

**Cuda Oil and Gas Inc.**  
**Interim Condensed Consolidated Financial Statements**  
**Three Months Ended March 31, 2019 and 2018**  
**(Unaudited)**

The unaudited interim condensed consolidated financial statements of Cuda Oil and Gas Inc. for the three months ended March 31, 2019 and 2018 were not subject to a review by the Company's auditor.

# Cuda Oil and Gas Inc.

## Interim Condensed Consolidated Statements of Financial Position

(Unaudited)

(in Canadian dollars)

	<u>March 31, 2019</u>	<u>December 31, 2018</u>
	\$	\$
<b>ASSETS</b>		
Current		
Cash	521,470	1,530,926
Restricted deposits	-	595,000
Accounts receivable (Note 7)	1,641,400	1,626,035
Guarantee deposits	-	303,000
Tax credits receivable	114,498	114,498
Inventory	106,176	108,393
Prepaid expenses and deposits	249,822	281,538
	<u>2,633,366</u>	<u>4,559,390</u>
Non-current		
Restricted cash and deposits	7,387,067	7,484,173
Exploration and evaluation assets (Note 8)	35,496,591	34,879,232
Property and equipment (Note 9)	69,309,126	67,804,043
	<u>114,826,150</u>	<u>114,726,838</u>
<b>LIABILITIES</b>		
Current		
Credit facility (Note 10)	34,446,156	33,886,089
Accounts payable and accrued liabilities	5,891,227	3,889,471
Obligation for purchase of shares (Note 6)	3,116,750	3,116,750
Due to partner	90,000	90,000
Lease obligations (Note 11)	248,315	-
Decommissioning liability (Note 12)	186,212	186,212
	<u>43,978,660</u>	<u>41,168,522</u>
Non-current		
Obligation for exploration work	7,387,067	7,484,173
Lease obligations (Note 11)	220,848	-
Convertible debentures (Note 13)	1,448,631	1,439,763
Decommissioning liability (Note 12)	4,430,307	4,272,110
	<u>57,465,513</u>	<u>54,364,568</u>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 14)	74,003,306	73,957,687
Warrants (Note 14)	3,956,098	3,956,098
Contributed surplus (Note 14)	2,222,250	1,674,541
Accumulated other comprehensive income	327,352	712,635
Deficit	(23,148,369)	(19,938,691)
	<u>57,360,637</u>	<u>60,362,270</u>
Going Concern (Note 2)		
Commitments and Contingencies (Notes 6 and 15)		
	<u>114,826,150</u>	<u>114,726,838</u>

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

## Cuda Oil and Gas Inc.

### Interim Condensed Consolidated Statements of Loss and Comprehensive Loss

Three months ended March 31, 2019 and 2018

(Unaudited)

(in Canadian dollars)

	March 31, 2019	March 31, 2018
	\$	\$
<b>REVENUE</b>		
Petroleum and natural gas sales (Note 18)	3,285,591	1,650,556
Royalties	(603,046)	(284,307)
Production taxes	(199,206)	-
Net revenue from petroleum and natural gas sales	2,483,339	1,366,249
Other sales	19,511	-
	<u>2,502,850</u>	<u>1,366,249</u>
<b>EXPENSES AND OTHER ITEMS</b>		
Operating and transportation	1,199,333	592,027
General and administrative	765,775	354,111
Share-based compensation (Note 14)	383,353	64,598
Depletion and depreciation (Note 9)	960,473	464,488
Accretion of decommissioning liability (Note 12)	26,434	2,428
Finance costs (Note 19)	1,504,897	-
Foreign exchange loss (Note 20)	872,263	-
	<u>5,712,528</u>	<u>1,477,652</u>
<b>NET LOSS</b>	<b>(3,209,678)</b>	<b>(111,403)</b>
Other comprehensive loss	(385,283)	-
<b>NET LOSS AND COMPREHENSIVE LOSS</b>	<b>(3,594,961)</b>	<b>(111,403)</b>
Basic and diluted net loss per share	(0.15)	(0.02)
Weighted average number of common shares outstanding	21,941,408	7,249,988

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

## Cuda Oil and Gas Inc.

### Interim Condensed Consolidated Statements of Changes in Shareholders' Equity

Three months ended March 31, 2019 and 2018

(Unaudited)

(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>
	\$	\$	\$	\$	\$	\$
<b>Balance at December 31, 2018</b>	73,957,687	3,956,098	1,674,541	712,635	(19,938,691)	60,362,270
Issued in exchange for interest on debentures	45,619	-	-	-	-	45,619
Share-based compensation	-	-	547,709	-	-	547,709
Net loss	-	-	-	-	(3,209,678)	(3,209,678)
Other comprehensive loss	-	-	-	(385,283)	-	(385,283)
<b>Balance at March 31, 2019</b>	<u>74,003,306</u>	<u>3,956,098</u>	<u>2,222,250</u>	<u>327,352</u>	<u>(23,148,369)</u>	<u>57,360,637</u>
<b>Balance at December 31, 2017</b>	19,178,187	816,431	2,145,051	-	(10,503,517)	11,636,152
Share-based compensation	-	-	116,792	-	-	116,792
Net loss and comprehensive loss	-	-	-	-	(111,403)	(111,403)
<b>Balance at March 31, 2018</b>	<u>19,178,187</u>	<u>816,431</u>	<u>2,261,843</u>	<u>-</u>	<u>(10,614,920)</u>	<u>11,641,541</u>

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

## Cuda Oil and Gas Inc.

### Interim Condensed Consolidated Statements of Cash Flows

Three months ended March 31, 2019 and 2018

(Unaudited)

(in Canadian dollars)

	March 31, 2019	March 31, 2018
	<u>\$</u>	<u>\$</u>
<b>OPERATING ACTIVITIES</b>		
Net loss for the period	<b>(3,209,678)</b>	(111,403)
Non-cash items		
Depletion and depreciation	<b>960,473</b>	464,488
Share-based compensation	<b>383,353</b>	64,598
Accretion of credit facility and convertible debentures	<b>568,935</b>	-
Accretion of decommissioning liability	<b>26,434</b>	2,428
Foreign exchange loss	<b>891,002</b>	-
Net change in working capital items (Note 22)	<b>580,047</b>	(552,449)
Cash flows from (used in) operating activities	<b>200,566</b>	(132,338)
<b>INVESTING ACTIVITIES</b>		
Property and equipment expenditures	<b>(3,080,011)</b>	(48,359)
Exploration and evaluation asset expenditures	<b>(433,129)</b>	(436,808)
Reduction of restricted cash and deposits	<b>692,106</b>	-
Reduction of obligation for exploration work	<b>(97,106)</b>	-
Refund of guarantee deposits	<b>303,000</b>	-
Net change in working capital items (Note 22)	<b>1,504,572</b>	(7,456)
Cash flows used in investing activities	<b>(1,110,568)</b>	(492,623)
<b>FINANCING ACTIVITIES</b>		
Payments on lease obligations	<b>(62,049)</b>	-
Net change in working capital items (Note 22)	<b>(23,851)</b>	(4,525)
Cash flows used in financing activities	<b>(85,900)</b>	(4,525)
Effect of foreign currency translation on cash	<b>(13,554)</b>	-
<b>NET CHANGE IN CASH</b>	<b>(1,009,456)</b>	(629,486)
Cash, beginning of period	<b>1,530,926</b>	3,470,235
Cash, end of period	<b>521,470</b>	2,840,749
Cash interest paid	<b>965,184</b>	Nil

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

## **Cuda Oil and Gas Inc.**

### **Notes to the Interim Condensed Consolidated Financial Statements**

Three Months Ended March 31, 2019 and 2018

(Unaudited)

(in Canadian dollars)

#### **1. NATURE OF BUSINESS**

Cuda Oil and Gas Inc. (“**COGI**” or the “**Company**”) is a company incorporated under the *Business Corporations Act* (Quebec). 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 interim condensed 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 three months ended March 31, 2019 and 2018, the Company reported net losses of \$3,209,678 and \$111,403, respectively, and generated (used) cash flows from operating activities of \$200,566 and (\$132,338), respectively. Further, as at March 31, 2019, the Company has a deficit of \$23,148,369 and a working capital deficiency of \$41,345,294 which includes a credit facility in the amount of \$35,000,000 payable on demand and maturing on June 29, 2019 (Note 10) and \$3,116,750 related to an obligation to purchase shares from a dissenting shareholder (Note 6). 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. The ability of the Company to continue as a going concern is dependent upon its ability to generate future profitable operations and to obtain new financing or renegotiate existing financing to meet its obligations and repay its liabilities in the normal course of business when they become due, and to generate sufficient funds to continue its capital program. Capital commitments in Wyoming, U.S. for 2019 include estimated costs totaling approximately \$6,890,836 to complete a gas gathering and processing facility, gas injection facilities and electrical powerline facilities plus approximately \$308,230 in Quebec, Canada for regulatory and other commitments. 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 interim condensed 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, STATEMENT OF COMPLIANCE AND APPROVAL**

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, as issued by the International Accounting Standards Board. They do not include all of the information required in annual financial

statements prepared in accordance with International Financial Reporting Standards (“IFRS”), and should be read in conjunction with COGI’s audited consolidated financial statements for the year ended December 31, 2018.

Except as outlined in Note 5, these interim condensed consolidated financial statements were prepared using the same accounting policies as described in Note 5 of COGI’s audited consolidated financial statements for the year ended December 31, 2018.

These interim condensed consolidated financial statements were authorized for issuance by the Board of Directors on May 30, 2019.

#### **4. JUDGMENTS, ESTIMATES AND ASSUMPTIONS**

These interim condensed consolidated financial statements were prepared using the same judgments, estimates and assumptions as described in Note 4 of COGI’s audited consolidated financial statements for the year ended December 31, 2018.

#### **5. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES**

Effective January 1, 2019, the Company has applied IFRS 16 using the modified retrospective approach. The modified retrospective approach does not require restatement of comparative financial information as the cumulative effect of initially applying IFRS 16 is recognized on transition as an adjustment to opening deficit, and therefore IFRS 16 has been applied prospectively. Comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The impact of the changes is disclosed in Note 11.

On initial adoption of IFRS 16, the Company elected to apply the practical expedient to retain the assessment of which transactions are leases. IFRS 16 was applied only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the requirements in IFRS 16 regarding the identification of a lease were applied only to contracts entered into, or modified, after January 1, 2019.

##### **IFRS 16 - Leases**

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company recognizes a right-of-use asset and a lease obligation at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease obligation adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated from the commencement date to the earlier of the end of useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease obligation.

The lease obligation is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or if that rate cannot be readily determined, the Company's incremental borrowing rate. The Company uses its incremental borrowing rate as the discount rate.

The lease obligation is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease obligation is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use assets, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to nil.

The Company presents right-of-use assets in property and equipment and lease obligations in the Interim Condensed Consolidated Statement of Financial Position.

The preparation of the financial statements in accordance with IFRS requires management to make judgments, estimates, and assumptions that affect the reported amount of assets, liabilities, income, and expenses. Actual results could differ significantly from these estimates. Key areas where management has made judgments, estimates, and assumptions related to the application of IFRS 16 include:

- the incremental borrowing rates are based on judgments including economic environment, term, currency, and the underlying risk inherent to the asset. The carrying balance of the right-of-use assets, lease obligations, and the resulting interest and depletion and depreciation expense, may differ due to changes in the market conditions and lease term.
- lease terms are based on assumptions regarding extension terms that allow for operational flexibility and future market conditions.
- assessing whether right-of-use assets are impaired.

#### **Short-term leases and leases of low value assets**

The Company has elected not to recognize right-of-use assets and lease obligations for short term leases that have a term of twelve months or less and leases of low value assets. The Company recognizes the lease payments associated with these leases as an expense when incurred, over the lease term.

## **6. BUSINESS COMBINATION**

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. 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 interim condensed 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.

<b>Consideration (\$)</b>	
Share consideration	34,735,924
Share based compensation	2,532,470
<b>Total consideration</b>	<b>37,268,394</b>
<b>Recognized amounts of assets acquired and liabilities assumed (\$)</b>	
Cash and deposits	8,181,787
Cash held in trust for Asset Acquisition	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)
	<b>37,268,394</b>

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.

## 7. ACCOUNTS RECEIVABLE

	<u>March 31, 2019</u>	<u>December 31, 2018</u>
	\$	\$
Trade accounts receivable	427,834	243,130
Joint operations receivable	860,786	927,824
Other	129,032	190,199
Commodity taxes receivable	223,748	219,882
	<u>1,641,400</u>	<u>1,626,035</u>

The accounts receivable balance as at March 31, 2019 is primarily comprised of: 33 percent due from one joint operations partner in the United States (December 31, 2018 – 46 percent); 10 percent due from one joint operations partner in Canada (December 31, 2018 – 9 percent); 25 percent due from three purchasers of petroleum and natural gas in Canada (December 31, 2018 – 14 percent); and 14 percent due from the Canada Revenue Agency (December 31, 2018 – 14 percent).

## 8. EXPLORATION AND EVALUATION ASSETS

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

(\$)	<b>Total</b>
Balance, December 31, 2018	34,879,232
Additions	597,485
Change in decommissioning cost	87,757
Transfers to property and equipment (Note 9)	(14,230)
Foreign currency translation	(53,653)
Balance, March 31, 2019	35,496,591

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 \$354,828 in the three months ended March 31, 2019 (March 31, 2018 – \$266,630).

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 \$28,004,097 is uncertain and requires further evaluation given the recent adoption of these regulations by the Ministry. As at March 31, 2019, no impairment was recorded on the Quebec exploration and evaluation assets.

For the Company's E&E assets in Alberta and Wyoming, there were no indicators of impairment identified as at March 31, 2019. Accordingly, an impairment test was not required.

## 9. PROPERTY AND EQUIPMENT

The following table reconciles COGI's property and equipment:

Cost (\$)	Developed and Producing Assets	Drilling and Field Equipment	Right-Of-Use and Administrative Assets	Total
Balance, December 31, 2018	68,881,318	2,073,558	130,135	71,085,011
Additions	3,080,011	-	-	3,080,011
Adoption of IFRS 16 (Notes 5 and 11)	-	-	531,212	531,212
Change in decommissioning cost	73,478	-	-	73,478
Transfers from E&E assets (Note 8)	14,230	-	-	14,230
Foreign currency translation	(1,250,374)	-	-	(1,250,374)
Balance, March 31, 2019	70,798,663	2,073,558	661,347	73,533,568
<b>Accumulated depletion and depreciation and impairment (\$)</b>				
Balance, December 31, 2018	(3,075,598)	(140,406)	(64,964)	(3,280,968)
Depletion and depreciation	(831,423)	(54,439)	(74,611)	(960,473)
Foreign currency translation	16,999	-	-	16,999
Balance, March 31, 2019	(3,890,022)	(194,845)	(139,575)	(4,224,442)
<b>Carrying amounts (\$)</b>				
As at December 31, 2018	65,805,720	1,933,152	65,171	67,804,043
As at March 31, 2019	66,908,641	1,878,713	521,772	69,309,126

Included in property and equipment at March 31, 2019 are right-of-use assets related to Canadian office space with a cost of \$531,212, accumulated depreciation of \$67,860 and a carrying amount of \$463,352. No amounts related to right-of-use assets are recorded in prior periods (Notes 5 and 11).

At March 31, 2019, estimated future development costs of \$137,923,000 (December 31, 2018 - \$141,003,000) 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 \$4,732,355 (December 31, 2018 - \$3,292,172).

## 10. 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 three months ended March 31, 2019 was \$560,067 (March 31, 2018 – \$Nil).

## 11. LEASE OBLIGATIONS

On transition to IFRS 16, the Company recognized \$531,212 of right-of-use assets and lease obligations related to Canadian office space. Initial measurement of the office lease obligations was determined based on the remaining lease payments at January 1, 2019, and the Company discounted the lease payments using the incremental borrowing rate at January 1, 2019 of 10.5%. The Company had the following future commitments associated with its lease obligations at March 31, 2019.

	March 31, 2019
Less than 1 year	285,063
1 – 3 years	201,648
3 – 5 years	50,412
After 5 years	-
Total lease payments	537,123
Amounts representing interest over the term of the lease	(67,960)
Present value of net lease payments	469,163
Current portion of lease obligations	248,315
Long-term portion of lease obligations	220,848

For the three months ended March 31, 2019, the Company recorded interest expense of \$13,404 and payments of \$75,453 related to its lease obligations.

## 12. 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 March 31, 2019 to be approximately \$5,364,203 (December 31, 2018 - \$5,415,457) 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 1.44 to 1.76 percent (December 31, 2018 – 1.90 to 2.15 percent) based on the timing to abandon and an inflation rate of 2.0 percent (December 31, 2018 – 2.0 percent). A reconciliation of the decommissioning liability is provided below:

	<b>Amount (\$)</b>
Balance, December 31, 2018	4,458,322
Change in estimates	161,235
Accretion	26,434
Foreign currency translation	(29,472)
<b>Balance, March 31, 2019</b>	<b>4,616,519</b>
Current portion of decommissioning liability	186,212
<b>Long-term portion of decommissioning liability</b>	<b>4,430,307</b>

### 13. 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.

	<b>Amount (\$)</b>
Balance, December 31, 2018	1,439,763
Accretion charge on debentures	8,868
<b>Balance, March 31, 2019</b>	<b>1,448,631</b>

As of March 31, 2019, 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.

## 14. 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

	<b>Number of Common Shares</b>	<b>Amount (\$)</b>
Balance, December 31, 2018	21,929,855	73,957,687
Issued in exchange for interest on debentures	33,541	45,619
Balance, March 31, 2019	21,963,396	74,003,306

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

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 \$45,619.

### 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 March 31, 2019 is presented below:

	<b>Options</b>	<b>Weighted average exercise price</b>
		\$
Outstanding, December 31, 2018	2,168,214	4.34
Expired	(106,000)	8.80
Outstanding, March 31, 2019	2,062,214	4.11

The exercise prices for stock options outstanding and exercisable under the plan at March 31, 2019 is as follows:

	Outstanding options			Exercisable options	
	Number	Weighted average remaining contractual life	Weighted average exercise price	Number	Weighted average exercise price
		Years	\$		\$
Employees, officers and directors	83,400	1.7	7.10	83,400	7.10
	138,500	2.2	5.90	138,500	5.90
	90,000	3.8	4.80	90,000	4.80
	320,314	3.5	4.18	227,088	4.18
	<u>1,430,000</u>	<u>6.5</u>	<u>3.71</u>	<u>-</u>	<u>3.71</u>
	<u>2,062,214</u>	<u>5.4</u>	<u>4.11</u>	<u>538,988</u>	<u>5.18</u>

The Company's share-based compensation relating to stock options for the three months ended March 31, 2019 was \$547,709 (March 31, 2018 - \$116,792) of which \$164,356 (March 31, 2018 - \$52,194) was capitalized.

### Warrants

Outstanding warrants entitle their holders to subscribe to an equivalent number of common shares, 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
<u>2,391,953</u>		

In connection with the Arrangement (Note 6), 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 March 31, 2019, no arrangement warrants have vested.

### Weighted average number of common shares

The stock options, warrants and convertible debentures (Note 13) were not included in the calculation of diluted loss per share as their inclusion would have an antidilutive effect.

## 15. COMMITMENTS

The Company's office leases have been accounted for as right-of-use assets and lease obligations on transition to IFRS 16 (Notes 5, 9 and 11). There have been no significant changes in the Company's expected future commitments related to lease rentals, and the timing of those payments, since December 31, 2018.

Capital commitments in Wyoming, U.S. for 2019 include estimated costs totaling approximately \$6,890,836 to complete a gas gathering and processing facility, gas injection facilities and electrical powerline facilities plus approximately \$308,230 in Quebec, Canada for regulatory and other commitments. Otherwise, all future capital expenditures are considered discretionary.

## 16. RELATED PARTY TRANSACTIONS

The Company had no related party transactions for the three months ended March 31, 2019 and 2018.

### Compensation of key management personnel

The aggregate compensation of key management personnel was as follows:

	<u>Three months ended March 31,</u>	
	<u>2019</u>	<u>2018</u>
	\$	\$
Salaries and benefits	<b>336,253</b>	298,983
Share-based compensation	<b>447,277</b>	88,532
Total compensation	<b>783,530</b>	387,515

## 17. 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, 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, accounts receivable, 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 restricted cash and deposits and obligation for exploration work approximate their respective fair values.

The carrying amount of the convertible debentures as at March 31, 2019 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, and accounts receivable. The Company reduces its credit risk on cash and restricted cash and deposits by maintaining its bank accounts at large international financial institutions. 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 operations 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:

	<u>March 31, 2019</u>	<u>December 31, 2018</u>
	\$	\$
Current	<b>1,088,779</b>	1,263,790
31 – 60 Days	<b>44,217</b>	161,559
61 – 90 Days	<b>19,370</b>	-
> 90 Days	<b>489,034</b>	200,686
	<u><b>1,641,400</b></u>	<u>1,626,035</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	5,891,227	-
Obligation for purchase of shares	3,116,750	-
Due to partner	90,000	-
Obligation for exploration work	-	7,387,067
Convertible debentures	-	1,500,000
	<u>44,097,977</u>	<u>8,887,067</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 March 31, 2019.

#### *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 62% and 38% of the Company's petroleum and natural gas sales were denominated in United States dollars and in Canadian dollars, respectively, for the three months ended March 31, 2019. 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 March 31, 2019.

### *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 March 31, 2019.

### **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>March 31, 2019</u>	<u>December 31, 2018</u>
	\$	\$
Cash	<b>(521,470)</b>	(1,530,926)
Current assets, excluding cash	<b>(2,111,896)</b>	(3,028,464)
Current liabilities, excluding credit facility	<b>9,532,504</b>	7,282,433
Credit facility	<b>34,446,156</b>	33,886,089
Convertible debentures	<b>1,448,631</b>	1,439,763
Shareholders' equity	<b>57,360,637</b>	60,362,270
	<b><u>100,154,562</u></b>	<b><u>98,411,165</u></b>

There have been no changes in the Company's approach to capital management in 2019.

## **18. 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 COGI.

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

	Three months ended March 31,	
	2019	2018
	\$	\$
Crude oil	2,177,171	537,743
Natural gas	856,084	921,991
Natural gas liquids	252,336	190,822
	<u>3,285,591</u>	<u>1,650,556</u>

Sales in the U.S. are predominantly made to one customer and sales in Canada are made to predominantly three customers representing approximately 69%, 21% and 10% of Canadian sales. As at March 31, 2019, receivables from contracts with customers were \$412,219 (December 31, 2018 - \$235,837).

## 19. FINANCE COSTS

	Three months ended March 31,	
	2019	2018
	\$	\$
Interest on credit facility	1,478,831	-
Interest on lease obligations	13,404	-
Interest on convertible debentures	53,252	-
Other	5,961	-
	<u>1,551,448</u>	-
Interest income	(46,551)	-
	<u>1,504,897</u>	-

## 20. FOREIGN EXCHANGE LOSS

The Company recorded an unrealized foreign exchange loss of \$891,002 and a realized foreign exchange gain of \$18,739. Substantially all of the foreign exchange gain and loss relates to an intercompany loan to a foreign subsidiary that is denominated in U.S. dollars.

## 21. 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 three months ended March 31, 2019 and 2018.

	Three months ended March 31,					
	Canada		United States		Total	
	2019	2018	2019	2018	2019	2018
	\$	\$	\$	\$	\$	\$
<b>Revenue</b>						
Petroleum and natural gas sales	1,236,901	1,650,556	2,048,690	-	3,285,591	1,650,556
Royalties	(201,388)	(284,307)	(401,658)	-	(603,046)	(284,307)
Production taxes	-	-	(199,206)	-	(199,206)	-
Net revenue from petroleum and natural gas sales	1,035,513	1,366,249	1,447,826	-	2,483,339	1,366,249
Other sales	19,511	-	-	-	19,511	-
	<u>1,055,024</u>	<u>1,366,249</u>	<u>1,447,826</u>	<u>-</u>	<u>2,502,850</u>	<u>1,366,249</u>
<b>Segmented expenses</b>						
Operating and transportation	447,844	592,027	751,489	-	1,199,333	592,027
Depletion and depreciation	444,114	464,488	516,359	-	960,473	464,488
Accretion of decommissioning liability	17,538	2,428	8,896	-	26,434	2,428
	<u>909,496</u>	<u>1,058,943</u>	<u>1,276,744</u>	<u>-</u>	<u>2,186,240</u>	<u>1,058,943</u>
<b>Segmented income (loss) before taxes</b>	<u>145,528</u>	<u>307,306</u>	<u>171,082</u>	<u>-</u>	<u>316,610</u>	<u>307,306</u>
<b>Non-segmented expenses</b>						
General and administrative					765,775	354,111
Share-based compensation					383,353	64,598
Finance costs					1,504,897	-
Foreign exchange loss					872,263	-
					<u>3,526,288</u>	<u>418,709</u>
<b>Net loss</b>					<u>(3,209,678)</u>	<u>(111,403)</u>
<b>E&amp;E assets<sup>(1)</sup></b>	<u>32,846,294</u>	<u>32,222,140</u>	<u>2,650,297</u>	<u>2,657,092</u>	<u>35,496,591</u>	<u>34,879,232</u>
<b>Property &amp; equipment<sup>(1)</sup></b>	<u>6,080,739</u>	<u>6,020,460</u>	<u>63,228,387</u>	<u>61,783,583</u>	<u>69,309,126</u>	<u>67,804,043</u>
<b>Total assets<sup>(1)</sup></b>	<u>48,244,257</u>	<u>49,435,861</u>	<u>66,581,893</u>	<u>65,290,977</u>	<u>114,826,150</u>	<u>114,726,838</u>
<b>Capital expenditures</b>	<u>386,268</u>	<u>485,167</u>	<u>3,126,872</u>	<u>-</u>	<u>3,513,140</u>	<u>485,167</u>

(1) Current year represents balances at March 31, 2019. Prior year represents balances at December 31, 2018.

## 22. SUPPLEMENTAL CASH FLOW INFORMATION

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

	Three months ended March 31,	
	2019	2018
	\$	\$
Provided by (used in):		
Accounts receivable	(15,365)	(198,467)
Inventory	2,217	27,681
Prepaid expenses and deposits	31,716	(62,085)
Accounts payable and accrued liabilities,	2,047,375	(331,559)
Effect of foreign exchange on working capital	(5,175)	-
	<u>2,060,768</u>	<u>(564,430)</u>

	Three months ended March 31,	
	2019	2018
	\$	\$
Provided by (used in):		
Operating activities	580,047	(552,449)
Investing activities	1,504,572	(7,456)
Financing activities	(23,851)	(4,525)
	<u>2,060,768</u>	<u>(564,430)</u>