535
Provisioned costs and expenses (1)	1.661.804	3.260.850
	2.894.500	5.084.937
Other accounts payable - Participation 15% of profits to workers (note 11) (2):		
To pay employees	827.660	1.346.825
To pay the State	3.310.640	5.387.299
	4.138.300	6.734.124
Total accounts payable and short-term accounts payable	**7.032.801**	**11.819.061**
Other accounts payable long-term		
Provision for field abandonment (note 23)	1.538.746	1.155.936
Related companies (note 15)	111.908	345.642
Total other accounts payable long-term	**1.650.654**	**1.501.578**

As of December 31, 2019 and 2018, the fair value of the liabilities with suppliers and other accounts payable are substantially close to the book value due to the fact that there are no costs involved in the operations that distort the present value of the estimated payment flows.

(1) They constitute provisions made for the purchase of goods and services received, whose invoices are pending receipt at the end of the period. A detail of said provisions was as follows:

	2019	2018
Capital investments (i)	630.767	208.867
Direct cost	439.314	2.360.527
Indirect cost	42.524	59.640
Administrative expenses	499.198	631.816
Total	**1.661.804**	**3.260.850**

(2) A movement of the provision for the 15% participation of workers in profits in the years ended 2019 and 2018 was as follows:

	2019	2018
Balance at the beginning of the period	6.734.124	3.922.820
Payment	(6.734.124)	(3.922.820)
Provision charged to expense (note 11)	4.138.300	6.734.124
Total	**4.138.300**	**6.734.124**

23. Provisions

As of December 31, 2019 and 2018, the existing provisions were as follows:

	Provision for the abandonment of assets (1)	Total
Balance as of December 31, 2017 previously presented		
Error correction, net	858.628	858.628
Balance as of December 31, 2017 restructured	**858.628**	**858.628**
Adding the year (note 18)	226.299	226.299
Adding the year	71.009	71.009
Balance as of December 31, 2018	**1.155.936**	**1.155.936**
Adding the year (note 18)	287.215	287.215
Adding the year (note 11)	95.595	95.595
Balance as of December 31, 2019	**1.538.746**	**1.538.746**

(1) The provision for field abandonment includes those legal obligations on which the Company will be obliged to execute to abandon its assets such as its productive wells. The estimated undiscounted value for this obligation is US $ 1,538,746 (US $ 1,155,936 in 2018) which has been discounted at a rate of 8.27% in both years, which reflects the cost of money over time. As of December 31, 2019 and 2018, the obligation has been updated in accordance with the following plan for field abandonment:

	2019	2018
Usable in 8 years (9 years in 2018)	255.125	277.064
Usable in 8 years (8 years in 2018)	255.125	255.125
Usable in 9 years (10 years in 2018)	277.064	297.326
Usable in 10 years (11 years in 2018)	594.653	632.082
Usable in 12 years (13 years in 2018)	333.327	349.292
Provision for field abandonment, without discount	**1.715.294**	**1.810.890**
Present value of the provision for field abandonment discounted at 8.27%	**1.538.746**	**1.155.936**

24. Current tax liabilities

a) Income Tax conciliation

In accordance with current tax provisions, the provision for income tax is calculated based on the tax rate of 25% and 28% (depending on its shareholder composition) for 2019 and 28% for 2018 applicable to the taxable profits. A detail of the tax reconciliation for the years ended December 31, 2019 and 2018 is the following:

	2019	2018 (*)
Profit before income tax and profit sharing	27.213.970	43.613.282
15% profit sharing (note 11)	(4.138.300)	(6.734.124)
Profit after profit sharing	23.075.670	36.879.158
Plus: Non-deductible expenses	753.417	3.772.254
Less: Special deductions	(66.074)	(65.226)
Less: Income not subject to income tax	(993.931)	(2.274.317)
More: Temporary differences	681.285	(151.833)
Taxable income	23.450.367	38.160.035
Income tax caused 25% and 28% (28% in 2018)	5.887.566	10.684.810
Income Tax Expense	**5.887.566**	**10.684.810**
Less:		
Income Tax Expense	(2.495.486)	(3.577.828)
Tax to pay	**3.392.080**	**7.106.982**

(*) Figures declared in 2018 and reconciled with form 101 of income tax declaration for said period previously submitted.

The resident companies and permanent establishments in Ecuador are obliged to periodically inform the Internal Revenue Service about their entire corporate composition, in order to be able to apply the 25% income tax rate (otherwise, the 28% rate). As of the date of issuance of the financial statements, the Company has complied with this legal provision. 28% will apply to the entire tax base of the company, when the percentage of participation of shareholders, partners, participants, constituents, beneficiaries or similar, is equal to or greater than 50% of the share capital or of that corresponding to the nature of the society. When said participation is less than 50%), the corresponding rate will be applied on the proportion of the tax base that corresponds to said participation.

The income tax advance for oil companies is calculated by 50% of the income tax determined from the immediately preceding year less the withholdings of income tax that have been made.

The income tax expense for the year 2019 and 2018 was made up as follows:

	2019	2018
Current income tax expense	5.887.566	10.684.810
Deferred income tax expense (income) (note 24-c)	(170.321)	37.959
Net expense for the year	**5.717.245**	**10.722.769**

The income tax expense in the statement of comprehensive income differs from the theoretical tax that would have been obtained using the tax rate in force at the end of each year on the result before income tax, for the reasons detailed below:

		2019		2018	
		Value	%	Value	%
Income before income tax		23.075.670		36.879.157	
Nominal tax rate		5.793.493	25,11%	10.326.164	28,00%
Plus:	Non-deductible expenses	189.157	0,82%	1.056.231	2,86%
	Temporary differences	171.047	0,74%	(42.513)	(0,12%)
Less:	Special deductions	(16.589)	(0,07%)	(18.263)	(0,05%)
	Income not subject to income tax	(249.541)	(1,08%)	(636.809)	(1,73%)
Effective tax rate		**5.887.566**	**25,51%**	**10.684.810**	**28,97%**

b) Current tax liabilities

A detail of current and non-current tax liabilities as of December 31, 2019 and 2018, was as follows:

	2019	2018
Current Income Tax (1)	3.392.080	7.106.982
Income Tax year 2017 (2)	1.685.414	1.454.471
Unique Contribution (note 11) (3)	402.722	-
Withholdings at the VAT source	58.456	62.127
Income tax withholdings payable	41.553	40.952
Total	**5.553.225**	**8.664.532**
Less long-term portion of the unique contribution (note 11) (3)	257.685	-
Short-term current tax liabilities	**5.322.540**	**8.664.532**

(1) The movements in the provision of the income tax liability as of December 31, 2019 and 2018, were as follows:

	2019	2018
Balance at the beginning of the year	7.106.982	2.263.247
Pay taxes	(7.106.982)	(2.263.247)
Current income tax expense (note 24-a)	5.887.566	10.684.810
Compensation withholding tax	(2.495.486)	(3.577.828)
Balance at the end of the year	**3.392.080**	**7.106.982**

(2) Balance corresponding to the obligations payable to the Tax Administration for the income tax of income not subject to income tax for the year 2017, which includes participation to workers and the corresponding interests.

(3) Corresponds to the provision recorded by the Company corresponding to the Single and Temporary Contribution decreed in the Organic Law of Tax Simplification and Progressivity, article 56; contribution that was discounted using a rate of 8.27%.

c) Deferred taxes

Deferred taxes are recognized by the balance sheet method, originated by temporary differences between the accounting and tax base of assets and liabilities. As of December 31, 2019, the Company has identified items that generate said tax considering the change in tax legislation in force as of January 1, 2019, in which various items that are compensable and imputable in the future are accepted, a detail is as follows:

2019

Concept	Balances at the beginning of the year	Tax credit		Recognized in Results	Balances at the end of the year
		Withholdings for the year	Compensation		
Deferred tax asset					
Provisions for administrative expenses	142.623			(43.284)	99.339
Provisions for abandonment and remediation	48.490			(48.490)	-
Withholdings at the source of income tax	-	2.495.486	(2.495.486)		-
Eviction	3.714			7.124	10.838
Untimely dismissal	-			94.071	94.071
IFRS 16 Leases	-			4.435	4.435
ARO asset withdrawal provision	-			156.465	156.465
Total	**194.827**	**2.495.486**	**(2.495.486)**	**170.321**	**365.148**

2018

Concept	Balances at the beginning of the year	Tax credit		Recognized in Results	Reclassification	Balances at the end of the year
		Withholdings for the year	Compensation			
Deferred tax asset						
Provisions for administrative expenses	162.963			(20.340)		142.623
Provisions for abandonment and remediation	21.427			27.063		48.490
Withholdings at the source of income tax	-	3.577.828	(3.577.828)			-
Eviction	-			3.714		3.714
Deferred tax liability	-					
Income tax	-			(48.396)	48.396	-
Total	**184.390**	**3.577.828**	**-3.577.828**	**(37.959)**	**48.396**	**194.827**

The net effect of deferred tax recorded in the results of the year as income from income tax is US $ 170,321 and expense US $ 37,959 respectively in 2019 and 2018.

d) Dividend distribution

In accordance with the tax reform to the Internal Tax Regime Law, only dividends distributed by national or foreign companies resident in Ecuador in favor of other national or foreign companies not domiciled in tax havens or jurisdictions with less taxation, or of natural persons not resident in Ecuador are exempt. As of December 31, 2019, dividends were distributed for US $ 32,500,000 (including income tax paid by the company) corresponding to the results of the years 2015, 2016 and 2017 according to board minutes in the months of February, June, October and November for US $ 3,500,000, US $ 14,000,000, US $ 5,000,000 and US $ 10,000,000 respectively. For the year 2018, the Company distributed dividends for US $ 5,440,000.

e) Transfer prices

Taxpayers of Income Tax who have carried out operations with local related parties and/or domiciled abroad parties, within the same fiscal period in an accumulated amount greater than three million dollars (US $ 3,000,000) of the United States of America must submit the Annex of Operations with Related Parties; and, those taxpayers who have carried out operations with local and/or foreign related parties within the same fiscal period in an accumulated amount greater than US $ 15,000,000 must submit, the Comprehensive Transfer Pricing Report in addition to the Annex. These must be submitted within a period not exceeding two months counted from the date of enforceability of the Income Tax declaration.

As of December 31, 2019 and 2018, due to the fact that the transactions with local and foreign related companies do not exceed US $ 3,000,000 and US $ 15,000,000, according to current legislation, the Company is not within the Regime of Transfer Prices and is not obliged to present the Annexes of Operations with Related Parties.

f) Uncertain tax positions

As detailed in note 4 (a) as of January 1, 2019, the Company applies IFRIC 23 "Uncertainty over Income Tax Treatments".

There are uncertain tax positions taken by the Company that may not be shared with the tax administration, since the definition depends on the position of the tax authority in the future, since they may not be known until the corresponding tax authority takes a decision in the future. Therefore, this decision may affect the accounting of deferred or current tax assets and/or liabilities.

As of December 31, 2019, the Company's management, based on the criteria of its tax advisers, has considered that it is highly probable that it decides to accept the generation of deferred taxes for the temporary differences that are generated from the adoption of IFRS 16. - Leases and invoicing received from lessors for the payment of the lease fee. To reflect the amount of this uncertainty, management has considered using the most likely amount method, which in its opinion will be the recovery of expenses in accordance with IFRS 16 in future periods by means of compensation for deferred tax, for which reason it has considered generating the respective deferred tax as detailed in note 24 (b), and it has considered as deductible for the determination of current income tax only the accounting expense value recorded in the year 2019 as detailed in note 24 (a).

g) Tax reform

Through Official Registry No. 111 of December 31, 2019, the "Organic Law of Tax Simplification and Progressivity" was issued, which generated, among others, the following tax reforms in force as of the year 2020 and which by their nature could apply to the company:

<u>One-time and temporary contribution</u>

- Single and temporary contribution payable until March 31 of each year, which will be calculated on the total taxable income included in the income tax declaration for the fiscal year 2018, equal to or greater than US $ 1 million under the following scheme:

Income from	Income up	Percentage
1.000.000	5.000.000	0,10%
5.000.001	10.000.000	0,15%
10.000.001	onwards	0,20%

  The contribution may not exceed 25% of the income tax caused in 2018, nor will it be used as a tax credit, nor as a deductible expense for the determination of other taxes.

<u>Dividends</u>

- Dividends paid abroad to foreign companies and individuals will be subject to income tax and subject to a withholding tax of 10% (14% when they are tax havens).

- Dividends distributed to individuals residing in Ecuador will be taxed at 40% and will be subject to a withholding tax of up to 25% pursuant to a resolution issued by the IRS.

- The tax credit for dividends paid to individuals residing in Ecuador that are shareholders or beneficial owners of Ecuadorian companies is eliminated.

- Dividends distributed to national companies will be exempt from income tax.

- When a Company breaches the duty to report on its shareholder composition, the income tax will be withheld on the dividends that correspond to said breach with the maximum income tax rate applicable to individuals.

- The capitalization of profits will not be considered as distribution of dividends.

Employer retirement and eviction

- As of fiscal year 2021, the actuarially formulated eviction and retirement provisions will be deductible, when they meet the following conditions:

    - They refer to staff who have completed at least 10 years of work in the same company; and,
    - The cash contributions of these provisions are managed by companies specialized in fund management authorized by the Securities Market Law

Deductions in financial expenses

- In order to be deductible, the interest amount paid or accrued by banks, insurance companies and entities of the financial sector of the Superintendency of Popular and Solidarity Economy, for credits granted directly or indirectly by related parties may not be greater than 300 % with respect to equity.

- For other companies or individuals, the total amount of net interest on operations carried out with related parties may not exceed 20% of profit before labor participation, plus interest, depreciation and amortization.

- Interest paid from January 2020 whose rate exceeds that allowed by the Central Bank of Ecuador, for credits granted between September and December 2019 by national or international IFIS or financial entities qualified by the control entities in Ecuador, whose capital has been destined for the payment of dividends until December 31, 2019, will not be deductible.

Income tax advance

- The obligation to pay the advance of income tax is eliminated; being possible to voluntarily anticipate the tax equivalent to 50% of the income tax caused in the previous year less withholding taxes made in the previous fiscal year.

Additional deductions

- The credit insurance contracted for export will be deducted with an additional 50%, in accordance with the provisions of the regulations of this law.

- The additional 100% will be deducted from the advertising and sponsorship expenses carried out in favor of athletes, sports programs and projects previously qualified by the governing body or competent bodyin the matter.

Withholding

Taxpayers who meet the requirements that the SRI will issue through resolution will be withholding agents.

Currency exit tax

- The credit term requirement is lowered to 180 days so that foreign credits, investments and financial returns are exempt from the currency exit tax (ISD by its acronym in Spanish.

- Dividend payments to foreign companies or non-resident individuals abroad when domiciled in tax havens will be exempt from the payment of the currency exit tax. This does not apply when said taxpayers are shareholders within the chain of ownership of the company that distributes dividends.

- Payments made abroad for financial returns, capital gains and capital related to:

  - Investments from abroad entered to the Ecuadorian stock market.
  - Securities issued by companies domiciled in Ecuador that have been acquired abroad, destined to housing financing, microcredit and productive investments.
  - Time deposits or investments with resources from abroad, in institutions of the national financial system.

- Foreign payments for the amortization of capital and interest generated on loans granted between September and December 2019 by national or international IFIS or financial entities qualified by the control entities in Ecuador, whose capital has been destined for the payment of dividends until December 31, 2019, will be taxed with the currency exit tax.

h) Tax review

In accordance with current legal provisions, the tax authority has the power to review the Company's income tax declarations, within a period of up to three years from the date of filing of the income tax return, as long as it has timely complied with its tax obligations.

At the date of issuance of the financial statements, the Internal Revenue Service has the power to review the income tax returns for the years 2016 to 2018.

25. Obligations for termination benefits

The Company is responsible for paying its workers termination obligations in accordance with the Labor Code, under the concept of employer retirement and eviction.

In accordance with the provisions of the Labor Code, employees and workers who for twenty-five years or more have rendered services continuously or interruptedly, shall be entitled to the benefit of employer retirement; in the same way in the case of the worker who has completed twenty years, and less than twenty-five years of work continuously or interruptedly, shall be entitled to the proportional part of said benefit.

The Company records a contingent liability for termination of the labor relationship due to eviction requested by the Company or by the worker, consisting of twenty-five percent of the equivalent to the last monthly remuneration for each of the years of service provided in the Company.

As of January 1, 2016, the Company applies the amendments introduced in the document "Annual Improvements to IFRS, 2012 - 2014 cycle" for the preparation of its financial statements. Among other changes, this document introduces an amendment to paragraph 83 of IAS 19, regarding how to estimate the discount rate to be used to measure the defined benefit obligations.

This change determined that the Company uses as a rate to discount post-employment benefit obligations (both funded and non-funded), which was determined using as a reference:

- market yields, at the end of the reporting period, corresponding to the issuance of high quality bonds or corporate bonds;

- for currencies for which there is no broad market for high-quality corporate bonds, the market yields (at the end of the reporting period) of government bonds denominated in that currency will be used.

Given that previously the rule did not clarify whether the determining factor was the currency of cancellation of the obligations or the geographical criterion (location of the entity), the practice of the Company was the one that prevailed in the market that was to use as a benchmark the yields of the Bonds of the Government of Ecuador, in the absence of a broad market of high quality business bonds in the country. By changing the rule and clearly defining that the emphasis should be placed on the currency of cancellation and not on the geographic factor, the Company began to use the yield of high-rated corporate bonds denominated in US dollars as a benchmark.

In accordance with the transition rule of these changes, which established that an entity shall apply the amendment from the beginning of the oldest comparative period presented in the first financial statements in which the entity applies the amendment, the adjustments that arose from the application of the amendment were recognized in the accumulated results at the beginning of that period; however, the Company presented the effect within the period 2016, so it does not present comparative Financial Statements. This entailed a non-significant deviation from the policy of initial application of the amendment as established by the IASB.

Actuarial assumptions

At December 31, 2019 and 2018, the Company recorded the provision for post-employment benefits based on the following actuarial assumptions and based on an actuarial study prepared by an independent professional that used the actuarial method of Projected Unit Credit::

	2019	2018
Discount rate	3,64%	4.43%
Expected salary increase rate	1.50%	1.50%
Mortality and disability rate	Tabla IESS 2002	Tabla IESS 2002
Turnover Rate	8.56%	9,64%

Changes in the actuarial assumptions noted above may have a significant effect on the reported amounts. The Company controls this risk by updating the actuarial valuation each year.

Sensitivity analysis

The Company has obtained its sensitivity analysis from the actuarial study carried out by an independent qualified expert, in which the actuarial assumptions with the greatest impact in the calculation of provisions for post-employment obligations for employer retirement and eviction are the discount rate, wage increase rate and life expectancy in which a range of +/- 0.50% has been considered, taking into account that this range is accepted internationally.

A table of the hypotheses for determining the sensitivity analysis is as follows:

	Untimely dismissal		Evition	
	2019	2018	2019	2018
Discount rate:				
-0,50%	17.516	13.848	3.636	2.706
Base				
0,50%	(16.386)	(12.903)	(3.404)	(2.534)
Salary increase rate:				
-0,50%	(17.279)	(13.799)	3.604	(2.727)
Base				
0,50%	18.290	14.666	3.810	2.882

Obligation for Termination Benefit Plans

The movement for the obligations of benefit plans for termination due to eviction and untimely dismissal in the years ended December 31, 2019 and 2018, was as follows:

2019	LIABILITIES - Defined Benefits Obligation	Cash	EQUITY Unrealized actuarial losses	Effect on the statement of comprehensive income (1)
Untimely dismissal:				
Balance at the beginning of the year	304.043			
Labor cost of current services	78.297			78.297
Net interest (financial costs)	13.264			13.264
Actuarial loss (gain) recognized in the provision	(1.010)		(1.010)	
Benefits paid	(18.311)	(18.311)		
	376.283	(18.311)	(1.010)	91.561
Eviction:				
Balance at the beginning of the year	63.538			
Labor cost of current services	22.626			22.626
Net interest (financial costs)	2.772			2.772
Actuarial loss (gain) recognized in the provision	326		326	
Paid benefits	(7.961)	(7.961)		
	81.301	(7.961)	326	25.398
Total obligation for defined benefits	**457.584**	**(26.272)**	**(684)**	**116.959**

2018	LIABILITIES - Defined Benefits Obligation	Cash	EQUITY Unrealized actuarial losses	Effect on the statement of comprehensive income (1)
Untimely dismissal:				
Balance at the beginning of the year	215.978			
Labor cost of current services	48.627			48.627
Net interest (financial costs)	9.425			9.425
Actuarial loss (gain) recognized in the provision	30.013		30.013	
	304.043	-	30.013	58.052
Eviction:				
Balance at the beginning of the year	43.397			
Labor cost of current services	14.661			14.661
Net interest (financial costs)	1.720			1.720
Actuarial loss (gain) recognized in the provision	6.146		6.146	
Paid benefits	(2.386)	(2.386)		
	63.538	(2.386)	6,146	16.381
Total obligation for defined benefits	**367.581**	**(2.386)**	**36.159**	**74.433**

(1) Of the effect recorded at expense for the liability for untimely dismissal and for eviction bonus, US $ 13,264 and US $ 2,772, respectively, were recorded as financial expenses (US $ 9,425 and US $ 1,729 for the year 2018)

The present value of defined benefit obligations was established based on the projected unit credit method. Under this method, pension benefits must be attributed to the employee's service period and based on the Plan formula, so that the same benefit amount is attributed to each year of service, taking into consideration the use of actuarial assumptions to calculate the present value of said benefits. These assumptions reflect the value of money over time, the salary increase, and the probabilities of paying the pension.

26. Equity

Share Capital

As of December 31, 2019 and 208, the authorized, subscribed and paid ordinary shares are US $ 9,234,435 shares, US $ 1.00 each.

A detail of the shareholder composition as of December 31, 2019 and 2018 was as follows:

2019			
Shareholders	**Nationality**	**Paid-in Capital**	**Participation percentage**
Orion Energy ER. S.L.	Spain	9.234.434	99,999989%
Orion Energy Ocanopb S.A.	Ecuador	1	0,000011%
Total		**9.234.435**	**100%**

Legal Reserve

The Companies Law requires that at least 10% of the annual profit be appropriated as a legal reserve until it reaches at least 50% of the share capital of the shareholders. This reserve is not available for payment of cash dividends, but can be fully capitalized.

27. Basic and Diluted Earnings per share

As of December 31, 2019 and 2018, the following was basic and diluted earnings per share:

	2019	2018
Total result for the year	17.358.425	26.788.743
Number of actions	9.234.435	9.234.435
Basic earnings per share	**1,880**	**2,901**

28. Reconciliation of liabilities arising from financing activities

The changes in the Company's liabilities that arose from the financing activities in 2019 and 2018 were as follows:

2019

	Balance at start	Cash flows: New loans	Cash flows: Cash payments	Changes other than cash	Balance at the end
Trade accounts payable and other accounts payable:					
Obligations with financial institutions (note 20)	2.078.617		(2.078.617)		-
Issuance of obligations (note 21)	16.835.069		(16.835.069)		-
Dividend payment (note 26)	-		(32.500.000)	32.500.000	-
Related companies (note 15)	345.642		(233.734)		111.908
Total	**19.259.328**	**-**	**(51.647.420)**	**32.500.000**	**111.908**

2018

	Balance at start	Cash flows: New loans	Cash flows: Cash payments	Changes other than cash	Balance at the end
Cuentas por pagar - comerciales y otras cuentas por pagar:					
Obligations with financial institutions (note 20)	2.060.067	7.000.000	(7.000.000)	18.550	2.078.617
Issuance of obligations (note 21)	7.192.438	20.000.000	(10.357.369)	-	16.835.069
Dividend payment (note 26)	-		(5.440.000)	5.440.000	-
Related companies (note 15)	25.619.737		(25.274.095)		345.642
Total	**34.872.242**	**27.000.000**	**(48.071.464)**	**5.458.550**	**19.259.328**

29. Contingencies

In 2017, the Ecuadorian Environmental Ministry (MAE, by its acronym in Spanish) began an ex officio administrative procedure for failure to notify a spill that occurred on May 5, 2015. In its current state: the company filed an appeal for the resolution of the Provincial Directorate of Sucumbíos, in which it imposed a fine of 20 unified minimum wages (SBU, by its acronym in Spanish); the probability of success is 51%

In 2017, the Ecuadorian Environmental Ministry (MAE), started an administrative procedure for lack of compliance with environmental technical regulations. In its current state, the Ministry of the Environment partially accepted the appeal filed by the company and declared the partial annulment of the procedure since page 19, the order for initiation was notified and the order was answered on December 26, 2018; the probability of success is 51%.

In 2017, the Company presented a preparatory procedure for judicial inspection for alleged damages caused in the construction of flow lines. In its current status, the judicial inspection was set as on January 20, 2017, the plaintiff did not appear, therefore the abandonment of the process was requested, but the abandonment has not been dictated until the present date; the probability of success is 75%

In 2017, the Ecuadorian Environmental Ministry (MAE) began an administrative procedure for the late delivery of the annual environmental program and budget in 2017, a base fine of 2.5 SBU was established. In its current status, the order was answered on January 7, 2019; probability of success is 51%.

In the opinion of the legal adviser, they cannot anticipate a result, so the financial statements do not have a provision in the event of a decision not favorable to the Company.

30. Guarantees

As of December 31, 2019 and 2018, the Company maintains a Faithful Compliance of the Contract Policy in favor of the Ministry of Non-Renewable Natural Resources, which guarantees the faithful compliance with the Environmental Management Plan, which covers 100% of its value, determined in the environmental impact study for the development and production phase of the Eno-Ron Block.

31. Commitments

The commitments that the company maintains with the Ecuadorian State are described in note 2.

32. Reclassifications

As of December 31, 2019, in order to comply with the appropriate presentation in accordance with International Financial Reporting Standards, we have reclassified certain items in the Company's internal balance sheets, the detail of which was as follows:

	2019			
	Internal financial statements	**Debit**	**Credit**	**Audited financial statements**
Statement of Comprehensive Income				
Production cost	(18.649.087)	87.167		(18.736.254)
Admnistrative expenses	(8.184.220)		87.167	(8.097.053)

	Internal financial statements	Debit	Credit	Audited financial statements
Statement of Comprehensive Income				
Production cost	(23.071.430)	100.557		(23.171.987)
Admnistrative expenses	(11.748.523)		100.557	(11.647.966)

33. Subsequent Events

On January 10, 2020 and through resolution: SCVS-IRQ-DRMV-2020-00000276, the Regional Securities Market Directorate resolved to cancel the registrations in the Public Registry of the Stock Market, of the Company as a national issuer of the private non-financial sector and the issuance of short-term obligations.

As of the date of this report, the global economy is affected due to the existence of a pandemic due to the “COVID-19” virus, which has significantly deteriorated the value of the price of a barrel of oil in international markets, as detailed in note 5 (c). Although this situation could affect the normal development of commercial operations in the world and the country, at the moment it is not possible to determine the impact that this situation would have on the Company's future activities.

34. Approval of financial statements

The financial statements of **OrionOil ER S.A**. for the year ended December 31, 2019 they have been authorized for publication by the Administration on March 27, 2020; and, in his opinion, they will be approved definitively without modifications by the General Shareholders' Meeting in accordance with the provisions of the Superintendency of Companies, Securities and Insurance of Ecuador.

Fernando Emanuele	Paúl Quimbita
Legal representative	Accountant General