

Cuda Oil and Gas Inc.
(Formerly Junex Inc.)
Consolidated Financial Statements
Years Ended December 31, 2018 and 2017



KPMG LLP
205 5th Avenue SW
Suite 3100
Calgary AB
T2P 4B9
Telephone (403) 691-8000
Fax (403) 691-8008
www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Cuda Oil and Gas Inc.

Opinion

We have audited the consolidated financial statements of Cuda Oil and Gas Inc. (the "Entity"), which comprise:

- the consolidated statement of financial position as at December 31, 2018
- the consolidated statement of loss and comprehensive loss for the year then ended
- the consolidated statement of changes in shareholders' equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

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

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "*Auditors' Responsibilities for the Audit of the Financial Statements*" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the financial statements, which indicates that during the year ended December 31, 2018 the Entity incurred a net loss of \$7.7 million and used cash flows in operations of \$5.2 million. As at December 31, 2018, the Entity had a deficit of \$19.9



million and a \$36.6 million working capital deficiency which includes a credit facility in the amount of \$35.0 million payable on demand and maturing on June 29, 2019.

As stated in Note 2 in the financial statements, these events or conditions, along with other matters as set forth in Note 2 in the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Entity's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Other Matter

The financial statements for the year ended December 31, 2017 were audited by another auditor who expressed an unmodified opinion on those financial statements on May 31, 2018.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

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

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

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going



concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

The engagement partner on the audit resulting in this auditors' report is Jason Stuart Brown.

KPMG LLP

Chartered Professional Accountants

Calgary, Canada

April 30, 2019

Cuda Oil and Gas Inc.
(Formerly Junex Inc.)
Consolidated Statements of Financial Position
(in Canadian dollars)

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
	\$	\$
ASSETS		
Current		
Cash	1,530,926	3,470,235
Restricted deposits (Note 8)	595,000	-
Accounts receivable (Note 9)	1,626,035	313,640
Guarantee deposits (Note 10)	303,000	-
Tax credits receivable	114,498	-
Inventory	108,393	42,671
Prepaid expenses and deposits	281,538	109,890
	<u>4,559,390</u>	<u>3,936,436</u>
Non-current		
Restricted cash and deposits (Note 8)	7,484,173	-
Exploration and evaluation assets (Note 11)	34,879,232	4,327,386
Property and equipment (Note 12)	67,804,043	4,953,260
	<u>114,726,838</u>	<u>13,217,082</u>
LIABILITIES		
Current		
Credit facility (Note 13)	33,886,089	-
Accounts payable and accrued liabilities	3,889,471	1,074,915
Obligation for purchase of shares (Note 7(a))	3,116,750	-
Due to partner (Note 15)	90,000	-
Decommissioning liability (Note 16)	186,212	38,062
	<u>41,168,522</u>	<u>1,112,977</u>
Non-current		
Obligation for exploration work (Note 14)	7,484,173	-
Convertible debentures (Note 17)	1,439,763	-
Decommissioning liability (Note 16)	4,272,110	467,953
	<u>54,364,568</u>	<u>1,580,930</u>
SHAREHOLDERS' EQUITY		
Share capital (Note 18)	73,957,687	19,178,187
Warrants (Note 18)	3,956,098	816,431
Contributed surplus (Note 18)	1,674,541	2,145,051
Accumulated other comprehensive income	712,635	-
Deficit	(19,938,691)	(10,503,517)
	<u>60,362,270</u>	<u>11,636,152</u>
Basis of Presentation (Notes 1 and 3)		
Going Concern (Note 2)		
Commitments and Contingencies (Notes 7 and 20)		
	<u>114,726,838</u>	<u>13,217,082</u>

The accompanying notes are an integral part of the consolidated financial statements.

Approved on behalf of the Board of Directors:

(signed)

Glenn Dawson, Director

(signed)

Bruce Lawrence, Director

Cuda Oil and Gas Inc.

(Formerly Junex Inc.)

Consolidated Statements of Loss and Comprehensive Loss

Years ended December 31, 2018 and 2017

(in Canadian dollars)

	December 31, 2018	December 31, 2017
	\$	\$
REVENUE		
Petroleum and natural gas sales (Note 23)	6,533,743	4,542,003
Royalties	(1,206,562)	(813,437)
Production taxes	(303,068)	-
Net revenue from petroleum and natural gas sales	5,024,113	3,728,566
Other sales	45,745	-
	5,069,858	3,728,566
EXPENSES AND OTHER ITEMS		
Operating and transportation	2,040,802	1,344,247
Exploration and evaluation expense (Note 11)	2,200,565	5,236,079
Impairment (Note 11)	-	550,378
General and administrative (Note 7)	4,695,407	1,310,109
Share-based compensation (Note 18)	787,724	372,292
Depletion and depreciation (Note 12)	1,921,947	1,178,849
Accretion of decommissioning liability (Note 16)	39,783	7,312
Finance costs, net (Note 24)	2,755,886	4,525
Foreign exchange gain (Note 25)	(1,627,372)	-
	12,814,742	10,003,791
LOSS BEFORE INCOME TAXES		
	(7,744,884)	(6,275,225)
Income taxes (Note 19)		
Current	-	-
Deferred tax recovery	-	(341,053)
NET LOSS	(7,744,884)	(5,934,172)
Other comprehensive income	712,635	-
NET LOSS AND COMPREHENSIVE LOSS	(7,032,249)	(5,934,172)
Basic and diluted net loss per share (Note 18)	(0.63)	(0.82)
Weighted average number of common shares outstanding (Note 18)	12,352,553	7,249,988

The accompanying notes are an integral part of the consolidated financial statements.

Cuda Oil and Gas Inc.
(Formerly Junex Inc.)

Consolidated Statements of Changes in Shareholders' Equity

Years ended December 31, 2018 and 2017
(in Canadian dollars)

	<u>Share capital</u>	<u>Warrants</u>	<u>Contributed surplus</u>	<u>Accumulated other comprehensive income</u>	<u>Deficit</u>	<u>Total equity</u>
	\$	\$	\$	\$	\$	\$
Balance at December 31, 2017	19,178,187	816,431	2,145,051	-	(10,503,517)	11,636,152
Exercise of warrants	3,229,650	(816,431)	(525,219)	-	-	1,888,000
Exercise of stock options	-	-	(1,185,392)	-	-	(1,185,392)
Issued on August 14, 2018						
Acquisition of Junex (Note 7(a))	34,735,924	2,265,808	266,662	-	-	37,268,394
Asset Acquisition (Note 7(b))	9,094,306	-	-	-	-	9,094,306
Conversion of debentures (Note 17)	1,169,354	-	-	-	-	1,169,354
Distribution of arrangement warrants (Note 7(a))	-	1,690,290	-	-	(1,690,290)	-
Issued from private placement	7,154,909	-	-	-	-	7,154,909
Share issue costs	(604,643)	-	-	-	-	(604,643)
Share-based compensation	-	-	973,439	-	-	973,439
Net loss	-	-	-	-	(7,744,884)	(7,744,884)
Other comprehensive income	-	-	-	712,635	-	712,635
Balance at December 31, 2018	<u>73,957,687</u>	<u>3,956,098</u>	<u>1,674,541</u>	<u>712,635</u>	<u>(19,938,691)</u>	<u>60,362,270</u>
Balance at December 31, 2016	19,178,187	816,431	1,471,672	-	(4,569,345)	16,896,945
Share-based compensation	-	-	673,379	-	-	673,379
Net loss and other comprehensive loss	-	-	-	-	(5,934,172)	(5,934,172)
Balance at December 31, 2017	<u>19,178,187</u>	<u>816,431</u>	<u>2,145,051</u>	<u>-</u>	<u>(10,503,517)</u>	<u>11,636,152</u>

The accompanying notes are an integral part of the consolidated financial statements.

Cuda Oil and Gas Inc.
(Formerly Junex Inc.)
Consolidated Statements of Cash Flows

Years ended December 31, 2018 and 2017
(in Canadian dollars)

	<u>December 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
	\$	\$
OPERATING ACTIVITIES		
Net loss for the year	(7,744,884)	(5,934,172)
Non-cash items		
Depletion and depreciation	1,921,947	1,178,849
Exploration and evaluation expense	2,200,565	5,236,079
Impairment	-	550,378
Share-based compensation	787,724	372,292
Accretion of credit facility and convertible debentures	863,408	-
Accretion of decommissioning liability	39,783	7,312
Deferred tax recovery	-	(341,053)
Foreign exchange gain	(1,627,372)	-
Decommissioning liabilities settled	(3,788)	(107,629)
Net change in working capital items (Note 27)	(1,609,367)	467,740
Cash flows from (used in) operating activities	(5,171,984)	1,429,796
INVESTING ACTIVITIES		
Property and equipment expenditures and acquisitions (Notes 7, 12)	(49,928,968)	(994,429)
Exploration and evaluation expenditures and acquisitions (Notes 7, 12)	(2,841,042)	(5,389,269)
Proceeds on disposition	-	927,690
Cash and deposits acquired from Junex (Note 7(a))	14,840,187	-
Reduction of restricted cash and deposits	125,044	-
Reduction of obligation for exploration work	(125,044)	-
Net change in working capital items (Note 27)	974,854	(528,547)
Cash flows used in investing activities	(36,954,969)	(5,984,555)
FINANCING ACTIVITIES		
Exercise of warrants	1,888,000	-
Exercise of stock options	(1,185,392)	-
Proceeds from private placement	7,154,909	-
Share issue costs	(604,643)	-
Proceeds from credit facility	35,000,000	-
Credit facility issue costs	(1,975,280)	-
Net change in working capital items (Note 27)	(142,183)	(21,551)
Cash flows from (used in) financing activities	40,135,411	(21,551)
Effect of foreign currency translation on cash	52,233	-
NET CHANGE IN CASH	(1,939,309)	(4,576,310)
Cash, beginning of year	3,470,235	8,046,545
Cash, end of year	1,530,926	3,470,235
Cash interest paid	1,873,780	-

The accompanying notes are an integral part of the consolidated financial statements.

Cuda Oil and Gas Inc.
(Formerly Junex Inc.)

Notes to the Consolidated Financial Statements

As at and for the years ended December 31, 2018 and 2017
(in Canadian dollars)

1. NATURE OF BUSINESS

Cuda Oil and Gas Inc., formerly Junex Inc., (“**COGI**”, “**CEI**” or the “**Company**”) is a company incorporated under the *Business Corporations Act* (Quebec).

On June 8, 2018, Junex Inc. (“**Junex**”) entered into an arrangement agreement with Cuda Energy Inc. (“**CEI**”) providing for Junex’s acquisition of CEI by way of plan of arrangement under the *Business Corporations Act (Quebec)* (the “**Arrangement**”). On August 14, 2018, the Arrangement was completed and Junex acquired all of the issued and outstanding Class “A” common shares of CEI. Pursuant to the Arrangement, Junex consolidated its outstanding share capital on a 10 to 1 basis and changed its name to Cuda Oil and Gas Inc. Concurrent with the Arrangement, the Company also completed the acquisition of certain oil and natural gas properties in the state of Wyoming, USA for \$50.3 million and a \$35.0 million debt issuance.

The business combination resulting from the Arrangement has been accounted for as a reverse acquisition of Junex by CEI. As a result, the historic financial information presented prior to August 14, 2018 is a continuation of the financial statements of CEI.

These transactions are further described in Notes 7 and 13, and the impacts on share information resulting from the 10 to 1 share consolidation and the reverse acquisition are described in Note 18.

The main activity of COGI is oil and natural gas exploration, development and production in Alberta and Quebec in Canada and in the State of Wyoming in the United States. COGI’s principal place of business is located at 2110, 440 2 Avenue SW, Calgary, Canada T2P 5E9. COGI’s common shares are listed under the symbol “CUDA” on the TSX Venture Exchange (“**TSXV**”).

2. GOING CONCERN

These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and payment of liabilities in the ordinary course of business. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due.

For the years ended December 31, 2018 and 2017, the Company reported net losses of \$7,744,884 and \$5,934,172, respectively, (used) generated cash flows from operating activities of (\$5,171,984) and \$1,429,796, respectively. Further, as at December 31, 2018, the Company has a deficit of \$19,938,691 and a \$36,609,132 working capital deficiency which includes a credit facility in the amount of \$35,000,000 payable on demand and maturing on June 29, 2019 (Note 13) and \$3,116,750 related to an obligation to purchase shares from a dissenting shareholder (Note 7(a)). These conditions indicate the existence of a material uncertainty that may cast significant doubt upon the Company’s ability to continue as a going concern. Capital commitments in Wyoming, U.S. for 2019 include estimated costs totalling approximately \$8.6 million to complete a gas gathering and processing facility, gas injection facilities and electrical powerline facilities plus approximately \$900,000 in Quebec for regulatory and other commitments in Canada. Otherwise, all future capital expenditures are considered discretionary.

Further rationalization of assets and/or funding through share issuances, private placements, restructuring of existing or new credit facilities, non-core property sales, increased production from core properties combined with improvements in realized oil and gas prices received and/or a combination of these alternatives will be required to continue as a going concern. There is no assurance the Company will be able to obtain adequate financing in the future or that such financing will be on terms acceptable to the Company. There is no certainty that these and/or other strategies will be sufficient to enable the Company to continue as a going concern. These consolidated financial statements do not reflect the adjustments or reclassifications of assets and liabilities which would be necessary if the Company were unable to continue its operations. Such adjustments could be material.

3. BASIS OF PRESENTATION

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements were authorized for issuance by the Board of Directors on April 29, 2019.

b) Reverse acquisition

As a result of the Arrangement described in Notes 1 and 7(a), these consolidated financial statements are a continuation of the financial statements of CEI. As such, the comparative figures prior to the Arrangement represent those of CEI.

c) Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis.

d) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

4. JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ as a result of using estimates.

Critical judgments in applying accounting policies:

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

The determination of a cash generating unit ("CGU") is subject to management judgment. The recoverability of property and equipment and exploration and evaluation assets is assessed at the CGU level. A CGU is the lowest level at which there are identifiable cash inflows that are largely independent of the cash inflows of other CGUs. The determination of these CGUs was based on management's judgment in regards to shared infrastructure, geographical proximity, petroleum type and similar exposure to market risk and materiality.

Management applies judgment in assessing the existence of indicators of impairment and impairment recovery based on various internal and external factors. In determining the recoverable amount of assets, in the absence of quoted market prices, impairment tests are based on estimates of reserves, production rates, future oil and natural gas prices, future costs, discount rates, operating costs, income taxes, market value of land and other relevant assumptions.

The application of the Company's accounting policy for exploration and evaluation assets requires management to make certain judgments regarding future events and circumstances as to whether economic quantities of reserves will be found and whether technical feasibility and commercial viability has been achieved.

Each acquisition transaction is reviewed by management and judgment is used to determine if the transaction meets the definition of a business combination in accordance with IFRS.

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

The functional currency of the Company's subsidiaries is the currency of the primary economic environment in which the entity operates. The designation of a subsidiary's functional currency is a management judgment based on the currency of the primary economic environment in which the subsidiary operates.

Key sources of estimation uncertainty:

The following are key estimates and the assumptions made by management affecting the measurement of balances and transactions in these consolidated financial statements.

Estimation of recoverable quantities of proved and probable reserves includes estimates regarding future commodity prices, exchange rates, discount rates, future development costs and production and transportation costs for future cash flows as well as the interpretation of complex geological and geophysical models and data. Changes in expected future cash flows in reported reserves can affect the impairment of assets, the decommissioning liability, the economic feasibility of E&E assets, the amounts reported for depletion and depreciation of property and equipment, the recognition of deferred tax assets and estimates of fair value determined in accounting for business combinations. These reserve estimates are prepared in accordance with the Canadian Oil and Gas Evaluation Handbook and are verified by independent qualified reserve evaluators, who work with information provided by the Company to establish reserve determinations in accordance with National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities (“**NI 51-101**”). Accordingly, the impact on the consolidated financial statements of future periods could be material.

The decommissioning liability amounts recorded are based on estimates of inflation rates, risk-free rates, timing of abandonments and future abandonment costs, all of which are subject to uncertainty. Actual abandonment and reclamation costs could differ as a result of using estimates.

The determination of fair value for assets and liabilities acquired in a business combination often requires management to make assumptions and estimates about future events. The assumptions and estimates with respect to determining the fair value of oil and gas properties and exploration and evaluation assets acquired generally require the most judgment and include estimates of proved and probable reserves acquired, forecast benchmark commodity prices and discount rates. Changes in any of the assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to assets, liabilities, goodwill or a bargain purchase gain. Future net income (loss) can be affected as a result of changes in future depletion, depreciation, and asset or goodwill impairment.

Share-based compensation expense involves the estimate of the fair value of stock options and warrants at the time of issue. The estimate involves assumptions regarding the life of the option or warrant, dividend yields, risk-free interest rates, share price, and volatility of the security subject to the option. The expense is measured using the Black-Scholes option pricing model, and using an alternate pricing model could produce different results.

Deferred income tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the amounts reported in the consolidated financial statements and their respective tax bases, using enacted or substantively enacted income tax rates. The effect of a change in income tax rates on deferred income tax liabilities and assets is recognized in income (loss) in the period that the change occurs. In addition, regulations and legislation in the various jurisdictions in which the Company and its subsidiaries operate are subject to change. The actual amount of income tax may be greater than or less than the estimates and the differences could be material.

COGI follows the accrual method of accounting, making estimates in its financial and operating results. This may include estimates of revenues, royalties, operating, transportation and other expenses and capital items related to the period being reported, for which actual results have not yet been received. It is expected that these accrual estimates will be revised, upwards or downwards, based on the receipt of actual results.

As part of its capital management process, the Company prepares budgets and forecasts, which are used by management and the Board of Directors to direct and monitor the strategy and ongoing operations and liquidity of the Company. Budgets and forecasts are subject to significant judgement and estimates relating to activity levels, future cash flows and the timing thereof and other factors which may or may not be within the control of the Company. See further discussions relating to liquidity in Notes 2 and 22.

5. SIGNIFICANT ACCOUNTING POLICIES

a) Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries being Cuda Energy Inc., Cuda Energy LLC and Junex Inc. Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intercompany balances and transactions are eliminated in preparing the consolidated financial statements.

b) Cash and cash equivalents

Cash and cash equivalents consists of cash on hand, deposits and term investments held with a financial institution with an original maturity of three months or less.

c) Inventories

Inventories of crude oil are valued at the lower of cost, using the first-in, first-out method, and net realizable value. Materials and supplies are valued at the lower of average cost and net realizable value. Cost comprises direct purchase costs or costs of production. Net realizable value is determined by references to prices existing at the balance sheet date less any costs expected to be incurred on disposal.

d) Jointly controlled assets

Many of the Company's petroleum and natural gas operations are conducted under joint operating agreements whereby two or more parties jointly control the assets. These joint arrangements are classified as joint operations, and the consolidated financial statements include the Company's ownership-interest share of the assets, liabilities, revenue and expenses of these joint operations.

e) Exploration and evaluation assets

Exploration and Evaluation ("**E&E**") costs incurred prior to acquiring the legal right to explore in an area are charged directly to income (loss). Costs incurred after the legal right to explore is obtained, but before technical feasibility and commercial viability of the area has been established, are capitalized as E&E assets. These costs generally include unproved property acquisition costs, geological and geophysical costs, sampling and appraisals, drilling and completion costs, directly attributable administrative costs and the estimate of the costs of dismantling and removing an asset and restoring the site on which it was located. Refundable tax credits are recorded as a reduction to the cost of E&E assets..

Once an area is determined to be technically feasible and commercially viable the accumulated costs are tested for impairment. The carrying value, net of any impairment, is then reclassified to property and equipment as a Developed and Producing ("**D&P**") asset. If an area is determined not to be technically feasible and commercially viable, or the Company discontinues its exploration and evaluation activity, any unrecoverable costs are charged to income (loss).

f) Property and equipment

Property and equipment, which include oil and gas D&P assets, drilling and field equipment and administrative assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. D&P assets also include facility and production equipment and the estimate of the costs of dismantling and removing an asset and restoring the site on which it was located. Cost for drilling and field equipment includes expenditures that are directly attributable to the acquisition of the asset.

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property and equipment are recognized as property and equipment only when they increase the future economic benefits expected from the specific asset to which they relate. All other expenditures are recognized in income (loss) as incurred. For D&P assets, such capitalized oil and natural gas assets generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves.

Gains and losses on disposals of an item of property and equipment are determined by comparing the proceeds from disposal to the net carrying value of property and equipment and are recognized in income (loss).

g) Depletion and depreciation

Depletion expense for D&P assets is calculated on the unit-of-production basis based on:

- (i) total estimated proved and probable reserves as evaluated by independent reserve engineers at least annually and calculated in accordance with NI 51- 101;
- (ii) total net carrying value of D&P assets plus estimated future development costs of proved and probable reserves, including future estimated asset retirement costs; and

- (iii) relative volumes of petroleum and natural gas reserves and production, before royalties, converted at the energy equivalent conversion ratio of six thousand cubic feet of natural gas to one barrel of oil.

Depreciation for drilling and field equipment is calculated over the depreciable amount, which is the cost of an asset less its residual value, using the declining balance basis over the estimated useful life of each asset at depreciation rates of 10% to 30% per annum. Depreciation methods, useful lives and residual values are reviewed annually and adjusted if appropriate.

E&E assets are not depleted.

Administrative assets are depreciated using the declining balance method over the useful lives of the assets. The useful lives of these assets vary from three to five years.

h) Impairment assessment

Developed and producing assets

D&P assets are aggregated into CGUs for the purposes of impairment testing. CGUs are groups of assets that generate cash inflows that are independent of the cash inflows of other assets or CGUs and are generally defined based on geographic areas, with consideration given to how the assets are managed.

D&P assets are reviewed for impairment at a CGU level when indicators of impairment exist. When indicators of impairment exist, the carrying value of each CGU is compared to its recoverable amount which is defined as the higher of its fair value less cost to sell or its value in use.

Fair value less cost to sell is derived by estimating the discounted after-tax future net cash flows from proved plus probable oil and gas reserves, which are based on forecasted commodity prices and costs over the expected economic life of the reserves and discounted using market-based rates to reflect a market participant's view on the risks associated with the assets. Value in use is assessed using the expected future cash flows from proved plus probable oil and gas reserves discounted at a pre-tax rate.

When the carrying value exceeds the recoverable amount an impairment loss is recognized in income (loss).

Reversals of impairments are recognized when events or circumstances that triggered the original impairment have changed. Impairments can only be reversed in future periods up to the carrying amount that would have been determined, net of depletion and depreciation, had no impairment losses been previously recognized.

Exploration and evaluation assets

Impairment tests are carried out when E&E assets are transferred to D&P assets once an area is determined to be technically feasible and commercially viable, and when indicators of impairment exist, including when land leases expire. When indicators of impairment exist, the carrying value of each E & E asset, at a CGU level, if applicable, is compared to the recoverable amount which is defined as the higher of the fair value less cost to sell or the value in use.

i) Decommissioning liabilities

The Company's oil and gas operating activities give rise to dismantling, decommissioning and site remediation activities. COGI recognizes a liability for the estimated present value of the future decommissioning liabilities at each balance sheet date using a risk-free discount rate. The associated decommissioning cost is capitalized and depleted over the same period as the underlying asset. Changes

in the estimated liability resulting from revisions to estimated timing, amount of cash flows, or changes in the discount rate are recognized prospectively as a change in the decommissioning liability and related capitalized decommissioning cost.

Depletion of capitalized decommissioning costs is included in depreciation and depletion in income (loss). Increases in decommissioning liabilities resulting from the passage of time are recorded as accretion of decommissioning liability. Actual expenditures incurred are charged against the decommissioning liability.

j) Financial instruments

Amortized Cost

Cash and cash equivalents, if any, restricted cash, accounts receivable, guarantee deposits, accounts payable and accrued liabilities, credit facility, obligation for purchase of shares, obligation for exploration work, due to partner and convertible debentures are measured at amortized cost. These financial assets and financial liabilities are initially measured at fair value and subsequent revaluations are recorded at amortized cost using the effective interest method.

Fair Value through Profit or Loss (“FVTPL”)

COGI may enter into risk management contracts in order to manage its exposure to market risks from fluctuations in commodity prices, foreign exchange rates and interest rates in the normal course of operations. All risk management contracts are initially measured at FVTPL and are subsequently measured at fair value with changes in fair value recorded in net income (loss).

Impairment of Financial Assets

Impairment of financial assets is determined by measuring the assets’ expected credit loss (“ECL”). Accounts receivable are due within one year and are not considered to have a significant financing component and a lifetime ECL is measured at the date the accounts receivable are initially recognized. ECL allowances have not been recognized for cash, restricted cash and deposits, and guarantee deposits due to the virtual certainty associated with their collection.

Transaction costs

For a financial asset or a financial liability carried at amortized cost, transaction costs directly attributable to acquiring or issuing the financial asset or liability are added to or deducted from the fair value on initial recognition and amortized through net income (loss) over the term of the financial instrument.

k) Business combinations

Business combinations are accounted for using the acquisition method. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date. The consideration transferred is measured as the fair value of the assets given and equity instruments issued at the acquisition date. The excess of the consideration transferred over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the consideration transferred is less than the fair value of the identifiable assets, liabilities and contingent liabilities acquired, a bargain purchase gain is recognized immediately in income (loss). Transaction costs associated with a business combination are expensed as incurred.

l) Foreign currency translation

Foreign transactions

Transactions completed in currencies other than the functional currency are translated into the functional currency at the exchange rates prevailing at the time of the transactions. Foreign currency assets and liabilities are translated into the functional currency at the period-end exchange rate. Revenue and expenses are translated into the functional currency using the average exchange rate for the period. Realized and unrealized gains and losses resulting from the settlement or translation of foreign currency transactions are included in income (loss).

Foreign operations

The functional currency of the Company's subsidiaries is the currency of the primary economic environment in which the entity operates. The designation of a subsidiary's functional currency is a management judgment based on the currency of the primary economic environment in which the subsidiary operates.

A foreign subsidiary of the Company operates and transacts primarily in the U.S. dollar. The financial statements of this entity are translated into Canadian dollars in preparation of the Company's consolidated financial statements using the following accounting policy: the assets and liabilities of a foreign operation are translated to Canadian dollars at the period-end exchange rate; revenues and expenses of a foreign operation are translated to Canadian dollars using the average exchange rate for the period; and foreign exchange differences are recognized in other comprehensive income (loss).

If the Company or any of its entities disposes of its entire interest in a foreign operation, or loses control, joint control, or significant influence over a foreign operation, the accumulated foreign currency translation gains or losses related to the foreign operation are recognized in income (loss).

m) Deferred income taxes

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date.

Deferred tax is recognized in income (loss) except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Deferred tax assets are only recognized for temporary differences, unused tax losses and unused tax credits if it is probable that future tax amounts will arise to utilize those amounts.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

n) Per share amounts

Basic per share amounts are computed by dividing net loss by the weighted average number of common shares outstanding during the period. Diluted per share amounts reflect the potential dilution that would occur if dilutive instruments were exercised and common shares issued.

o) Flow-through shares

The Company may issue flow-through shares to finance a portion of its capital expenditure program. Pursuant to the terms of the flow-through share agreements, the tax deductions associated with the expenditures are renounced to the subscribers. The difference between the value of the flow-through shares issued and the value that would have been received for common shares as at the date of announcement of the flow-through share issuance is initially recognized as a flow-through share premium liability. When the expenditures are incurred, the liability is reduced to \$Nil, a deferred tax liability is recorded equal to the estimated amount of deferred income tax payable by the Company as a result of the renunciation and the difference is recognized as a deferred tax expense (recovery).

Proceeds received from the issuance of flow-through shares are restricted to be used only for Canadian resources property exploration expenditures. The Company may also be subject to a Part XII.6 tax on flow-through proceeds renounced under the look-back rule, in accordance with Government of Canada flow-through share regulations. When applicable, this tax is recorded in finance costs.

p) Share capital

Proceeds from the issuance of common shares are classified as equity. Incremental costs directly attributable to the issuance of shares, net of tax, are recognized as a deduction from equity.

q) Share-based compensation

The Company accounts for its share-based compensation plan using the fair value method, which is estimated at the grant date using the Black-Scholes model. Under this method, a compensation expense is charged over the vesting period for stock options and warrants granted with a corresponding increase to contributed surplus. Upon exercise of the stock options or warrants, consideration paid, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital. Forfeitures of stock options are estimated on the grant date and are adjusted to reflect the actual number of options that vest.

r) Revenue recognition

Revenue associated with the sale of crude oil, natural gas and natural gas liquids is measured based on the consideration specified in contracts with customers. Revenue from contracts with customers is recognized when the Company has satisfied a performance obligation by transferring a promised good or service to a customer. A good or service is transferred when the customer obtains control of that good or service. The transfer of control of crude oil, natural gas, and natural gas liquids coincides with title passing to the customer and the customer taking physical possession. The Company principally satisfies its performance obligations at a point in time.

s) Segmented information

The Company's reporting segments are established on the basis of having similar economic characteristics and/or which are in similar geographic locations and those components of the Company that are evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company and its wholly-owned subsidiaries are in the business of oil and natural gas exploration, development and production in Canada and the U.S. and is viewed as a single operating segment by the chief operating decision maker of the Company.

t) Changes in accounting policies

IFRS 15 – Revenue from Contracts with Customers (“IFRS 15”)

The Company adopted IFRS 15 on January 1, 2018. IFRS 15 establishes a comprehensive framework for determining whether, how much, and when revenue from contracts with customers is recognized. The Company’s revenue primarily relates to the sale of petroleum and natural gas to customers at specified delivery points at benchmark prices. The Company adopted IFRS 15 using the modified retrospective adoption approach. Under this transitional provision, the cumulative effect of initially applying IFRS 15 is recognized on the date of initial application as an adjustment to opening deficit. No adjustment to COGI’s deficit was required upon adoption of IFRS 15.

IFRS 15 requires additional disclosures relating to the disaggregation of revenue – this additional disclosure has been included in Note 23 to these consolidated financial statements.

IFRS 9 – Financial Instruments (“IFRS 9”)

The Company adopted IFRS 9 on January 1, 2018. IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The adoption of IFRS 9 did not have an impact on the measurement and carrying values of the Company’s financial assets or liabilities.

IFRS 9 contains three principal classification categories for financial assets and financial liabilities: measured at amortized cost; fair value through other comprehensive income ("FVOCI"); or fair value through profit or loss ("FVTPL"). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Impairment of financial assets: IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model. The new impairment model applies to financial assets measured at amortized cost, and contract assets and debt investments at FVOCI. Under IFRS 9, credit losses are recognized earlier than under IAS 39.

u) Future changes in accounting policies

In January 2016, the IASB issued IFRS 16 “Leases” (“**IFRS 16**”), which replaces IAS 17 “Leases”. The standard will come into effect for annual periods beginning on or after January 1, 2019. For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. IFRS 16 removes the classification of leases as either operating or finance leases, effectively treating all leases as finance leases. Certain short-term leases of less than 12 months in duration, and leases of low value assets are exempt from the standard and may continue to be treated as operating leases. IFRS 16 will be applied by COGI on January 1, 2019, and COGI plans to use the modified retrospective approach in its adoption of IFRS 16.

The Company is currently evaluating the impact of the standard including identifying and reviewing contracts that are impacted. The Company’s evaluation of the potential impacts of IFRS 16 on its consolidated financial statements is ongoing.

6. DETERMINATION OF FAIR VALUES

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Property and equipment and exploration and evaluation assets

The fair value of oil and natural gas interests (included in property and equipment) and exploration and evaluation assets is estimated with reference to the discounted cash flows expected to be derived from petroleum and natural gas production based on externally prepared reserve reports or permit or recent land sales with respect to exploration and evaluation assets. The risk-adjusted discount rate is specific to the asset with reference to general market conditions.

(ii) Share-based compensation

The fair value of share-based compensation is measured using the Black-Scholes option-pricing model, taking into account the terms and conditions upon which the awards were granted. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility in share price, weighted average expected life of the instruments (based on historical experience and general option holder behavior), expected dividend yield and the risk-free interest rate (based on government bonds).

(iii) Financial instruments

The Company's financial instruments recorded at fair value require disclosure about how the fair value was determined based on significant levels of inputs described in the following hierarchy:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

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

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

Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level.

7. BUSINESS COMBINATIONS

a) Plan of arrangement

On June 8, 2018, Junex entered into an arrangement agreement with CEI providing for Junex's acquisition of CEI by way of plan of arrangement under the *Business Corporations Act (Quebec)* (the "Arrangement"). On August 14, 2018, the Arrangement was completed and Junex acquired all of the issued and outstanding Class "A" common shares of CEI. Pursuant to the Arrangement, Junex consolidated its outstanding share capital on a 10 to 1 basis and changed its name to Cuda Oil and Gas Inc. Each CEI shareholder received 0.35856 common shares and 0.04167 of an arrangement warrant of COGI for each CEI share held resulting in the issuance of 8,603,911 Junex common shares and 999,907 arrangement warrants to CEI shareholders, after giving effect to the 10 to 1 share consolidation.

For this business combination, CEI has been identified as the acquirer for accounting purposes based upon consideration of voting rights of all equity instruments, and senior management and the Board of Directors of CEI became the majority of senior management and the Board of Directors of the combined company. This constitutes a reverse acquisition of Junex by CEI, and has been accounted for as a business combination under IFRS using the acquisition method. The share consideration is 7,985,270 COGI common shares which represents the Junex common shares issued and outstanding immediately prior to the completion of the Arrangement. Shareholders of Junex continued to hold their common shares held prior to completion of the Arrangement without any action on their part.

The preliminary estimated fair value at August 14, 2018 of the total consideration transferred, and the assets and liabilities acquired is outlined in the table below. The purchase price allocation is preliminary and subject to change pending completion of final valuations, and any changes may be material. In a business combination it generally takes time to obtain the information necessary to measure the fair values of assets acquired and liabilities assumed.

The Company is still in the process of assessing the fair values for the exploration and evaluation assets and drilling and field equipment of Junex. The preliminary fair value determinations are based upon recent comparable transactions in the market involving similar assets and/or estimates of expected future cash flows, as appropriate for specific assets, and these determinations require significant management judgement. The preliminary fair value allocations are estimated using the latest available information as at the date of these consolidated financial statements.

Changes to the provisional measurements of assets and liabilities acquired may be prospectively adjusted as new information is obtained, until the final measurements are determined. As a result, these preliminary allocations may change.

Consideration (\$)	
Share consideration	34,735,924
Share based compensation	2,532,470
Total consideration	37,268,394
Recognized amounts of assets acquired and liabilities assumed (\$)	
Cash and deposits	8,181,787
Cash held in trust for Asset Acquisition (Note 7(b))	6,658,400
Restricted cash and deposits held for exploration work	7,609,217
Exploration and evaluation assets	27,799,112
Property and equipment	2,109,960
Restricted deposits	597,102
Guarantee deposits	303,000
Working capital deficiency, excluding all cash	(1,395,554)
Obligation for purchase of shares	(3,116,750)
Obligation for exploration work	(7,609,217)
Convertible debentures	(2,607,078)
Due to partner	(90,000)
Decommissioning liability	(1,171,585)
	37,268,394

The share consideration was based upon 7,985,270 COGI common shares issued at \$4.35 per share, based upon COGI's closing share price quoted on the TSXV on August 14, 2018. Under reverse acquisition accounting, holders of Junex stock options and share purchase warrants, which were outstanding immediately prior to completion of the Arrangement, are deemed to exchange these instruments for stock options and share purchase warrants (collectively the "**Replacement Instruments**") of CEI with no adjustment to the quantity outstanding or terms and conditions. As a result, the fair value of the vested Replacement Instruments on August 14, 2018 was recognized by CEI as additional consideration. The determination of fair value for the Replacement Instruments is described in Note 18.

The fair value of convertible debentures was based upon the fair value of the COGI common shares issued in exchange for the portion of the debt that was converted (Note 17) immediately after closing of the Arrangement and discounted cash flows calculated using observable market rates for the portion of the debt that continued as a liability.

Under reverse acquisition accounting, the arrangement warrants issued to CEI shareholders are not included as consideration for this business combination and have been accounted for as a distribution to CEI shareholders. The terms and conditions of and the determination of fair value for the arrangement warrants are described in Note 18.

A shareholder of Junex who owned 875,000 shares of Junex, after giving effect to the 10 to 1 share consolidation, exercised rights of dissent available under the Quebec Business Corporations Act ("QBCA") in respect of the Arrangement. Pursuant to the Arrangement, the 875,000 common shares were deemed to be transferred to the Company and cancelled on closing of the Arrangement and are not reflected in the share consideration for the transaction. The Company and the dissenting shareholder have not yet reached an agreement as to the fair value of the shares as defined in the QBCA. On December 27, 2018, the dissenting shareholder filed a statement of claim in the amount of \$3,116,750, with costs, against the Company. The Company is vigorously defending its position, however, an accrual in the amount of \$3,116,750 has been made for management's best estimate of the fair value which will be paid to the dissenting shareholder. The estimated fair value is subject to

measurement uncertainty and the Company's liability to the dissenting shareholder will not be determined until the dissent process is complete.

The decommissioning liability was determined using internal estimates of the timing and estimated costs associated with the abandonment and reclamation of the exploration wells acquired and was initially recognized using a fair value discount rate of approximately 15%. Following the closing of the acquisition, the liability was subsequently revalued using a risk free rate of approximately 2.4% resulting in an increase in liability of \$1,067,465 with a corresponding increase to exploration and evaluation assets.

Included in general and administrative expenses are \$1,292,000 of transaction and employee severance costs associated with the Arrangement for the year ended December 31, 2018 (2017 - \$Nil).

The acquired business contributed other sales of approximately \$45,745, and an operating loss of \$224,169, which is defined as other sales less directly attributable costs of \$123,084, and depreciation of \$146,830, to COGI for the period from August 14, 2018 to December 31, 2018. Had the Arrangement occurred on January 1, 2018, additional pro-forma other sales of \$88,162, and directly attributable costs of \$234,689, and depreciation of \$111,661 would have been recognized over the year ended December 31, 2018.

b) Wyoming asset acquisition

Concurrent with the completion of the Arrangement on August 14, 2018 and pursuant to an Asset Purchase and Sale Agreement dated June 8, 2018, the Company acquired certain oil and natural gas properties in the state of Wyoming, USA, for total consideration of USD \$38.4 million (CAD \$50.3 million). The consideration is comprised of 2,090,645 COGI common shares, after giving effect to the 10 to 1 share consolidation, having a value of USD \$6.9 million (CAD \$9.1 million) and USD \$31.5 million (CAD \$41.2 million) in cash (the "Asset Acquisition").

This purchase is considered a business combination under IFRS and has been accounted for using the acquisition method. The estimated fair value at August 14, 2018 of the assets and liabilities acquired is outlined in the table below:

Consideration (in CAD \$)	
Cash consideration	41,249,814
Share consideration	9,094,306
Total consideration	50,344,120
Recognized amounts of assets acquired and liabilities assumed (in CAD \$)	
Inventory	104,220
Property and equipment	49,854,660
Exploration and evaluation assets	531,020
Decommissioning liability	(145,780)
	50,344,120

The share consideration was based upon 2,090,645 COGI common shares issued at \$4.35 per share, based upon on COGIs closing share price quoted on the TSXV on August 14, 2018, the closing date of the Asset Acquisition. The cash portion of the consideration was funded from the Facility (Note 13), cash acquired from Junex (Note 7(a)) and available cash on hand.

The decommissioning liability was determined using internal estimates of the timing and estimated costs associated with the abandonment and reclamation of the wells and facilities acquired and was initially recognized using a fair value discount rate of approximately 10%. Following the closing of the acquisition, the liability was subsequently revalued using a risk-free rate of approximately 2.4% resulting in an increase in the liability of \$372,949 with a corresponding increase to property and equipment.

Included in general and administrative expenses are \$398,779 of transaction costs associated with the Asset Acquisition for the year ended December 31, 2018.

The Asset Acquisition contributed revenues consisting of petroleum and natural gas sales net of royalties and production taxes of approximately \$2,133,919 and operating income which is defined as petroleum and natural gas sales net of royalties and production taxes less operating and transportation costs of \$1,601,525 to COGI for the period from August 14, 2018 to December 31, 2018. Had the Asset Acquisition occurred on January 1, 2018, additional pro-forma petroleum and natural gas sales net of royalties and production taxes of \$2,665,479 and operating income of \$1,982,404 would have been recognized over the year ended December 31, 2018.

c) Cole Creek asset acquisition

On October 5, 2018, the Company acquired certain oil and natural gas properties in the state of Wyoming, USA, for total consideration of USD \$1.2 million (CAD \$1.5 million) in cash (the “**Cole Creek Acquisition**”), which was funded from cash acquired from Junex (Note 7(a)).

This purchase is considered a business combination under IFRS and has been accounted for using the acquisition method. The estimated fair value at October 5, 2018 of the assets and liabilities acquired is outlined in the table below:

Consideration (in CAD \$)	
Cash consideration	1,537,818
Recognized amounts of assets acquired and liabilities assumed (in CAD \$)	
Property and equipment	724,558
Exploration and evaluation assets	1,204,563
Decommissioning liability	(391,303)
	1,537,818

The decommissioning liability was determined using internal estimates of the timing and estimated costs associated with the abandonment and reclamation of the wells and facilities acquired and was initially recognized using a fair value discount rate of approximately 10%. Following the closing of the acquisition, the liability was subsequently revalued using a risk-free rate of approximately 1.95% resulting in an increase in the liability of \$270,283 with a corresponding increase to property and equipment.

The Asset Acquisition contributed revenues consisting of petroleum and natural gas sales net of royalties and production taxes of approximately \$52,673 and operating loss which is defined as petroleum and natural gas sales net of royalties and production taxes less operating and transportation costs of (\$4,063) to COGI for the period from October 5, 2018 to December 31, 2018

8. RESTRICTED CASH AND DEPOSITS

Restricted cash and deposits were acquired from Junex (Note 7(a)) and are comprised of restricted deposits of \$595,000, relating to letters of guarantee issued to the Quebec Ministry of Energy and Natural Resources as security for future decommissioning and site restoration costs in Quebec which are secured by a deposit, and restricted cash of \$84,173, and restricted deposits of \$7,400,000, for purposes of settling eligible costs associated with the Galt project work program (Note 14).

In February 2019, the letters of credit were cancelled and the restrictions on the \$595,000 deposit held as security were removed. As a result, this amount has been classified as current.

9. ACCOUNTS RECEIVABLE

	<u>2018-12-31</u>	<u>2017-12-31</u>
	\$	\$
Trade accounts receivable	243,130	313,640
Joint operations receivable	972,824	-
Other	190,199	-
Commodity taxes receivable	219,882	-
	<u>1,626,035</u>	<u>313,640</u>

The accounts receivable balance as at December 31, 2018 is primarily comprised of: 46 percent due from one joint operations partner in the United States; 14 percent due from two joint operations partners in Canada; 14 percent due from three purchasers of petroleum and natural gas in Canada; and 14 percent due from the Canada Revenue Agency.

The accounts receivable balance as at December 31, 2017 was due from three purchasers of petroleum and natural gas in Canada.

10. GUARANTEE DEPOSITS

Guarantee deposits were acquired from Junex (Note 7(a)) and are on deposit with the Quebec Ministry of Energy and Natural Resources as a performance guarantee for future decommissioning and site restoration costs in Quebec, of which \$90,000 was assumed by a partner (Note 17).

In February and March 2019, the guarantee deposits were refunded to the Company. As a result, these amounts have been classified as current.

11. EXPLORATION AND EVALUATION ASSETS

The following table reconciles COGI's E&E assets:

(\$)	Total
Balance, December 31, 2016	7,238,592
Additions	5,690,356
Change in decommissioning cost	75,462
Disposition	(927,690)
Transfers to property and equipment (Note 12)	(1,962,877)
Exploration and evaluation expense	(5,236,079)
Impairment	(550,378)
Balance, December 31, 2017	4,327,386
Acquisition of Junex (Note 7(a))	27,799,112
Asset Acquisition (Note 7(b))	531,020
Cole Creek Acquisition (Note 7(c))	1,204,563
Additions	1,813,419
Change in decommissioning cost	1,318,993
Transfers to property and equipment (Note 12)	(12,783)
Exploration and evaluation expense	(2,200,565)
Foreign currency translation	98,087
Balance, December 31, 2018	34,879,232

E&E assets consist of the Company's exploration projects, which are pending the determination of proved or probable reserves. The Company capitalized cash and non-cash general and administrative and share based compensation costs directly attributable to E&E additions of \$607,667 in the year ended December 31, 2018 (December 31, 2017 – \$1,132,971).

In the year ended December 31, 2018, the Company expensed \$2,200,565 of costs related to certain permits and/or properties where management: (i) made the decision not to renew for a total of \$1,896,207; and (ii) made the decision to discontinue exploration activities for a total of \$304,358. In the year ended December 31, 2017, the Company expensed unsuccessful well costs that were drilled and scheduled to be abandoned for a total of \$5,236,079.

In the year ended December 31, 2017, the Company recorded an impairment of \$550,378 as a result of management's decision to discontinue exploration activities on certain properties based upon the technical evaluation. The properties were subsequently sold and the recoverable amount for purposes of the impairment test was based upon the proceeds on disposition of \$927,690.

In 2018 and 2017, COGI performed an impairment test on the assets which it transferred from E&E assets to D&P assets. The net present value of the before tax cash flows from proved plus probable oil and gas reserves was estimated for these assets, and each asset's respective carrying amount did not exceed the net present value. As a result no impairment was recorded.

On June 6, 2018, the Ministry of Energy and Natural Resources in Quebec (the “Ministry”) introduced draft legislative and regulatory provisions pertaining to the exploration and exploitation of hydrocarbons in Quebec under the Petroleum Resources Act (the “Act”) which included, among other provisions, the banning of hydraulic fracturing of shale. On September 20, 2018, the Ministry adopted these new provisions under the “Act” which replaced the Mining Act previously in force. The regulatory changes including the banning of hydraulic fracturing of shale affect some projects associated with the Company’s assets located in the Saint-Lawrence Lowlands region. The impact of these new regulations on the carrying value of the Company’s exploration and evaluation assets in Quebec of \$27,488,575 is uncertain and requires further evaluation given the recent adoption of these regulations by the Ministry. As at December 31, 2018, no impairment was recorded on the Quebec exploration and evaluation assets.

12. PROPERTY AND EQUIPMENT

The following table reconciles COGI's property and equipment:

Cost (\$)	Developed and Producing Assets	Drilling and Field Equipment	Administrative Assets	Total
Balance, December 31, 2016	3,185,425	-	80,356	3,265,781
Additions	987,224	-	7,205	994,429
Change in decommissioning cost	59,908	-	-	59,908
Transfers from E&E assets (Note 11)	1,962,877	-	-	1,962,877
Balance, December 31, 2017	6,195,434	-	87,561	6,282,995
Acquisition of Junex (Note 7(a))	-	2,073,558	36,402	2,109,960
Asset Acquisition (Note 7(b))	49,854,660	-	-	49,854,660
Cole Creek Acquisition (Note 7(c))	724,558	-	-	724,558
Additions	8,924,341	-	6,172	8,930,513
Change in decommissioning cost	845,455	-	-	845,455
Transfers from E&E assets (Note 11)	12,783	-	-	12,783
Foreign currency translation	2,324,087	-	-	2,324,087
Balance, December 31, 2018	68,881,318	2,073,558	130,135	71,085,011
Accumulated depletion and depreciation and impairment (\$)				
Balance, December 31, 2016	(129,684)	-	(21,202)	(150,886)
Depletion and depreciation	(1,159,743)	-	(19,106)	(1,178,849)
Balance, December 31, 2017	(1,289,427)	-	(40,308)	(1,329,735)
Depletion and depreciation	(1,756,885)	(140,406)	(24,656)	(1,921,947)
Foreign currency translation	(29,286)	-	-	(29,286)
Balance, December 31, 2018	(3,075,598)	(140,406)	(64,964)	(3,280,968)
Carrying amounts (\$)				
As at December 31, 2017	4,906,007	-	47,253	4,953,260
As at December 31, 2018	65,805,720	1,933,152	65,171	67,804,043

At December 31, 2018, estimated future development costs of \$141,003,000 (2017 - \$1,510,000) associated with the development of the Company's proved and probable reserves were added to the Company's net book value in the depletion calculation. Developed and producing assets includes costs of facilities under construction that were not included in the depletion calculation in the amount of \$3,292,172.

13. CREDIT FACILITY

The Company has a \$35 million credit facility with an institutional lender (the “**Facility**”) which is non-revolving, and interest compounds monthly at a rate of 10.5% per annum which is payable monthly. The Facility is payable on demand and will mature on June 29, 2019, and the Company may re-pay the Facility in whole or in part and all accrued interest at any time prior with 90 days notice. Should the Company repay the Facility in full, a fee equal to 2% of the Facility will also be payable. The Facility is secured by a first priority floating charge over the consolidated assets of the Company. Covenants include reporting requirements, permitted encumbrances and other standard business operating covenants; the Company is not subject to any financial covenants.

Facility issuance costs of \$1,975,280 were recorded as a reduction against the liability. The accretion charge on the Facility for the year ended December 31, 2018 was \$861,369 (2017 – \$Nil).

The proceeds of the Facility, net of issuance costs, were used to fund the Asset Acquisition (Note 7(b)).

14. OBLIGATION FOR EXPLORATION WORK

	<u>Amount (\$)</u>
Balance, December 31, 2017	-
Acquisition of Junex (Note 7(a))	7,609,217
Eligible exploration work	<u>(125,044)</u>
Balance, December 31, 2018	<u>7,484,173</u>

On August 4, 2017, Junex entered into a partnership agreement with Ressources Quebec Inc. (“**RQI**”) and Gestion Bernard Lemaire Inc. (“**GBL**”) to spend \$14 million for an exploration program on the Galt oil and gas project in the Gaspé Peninsula of Quebec (the “**Partnership**”). Under the terms of the Partnership, the \$14 million exploration program will be paid by the partners as follows: RQI will pay 60% or \$8.4 million; GBL will pay 30% or \$4.2 million; and Junex will pay 10% or \$1.4 million.

In exchange for its \$8.4 million share of costs in the exploration program, RQI acquired from Junex an undivided 17.13% interest in the Galt project. Under the terms of the Partnership, \$8.2 million was originally deposited into a joint account, which can only be withdrawn for purposes of settling eligible costs associated with the Galt project that have been approved by both RQI and Junex. The amounts held in the joint accounts are recorded as restricted cash and deposits (Note 8) with a corresponding amount recorded as obligation for exploration work. Eligible expenditures incurred on the Galt project reduce both the restricted cash and deposits, and the obligation for exploration work by an equal amount. Junex retained an undivided 52.87% interest in the Galt project.

15. DUE TO PARTNER

A partner advanced \$90,000 to fund their share of the guarantee deposits (Note 10). This amount is non-interest bearing, unsecured and has been classified as current as the guarantee deposits were refunded to the Company by the Quebec Ministry of Energy and Natural Resources in February and March 2019.

16. DECOMMISSIONING LIABILITY

The Company’s decommissioning liability results from ownership interests in petroleum and natural gas properties and equipment including well sites and facilities and management’s estimates of costs to abandon and reclaim those well sites and facilities as well as an estimate of the future timing of these costs. COGI estimates the total undiscounted future cash flows required to settle its decommissioning obligations as at December 31, 2018 to be approximately \$5,415,457 (2017 - \$513,851) with the costs anticipated to be incurred between 2019 and 2047. The net present value of the decommissioning liability was calculated

using risk-free discount rates of 1.90 to 2.15 percent (2017 – 1.64 to 2.42 percent) based on the timing to abandon and an inflation rate of 2.0 percent (2017 – 2.0 percent). A reconciliation of the decommissioning liability is provided below:

	Year Ended December 31, 2018	Year Ended December 31, 2017
Balance, beginning of year	506,015	470,962
Acquisition of Junex (Note 7(a))	1,171,585	-
Asset Acquisition (Note 7(b))	145,780	-
Cole Creek Acquisition (Note 7(c))	391,303	-
Additions	330,172	208,284
Change in estimates	1,834,276	(72,914)
Decommissioning liabilities settled	(3,788)	(107,629)
Accretion	39,783	7,312
Foreign currency translation	43,196	-
Balance, end of year	4,458,322	506,015
Current portion of decommissioning liability	186,212	38,062
Long-term portion of decommissioning liability	4,272,110	467,953

17. CONVERTIBLE DEBENTURES

The series A and series B convertible debentures bear interest at a rate of 12% per annum which is payable semi-annually, are unsecured and are scheduled to mature on July 21, 2020. The Company may, at its option, pay up to 50% of the semi-annual interest payments by issuing common shares. The convertible debentures can be repaid at the Company's option at any time for an amount equal to the principal amount plus 10% and accrued and unpaid interest at the time of repayment with 30 days notice. In addition, the series B convertible debentures provide the Company with the option to convert the debentures into common shares of the Company at the conversion price of \$11.70, after giving effect to the 10 to 1 share consolidation, if certain conditions are met.

The holder of the convertible debentures may, at its option and at any time, convert the debentures into common shares of the Company at the conversion price of \$11.70.

	Amount (\$)
Balance, December 31, 2017	-
Acquisition of Junex (Note 7(a))	2,607,078
Conversion of debentures	(1,169,354)
Accretion charge on debentures	2,039
Balance, December 31, 2018	1,439,763

In connection with the Arrangement (Note 7(a)), an institutional investment fund converted Junex convertible debentures with a face value of \$1,000,000 into 268,817 Junex common shares, after giving effect to the 10 to 1 share consolidation. The conversion amount was equivalent to the fair value attributed to these debentures, calculated based upon 268,817 COGI common shares issued at a share price of \$4.35 per share, COGI's closing share price quoted on the TSXV on August 14, 2018.

As of December 31, 2018, convertible debentures with a stated value of \$1,500,000 are outstanding, comprised of series A with a stated value of \$750,000 and series B with a stated value of \$750,000.

18. SHARE CAPITAL

Authorized

Unlimited number of shares without par value

Common shares, voting and participating

Class “B” shares, non-voting and non-participating, preferential non-cumulative dividend varying between 1% and 12%, redeemable at the paid-up capital amount

Class “C” shares, non-voting and non-participating, preferential non-cumulative monthly dividend of 1% calculated on the redemption price, redeemable or retractable at the fair value of the consideration received upon issuance under certain conditions. The maximum redemption cannot exceed one third of the shares held, provided that the Company’s working capital is greater than \$1,000,000.

Issued and outstanding

	Number of Common Shares	Amount (\$)
Balance, December 31, 2017 and 2016	7,249,988	19,178,187
Exercise of warrants	1,353,923	3,229,650
Issued on August 14, 2018		
Acquisition of Junex (Note 7(a))	7,985,270	34,735,924
Asset Acquisition (Note 7(b))	2,090,645	9,094,306
Conversion of debentures (Note 16)	268,817	1,169,354
Issued from private placement	2,981,212	7,154,909
Share issue costs	-	(604,643)
Balance, December 31, 2018	21,929,855	73,957,687

The common shares do not have a par value and all issued shares are fully paid.

In connection with the Arrangement (Notes 1 and 7(a)), the Company completed the reverse acquisition of Junex by CEI and consolidated its outstanding share capital on a 10 to 1 basis. These transactions have the following impacts on share capital:

- i. The number of common shares has been adjusted retrospectively for all periods presented to reflect that all CEI shares were exchanged for Junex shares on the basis of 0.35856 of a Junex share for each CEI share; and
- ii. All amounts presented for number of outstanding common shares and number of outstanding common stock options, warrants and their respective weighted average exercise prices, have been adjusted retrospectively for all periods presented to give effect to the 10 to 1 share consolidation.

On October 17, 2018, the Company entered into a letter agreement with a syndicate of investment dealers in connection with a commercially reasonable efforts agency private placement of up to 4,166,667 common shares at a price of \$2.40 per share for gross proceeds of up to \$10 million (“the Offering”). On November 9, 2018, the Company issued 2,981,212 common shares for gross proceeds of \$7,154,909. Of this amount,

198,312 common shares for gross proceeds of \$475,949 were issued to certain officers and directors of the Company.

In March 2019, the Company issued 33,541 common shares at a price of \$1.36 per share in exchange for the payment of interest on convertible debentures in the amount of \$45,616.

Stock options

The Company has a stock option plan for directors, officers, employees and service providers. Under the plan, stock options may be granted to purchase up to 2,226,032 common shares of COGI and the maximum term of options granted is 10 years. Unless otherwise determined by the Board of Directors at the time of grant, options vest as to one-third on each of the first, second and third anniversary dates of the date of grant.

A summary of the Company's outstanding stock options at December 31, 2018 and 2017 is presented below:

	Options	Weighted average exercise price
		\$
Outstanding, December 31, 2017 and 2016	840,823	3.06
Exercised	(406,965)	1.87
Replacement stock options (Note 7(a))	422,900	6.90
Granted	1,455,000	3.71
Forfeited	(138,544)	4.10
Expired	(5,000)	28.40
Outstanding, December 31, 2018	<u>2,168,214</u>	<u>4.34</u>

Pursuant to the Arrangement (Note 7(a)), holders of 406,965 CEI stock options were entitled to receive a cash amount equal to the five day volume weighted average price of Junex common shares less the exercise price per CEI stock option, immediately prior to closing of the Arrangement and upon each holder surrendering their stock options to CEI. The payment of \$1,185,392 has been accounted for as a reduction in contributed surplus.

Pursuant to the Arrangement (Note 7(a)), holders of 422,900 Junex stock options were deemed to exchange these instruments for stock options of CEI ("**Replacement stock options**"). As a result, share based compensation of \$266,662 was recognized by CEI as additional consideration in the business combination.

The exercise prices for stock options outstanding and exercisable under the plan at December 31, 2018 is as follows:

	Outstanding options		Exercisable options		
	Number	Weighted average remaining contractual life Years	Weighted average exercise price \$	Number	Weighted average exercise price \$
Employees, officers and directors	106,000	0.2	8.80	106,000	8.80
	83,400	1.9	7.10	83,400	7.10
	138,500	2.4	5.90	138,500	5.90
	90,000	4.0	4.80	90,000	4.80
	320,314	3.7	4.18	227,088	4.18
	<u>1,430,000</u>	<u>6.7</u>	<u>3.71</u>	<u>-</u>	<u>3.71</u>
	<u>2,168,214</u>	<u>5.3</u>	<u>4.34</u>	<u>644,988</u>	<u>5.77</u>

In March 2019, 106,000 stock options with an exercise price of \$8.80 expired.

The fair value of each replacement stock option and each stock option granted was \$0.94 and \$2.52, respectively, and was estimated at the grant date using the Black-Scholes valuation model based on the following weighted average assumptions:

	Replacement Options	Options Granted
Expected volatility	68%	86%
Risk-free interest rate	2.0%	2.2%
Expected term	1.5 years	5.0 years
Expected dividends	None	None
Share price	\$4.35	\$3.70
Exercise price	\$6.64	\$3.71

Warrants

Outstanding warrants entitle their holders to subscribe to an equivalent number of common shares, as follows:

	Number of warrants	Amount (\$)
Outstanding, December 31, 2017 and 2016	1,353,923	816,431
Exercised	(1,353,923)	(816,431)
Arrangement warrants (Note 7(a))	999,907	1,690,290
Replacement warrants (Note 7(a))	1,392,046	2,265,808
Outstanding, December 31, 2018	2,391,953	3,956,098

In connection with the Arrangement (Note 7(a)), 999,907 arrangement warrants were issued. Each whole arrangement warrant will entitle the holder thereof to purchase one COGI share at a price of \$4.00 per share for a period of 24 months. The arrangement warrants will vest upon the earlier of (i) the date on which the COGI shares achieve a 20-day weighted average price of \$6.40 per share; and (ii) the date on which COGI completes an equity financing of a minimum of \$10 million at a price of at least \$6.00 per share. As of December 31, 2018, no arrangement warrants have vested.

A summary of the Company's outstanding warrants as at December 31, 2018 is as follows:

Number of warrants	Exercise Price (\$)	Expiry Date
954,546	5.30	August 4, 2020
999,907	4.00	August 14, 2020
437,500	5.90	October 20, 2021
2,391,953		

The fair value of each arrangement warrant and replacement warrant issued was \$1.88 and \$1.63, respectively, and was estimated on August 14, 2018 using the Black-Scholes valuation model based on the following weighted average assumptions:

	Arrangement Warrants	Replacement Warrants
Expected volatility	71%	72 %
Risk-free interest rate	2.1%	2.1%
Expected term	2.0 years	2.4 years
Expected dividends	None	None
Share price	\$4.35	\$4.40
Exercise price	\$4.00	\$5.49

Weighted average number of common shares

The weighted average number of common shares outstanding has been adjusted retrospectively for all periods presented to give effect to the 10 to 1 share consolidation as described in Note 7(a).

The stock options, warrants and convertible debentures (Note 17) were not included in the calculation of diluted loss per share as their inclusion would have an antidilutive effect.

19. INCOME TAXES

The provision for income tax in the consolidated financial statements differs from the result which would have been obtained by applying statutory income tax rates for Canada and the U.S. to the Company's loss before income taxes. This difference results from the following items:

(\$)	Year Ended December 31, 2018	Year Ended December 31, 2017
Loss before income taxes	(7,744,884)	(6,275,225)
Statutory income tax rate	26.1%	27.0%
Computed income tax recovery	(2,021,124)	(1,694,311)
Increase (decrease) in income taxes resulting from:		
Non-deductible share based compensation	211,399	100,519
Non-deductible expenses	5,151	3,326
Unrealized foreign exchange gain	(217,254)	-
Other items	-	63,592
Renunciation of Canadian exploration expenses	-	437,401
Flow-through share premium	-	(341,053)
Changes in deferred tax assets not recognized	2,021,828	1,089,473
	-	(341,053)

The statutory tax rate has decreased from 27.0% to 26.1% because COGI's operating activities in the United States from the Asset Acquisition (Note 7(b)) and the Cole Creek Acquisition (Note 7(c)) are taxed at 21%, and operating activities from the acquisition of Junex (Note 7(a)) are taxed at a combined federal and provincial rate of 26.7%.

The components of deferred income tax assets and liabilities are as follows:

(\$)	December 31, 2018	December 31, 2017
Deferred income tax liabilities:		
Property and equipment	(2,456,066)	(813,912)
Tax credits receivable	(30,571)	-
Unrealized foreign exchange gain	(214,487)	-
Deferred income tax assets:		
E&E assets	668,698	600,155
Decommissioning liability	1,109,673	136,624
Debt issue costs	125,905	-
Share issue costs	129,373	76,712
Deferred interest expense	313,819	-
Non-capital losses	353,656	421
Deferred tax assets (liabilities)	-	-

The Company assessed the probability that future taxable profit will be available against which the Company can utilize the benefits of certain tax pools and has not recognized a deferred tax asset in respect of the following deductible temporary differences:

(\$)	December 31, 2018	December 31, 2017
Research and development	380,899	-
Share issue costs	483,714	-
Non-capital losses	38,337,124	6,614,607
	39,201,737	6,614,607

The Company acquired non-capital losses of \$22,484,917 from the Arrangement (Note 7(a)). The Company has \$35,475,618 (2017 – \$6,616,167) in Canadian non-capital losses which expire between 2026 and 2038. The Company has \$5,449,211 in U.S. non-capital losses which expire in 2038.

20. COMMITMENTS

As of December 31, 2018, the Company's lease commitments are as follows:

	2019	2020	2021	2022	2023	Thereafter	Total
Lease rentals	144,051	144,530	146,928	147,453	148,899	148,899	880,760
Office leases	301,809	128,995	92,728	63,315	-	-	586,847
	445,860	273,525	239,656	210,768	148,899	148,899	1,467,607

The Company's lease arrangements reflected in the commitments table above were entered in the normal course of operations. All leases have been treated as operating leases and amounts are recognized as an operating expense or general and administrative expense depending on the nature of the lease.

Capital commitments in Wyoming, U.S. for 2019 include \$9,477,375 to complete a gas gathering and processing facility, gas injection facilities and electrical powerline facilities. Otherwise, all future capital expenditures are considered discretionary.

21. RELATED PARTY TRANSACTIONS

The Company had no related party transactions for the years ended December 31, 2018 and 2017, except for shares acquired by related parties from the private placement (Note 18).

Compensation of key management personnel

The aggregate compensation of key management personnel was as follows:

	Years ended December 31,	
	2018	2017
	\$	\$
Salaries and benefits	2,432,887	1,145,360
Share-based compensation	699,143	506,157
Total compensation	3,132,030	1,651,517

22. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT

The Company is exposed to credit risk, liquidity risk and market risk as part of its normal course of business. The board of directors has overall responsibility for the establishment and oversight of the Company's financial risk management framework and periodically reviews the results of all risk management activities and all outstanding positions. Management identifies and analyzes the risks faced by the Company, sets appropriate risk limits and controls, and monitors risks and market conditions and the Company's activities.

Financial instruments comprise cash, restricted cash and deposits, accounts receivable, guarantee deposits, accounts payable and accrued liabilities, credit facility, obligation for purchase of shares, obligation for exploration work, due to partner and convertible debentures.

The carrying amounts for cash, current portion of restricted deposits, accounts receivable, guarantee deposits, accounts payable and accrued liabilities, credit facility, obligation for purchase of shares and due to partner are reasonable approximations of their respective fair values due to the short-term maturities of these instruments. The carrying amounts for long-term portion of restricted cash and deposits, and obligation for exploration work approximate their respective fair values.

The carrying amount of the convertible debentures as at December 31, 2018 approximated its fair value.

Credit risk

Credit risk arises from the potential for non-performance by counterparties of contractual financial obligations. The Company's maximum exposure to credit risk is equal to the carrying amounts of cash, restricted cash and deposits, accounts receivable, and guarantee deposits. The Company reduces its credit risk on cash, and restricted cash and deposits, by maintaining its bank accounts at large international financial institutions, and the guarantee deposits are held by the Government of Quebec. Accounts receivable consists of amounts due from petroleum and natural gas marketers, capital and revenue (net of royalties and production taxes) amounts due from joint operations partners and other parties.

The Company mitigates collection risk from petroleum and natural gas marketers by reviewing the credit risk of these entities and by entering into agreements only with parties that meet certain credit tests.

The Company mitigates collection risk from the joint operations receivables by requiring partner approval of significant capital expenditures prior to expenditure. Joint operation receivables are from partners in the petroleum and natural gas industry who are subject to the risks and conditions of the industry. Significant changes in industry conditions and risks that negatively impact the partners' ability to generate cash flow will increase the risk of not collecting joint operations receivables.

The Company's trade receivables have been aged as follows:

	Year ended December 31,	
	<u>2018</u>	<u>2017</u>
	\$	\$
Current	1,263,790	313,640
31 – 60 Days	161,559	-
61 – 90 Days	-	-
> 90 Days	<u>200,686</u>	-
	<u>1,626,035</u>	<u>313,640</u>

When determining whether amounts that are past due are collectable, management assesses the credit worthiness and past payment history of the counterparty, as well as the nature of the past due amount. The Company considers all amounts greater than 90 days to be past due. No allowance for doubtful accounts has been recorded by the Company.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's objective is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due. To achieve this objective, the Company prepares annual budgets for operating cashflows and capital expenditures, which are regularly monitored and updated as considered necessary. The Company's liquidity risk is further outlined in Note 2.

The following are the contractual maturities of financial liabilities based on the earliest date on which the Company can be required to repay such liabilities:

	<u>Less than one year</u>	<u>Beyond one year</u>
	\$	\$
Credit facility	35,000,000	-
Accounts payable and accrued liabilities	3,889,471	-
Obligation for purchase of shares	3,116,750	-
Due to partner	90,000	-
Obligation for exploration work	-	7,484,173
Convertible debentures	-	<u>1,500,000</u>
	<u>42,096,221</u>	<u>8,984,173</u>

The ability to fulfill these liabilities is dependent on the expected upcoming production capability of new and existing assets and the Company's ability to attain profitable operations and generate funds therefrom, including improvements in realized oil and gas prices, together with the continued ability to raise capital

through public issuances, private placements, debt financing, property sales or some combination of these alternatives. The Company is actively pursuing each of these options, taking into consideration the cost/benefit of each alternative.

Market risk

Market risk is the risk or uncertainty arising from possible price movements and their impact on the future performance of the business. The Company is exposed to market risks resulting from fluctuations in commodity prices, foreign exchange rates and interest rates. Derivative instruments may be used to reduce exposure to these risks.

Commodity price risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. A significant change in commodity prices can materially impact the Company's cash flows. Lower commodity prices may also reduce the Company's ability to raise capital. Commodity prices for petroleum and natural gas are not only influenced by supply and demand in Canada and the United States, but also by world events that dictate the levels of supply and demand. The Company had no risk management contracts that would be affected by commodity prices in place at December 31, 2018.

Foreign currency risk

Foreign currency risk is the risk that future cash flows will fluctuate as a result of changes in foreign currency exchange rates. Approximately 48% and 52% of the Company's 2018 petroleum and natural gas sales were denominated in United States dollars and in Canadian dollars, respectively. While the market prices in Canada for petroleum and natural gas are impacted by changes in the exchange rate between the Canadian dollar and the United States dollar, the exchange rate effect cannot be quantified. Generally an increase in the value of the Canadian dollar as compared to the U.S. dollar will reduce the prices received by the Company for its Canadian petroleum and natural gas sales.

The Company had no risk management contracts that would be affected by foreign currency changes in place at December 31, 2018.

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate risk through its fixed-rate credit facility and convertible debentures. The Company had no risk management contracts that would be affected by interest rates in place at December 31, 2018.

Capital management

The Company's policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain the future development and commitments of the business. The Company actively manages its capital structure in response to changes in economic conditions and the risk characteristics of its petroleum and natural gas properties. The Company considers its capital structure to include shareholders' equity, convertible debentures, credit facility, bank debt, if any, and working capital deficiency. In order to maintain or adjust the capital structure, the Company may from time to time issue shares or debt and adjust its capital spending to manage current and projected debt levels. To facilitate the management of the capital expenditures and level of debt, the Company prepares annual budgets, which are regularly monitored and updated as considered necessary. The annual and updated budgets are approved by the board of directors. The Company has not paid or declared any dividends since the date of incorporation, nor are any contemplated in the foreseeable future. See further discussions in Note 2.

The Company's current capital structure is summarized below:

	<u>2018-12-31</u>	<u>2017-12-31</u>
	\$	\$
Cash	(1,530,926)	(3,470,235)
Current assets, excluding cash	(3,028,464)	(466,201)
Current liabilities, excluding credit facility	7,282,433	1,112,977
Credit facility	33,886,089	-
Convertible debentures	1,439,763	-
Shareholders' equity	60,362,270	11,636,152
	<u>98,411,165</u>	<u>8,812,693</u>

There have been no changes in the Company's approach to capital management in 2018.

23. REVENUE

The Company sells its Canadian production pursuant to variable-price contracts. The transaction price for variable priced contracts is based on the benchmark commodity prices, adjusted for quality, location or other factors. The contracts generally have a term of one year or less, whereby delivery takes place throughout the contract period. Receivables from petroleum and natural gas sales are normally collected on the 25th day of the month following production.

The Company's U.S. production is from interests in non-operated petroleum and natural gas properties. The operator of the U.S. petroleum and natural gas properties enters into contracts with customers, conducts the activities to transfer control of production volumes to the customer, and collects and remits payments from the customer to COGL.

The following table details the Company's petroleum and natural gas sales by product:

	<u>Years ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
	\$	\$
Crude oil	4,425,872	1,653,357
Natural gas	1,623,610	2,360,508
Natural gas liquids	484,261	528,138
	<u>6,533,743</u>	<u>4,542,003</u>

Sales in the U.S. are predominantly made to one customer and sales in Canada are made to predominantly three customers representing approximately 40%, 36% and 11% of Canadian sales. As at December 31, 2018, receivables from contracts with customers were \$235,837 (2017 - \$313,640)

24. FINANCE COSTS

	Years ended December 31,	
	2018	2017
	\$	\$
Interest on credit facility	2,754,271	-
Interest on convertible debentures	69,803	-
Other	7,406	4,525
	2,831,480	4,525
Interest income	(75,594)	-
	2,755,886	4,525

25. FOREIGN EXCHANGE GAIN

The Company recorded an unrealized foreign exchange gain of \$1,627,372, substantially all of which relates to an intercompany loan to a foreign subsidiary that is denominated in U.S. dollars.

26. SEGMENT INFORMATION

For management purposes, the Company's activities are conducted in two geographic segments: Canada and the United States. Canadian and U.S. activities relate to the exploration, development, and production of oil and natural gas. Non-segmented expenses include corporate activities and items not allocated between operating segments. There were no transactions other than intercompany loans between the reportable segments for the years December 31, 2018 and 2017.

	Years ended December 31,					
	Canada		United States		Total	
	2018	2017	2018	2017	2018	2017
	\$	\$	\$	\$	\$	\$
Revenue						
Petroleum and natural gas sales	3,415,083	4,542,003	3,118,660	-	6,533,743	4,542,003
Royalties	(577,562)	(813,437)	(629,000)	-	(1,206,562)	(813,437)
Production taxes	-	-	(303,068)	-	(303,068)	-
Net revenue from petroleum and natural gas sales	2,837,521	3,728,566	2,186,592	-	5,024,113	3,728,566
Other sales	45,745	-	-	-	45,745	-
	<u>2,883,266</u>	<u>3,728,566</u>	<u>2,186,592</u>	<u>-</u>	<u>5,069,858</u>	<u>3,728,566</u>
Segmented expenses						
Operating and transportation	1,451,672	1,344,247	589,130	-	2,040,802	1,344,247
Exploration and evaluation expense	2,200,565	5,236,079	-	-	2,200,565	5,236,079
Impairment	-	550,378	-	-	-	550,378
Depletion and depreciation	1,129,482	1,178,849	792,465	-	1,921,947	1,178,849
Accretion of decommissioning liability	29,663	7,312	10,120	-	39,783	7,312
	<u>4,811,382</u>	<u>8,316,865</u>	<u>1,391,715</u>	<u>-</u>	<u>6,203,097</u>	<u>8,316,865</u>
Segmented income (loss) before taxes	<u>(1,928,116)</u>	<u>(4,588,299)</u>	<u>794,877</u>	<u>-</u>	<u>(1,133,239)</u>	<u>(4,588,299)</u>
Non-segmented expenses						
General and administrative					4,695,407	1,310,109
Share-based compensation					787,724	372,292
Finance costs					2,755,886	4,525
Foreign exchange gain					(1,627,372)	-
					<u>6,611,645</u>	<u>1,686,926</u>
Loss before income taxes					<u>(7,744,884)</u>	<u>(6,275,225)</u>
E&E assets	<u>32,222,140</u>	<u>4,327,386</u>	<u>2,657,092</u>	<u>-</u>	<u>34,879,232</u>	<u>4,327,386</u>
Property & equipment	<u>6,020,460</u>	<u>4,953,260</u>	<u>61,783,583</u>	<u>-</u>	<u>67,804,043</u>	<u>4,953,260</u>
Total assets	<u>49,435,861</u>	<u>13,217,082</u>	<u>65,290,977</u>	<u>-</u>	<u>114,726,838</u>	<u>13,217,082</u>
Capital expenditures	<u>891,062</u>	<u>6,383,698</u>	<u>51,878,948</u>	<u>-</u>	<u>52,770,010</u>	<u>6,383,698</u>

27. SUPPLEMENTAL CASH FLOW INFORMATION

The net change in working capital items is detailed as follows:

	Years ended December 31,	
	2018	2017
	\$	\$
Provided by (used in):		
Accounts receivable	(156,128)	604,179
Tax credits receivable	(44,511)	-
Inventory	42,671	(14,583)
Prepaid expenses and deposits	30,479	(26,742)
Accounts payable and accrued liabilities,	(592,816)	(645,212)
Effect of foreign exchange on working capital	(56,391)	-
	<u>(776,696)</u>	<u>(82,358)</u>

	Years ended December 31,	
	2018	2017
	\$	\$
Provided by (used in):		
Operating activities	(1,609,367)	467,740
Investing activities	974,854	(528,547)
Financing activities	(142,183)	(21,551)
	<u>(776,696)</u>	<u>(82,358)</u>