

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2019
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 001-33578

Samson Oil & Gas Limited

(Exact Name of Registrant as Specified in its Charter)

Australia

(State or Other Jurisdiction of Incorporation or Organization)

N/A

(I.R.S. Employer Identification No.)

Level 8

99 St Georges Terrace

Perth, Western Australia 6000

(Address of Principal Executive Offices)

(Zip Code)

+61 8 9486 4036

(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
N/A	N/A	N/A

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically, if any, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definition of "accelerated filer," "large accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

There were 328,300,044 ordinary shares outstanding as of February 19, 2020.

SAMSON OIL & GAS LIMITED
FORM 10-Q
QUARTER ENDED DECEMBER 31, 2019

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FORWARD-LOOKING STATEMENTS

Written forward-looking statements may appear in documents filed with the Securities and Exchange Commission (“SEC”), including this quarterly report, documents incorporated by reference, reports to shareholders and other communications.

The U.S. Private Securities Litigation Reform Act of 1995 provides a “safe harbor” for forward-looking information to encourage companies to provide prospective information about themselves without fear of litigation so long as the information is identified as forward looking and is accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those projected in the information. Samson relies on this safe harbor in making forward-looking statements.

Forward-looking statements appear in a number of places in this quarterly report and include but are not limited to management’s comments regarding the anticipated outcome and timing of our efforts to renegotiate the Credit Agreement (as defined in Item 1), obtain a waiver of our breaches of the Credit Agreement from the Lender (as defined in Item 1), and sell our assets; our financial and operational prospects (whether or not a sale is consummated or the Lender agrees to renegotiate the Credit Agreement and waive our breaches under the Credit Agreement); the potential remedies available to the Lender under our credit agreement and our options with respect to meeting our financial obligations; the anticipated outcome and timing of the administrative action brought by the Commission under North Dakota Century Code Chapters 38-08 and 28-32; business strategy, exploration and development; natural gas and oil reserves and production; our strategy to control general and administrative costs; our intentions with respect to meeting our capital raising targets and the use of proceeds; our plans, our ability to and the methods by which we may raise additional capital; the potential sale of our assets; our prospects for continuing as a going concern and regarding our production and future operating results; such as the following:

In this quarterly report, the use of words such as “anticipate,” “continue,” “could,” “estimate,” “expect,” “likely,” “may,” “will,” “project,” “should,” “believe” and similar expressions are intended to identify uncertainties. While we believe that the expectations reflected in those forward-looking statements are reasonable, we cannot assure you that these expectations will prove to be correct. Our actual results could differ materially from those anticipated in these forward-looking statements. Forward-looking statements are based upon our expectations relating to, among other things:

- our future financial position, including cash flow, debt levels and anticipated liquidity;
- the timing, effects and success of our exploration and development activities;
- uncertainties in the estimation of proved reserves and in the projection of future rates of production;
- timing, amount, and marketability of production;
- third party operational curtailment, processing plant or pipeline capacity constraints beyond our control;
- our ability to acquire and dispose of oil and gas properties at favorable prices;
- our ability to market, develop and produce new properties;
- declines in the values of our properties that may result in write-downs;
- effectiveness of management strategies and decisions;
- oil and natural gas prices and demand;
- unanticipated recovery or production problems, including cratering, explosions, fires;
- the strength and financial resources of our competitors;
- our entrance into transactions in commodity derivative instruments;
- climatic conditions; and
- effectiveness of management strategies and decisions.

Many of these factors are beyond our ability to control or predict. Neither these factors nor those included in the “Risk Factors” section of this quarterly report, if any, represent a complete list of the factors that may affect us. We do not undertake to update the forward-looking statements made in this report.

Part I — Financial Information**Item 1. Financial Statements.**

SAMSON OIL & GAS LIMITED AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	December 31, 2019	June 30, 2019
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 616,350	\$ 685,737
Restricted cash - required reserve amounts related to Credit Agreement	2,088,750	2,088,750
Accounts receivable, net of allowance for doubtful accounts of \$250,000	1,789,541	1,982,123
Prepaid expenses	60,719	—
Total current assets	<u>4,555,360</u>	<u>4,756,610</u>
PROPERTY, PLANT AND EQUIPMENT, AT COST		
Oil and gas properties, net, successful efforts method of accounting, less accumulated depreciation, depletion and amortization of \$11,468,184 and \$9,491,784 at December 31, 2019, and June 30, 2019, respectively	29,058,418	30,214,829
Other property and equipment, net of accumulated depreciation and amortization of \$777,915 and \$734,539 at December 31, 2019 and June 30, 2019, respectively	130,131	174,931
Net property, plant and equipment	<u>29,188,549</u>	<u>30,389,760</u>
OTHER NON CURRENT ASSETS		
Fair value of derivative instruments	455,639	365,542
Deposits	559,199	559,722
Right-of-use asset	138,961	—
Deferred tax asset	780,000	780,000
Total other non current assets	<u>1,933,799</u>	<u>1,705,264</u>
TOTAL ASSETS	<u>\$ 35,677,708</u>	<u>\$ 36,851,634</u>
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable	\$ 10,675,164	\$ 8,121,217
Accrued liabilities	3,661,003	1,300,185
Fair value of derivative instruments	507,969	150,703
Current portion of asset retirement obligation	1,477,530	274,404
Current portion of lease liability	62,686	—
Current portion of long-term debt	33,532,143	33,500,000
Total current liabilities	<u>49,916,495</u>	<u>43,346,509</u>
NON CURRENT LIABILITIES		
Lease liability	96,914	—
Long-term debt	125,891	—
Asset retirement obligations	<u>2,757,872</u>	<u>3,336,376</u>
TOTAL LIABILITIES	<u>52,897,172</u>	<u>46,682,885</u>
STOCKHOLDERS' DEFICIT		
Common stock 328,300,044 (equivalent to 16,415,002 ADSs) ordinary shares issued and outstanding at December 31, 2019 and June 30, 2019, respectively	106,743,167	106,743,167
Accumulated other comprehensive income	823,687	835,404
Accumulated deficit	(124,786,318)	(117,409,822)
Total stockholders' deficit	<u>(17,219,464)</u>	<u>(9,831,251)</u>
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	<u>\$ 35,677,708</u>	<u>\$ 36,851,634</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

SAMSON OIL & GAS LIMITED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(Unaudited)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2019	2018	2019	2018
OPERATING REVENUES:				
Oil sales	\$ 3,266,152	\$ 2,919,607	\$ 7,083,055	\$ 6,454,848
Gas sales	21,772	105,464	52,029	142,741
Other liquids	1,026	4,964	2,442	8,833
Total oil and gas income	<u>3,288,950</u>	<u>3,030,035</u>	<u>7,137,526</u>	<u>6,606,422</u>
OPERATING EXPENSES:				
Lease operating expense	3,157,500	3,307,215	6,482,720	5,480,332
Exploration and evaluation expenditure	11,632	10,532	14,093	39,310
Abandonment expense	25,416	—	25,416	—
Depletion, depreciation, amortization and accretion of asset retirement obligations	1,110,793	1,302,763	2,262,225	1,339,327
General and administrative	2,563,207	941,567	3,575,969	1,777,870
Total operating expenses	<u>6,868,548</u>	<u>5,562,077</u>	<u>12,360,423</u>	<u>8,636,839</u>
LOSS FROM OPERATIONS	(3,579,598)	(2,532,042)	(5,222,897)	(2,030,417)
Interest expense, net	(1,147,717)	(481,697)	(2,389,950)	(755,688)
Realized gain (loss) on derivative instruments	101,118	(748,470)	134,508	(775,450)
Unrealized (loss) gain on derivative instruments	(2,659,912)	1,210,795	(267,169)	1,210,795
Income from forfeiture of non-refundable deposit	—	—	—	1,000,000
Gain from insurance proceeds	380,004	—	380,004	—
Other income	7,999	—	14,788	—
LOSS BEFORE INCOME TAXES	(6,898,106)	(2,551,414)	(7,350,716)	(1,350,760)
Income tax benefit	—	—	—	—
NET LOSS	\$ (6,898,106)	\$ (2,551,414)	\$ (7,350,716)	\$ (1,350,760)
OTHER COMPREHENSIVE INCOME (LOSS):				
Foreign Currency Translation gain (loss)	1,240	(588)	(11,717)	29,273
Total comprehensive loss for the period	\$ (6,896,866)	\$ (2,552,002)	\$ (7,362,433)	\$ (1,321,487)
NET LOSS PER COMMON SHARE:				
Basic and diluted— per share	<u>\$ (0.02)</u>	<u>\$ (0.01)</u>	<u>\$ (0.02)</u>	<u>\$ (0.01)</u>
Weighted average common shares outstanding:				
Basic and diluted shares outstanding	<u>328,300,044</u>	<u>328,300,044</u>	<u>328,300,044</u>	<u>328,300,044</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

SAMSON OIL & GAS LIMITED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIT
(Unaudited)

Six months ended December 31, 2018:

	Issued Capital	Accumulated Deficit	Accumulated Other Total Equity (Deficit)	Total Equity (Deficit)
Balance at July 1, 2018	\$ 106,743,167	\$ (110,261,791)	\$ 846,556	\$ (2,672,068)
Net loss	—	1,200,654	—	1,200,654
Foreign currency translation gain	—	—	29,861	29,861
Total comprehensive loss for the period	—	1,200,654	29,861	1,230,515
Balance at September 30, 2018	\$ 106,743,167	\$ (109,061,137)	\$ 876,417	\$ (1,441,553)
Net loss	—	(2,551,414)	—	(2,551,414)
Foreign currency translation gain	—	—	(588)	(588)
Total comprehensive loss for the period	—	(2,551,414)	(588)	(2,552,002)
Balance at December 31, 2018	\$ 106,743,167	\$ (111,612,551)	\$ 875,829	\$ (3,993,555)

Six months ended December 31, 2019:

	Issued Capital	Accumulated Deficit	Accumulated Other Total Equity (Deficit)	Total Equity (Deficit)
Balance at July 1, 2019	\$ 106,743,167	\$ (117,409,822)	\$ 835,404	\$ (9,831,251)
Net loss	—	(452,610)	—	(452,610)
Adoption of ASC 842, lease accounting	—	(25,780)	—	(25,780)
Foreign currency translation loss	—	—	(12,957)	(12,957)
Total comprehensive loss for the period	—	(478,390)	(12,957)	(491,347)
Balance at September 30, 2019	\$ 106,743,167	\$ (117,888,212)	\$ 822,447	\$ (10,322,598)
Net loss	—	(6,898,106)	—	(6,898,106)
Foreign currency translation loss	—	—	1,240	1,240
Total comprehensive loss for the period	—	(6,898,106)	1,240	(6,896,866)
Balance at December 31, 2019	\$ 106,743,167	\$ (124,786,318)	\$ 823,687	\$ (17,219,464)

See accompanying Notes to Condensed Consolidated Financial Statements.

SAMSON OIL & GAS LIMITED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended	
	December 31,	
	2019	2018
Cash Flows from Operating Activities:		
Net loss	\$ (7,350,716)	\$ (1,350,760)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation, depletion and amortization	2,021,165	1,061,971
Accretion of discount on asset retirement obligations	241,060	277,356
Exploration and evaluation assets written off	—	39,310
Unrealized gain on derivative instruments	267,169	(1,210,795)
Income from forfeiture of non-refundable deposit	—	(1,000,000)
Settlement of provisions for restoration	(416,156)	—
Changes in operating assets and liabilities:		
Accounts receivables	192,582	3,668
Prepayments	(60,719)	—
Trade and other payables	5,075,478	2,142,538
Other	(5,141)	—
Net cash used in operating activities	<u>\$ (35,278)</u>	<u>\$ (36,712)</u>
Cash Flows from Investing Activities:		
Proceeds from sale of oil and gas properties	—	700,000
Payments for oil and gas properties	(20,271)	(296,235)
Net cash flows (used in) provided by investing activities	<u>\$ (20,271)</u>	<u>\$ 403,765</u>
Cash Flows from Financing Activities:		
Repayments of borrowings	(2,679)	—
Net cash used in financing activities	<u>\$ (2,679)</u>	<u>\$ —</u>
Net (decrease) increase in cash and equivalents		
	<u>\$ (58,228)</u>	<u>\$ 367,053</u>
Cash, restricted cash and equivalents, beginning of period	2,774,487	1,376,676
Effect of exchange rate changes on cash, restricted cash and equivalents	(11,159)	(5,927)
Cash, restricted cash and equivalents, end of period	<u><u>\$ 2,705,100</u></u>	<u><u>\$ 1,737,802</u></u>
Supplemental cash flow information:		
Cash paid for interest	\$ 2,389,950	\$ 755,688
Royalties payable transferred to long-term debt	\$ 160,713	\$ —
Increase in oil and gas properties from change in estimate of asset retirement obligations	\$ 799,718	\$ —

See accompanying Notes to Consolidated Financial Statements

SAMSON OIL & GAS LIMITED AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Summary of Significant Accounting Policies

Description of Operations

Samson Oil & Gas Limited along with its consolidated subsidiaries (“Samson” or the “Company”), is engaged in the acquisition, exploration, exploitation and development of oil and natural gas properties with a focus on properties in North Dakota and Montana.

Going Concern

These financial statements have been prepared on the going concern basis, which contemplates the continuity of normal business activities and the realization of assets and settlement of liabilities in the normal course of business. The Company incurred net losses of \$7.4 million and \$7.2 million, for the six month period ended December 31, 2019, and fiscal year ended June 30, 2019, respectively, and had net cash outflows from operating activities of \$35,278 and \$5.4 million for the six month period ended December 31, 2019, and fiscal year ended June 30, 2019, respectively. At December 31, 2019, the Company’s total current liabilities of \$49.9 million exceed its total current assets of \$4.6 million. Its ability to continue as a going concern is dependent on the re-negotiation of debt, the sale of assets and/or raising further capital. These factors raise substantial doubt over the Company’s ability to continue as a going concern and therefore whether it will realize its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

At December 31, 2019, the Company was in breach of several of its covenants related to the Credit Agreement (defined in Note 9 – Credit Facility), resulting in borrowings payable of \$33.5 million being classified as current liabilities. The Company is currently negotiating with the Lender in an effort to obtain a waiver for the breach. As of the date of this report, no waiver has been received.

The Company is currently negotiating with a prospective party to divest its oil and gas assets, as well as, continuing to execute on its drilling and development plan, which it believes will result in proceeds that will sufficiently cover the Company’s obligations to the Lender and its other creditors. Although the Company is confident it will be able to successfully recognize amounts in excess of the carrying value of its oil and gas assets as a result of its ultimate divestment or, alternatively, through the successful development of its Foreman Butte project, there can be no assurances made that the Company will be able to successfully execute these plans. Given the current financial situation it is possible that the Company may be forced to accept terms on these transactions that are less favorable than would be otherwise available.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements as of December 31, 2019 and June 30, 2019, have been prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”) for interim financial information and with the instructions to Form 10-Q and Item 210 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. The condensed consolidated balance sheet as of June 30, 2019 is derived from the audited financial statements, but does not include all disclosures required by U.S. GAAP. The Company believes that the disclosures made are adequate to make the information not misleading. In the opinion of management, all adjustments (consisting of only normal recurring accruals) considered necessary for a fair presentation for the periods presented have been included as required by Regulation S-X, Rule 10-01. Operating results for the six months ended December 31, 2019, are not necessarily indicative of the results that may be expected for the fiscal year ended June 30, 2020. It is suggested that these condensed consolidated financial statements be read in conjunction with the Company’s consolidated financial statements and footnotes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2019.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. Significant intercompany balances and transactions have been eliminated in consolidation.

Certain amounts in prior year financial statements have been reclassified to current year presentation, and the reclassification had no impact on net loss.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Items subject to such estimates and assumptions include (1) oil and gas reserves; (2) cash flow estimates used in impairment tests of long-lived assets; (3) depreciation, depletion and amortization (“DD&A”); (4) asset retirement obligations (“ARO”); (5) assigning fair value and allocating purchase price in connection with business combinations; (6) accrued revenue and related receivables; (7) valuation of commodity and interest derivative instruments; (8) certain accrued liabilities; (9) valuation of share-based payments, (10) income taxes and (11) carrying value of exploration and evaluation

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expenditures. Although management believes these estimates are reasonable, actual results could differ from these estimates. The Company has evaluated subsequent events and transactions through the date of this report for matters that may require recognition or disclosure in these financial statements.

Revenue from Contract with Customers

The Company recognizes its share of revenue from the sale of produced oil, gas, and NGLs in its Rocky Mountain regions. Oil, gas, and NGL production revenue presented within the accompanying statements of operations is reflective of the revenue generated from contracts with customers.

The tables below present the disaggregation of oil, gas, and NGL production revenue by product type:

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2019	2018	2019	2018
OPERATING REVENUES:				
Oil sales	\$ 3,266,152	\$ 2,919,607	\$ 7,083,055	\$ 6,454,848
Gas sales	21,772	105,464	52,029	142,741
Other liquids	1,026	4,964	2,442	8,833
Total oil and gas income	3,288,950	3,030,035	7,137,526	6,606,422

The Company recognizes oil, gas, and NGL production revenues at the point in time when control of the product transfers to the customer, which differs depending on the contractual terms of each of the Company's arrangements. Transfer of control drives the presentation of transportation, gathering, processing, and other post-production expenses ("fees and other deductions") within the accompanying statements of operations. Fees and other deductions incurred prior to control transfer are recorded within the oil, gas, and NGL production expense line item on the accompanying statements of operations, while fees and other deductions incurred subsequent to control transfer are recorded as a reduction of oil, gas, and NGL production revenue. The Company has two categories under which oil, gas, and NGL production revenue is generated, as summarized below:

1. The Company sells oil production at or near the wellhead and receives an agreed-upon index price from the purchaser, net of basis, quality, and transportation differentials. Under this arrangement, control transfers at or near the wellhead, and
2. The Company sells unprocessed gas to a midstream processor at the wellhead or inlet of the midstream processing facility. The midstream processor gathers and processes the raw gas stream and remits proceeds to the Company from the ultimate sale of the processed NGLs and residue gas to third parties. In such arrangements, the midstream processor obtains control of the product at the wellhead or inlet of the facility and is considered the customer. Proceeds received for unprocessed gas under these arrangements are reflected as gas production revenue and are recorded net of transportation and processing fees incurred by the midstream processor after control has transferred.

Significant judgments made in applying the guidance in Accounting Standard Codification ("ASC") Topic 606 - *Revenue from Contracts with Customers* ("ASC 606") relate to the point in time when control transfers to customers in gas processing arrangements with midstream processors. The Company does not believe that significant judgments are required with respect to the determination of the transaction price, including amounts that represent variable consideration, as volume and price carry a low level of estimation uncertainty given the precision of volumetric measurements and the use of index pricing with predictable differentials. Accordingly, the Company does not consider estimates of variable consideration to be constrained.

The Company's contractual performance obligations arise upon the production of hydrocarbons from wells in which the Company has an ownership interest. The performance obligations are considered satisfied upon control transferring to a customer at the wellhead or inlet of the midstream processor's processing facility, or other contractually specified delivery point. The time period between production and satisfaction of performance obligations is generally less than one day; thus, there are no material unsatisfied or partially unsatisfied performance obligations at the end of the reporting period.

Revenue is recorded in the month when contractual performance obligations are satisfied. However, settlement statements from the purchasers of hydrocarbons and the related cash consideration are received 30 to 90 days after production has occurred. As a result, the Company must estimate the amount of production delivered to the customer and the consideration that will ultimately be received for sale of the product. Estimated revenue due to the Company is recorded within accounts receivable on the accompanying balance sheets until payment is received. The accounts receivable balances from contracts with customers within the accompanying balance sheets as of December 31, 2019, and June 30, 2019, were \$1.0 million and \$1.5 million, respectively. To estimate accounts receivable from contracts with customers, the Company uses knowledge of its properties, historical performance, contractual arrangements, index pricing, quality and transportation differentials, and other factors as the basis for these estimates. Differences between estimates and actual amounts received for product sales are recorded in the month that payment is received from the purchaser.

Leases

In January 2016, Accounting Standard Codification 842 - Leases was issued, which provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessees and lessors. ASC 842 changes the current accounting for leases to eliminate the operating/finance lease designation and require entities to recognize most leases on the statement of financial position, initially recorded at the fair value of unavoidable lease payments, as a right of use asset and respective liability. The entity will then recognize lease expense on a straight-line basis for operating leases and interest and depreciation on lease assets for finance leases on the statement of profit or loss.

The Company implemented ASU 2016-02 Leases (Topic 842) (“ASC 842”) as of July 1, 2019, using the “Modified Retrospective Approach” and elected the package of practical expedients within ASU 2016-02 Leases (Topic 842) that allows an entity to not reassess, prior to the effective date, (i) whether any expired or existing contracts are or contain leases, (ii) the lease classification of any expired or existing leases, or (iii) initial direct costs for any existing leases. Additionally, the Company elected the practical expedient to not evaluate existing or expired land easements not previously accounted for as leases prior to the effective date.

The Company has identified each of its leases and determined the impact of this new guidance on each of the identified lease. As a result, the Company recorded a right-of-use asset and liability associated with operating leases of \$\$179,791 and \$205,571, respectively. The difference between the right-of-use-asset and lease liability of \$25,780, was recorded to accumulated losses at July 1, 2019.

Recent Accounting Standards

There were no recent accounting pronouncements that impact the Company at December 31, 2019.

2. Income Taxes

Income taxes are reported in accordance with U.S. GAAP, which requires the establishment of deferred tax accounts for all temporary differences between the financial reporting and tax bases of assets and liabilities, using currently enacted federal and state income tax rates. In addition, deferred tax accounts must be adjusted to reflect new rates if enacted into law.

The Company has cumulative net operating losses (“NOLs”) that may be carried forward to reduce taxable income in future years. The Tax Reform Act of 1986 contains provisions that limit the utilization of NOLs if there has been a change in ownership as described in Internal Revenue Code Section 382. The Company’s prior year NOLs are limited by IRC Section 382, however, current year losses are not subject to these limitations.

A valuation allowance is provided if it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company’s ability to realize the benefits of its deferred tax assets will depend on the generation of future taxable income through profitable operations. Due to the Company’s history of losses and the uncertainty of future profitable operations, the Company has recorded a full valuation allowance against its deferred tax assets, except for a tax asset for certain refundable alternative minimum tax (“AMT”) credit carryforwards.

3. Loss Per Share

Basic earnings (loss) per share is calculated by dividing net earnings (loss) attributable to ordinary shares by the weighted average number of shares outstanding for the period. Under the treasury stock method, diluted earnings per share is calculated by dividing net earnings (loss) by the weighted average number of shares outstanding including all potentially dilutive ordinary shares (which in Samson’s case consists of unexercised stock options). In the event of a net loss, however no potential ordinary shares are included in the calculation of shares outstanding since the impact would be anti-dilutive.

During the quarter ended December 31, 2018, following receipt of shareholder approval, we consolidated our outstanding ordinary shares by a factor of 10 to 1, reducing the number of ordinary shares outstanding. Prior year shares outstanding has been adjusted to reflect this change as if it had happened at the beginning of the period presented.

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The following table details the weighted average dilutive and anti-dilutive securities outstanding, which consist of transferable options to purchase ordinary shares which are tradeable on the ASX (“options”), for the periods presented:

The following tables set forth the calculation of basic and diluted loss per share:

	Three Months Ended December 31,	
	2019	2018
Net loss	\$ (6,898,106)	\$ (2,551,414)
Basic weighted average ordinary shares outstanding	328,300,044	328,300,044
Add: dilutive effect of stock options	—	—
Diluted weighted average ordinary shares outstanding	<u>328,300,044</u>	<u>328,300,044</u>
Basic and diluted loss from operations per ordinary share	<u>\$ (0.02)</u>	<u>\$ (0.01)</u>

	Six Months Ended December 31,	
	2019	2018
Net loss	\$ (7,350,716)	\$ (1,350,760)
Basic weighted average ordinary shares outstanding	328,300,044	324,862,438
Add: dilutive effect of stock options	—	—
Diluted weighted average ordinary shares outstanding	<u>328,300,044</u>	<u>324,862,438</u>
Basic and diluted loss from operations per ordinary share	<u>\$ (0.02)</u>	<u>\$ (0.01)</u>

4. Asset Retirement Obligations

The Company’s asset retirement obligations primarily represent the estimated present value of the amounts expected to be incurred to plug, abandon and remediate producing and shut-in properties at the end of their productive lives in accordance with applicable state and federal laws. The Company determines the estimated fair value of its asset retirement obligations by calculating the present value of estimated cash flows related to plugging and abandonment liabilities. The significant inputs used to calculate such liabilities include estimates of costs to be incurred; the Company’s credit adjusted discount rates, inflation rates and estimated dates of abandonment. The asset retirement liability is accreted to its present value each period and the capitalized asset retirement cost is depleted using the units-of-production method.

The following table summarizes the activities for the Company’s asset retirement obligations:

	December 31, 2019	June 30, 2019
Asset retirement obligations at beginning of period	\$ 3,610,780	\$ 3,344,112
Liabilities incurred or acquired	—	—
Liabilities settled	(416,156)	(295,282)
Change in estimate ⁽¹⁾	799,718	—
Disposition of properties	—	—
Accretion expense	241,060	561,950
Asset retirement obligations at end of period	<u>\$ 4,235,402</u>	<u>\$ 3,610,780</u>
Less: Current portion of asset retirement obligation	<u>\$ 1,477,530</u>	<u>\$ 274,404</u>
Non-current portion of asset retirement obligation	<u>\$ 2,757,872</u>	<u>\$ 3,336,376</u>

(1) The Company changed the estimated date of abandonment and the estimated costs for certain wells based on the anticipated activity for fiscal year 2020.

5. Fair Value Measurements

Fair value is defined as the price that would be received in the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The Company utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable. The Company classifies fair value balances based on the observability of those inputs. The Financial Accounting Standards Board (“FASB”) has established a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurement).

The three levels of the fair value hierarchy are as follows:

- Level 1—Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2—Pricing inputs are other than quoted prices in active markets included in level 1, but are either directly or indirectly observable as of the reported date and for substantially the full term of the instrument. Inputs may include quoted prices for similar assets and liabilities. Level 2 includes those financial instruments that are valued using models or other valuation methodologies.
- Level 3—Pricing inputs include significant inputs that are generally unobservable from objective sources. These inputs may be used with internally developed methodologies that result in management’s best estimate of fair value.

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company’s assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels. The following table sets forth by level within the fair value hierarchy the Company’s financial assets and liabilities that were accounted for at fair value.

Fair Value at December 31, 2019	Level 1	Level 2	Level 3	Netting ⁽¹⁾	Value
Current Assets:					
Cash, restricted cash and cash equivalents	\$ 2,705,100	\$ —	\$ —	\$ —	\$ 2,705,100
Derivative Instruments	—	21,760	—	(21,760)	—
Non-current assets:					
Derivative Instruments	—	473,814	—	(18,175)	455,639
Current Liabilities					
Derivative instruments	—	(529,729)	—	21,760	(507,969)
Non Current Liabilities					
Derivative Instruments	—	(18,175)	—	18,175	—
Current Liabilities:					
Non Current Liabilities:					
Fair Value at June 30, 2019					
Fair Value at June 30, 2019	Level 1	Level 2	Level 3	Netting ⁽¹⁾	Value
Current Assets:					
Cash and cash equivalents	\$ 2,774,487	\$ —	\$ —	\$ —	\$ 2,774,487
Derivative Instruments	—	16,889	—	(16,889)	—
Non Current Assets:					
Derivative Instruments	—	377,845	—	(12,303)	365,542
Current Liabilities:					
Derivative instruments	—	(167,592)	—	16,889	(150,703)
Non Current Liabilities:					
Derivative Instruments	\$ —	\$ (12,303)	\$ —	\$ 12,303	\$ —

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- (1) **Netting** In accordance with the Company's standard practice, its commodity derivatives are subject to counterparty netting under agreements governing such derivatives and therefore the risk of loss is somewhat mitigated.

The following methods and assumptions were used to estimate the fair value of the assets and liabilities in the table above:

Fair Value of Financial Instruments. The Company's financial instruments consist primarily of cash and cash equivalents, restricted cash, accounts receivable and payable and derivatives. The carrying values of cash, restricted cash and equivalents and accounts receivables and payables are representative of their fair values due to their short-term maturities.

Commodity Derivative Contracts. The Company's commodity derivative instruments consisted of collars and swap contracts for oil and natural gas. The Company values the derivative contracts using industry standard models, based on an income approach, which considers various assumptions including quoted forward prices and contractual prices for the underlying commodities, time value and volatility factors, as well as other relevant economic measures. Substantially all of the assumptions can be observed throughout the full term of the contracts, can be derived from observable data or are supportable by observable levels at which transactions are executed in the marketplace and are therefore designated as level 2 within the fair value hierarchy. The discount rates used in the assumptions include consideration of non-performance risk. The Company accounts for its commodity derivatives at fair value on a recurring basis.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis. The Company also applies fair value accounting guidance to measure non-financial assets and liabilities such as business acquisitions proved oil and gas properties, and asset retirement obligations. These assets and liabilities are subject to fair value adjustments only in certain circumstances and are not subject to recurring revaluations. These items are primarily valued using the present value of estimated future cash inflows and/or outflows. Given the unobservable nature of these inputs, they are deemed to be Level 3.

Fair value may be estimated using comparable market data, a discounted cash flow method, or a combination of the two. The Company utilizes the discounted cash flow method; estimated future cash flows are based on management's expectations for the future and include estimates of future oil and gas production, commodity prices based on published forward commodity price curves as of the date of the estimate, operational costs, and a risk-adjusted discount rate. The fair value measurement was based on Level 3 inputs.

6. Commitments and Contingencies

Samson may be subject to various lawsuits and disputes incidental to its business operations, including commercial disputes, personal injury claims, and claims for underpayment of royalties, property damage claims and contract actions.

The Company records an associated liability when a loss is probable and the amount is reasonably estimable. Although the outcome of litigation cannot be predicted with certainty, management is of the opinion that no pending or threatened lawsuit or dispute incidental to its business operations is likely to have a material adverse effect on the company's consolidated financial position, results of operations or cash flows. The final resolution of such matters could exceed amounts accrued, however, and actual results could differ materially from management's estimates.

On September 4, 2019, the Company received an administrative action brought by the Commission under North Dakota Century Code Chapters 38-08 and 28-32 ("NDIC). The notice makes claim to the status of certain shut-in wells and other location items operated by Samson. Samson submitted its formal response in September 2019, and has met with the NDIC concerning this matter and has presented the Company's plan to address the administrative action. No final resolution or settlement has been entered into as of the filing of this report, however, the Company can reasonably estimate the amount of penalties and fees that may be assessed against it at December 31, 2019, therefore, an accrual for \$2.1 million for potential contingent liabilities has been included in these financial statements as an item within general and administrative expenses.

7. Capitalized Exploration Expense

We use the successful efforts method of accounting for exploration and evaluation expenditure in respect of each area of interest. The application of this policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular the assessment of whether economic quantities of reserves have been found. Any such estimates and assumptions may change as new information becomes available.

Exploration and evaluation assets are assessed for impairment when facts and circumstances indicate that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. When assessing for impairment consideration is given to but not limited to the following:

- the period for which Samson has the right to explore;
- planned and budgeted future exploration expenditure;
- activities incurred during the year; and

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- activities planned for future periods.

If, after having capitalized expenditures under our policy, we conclude that we are unlikely to recover the expenditures through future exploitation, then the relevant capitalized amount will be written off to expense.

As of December 31, 2019, we had no capitalized exploration expenditures.

8. Share Capital

Issue of Share Capital

No shares were issued during the six month period ended December 31, 2019. During the six month period ended December 31, 2018, following receipt of shareholder approval, we consolidated our outstanding ordinary shares by a factor of 10 to 1, reducing the number of ordinary shares outstanding. Prior year shares outstanding has been adjusted to reflect this change as if it had happened at the beginning of the period presented.

9. Debt

	December 31, 2019	June 30, 2019
Debt at beginning of period	\$ 33,500,000	\$ 23,867,557
Cash advances	—	33,561,707
Royalties payable transferred to long-term debt	160,713	—
Repayments	(2,679)	(23,929,264)
Debt at end of period	<u>\$ 33,658,034</u>	<u>\$ 33,500,000</u>
Less amount of debt currently due for repayment within a year	<u>\$ (33,532,143)</u>	<u>(33,500,000)</u>
Total non current credit facility at end of period	<u>125,891</u>	<u>—</u>
Funds available for drawdown under the facility	\$ —	\$ —

On April 9, 2019, the Company closed a \$33.5 million refinancing with AEP I FINCO LLC (“Lender”), as administrative agent, and certain other financial institutions (the “Credit Agreement”). The proceeds of the Credit Agreement were used to retire the Company’s previous credit facility of \$23.9 million, repay outstanding creditors, royalty and working interest owners and provide working capital to pursue its infill development drilling program. In conjunction with the closing of the Credit Agreement, the Company paid \$1.4 million in deferred borrowing costs.

The Credit Agreement is secured by certain of the Company’s oil and gas properties and has a 5-year term with a maturity date on April 9, 2024. Interest on the Credit Facility accrues at a rate equal to LIBOR plus a margin of 10.5% and is payable on the last day of each interest period. The effective interest rate at for the six month period ended December 31, 2019, was approximately 12.5%.

At December 31, 2019, the Company was not in compliance with certain financial covenants under the Credit Agreement. The total outstanding amount of the Credit Agreement was, therefore, categorized as a current liability. At June 30, 2019, the Company was not in compliance with certain financial covenants of the Credit Agreement. The total outstanding amount of the Credit Agreement was, therefore, categorized as a current liability and the deferred financing fees in the amount of \$1.4 million, previously recorded as a debt discount, were written-off to interest expense. Due to the Company’s recent breaches of the Credit Agreement, the Lender may declare an event of default and foreclose on some or all of the Company’s assets and/or accelerate the full amount of the \$33.5 million loan plus all accrued and unpaid interest, prepayment penalties, fees and other lender costs and expenses.

On November 8, 2019, the Company entered into an Installment Agreement with the Office of Natural Resources Revenue in the amount of \$160,713, payable over 60 equal monthly installments of \$2,678, for payment of Federal royalties.

10. Derivatives

The Company utilizes swap and collar option contracts to hedge the effect of price changes on a portion of its future oil and natural gas production. The objective of the Company’s hedging activities and the use of derivative financial instruments is to achieve more predictable cash flows. While the use of these derivative instruments limits the downside risk of adverse price movements, they also may limit future revenues from favorable price movements. The Company may, from time to time, opportunistically restructure existing derivative contracts or enter into new transactions to effectively modify the terms of current contracts in order to improve the pricing parameters in existing contracts or realize the current value of the Company’s existing positions. The Company may use the proceeds

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from such transactions to secure additional contracts for periods in which the Company believes it has additional unmitigated commodity price risk.

The use of derivatives involves the risk that the counterparties to such instruments will be unable to meet the financial terms of such contracts. The Company's derivative contracts are with a single major oil company with no history of default with the Company. The derivative contracts may be terminated by a non-defaulting party in the event of default by one of the parties to the agreement.

The Company has elected not to apply hedge accounting to any of its derivative transactions and, consequently, the Company recognizes mark-to-market gains and losses in earnings currently, rather than deferring such amounts in accumulated other comprehensive income for those commodity derivatives that would qualify as cash flow hedges. All derivative instruments are recorded on the balance sheet at fair value.

At December 31, 2019, the Company's commodity derivative contracts consisted of collars and fixed price swaps, which are described below:

Collar Collars contain a fixed floor price (put) and fixed ceiling price (call). If the market price exceeds the call strike price or falls below the put strike price, the Company receives the fixed price rather than the market price. If the market price is between the call and the put strike price, no payments are due from either party.

Fixed price swap The Company receives a fixed price for the contract and pays a floating market price to the counterparty over a specified period for a contracted volume.

All of the Company's derivative contracts are with the same counterparty and are shown on a net basis on the Balance Sheet. The Company's counterparty has entered into an inter-creditor agreement with AEP I FINCO LLC, the Company's lender. As such no collateral is required by the counterparty.

As of December 31, 2019, the Company had commodity derivative instruments outstanding through the first quarter of 2023, as summarized in the tables below.

Asset (liability)	Price per Bbl – WTI			Units (Bbl)	Estimated Fair Value \$
	Floor \$	Ceiling \$	Swap \$		
<i>Crude Oil Derivatives</i>					
2020	N/A	N/A	55.39 – 57.05	200,000	(529,729)
2021	N/A	N/A	54.03 – 55.70	182,000	46,686
2022	N/A	N/A	53.15 – 55.70	163,000	300,163
2023	N/A	N/A	53.46 – 55.70	39,000	83,108
	N/A	N/A		584,000	(99,772)
Year	Price per Mcf – Henry Hub			Units (Mcf)	Estimated Fair Value \$
	Floor \$	Ceiling \$	Swap \$		
<i>Natural Gas Derivatives</i>					
2020	2.60	2.80	–	63,900	21,760
2021	2.60	2.80	–	57,600	13,049
2022	2.60	2.80	–	51,300	11,648
2023	2.60	2.80	–	11,700	985
				184,500	47,442

The Company's commodity derivatives are measured at fair value and are included in the accompanying balance sheets as derivative assets and liabilities. The Company does not designate its derivative commodity contracts as hedging instruments. The fair value of the derivative commodity contracts was a net liability of \$52,330 at December 31, 2019, and a net asset of \$214,839 at June 30, 2019.

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The following tables detail the fair value of derivatives recorded in the accompanying balance sheets, by category:

	As of December 31, 2019,			
	Derivative Assets		Derivative Liabilities	
	Balance Sheet Classification	Fair Value	Balance Sheet Classification	Fair Value
Commodity contracts	Current assets	—	Current liabilities	(507,969)
Commodity contracts	Noncurrent assets	455,639	Noncurrent liabilities	—
Total commodity contracts		<u>455,639</u>		<u>(507,969)</u>

	As of June 30, 2019,			
	Derivative Assets		Derivative Liabilities	
	Balance Sheet Classification	Fair Value	Balance Sheet Classification	Fair Value
Commodity contracts	Current assets	—	Current liabilities	(150,703)
Commodity contracts	Noncurrent assets	365,542	Noncurrent liabilities	—
Total commodity contracts		<u>365,542</u>		<u>(150,703)</u>

As of December 31, 2019, and June 30, 2019, all derivative instruments held by the Company were subject to a master netting arrangement with one financial institution. In general, the terms of the Company's agreement provide for offsetting of amounts payable or receivable between it and the counterparty, at the election of both parties, for transactions that settle on the same date and in the same currency. The Company's agreement also provides that in the event of an early termination, the counterparties have the right to offset amounts owed or owing under that and any other agreement with the same counterparty. The Company's accounting policy is to offset these positions in its accompanying balance sheets.

The Company recognizes all gains and losses from changes in commodity derivative fair values immediately in earnings rather than deferring any such amounts in accumulated other comprehensive income (loss). The Company had no derivatives designated as hedging instruments for the three-month periods ended December 31, 2019, and 2018. The following table summarizes the components of the net derivative gain (loss) line item presented in the accompanying statements of operations:

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2019	2018	2019	2018
Realized gain (loss) on derivatives	\$ 101,118	\$ (748,470)	\$ 134,508	\$ (775,450)
Unrealized gain on derivatives	(2,659,912)	1,210,795	(267,169)	1,210,795
Total gain (loss) on derivatives	<u>\$ (2,558,794)</u>	<u>\$ 462,325</u>	<u>\$ (132,661)</u>	<u>\$ 435,345</u>

As of December 31, 2019, and through the filing of this report, all of the Company's derivative counterparties were members of the Company's Credit Agreement lender group.

11. Leases

Effective July 1, 2019, the Company adopted ASC 842, which requires lessees to recognize operating and finance leases with terms greater than 12 months on the balance sheet. The Company adopted this standard using the modified retrospective method and elected to use the optional transition methodology whereby reporting periods prior to adoption continue to be presented in accordance with legacy accounting guidance. As of December 31, 2019, the Company did not have any agreements in place that were classified as finance leases under ASC 842. Arrangements classified as operating leases are included on the accompanying balance sheets as right-of-use-assets ("ROU") and lease liabilities.

As outlined in ASC 842, a ROU asset represents a lessee's right to use an underlying asset for the lease term, while the associated lease liability represents the lessee's obligations to make lease payments. At the commencement date, which is the date on which a lessor makes an underlying asset available for use by a lessee, a lease ROU asset and corresponding lease liability is recognized based on the present value of the future lease payments. The initial measurement of lease payments may also be adjusted for certain items, including options that are reasonably certain to be exercised, such as options to purchase the asset at the end of the lease term, or options to extend or early terminate the lease. Excluded from the initial measurement of a ROU asset and corresponding lease liability are certain variable lease payments, such as payments made that vary depending on actual usage or performance.

The Company evaluates a contractual arrangement at its inception to determine if it is a lease or contains an identifiable lease component as defined by ASC 842. When evaluating a contract to determine appropriate classification and recognition under ASC 842, significant judgment may be necessary to determine, among other criteria, if an embedded leasing arrangement exists, the length of the term, classification as either an operating or financing lease, which options are reasonably likely to be exercised, fair value of the underlying

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ROU asset or assets, upfront costs, and future lease payments that are included or excluded in the initial measurement of the ROU asset. Certain assumptions and judgments made by the Company when evaluating a contract that meets the definition of a lease under ASC 842 include:

- *Discount Rate* - Unless implicitly defined, the Company will determine the present value of future lease payments using an estimated incremental borrowing rate based on an analysis that factors in certain assumptions, including the term of the lease and credit rating of the Company at lease inception.
- *Lease Term* - The Company evaluates each contract containing a lease arrangement at inception to determine the length of the lease term when recognizing a ROU asset and corresponding lease liability. When determining the lease term, options available to extend or early terminate the arrangement are evaluated and included when it is reasonably certain an option will be exercised. Because of the Company's intent to maintain financial and operational flexibility, there are no available options to extend that the Company is reasonably certain it will exercise. Additionally, based on expectations for those agreements with early termination options, there are no leases in which early termination options are reasonably certain to be exercised.

Currently, the Company has one lease for asset classes that is for office space to support its corporate operations. The office agreement is with a third party and was structured with a sixty-month term.

Components of lease costs within general and administrative costs are as follows:

	Three Months December 31, 2019	Six Months December 31, 2019
Operating lease cost:		
General and administrative costs	\$ 23,262	\$ 46,524

Supplemental lease related cash flow information are as follows:

	Three Months December 31, 2019	Six Months December 31, 2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 25,976	\$ 51,664

Supplemental lease related balance sheet information are as follows:

	Balance Sheet as of	
	December 31, 2019	June 30, 2019
Operating leases:		
Right-of-use-asset	\$ 138,961	\$ —
Lease liability - current	\$ 62,686	\$ —
Lease liability - Noncurrent	96,914	—
Total lease liabilities	<u>\$ 159,600</u>	<u>\$ —</u>

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Weighted average remaining lease term and discount rate as of December 31, 2019:

	Operating Leases
Weighted average remaining lease term	1.58 years
Weighted average discount rate	6.25%

Maturity of lease liabilities as of December 31, 2019:

	Operating Leases
2020	\$ 105,348
2021 (January - July 2021)	62,632
Total lease payments	\$ 167,980
Less: Imputed interest	(8,380)
Total lease liability	<u>\$ 159,600</u>

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following is management's discussion and analysis of certain significant factors that have affected aspects of our financial position and the results of operations during the periods included in the accompanying Condensed Financial Statements. You should read this in conjunction with the discussion under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the audited Financial Statements for the year ended June 30, 2019, included in our Annual Report on Form 10-K and the Condensed Consolidated Financial Statements included elsewhere herein.

Throughout this report, a barrel of oil or "Bbl" means a stock tank barrel ("STB") and a thousand cubic feet of gas or "Mcf" means a thousand standard cubic feet of gas ("Mscf").

Overview

We are an independent energy company whose business plan is to acquire, explore and develop oil, natural gas and natural gas liquids ("NGL's") in the United States, primarily with a focus in Montana and North Dakota. Due to our limited capital and low commodity prices, we have not been able to execute on our business plan. Our long-term strategy is to seek to deliver net asset value per share growth to our investors via attractive investments within the oil and gas industry. In the event we are able to obtain sufficient additional capital we expect to seek properties that offer profit potential from overlooked and by-passed reserves of oil and natural gas, which may include shut-in wells, in-field development, stripper wells, re-completion and re-working projects.

Our financial statements have been prepared on the going concern basis, which contemplates the continuity of normal business activities and the realization of assets and settlement of liabilities in the normal course of business. We incurred net losses of \$7.4 million and \$7.2 million and had net cash outflows from operating activities of \$35,278 and \$5.4 million for the six-month period ended December 31, 2019, and fiscal year ended June 30, 2019, respectively.

On April 9, 2019, we closed a \$33.5 million refinancing with AEP I FINCO LLC ("Lender"), as administrative agent, and certain other financial institutions (the "Credit Agreement"). The proceeds of the Credit Agreement were used to retire our previous credit facility of \$23.9 million, repay outstanding creditors, royalty and working interest owners and provide working capital to pursue our infill development drilling program. In conjunction with the closing of the Credit Agreement, we paid \$1.4 million in deferred borrowing costs.

The Credit Agreement is secured by certain of our oil and gas properties and has a 5-year term with a maturity date on April 9, 2024. Interest on the Credit Facility accrues at a rate equal to LIBOR plus a margin of 10.5% and is payable on the last day of each interest period. The effective interest rate for the six month period ended December 31, 2019, was approximately 12.5%. At December 31, 2019, we were not in compliance with certain financial covenants under the Credit Agreement. The total outstanding amount of the Credit Agreement was, therefore, categorized as a current liability. Previously, at June 30, 2019, when we were not in compliance with certain financial covenants, the total outstanding amount of the Credit Agreement was categorized as a current liability and the deferred financing fees in the amount of \$1.4 million, previously recorded as a debt discount, were written off to interest expense. Due to our breaches of the Credit Agreement, the Lender may declare an event of default and foreclose on some or all of our assets and/or accelerate the full amount of the \$33.5 million loan plus all accrued and unpaid interest, prepayment penalties, fees and other lender costs and expenses.

On September 4, 2019, we received notice of an administrative action brought by the Commission under North Dakota Century Code Chapters 38-08 and 28-32 ("NDIC). The notice makes claim to the status of certain shut-in wells and other location items operated by us. We submitted a formal response in September 2019, and met with the NDIC concerning this matter and presented our plan to address the administrative action. No final resolution or settlement has been entered into as of the filing of this report, however, we can reasonably estimate the amount of penalties and fees that may be assessed against us at December 31, 2019, therefore, an accrual for \$2.1 million for potential contingent liabilities has been included in our financial statements as an item within general and administrative expenses.

At December 31, 2019, our total current liabilities of \$49.9 million exceed our total current assets of \$4.6 million. Our ability to continue as a going concern is dependent on the re-negotiation of the Credit Agreement, the sale or refinancing of our oil and gas assets and/or raising further capital. These factors raise substantial doubt over our ability to continue as a going concern and whether we will realize our assets and extinguish our liabilities in the normal course of business and at the amounts stated in the financial statements.

We are seeking a waiver of our breaches of the Credit Agreement from our Lender and thereafter plan to increase our cash flows from operations through the successful development of the Foreman Butte project and reducing our operating and general and administrative costs. In addition, we have been negotiating a potential transaction to divest substantially all of our oil and gas assets. If those negotiations are successful and the transaction is effected, we believe, it will result in proceeds not less than our obligations under the Credit Agreement and to our vendors.

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However, there can be no assurances that we will successfully obtain a waiver, divest our assets or increase our cash flows from operations. Given our current financial situation we may be forced to accept terms on some or all of these transactions that are less favorable than would be otherwise available.

As of the date of this report the Lender has not waived our breaches of the Credit Agreement.

To provide an understanding of our past performance, financial condition and prospects for the future we discuss and provide our analysis of the following:

- Results of operations;
- Liquidity and capital resources;
- Contractual obligations;
- Off balance sheet arrangements;
- Critical accounting policies; and
- New accounting pronouncements.

Fiscal quarter overview

Oil, Gas, and NGL Prices

Our financial condition and the results of our operations are significantly affected by the prices we receive for our oil, gas, and NGL production, which can fluctuate dramatically. Our oil and gas are sold under contracts paying us various industry posted prices, adjusted for basis differentials. We are paid the average of the daily settlement price for the respective posted prices for the period in which the product is sold, adjusted for quality, transportation and location differentials.

We expect future prices for oil, gas, and NGLs to continue to be volatile. In addition to supply and demand fundamentals, as a global commodity, the price of oil is affected by real or perceived geopolitical risks in all regions of the world as well as the relative strength of the dollar compared to other currencies. Oil markets continue to be unstable.

Results of Operations

Presented below is a discussion of our results of operations for the three and six month periods ended December 31, 2019, and 2018.

Net Income (Loss) Applicable to Common Stockholders

Our net loss applicable to common stockholders for the six month period ended December 31, 2019, was \$7.4 million compared to a net loss of \$1.4 million for the six month period ended December 31, 2018. Lease operating expenses continue to be high due to workovers, our debt service is approximately \$1.1 million per quarter compared to approximately \$0.4 million in the prior year and we made an accrual of \$2.1 million related to a proposed settlement with the North Dakota Industrial Commission (“NDIC”) that is recorded in our general and administrative expenses.

Oil and Gas Producing Activities

The results of our producing oil and gas properties are presented below:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2019	2018	2019	2018
Sales Volume				
Oil (Bbls)	67,200	63,618	142,251	118,397
Natural gas (Mcf)	7,693	10,583	16,591	22,424
BOE (Barrels of oil equivalent - based on one barrel of oil to six Mcf of natural gas)	68,482	65,382	145,016	122,134
Sales Price				
Realized Oil (\$/Bbls)	\$ 48.60	\$ 45.89	\$ 49.79	\$ 54.52
Impact of settled derivative instruments	\$ 1.50	\$ (3.61)	\$ 0.95	\$ (6.55)
Derivative adjusted price	\$ 50.10	\$ 42.28	\$ 50.74	\$ 47.97
Expense per BOE:				
Lease operating expenses	\$ 46.11	\$ 50.58	\$ 44.70	\$ 44.87
Depletion, depreciation and amortization	\$ 16.22	\$ 19.93	\$ 15.60	\$ 10.97
General and administrative expense	\$ 37.43	\$ 14.40	\$ 24.66	\$ 14.56
Production taxes, gathering and processing fees as a % of sales				
Production taxes, gathering and processing fees	9.18%	8.58%	8.91%	8.17%

The following table sets forth results of operations for the following periods:

	Three Months Ended December 31,		
	2019	2018	change
Oil sales	\$ 3,266,152	\$ 2,919,607	\$ 346,545
Gas sales	21,772	105,464	(83,692)
Other liquids	1,026	4,964	(3,938)
Total oil and gas income	3,288,950	3,030,035	258,915
Lease operating expense	3,157,500	3,307,215	(149,715)
Exploration and evaluation expenditure	11,632	10,532	1,100
Abandonment expense	25,416	—	25,416
Depletion, depreciation and amortization	875,213	1,025,407	(150,194)
Accretion of asset retirement obligations	235,580	277,356	(41,776)
Total oil & gas operating expenses	4,305,341	4,620,510	(315,169)
Gross loss from oil and gas operations	(1,016,391)	(1,590,475)	574,084
General and administrative	(2,563,207)	(941,567)	(1,621,640)
Interest expense, net	(1,147,717)	(481,697)	(666,020)
Realized gain (loss) on derivative instruments	101,118	(748,470)	849,588
Unrealized gain (loss) on derivative instruments	(2,659,912)	1,210,795	(3,870,707)
Gain from insurance proceeds	380,004	—	380,004
Other income	7,999	—	7,999
Total other expenses	(5,881,715)	(960,939)	(4,920,776)
Net loss before income taxes	(6,898,106)	(2,551,414)	(4,346,692)
Income tax benefit (loss)	—	—	—
Net loss before income taxes	\$ (6,898,106)	\$ (2,551,414)	\$ (4,346,692)

Comparison of three months ended December 31, 2019, to three months ended December 31, 2018.

Our oil sales for the three month periods ended December 31, 2019, and 2018, were \$3.3 million and \$2.9 million, respectively, an increase of \$0.3 million or 11.9%. Our oil sales volumes during the current quarter were 67,200 barrels compared to 63,618 barrels of oil in the prior year same quarter, which represented an increase of 3,582 barrels or 5.6%. The effect on our oil sales due to the increased sales volumes was \$0.2 million. Realized oil prices increased in the current quarter to \$48.60 per barrel compared to \$45.89 in the comparative quarter in the prior year. The effect on our oil sales due to increased realized prices was \$0.2 million.

Lease operating expense decreased \$0.1 million or 4.5% in the current quarter compared to the same quarter in the prior year. Our largest costs included in lease operating expense are salt water disposal, environmental and workover expense. Salt water disposal costs are approximately \$300,000 per month. This is higher than normal due to one of our main salt water disposal wells being shut-in for the past six months pending approval from the NDIC. As a result, we have had to truck our salt water to an offsite disposal location that has increased our costs. In February 2020, we received an approval from the NDIC to begin injecting into our disposal well and we expect this to help reduce the cost of our salt water disposal. Environmental and workover expenses are the next largest costs. We continued our efforts to increase well bore efficiency and increase production through a workover program that we believe has been successful given the increase in sales volumes.

We generally expect absolute production tax expense to trend as a percentage with our oil, natural gas, and NGL sales revenue, which is typically around 9.0% of sales revenue. Production taxes as a percentage of revenue for the three month periods ended December 31, 2019 and 2018, were 9.2% and 8.6%, respectively.

Our depletion, depreciation and amortization (“DD&A”) expenses were \$1.1 million for the three month period ended December 31, 2019, compared to \$1.3 million for the comparative period in the prior year. This represents an increase of \$0.2 million or 14.7%.

We perform assessments of our long-lived assets to be held and used, including oil and gas properties, whenever events or circumstances indicate that the carrying value of those assets may not be recoverable. To the extent such assessments indicate a reduction of the estimated useful life or estimated future cash flows of our oil and gas properties, the carrying value may not be recoverable and, therefore, an impairment charge would be required to reduce the carrying value of the proved properties to their fair value.

The cash flow model we use to assess proved properties for impairment includes numerous assumptions. The primary factors that may affect estimates of future cash flows are (i) future reserve adjustments, both positive and negative, to proved reserves and appropriate risk-adjusted probable and possible reserves, (ii) results of future drilling activities, (iii) management's price outlook (iv) increases or decreases in production costs and capital costs associated with those reserves and (v) our ability to fund the capital costs related to undeveloped reserves. All inputs to the cash flow model are evaluated at each measurement date.

There were no charges to impairment expense related to our oil and gas properties based on the assumptions that management used to evaluate the future cash flows.

General and administrative expenses include a charge in the amount of \$2.1 million related to a proposed settlement from the NDIC (see *Commitments and Contingencies* section below for more details). General and administrative expenses, excluding this charge, were \$0.5 million, a decrease of \$0.4 million or 58.0% for the three month period ended December 31, 2019, compared to the same period in 2018. We reduced our staff size in the third quarter of the prior fiscal year in an effort to reduce costs and have focused on reducing our general and administrative costs further in the current fiscal year. Accounting, legal and consulting fees are the areas that we have seen the largest cost savings.

Interest expense, net of interest income, for the three month periods ended December 31, 2019, and 2018, were \$1.1 million and \$0.5 million, respectively, an increase of \$0.6 million or 138.3%. This increase is due to the interest rate under the Credit Agreement entered into in April 2019, which is LIBOR plus 10.5% (approximately 12.5% at December 31, 2019), compared to the previous debt facility, which had an effective interest rate equal to the Prime Rate plus 1.0% to 2.5% (approximately 5.25% to 6.75% at December 31, 2018).

We received \$0.4 million of insurance proceeds, which we recorded as a gain from insurance proceeds in our statement of operations, related to the reimbursement of certain expenses related to insurance claims submitted by the Company to its insurance carrier.

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The following table sets forth results of operations for the following periods:

	Six Months Ended		
	December 31,		
	2019	2018	change
Oil sales	\$ 7,083,055	\$ 6,454,848	\$ 628,207
Gas sales	52,029	142,741	(90,712)
Other liquids	2,442	8,833	(6,391)
Total oil and gas income	7,137,526	6,606,422	531,104
Lease operating expense	6,482,720	5,480,332	1,002,388
Exploration and evaluation expenditure	14,093	39,310	(25,217)
Abandonment expense	25,416	—	25,416
Depletion, depreciation and amortization	1,910,725	1,061,971	848,754
Accretion of asset retirement obligations	351,500	277,356	74,144
Total oil & gas operating expenses	8,784,454	6,858,969	1,925,485
Gross loss from oil and gas operations	(1,646,928)	(252,547)	(1,394,381)
General and administrative	(3,575,969)	(1,777,870)	(1,798,099)
Interest expense, net	(2,389,950)	(755,688)	(1,634,262)
Realized gain (loss) on derivative instruments	134,508	(775,450)	909,958
Unrealized (loss) gain on derivative instruments	(267,169)	1,210,795	(1,477,964)
Income from forfeiture of non-refundable deposit	—	1,000,000	(1,000,000)
Gain from insurance proceeds	380,004	—	380,004
Other income	14,788	—	14,788
Total other expenses	(5,703,788)	(1,098,213)	(4,605,575)
Net loss before income taxes	(7,350,716)	(1,350,760)	(5,999,956)
Income tax benefit (loss)	—	—	—
Net loss before income taxes	<u>\$ (7,350,716)</u>	<u>\$ (1,350,760)</u>	<u>\$ (5,999,956)</u>

Comparison of six months ended December 31, 2019, to six months ended December 31, 2018.

Our oil sales for the six month periods ended December 31, 2019, and 2018, were \$7.1 million and \$6.5 million, respectively, an increase of \$0.6 million or 9.7%. Our oil sales volumes were 142,251 barrels compared to 118,397 barrels of oil in the prior year, which represented an increase of 23,854 barrels or 20.1%. The effect on our oil sales due to the increased sales volumes was \$1.3 million. This increase was offset by lower realized oil prices for the six month period ended December 31, 2019, of \$49.79 per barrel compared to \$54.52 for the same period in the prior year. Lower realized oil prices had a negative impact on our sales of \$0.7 million.

Lease operating expense increased \$1.0 million or 18.3% in the current period compared to the same period in the prior year. Our largest costs included in lease operating expense are salt water disposal, environmental and workover expense. Salt water disposal costs are approximately \$300,000 per month. This is higher than normal due to one of our main salt water disposal wells being shut-in for the past six months pending approval from the NDIC. We have had to truck our salt water to an offsite disposal location that has increased our costs. In February 2020, we received an approval from the NDIC to begin injecting into our disposal well and we expect this to help reduce the cost of our salt water disposal. Environmental and workover expenses are the next largest costs. We continued our efforts to increase well bore efficiency and increase production through a workover program that we believe has been successful given the increase in sales volumes. Workover expenses were approximately \$300,000 in the current quarter compared to the previous quarter, which were approximately \$464,000. We are coming to the end of our workover program and are only utilizing our rig when the economics of the projects meet certain criteria.

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We generally expect absolute production tax expense to trend as a percentage with our oil, natural gas, and NGL sales revenue, which is typically around 9.0% of sales revenue. Production taxes as a percentage of revenue for the six month periods ended December 31, 2019 and 2018, were 8.9% and 8.1%, respectively.

Our depletion, depreciation and amortization (“DD&A”) expenses were \$2.2 million for the six month period ended December 31, 2019, compared to \$1.3 million for the comparative period in the prior year. This represents an increase of \$0.9 million or 68.9% increase. During the same period in the prior year our assets were held for sale for a portion of the period and no DD&A was taken.

We perform assessments of our long-lived assets to be held and used, including oil and gas properties, whenever events or circumstances indicate that the carrying value of those assets may not be recoverable. To the extent such assessments indicate a reduction of the estimated useful life or estimated future cash flows of our oil and gas properties, the carrying value may not be recoverable and, therefore, an impairment charge would be required to reduce the carrying value of the proved properties to their fair value.

The cash flow model we use to assess proved properties for impairment includes numerous assumptions. The primary factors that may affect estimates of future cash flows are (i) future reserve adjustments, both positive and negative, to proved reserves and appropriate risk-adjusted probable and possible reserves, (ii) results of future drilling activities, (iii) management's price outlook (iv) increases or decreases in production costs and capital costs associated with those reserves and (v) our ability to fund the capital costs related to undeveloped reserves. All inputs to the cash flow model are evaluated at each measurement date.

There were no charges to impairment expense related to our oil and gas properties based on the assumptions that management used to evaluate the future cash flows.

General and administrative expenses include a charge in the amount of \$2.1 million related to a settlement proposal from the NDIC (see **Commitments and Contingencies** section below for more details). General and administrative expenses, excluding this charge, was \$1.5 million, which was a decrease of \$0.3 million or 16.0% for the six month period ended December 31, 2019, compared to the same period in 2018. We reduced our staff size in the third quarter of the prior fiscal year in an effort to reduce costs and we have focused on reducing our general and administrative costs further in the current fiscal year. Accounting, legal and consulting fees are the areas that we have seen the largest cost savings.

Interest expense, net of interest income, for the six month periods ended December 31, 2019, and 2018, were \$2.4 million and \$0.8 million, respectively, an increase of \$1.6 million or 216.1%. This increase is due to the interest rate under the Credit Agreement entered into in April 2019, which is LIBOR plus 10.5% (approximately 12.5% at December 31, 2019), compared to the previous debt facility, which had an effective interest rate equal to the Prime Rate plus 1.0% to 2.5% (approximately 5.25% to 6.75% at December 31, 2018).

We received \$0.4 million of insurance proceeds, which we recorded as a gain from insurance proceeds in our statement of operations, related to the reimbursement of certain expenses related to insurance claims submitted by the Company to its insurance carrier.

Cash Flows

The table below shows cash flows for the following periods:

	Six Months Ended December 31,	
	2019	2018
Cash used in operating activities	\$ (35,278)	\$ (36,712)
Cash (used in) provided by investing activities	(20,271)	403,765
Cash used in financing activities	(2,679)	—

Liquidity, Capital Resources and Capital Expenditures

We do not generate adequate revenue to satisfy our current operations, we have negative cash flows from operations, and we have incurred significant net operating losses during the six month period ended December 31, 2019, and for the fiscal year ended June 30, 2019, which raise substantial doubt about our ability to continue as a going concern. Nevertheless, of this our financial statements have been prepared on the going concern basis, which contemplates the continuity of normal business activities and the realization of assets and settlement of liabilities in the normal course of business. We are in breach of several of our covenants related to the Credit Agreement resulting in our borrowings payable of \$33.5 million being classified in current liabilities.

Our ability to continue as a going concern is dependent on the re-negotiation of the Credit Agreement, the sale or refinancing of our oil and gas assets and/or raising further capital. These factors raise substantial doubt over our ability to continue as a going concern and

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therefore whether we will realize our assets and extinguish our liabilities in the normal course of business and at the amounts stated in the financial statements.

We are seeking a waiver of our breaches of the Credit Agreement from our Lender and thereafter plan to increase our cash flows from operations through the successful development of the Foreman Butte project and reducing our operating and general and administrative costs. In addition, we have been negotiating a potential transaction to divest substantially all of our oil and gas assets. If those negotiations are successful and the transaction effected, we believe it will result in proceeds not less than our obligations under the Credit Agreement and to our vendors.

However, there can be no assurances that we will successfully obtain a waiver, divest our oil and gas assets or increase our cash flows from operations. Given our current financial situation we may be forced to accept terms on some or all of these transactions that are less favorable than would be otherwise available.

We used \$35,278 of cash flow from our operations during the six month period ended December 31, 2019, compared to approximately \$36,712 of cash used in operations during the comparative period in the prior year. Our loss can be primarily attributed to higher LOE costs and higher interest expenses related to our Credit Agreement and a proposed settlement with the NDIC of \$2.1 million in general and administrative expense, which, aggregated with LOE costs and interest expense, equaled \$11.0 million compared to \$5.6 million for the same period in the prior year.

Cash flows used in investing activities during the six month period ended December 31, 2019, was \$20,271 compared to cash flow provided by investing activities of \$0.4 million in the prior year. During the six month period ended December 31, 2019, we were not engaged in any significant capital drilling projects. During the six month period ended December 31, 2018, we recorded \$1.0 million of other income related to the failed sale with Eagle Energy Partners I, LLC, where they forfeited a nonrefundable deposit of the same amount.

In November 2019, we entered into an installment agreement for \$160,713 related to royalties payable. We made the first principal payment in December 31, 2019. There were no cash flows used in or provided by financing activities for the six month period ended December 31, 2018.

Off-Balance Sheet Arrangements

We had no existing off-balance sheet arrangements at December 31, 2019, as defined under SEC rules, that have or are reasonably likely to have a material current or future effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Critical Accounting Policies

Going concern. Our financial statements have been prepared on the going concern basis, which contemplates the continuity of normal business activities and the realization of assets and settlement of liabilities in the normal course of business. We incurred net losses of \$7.4 million and \$7.2 million and had net cash outflows from operating activities of \$35,278 and \$5.4 million for the six month period ended December 31, 2019, and fiscal year ended June 30, 2019, respectively. At December 31, 2019, our total current liabilities of \$49.9 million exceed our total current assets of \$4.5 million. Our ability to continue as a going concern is dependent on the re-negotiation of the Credit Agreement, the sale of assets and/or raising further capital. These factors raise substantial doubt over our ability to continue as a going concern and therefore whether we will realize our assets and extinguish our liabilities in the normal course of business and at the amounts stated in the financial report.

We believe that we can negotiate a waiver with our Lender and increase our cash flows from operations through the successful development of the Foreman Butte project and reducing our operating and general and administrative costs. In addition, we are negotiating with a prospective party a transaction to divest all of our oil and gas assets, which we believe, if successful, will result in proceeds not less than our obligations under the Credit Agreement and to our vendors.

However, there can be no assurances that we will successfully obtain a waiver, successfully divest our assets or increase our cash flows from operations. Given our current financial situation we may be forced to accept terms on these transactions that are less favorable than would be otherwise available.

ASC 842, Leases. In January 2016, Accounting Standard Codification 842 - Leases was issued, which provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessees and lessors. ASC 842 changes the current accounting for leases to eliminate the operating/finance lease designation and require entities to recognize most leases on the statement of financial position, initially recorded at the fair value of unavoidable lease payments, as a right of use asset and respective liability. The entity will then recognize lease expense on a straight-line basis for operating leases and interest and depreciation on lease assets for finance leases on the statement of profit or loss.

We implemented ASU 2016-02 Leases (Topic 842) (“ASC 842”) as of July 1, 2019, using the “Modified Retrospective Approach” and elected the package of practical expedients within ASU 2016-02 Leases (Topic 842) that allows an entity to not reassess, prior to the effective date, (i) whether any expired or existing contracts are or contain leases, (ii) the lease classification of any expired or existing leases, or (iii) initial direct costs for any existing leases. Additionally, we elected the practical expedient to not evaluate existing or expired land easements not previously accounted for as leases prior to the effective date.

We identified each of our leases and determined the impact of this new guidance on each of the identified leases. As a result, we recorded a right-of-use asset and liability associated with operating leases of \$179,791 and \$205,571, respectively. The difference between the right-of-use-asset and lease liability of \$25,780, was recorded to accumulated losses at July 1, 2019.

Commitments and Contingencies

We may be subject to various other lawsuits and disputes incidental to our business operations, including commercial disputes, personal injury claims, and claims for underpayment of royalties, property damage claims and contract actions.

We record an associated liability when a loss is probable and the amount is reasonably estimable. Although the outcome of litigation cannot be predicted with certainty, management is of the opinion that no pending or threatened lawsuit or dispute incidental to our business operations is likely to have a material adverse effect on our consolidated financial position, results of operations or cash flows. The final resolution of such matters could exceed amounts accrued, however, and actual results could differ materially from management’s estimates.

On September 4, 2019, we received an administrative action brought by the Commission under North Dakota Century Code Chapters 38-08 and 28-32 (“NDIC). The notice makes claim to the status of certain shut-in wells and other location items operated by us. We submitted our formal response in September 2019, and have met with the NDIC concerning this matter and have presented our plan to address the administrative action. No final resolution or settlement has been entered into as of the filing of this report, however, we can reasonably estimate the amount of penalties and fees that may be assessed against us at December 31, 2019, therefore, an accrual for \$2.1 million for potential contingent liabilities has, therefore, been included in our financial statements as an item within general and administrative expenses.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 4. Controls and Procedures.

Controls and Procedures. We conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”) as of December 31, 2019. This evaluation was conducted under the supervision and with the participation of management, including our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”). Our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the rules and forms of the SEC, and that information required to be disclosed by us in such reports is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Management’s Annual Report on Internal Control over Financial Reporting. We are responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of assets of the company, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company’s assets that could have a material effect on the financial statements.

Under the supervision and with the participation of our management, including our CEO and CFO, we assessed the effectiveness of our internal control over financial reporting as of December 31, 2019, the end of our second fiscal quarter. This assessment was based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Based on our assessment for the reasons noted above, management has concluded that, as of December 31, 2019, our internal control over financial reporting is not effective based upon these criteria.

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A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies in Samson Oil and Gas Limited's ("SSN") internal control to be material weaknesses:

Management identified control deficiencies that in the aggregate represent a material weakness in our internal control over financial reporting as of December 31, 2019. We have identified deficiencies in the design and/or operations of our controls associated with the Financial Close and Reporting process that in the aggregate represent a material weakness including: (i) deficiencies in control design and operating effectiveness relating to manual processes performed to adequately capture accounts payable invoices and estimate costs that were incurred during the reporting period for which the invoices had not been received; (ii) deficiencies in operating effectiveness of controls over reconciliations of balance sheet accounts and review of journal entries; and (iii) a lack of segregation of duties.

Since the Company took over operatorship of the Foreman Butte field in 2016 the design of our accounts payable cut-off process has not been sufficient enough to adequately capture all invoices in a timely fashion. The impact of this was originally stated in Note 2 to our Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 15, 2017. At that time, we concluded that this control was not operating effectively for the quarter ended March 31, 2017. At December 31, 2019, we have updated our procedures for estimating for those costs that have been incurred where the invoice has not been received at the time the financial close process is completed. Based on these new procedures we have concluded that this process has become adequate to capture all invoices in a timely fashion. The assessment of this control to determine if it is effective has not been determined at December 31, 2019.

The inadequate segregation of duties is a weakness because it could lead to the untimely identification and resolution of accounting and disclosure matters or could lead to a failure to perform timely and effective reviews. During the quarter ended December 31, 2019, we had only one person, an executive officer, that performed nearly all aspects of our financial reporting process, including, but not limited to, access to the underlying accounting records and systems, the ability to post and record journal entries and responsibility for the preparation of the financial statements. This provides for a lack of review over the financial reporting process that may result in a failure to detect errors in spreadsheets, calculations, or assumptions used to compile the financial statements and related disclosures as filed with the SEC. As we had only three full time employees during the six month period ended December 31, 2019, we did not have a sufficient compliment of personnel with appropriate training and experience in GAAP and SEC reporting to fully address complex financial reporting matters.

The material weakness we identified associated with accounts payable and accrued liabilities were due to the lack of analysis of capital expenditures, costs related to non-operated properties, operated properties and general and administrative expenses. The material weakness related to the Financial Close and Reporting process arises primarily from; (i) a lack of a sufficient complement of accounting and financial reporting personnel who were unable to implement formal accounting policies with an appropriate level of accounting knowledge and experience commensurate with our financial reporting requirements; and (ii) inadequate reconciliations of balance sheet accounts directly related to financial statement processes.

Remedial Action

The Company hired a CFO on October 1, 2019, with the accounting knowledge and experience to help institute appropriate controls and procedures to remediate the above discussed material weaknesses.

Planned Actions

- Continue working to document and remediate weaknesses, and to structure the Company's accounting/finance department to meet financial and reporting requirements;
- Create and implement a formal closing checklist;
- Document internal control procedures for significant accounting areas with an emphasis on implementing additional documented review and approval procedures and automated controls within the Company's accounting system;
- Conduct formal training related to key accounting policies, internal controls, and SEC compliance for all key personnel which have a direct and indirect impact on the transactions underlying the financial statements;
- Implement Information Technology systems and documentation and new controls that have an impact on financial reporting.

In light of the material weakness in internal control over financial reporting described above, we performed additional analysis and other post-closing procedures to ensure that our financial statements were prepared in accordance with generally accepted accounting principles. Despite the material weakness in our internal controls over financial reporting, we believe that the financial statements included in our Form 10-Q for the period ended December 31, 2019, fairly present, in all material respects, our financial condition, results of operations, changes in stockholders' deficit and cash flows for the periods presented.

The foregoing has been approved by our management, including our CEO and CFO, who have been involved with the reassessment and analysis of our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Accordingly, our disclosure controls and procedures are designed to provide reasonable, not absolute, assurance that the objectives of our disclosure system are met. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Changes in Internal Control over Financial Reporting

We have begun documenting our significant processes surrounding our financial close, our treasury policies and accounts payable and accrued liability procedures and have implemented some controls to help mitigate the lack of segregation of duties. In addition, we have begun to document a formal training policy, whereby our employees will be able to participate in continuing education and other types of training to enhance their abilities to perform their job functions.

Part II — Other Information

Item 1. Legal Proceedings.

In the ordinary course of our business we are named from time to time as a defendant in various legal proceedings. We maintain liability insurance and believe that our coverage is reasonable in view of the legal risks to which our business ordinarily is subject.

On September 4, 2019, we received an administrative action brought by the Commission under North Dakota Century Code Chapters 38-08 and 28-32 (“NDIC”). The notice makes claim to the status of certain shut-in wells and other location items operated by us. We submitted its formal response in September 2019, and has met with the NDIC concerning this matter and has presented our plan to address the administrative action. No final resolution or settlement has been entered into as of the filing of this report, however, we can reasonably estimate the amount of penalties and fees that may be assessed against us at December 31, 2019, therefore, an accrual for \$2.1 million for potential contingent liabilities have been included in our financial statements as an item within general and administrative expenses.

Item 1A. Risk Factors.

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in the section entitled “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended June 30, 2019. The risks disclosed herein and in our Annual Report on Form 10-K could materially affect our business, financial condition, liquidity or operating results in the future. The risks described herein and in our Annual Report on Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition, liquidity or operating results in the future. There have been no material changes to the risk factors disclosed in the Annual Report.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None

Item 3. Defaults Upon Senior Securities.

The description of our non-compliance with the terms and covenants of our Credit Agreement included in “Part I - Item 2 - Management’s Discussion and Analysis of Financial Condition and Results of Operations - Liquidity, Capital Resources and Capital Expenditures” is incorporated herein by reference.

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Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None

Item 6. Exhibits.

Exhibit No.	Title of Exhibit
31.1	Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certifications of the Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

*Furnished herewith

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SAMSON OIL & GAS LIMITED

Date: February 19, 2020

By: /s/ Terry Barr
Terence M. Barr
Managing Director, President and Chief Executive Officer
(Principal Executive Officer)

Date: February 19, 2020

By: /s/ Tristan R Farel
Tristan Farel
Chief Financial Officer (Principal Financial Officer)

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Terence M. Barr, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Samson Oil & Gas Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the company's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

/s/ Terry Barr

Terence M. Barr

*Managing Director, President, and
Chief Executive Officer*

February 19, 2020

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Tristan Farel, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Samson Oil & Gas Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the company's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

/s/ Tristan Farel

Tristan Farel

Chief Financial Officer

February 19, 2020

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), the undersigned officers of Samson Oil & Gas Limited (the “Company”), do hereby certify, to such officer’s knowledge, that:

(1) The Quarterly Report on Form 10-Q for the quarter ended December 31, 2019, (the “Report”) fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Terry Barr

Terence M. Barr

*President, Chief Executive Officer
and Managing Director*

February 19, 2020

/s/ Tristan Farel

Tristan Farel

Chief Financial Officer

February 19, 2020