# Cuda Oil and Gas Inc. (formerly Junex Inc.)
## Management Discussion and Analysis
## For the Years Ended December 31, 2018 and 2017

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") for Cuda Oil and Gas Inc., formerly Junex Inc., is prepared as of April 29, 2019, and should be read in conjunction with the audited consolidated financial statements together with the notes thereto for years ended December 31, 2018 and 2017 (the "Financial Statements").

The Financial Statements were prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial data presented is in accordance with IFRS, and in Canadian dollars, except where indicated otherwise. These documents and additional information about Cuda Oil and Gas Inc., formerly Junex Inc., are available under the Company's profile on the SEDAR website at www.sedar.com.

## DESCRIPTION OF BUSINESS

Cuda Oil and Gas Inc., formerly Junex Inc., ("COGI" 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, United States for $50.3 million (the "Asset Acquisition") 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, except for the number of common shares issued and outstanding which reflects the legal share capital of Junex.

These transactions have the following impacts on share capital:

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

The main activity of COGI is oil and natural gas exploration, development and production in the Provinces of 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").

## GOING CONCERN

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 working capital deficiency of $36,609,132, which includes a credit facility in the amount of $35,000,000, payable on demand and maturing on June 29, 2019, and $3,116,750 related to an obligation to purchase shares from a dissenting shareholder. 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, United States 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.

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. The Financial Statements and MD&A 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.

**FORWARD LOOKING STATEMENTS**

This MD&A contains forward–looking statements and information. Please see "Forward–Looking Statements and Information" included in the "Advisories" section at the end of this MD&A.

**FINANCIAL PERFORMANCE MEASURES**

The selected financial information and discussion also refers to certain measures to assist in assessing financial performance. These "Non–GAAP Measures" such as "adjusted funds flow from (used in) operations", "adjusted funds flow from (used in) operations per share", "operating netback", and "working capital surplus (deficit)", should not be construed as alternatives to net income (loss) or other comparable measures determined in accordance with IFRS as an indicator of performance or as a measure of liquidity and cash flow. COGI uses these measures to assist in understanding the Company's ability to generate positive cash flows from operating activities at current commodity prices and they provide an analytical tool to benchmark changes in operational performance against prior periods. Non–GAAP measures do not have standard meanings prescribed by IFRS and therefore are unlikely to be comparable to similar measures presented by other issuers. Definitions of each measure used are provided in "Non–GAAP Measures" included in the "Advisories" section at the end of this MD&A.

## FINANCIAL AND OPERATING HIGHLIGHTS[1]

| | Three months ended December 31 | | Years ended December 31 | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| ($, except per share) | | | | |
| **Financial** | | | | |
| Revenue | **3,013,933** | 1,062,186 | **6,533,743** | 4,542,003 |
| Cash flow from (used in) operating activities | **284,841** | 83,327 | **(5,171,984)** | 1,429,796 |
| Adjusted funds flow from (used in) operations[2] | **(1,040,478)** | 233,069 | **(3,558,829)** | 1,069,685 |
| Per share – basic and diluted | **(0.05)** | 0.03 | **(0.29)** | 0.15 |
| Net loss | **(2,554,058)** | (5,870,796) | **(7,744,884)** | (5,934,172) |
| Capital expenditures and acquisitions | **8,380,974** | 876,459 | **52,770,010** | 6,383,698 |
| Working capital surplus (deficit)[2] | **(36,609,132)** | 2,823,459 | **(36,609,132)** | 2,823,459 |
| Total assets | **114,726,838** | 13,217,082 | **114,726,838** | 13,217,082 |
| **Operating** | | | | |
| *Average daily production volumes (boe/d)* | | | | |
| Canada | **555** | 477 | **460** | 482 |
| United States[1] | **341** | - | **114** | - |
| *Average realized price ($/boe)* | | | | |
| Canada | **15.16** | 24.19 | **20.36** | 25.82 |
| United States[1] | **71.33** | - | **74.89** | - |
| Company operating netback ($/boe)[2] | **15.95** | 13.36 | **14.24** | 13.56 |

*Notes:*
*(1) Results contributed since the asset acquisitions in Wyoming on August 14, 2018, and October 5, 2018.*
*(2) See "Non–GAAP Measures".*

## SUMMARY PERFORMANCE REVIEW

2018 proved to be a year of significant growth for the Company.

- On August 14, 2018, the Company completed the reverse acquisition of Junex by CEI, and concurrently acquired a 27.75 percent working interest in the Barron Flats Federal (Deep) Unit in the Powder River Basin of Wyoming, United States, for total consideration of USD $38.4 million (CAD $50.3 million). Subsequently on October 5, 2018, the Company acquired a 33.33 percent working interest in the Cole Creek Unit, also located in the Powder River Basin, for total consideration of USD $1.2 million (CAD $1.5 million).
- On June 29, 2018, the Company secured a $35 million credit facility with an institutional lender. The proceeds of the credit facility, net of issuance costs, were used to fund the Asset Acquisition.
- Following the acquisition of these oil and natural gas properties, production averaged 574 boe/d, for 2018, representing an increase of 19 percent in comparison to 2017, when production averaged 482

boe/d. Further, the 2018 average operating netback increased to $14.24/ boe from $13.56/ boe in 2017.

- The Company issued 2,981,212 common shares on November 9, 2018 for gross proceeds of $7,154,909, and incurred share issue costs of $604,643.
- Higher operating netbacks from additional crude oil production from the asset acquisitions in Wyoming, United States, was offset by higher G&A expenses, primarily due to transaction costs related to the Arrangement and Asset Acquisition and integration activities, and higher interest expense on the Company's credit facility, resulting in adjusted funds flow used in operations of $3,558,829 in 2018. The Company generated adjusted funds flow from operations of $1,069,685 in 2017.

## REVIEW OF FINANCIAL RESULTS

### Production

| | Three months ended December 31 | | Years ended December 31 | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| **Crude oil (bbls/d)** | | | | |
| Canada | **35** | 72 | **55** | 73 |
| United States(1) | **341** | - | **114** | - |
| **Natural gas (mcf/d)** | | | | |
| Canada | **2,911** | 2,299 | **2,288** | 2,280 |
| **Natural gas liquids ("NGLs")(bbls/d)** | | | | |
| Canada | **35** | 22 | **23** | 29 |
| **Total (boe/d)** | | | | |
| Canada | **555** | 477 | **460** | 482 |
| United States(1) | **341** | - | **114** | - |
| | **896** | 477 | **574** | 482 |

*Note:*
*(1) Results contributed since the asset acquisitions in Wyoming on August 14, 2018, and October 5, 2018.*

Crude oil and natural gas production for the three months and year ended December 31, 2018 was 896 boe/d and 574 boe/d respectively, an 88 percent and 19 percent increase from the respective comparable periods in 2017. The increase was due to production additions in the Powder River Basin of Wyoming, United States, following the acquisition of certain oil and natural gas properties on August 14, 2018, and October 5, 2018. Following these acquisitions, the Company drilled gross 11 (3.1 net) wells and completed 10 gross (2.8 net) wells in the Barron Flats (Deep) Unit in the Powder River Basin for the year ended December 31, 2018. At December 31, 2018, the Company had achieved exit production of approximately 1,025 boe/d.

Continuing low natural gas prices curtailed the expansion of production in Canada during the year ended December 31, 2018. Natural gas production was 2,288 mcf/d for the year ended December 31, 2018, which is below the production capacity of over 3,500 mcf/d. Production is lower than capacity due to internally imposed production restrictions from April 24 to May 30, 2018, and again from June 17 to October 9, 2018, to avoid significant price volatility. In 2017, the Company imposed a similar strategy producing 2,280 mcf/d for the year ended December 31, 2017, with production restrictions from June 23

to November 12, 2017. The Company will continue to maximize the reserve value by producing natural gas into high price environments and restricting during periods of price volatility.
Sustained downward pressure on Canadian crude oil prices relative to global benchmarks in 2018, particularly during the fourth quarter of 2018, resulted in a temporary reduction by the Company of crude oil production in Canada to 55 bbls/d in 2018 from 73 bbls/d in 2017.

**Revenue**

| | Three months ended December 31 | | Years ended December 31 | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| ($) | | | | |
| **Crude oil** | | | | |
| Canada | **115,698** | 464,941 | **1,307,212** | 1,653,357 |
| United States[(1)] | **2,239,897** | - | **3,118,660** | - |
| | **2,355,595** | 464,941 | **4,425,872** | 1,653,357 |
| **Natural gas** | | | | |
| Canada | **462,472** | 499,295 | **1,623,610** | 2,360,508 |
| **NGLs** | | | | |
| Canada | **195,866** | 97,950 | **484,261** | 528,138 |
| **Total** | **3,013,933** | 1,062,186 | **6,533,743** | 4,542,003 |

*Note:*
*(1) Results contributed since the asset acquisitions in Wyoming on August 14, 2018, and October 5, 2018.*

Petroleum and natural gas revenue totalled $3,013,933 for the three months ended December 31, 2018, compared to $1,062,186 for the fourth quarter of 2017. The change was primarily driven by higher crude oil production volumes following the asset acquisitions in Wyoming, United States, partially offset by lower crude oil revenue in Canada as a result of lower production volumes and lower realized prices.

Similarly petroleum and natural gas revenue increased to $6,533,743 for the year ended December 31, 2018, from $4,542,003 for the year ended December 31, 2017, primarily driven by higher crude oil production volumes following the asset acquisitions in Wyoming, United States, partially offset by lower natural gas revenue in Canada due to lower realized prices, and lower crude oil revenue in Canada as a result of lower production volumes and lower realized prices.

**Commodity Prices**

| | Three months ended December 31 | | Years ended December 31 | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| **Average Realized Prices** | | | | |
| **Crude oil ($/bbl)** | | | | |
| Canada | **36.17** | 70.05 | **64.83** | 62.41 |
| United States(1) | **71.33** | - | **74.89** | - |
| | **68.08** | 70.05 | **71.61** | 62.41 |
| **Natural gas ($/mcf)** | | | | |
| Canada | **1.73** | 2.36 | **1.94** | 2.84 |
| **NGLs ($/bbl)** | | | | |
| Canada | **60.61** | 48.52 | **57.61** | 49.15 |
| **Company average realized price ($/boe)** | | | | |
| Canada | **15.16** | 24.19 | **20.36** | 25.82 |
| United States(1) | **71.33** | - | **74.89** | - |
| | **36.55** | 24.19 | **31.20** | 25.82 |
| **Average Benchmark Prices** | | | | |
| WTI crude oil (US$/bbl) | **59.08** | 55.37 | **64.94** | 50.88 |
| Exchange rate (US$/Cdn$) | **1.32** | 1.27 | **1.30** | 1.30 |
| Edmonton light oil (Cdn$/bbl) | **42.48** | 68.86 | **69.22** | 62.84 |
| AECO, daily (5A)(Cdn$/GJ) | **1.49** | 1.60 | **1.44** | 2.04 |

*Note:*
*(1) Results contributed since the asset acquisitions in Wyoming on August 14, 2018, and October 5, 2018.*

Global crude oil prices weakened in the fourth quarter of 2018, with the WTI benchmark price averaging 15 percent lower than the third quarter of 2018, but seven percent higher than the fourth quarter of 2017. Global crude oil prices exhibited exceptional volatility in 2018. Prior to the fourth quarter of 2018, the WTI benchmark price strengthened gradually due to geopolitical crude oil supply disruptions, coupled with concern that low global spare capacity would be unable to replace additional production outages. In the fourth quarter of 2018, crude oil pricing reversed sharply due to growing concern of a global economic slowdown and the impact of the escalating trade war between China and the United States. Subsequent to the quarter, global crude prices have started to recover due to the anticipation of new supply cuts mandated at the OPEC meeting in early December.

Similar to WTI prices, Edmonton light oil prices gradually improved throughout the first three quarters of 2018 mainly due to the strength in underlying WTI prices and a weaker Canadian dollar. However, during the fourth quarter of 2018, congestion on major export pipelines, rising local supply and high western Canadian crude oil inventories resulted in extremely wide Canadian crude oil prices relative to global benchmarks. With incremental export capacity not slated to come on-line until the fourth quarter of 2019, the Alberta government mandated province-wide crude oil curtailments beginning in January 2019. The differentials between WTI and Edmonton light oil have since tightened significantly.

The price realized by the Company for natural gas production is primarily determined by the AECO benchmark, which continues to be impacted by increasing supply and limited market access for Canadian natural gas production. The AECO, daily (5A) benchmark averaged $1.49/GJ and $1.44/GJ for the three months and year ended December 31, 2018, respectively, a decrease from $1.60/GJ and $2.04/GJ in 2017, respectively.

**Royalties and Production taxes**

| | Three months ended December 31 | | Years ended December 31 | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| ($, except % and per boe) | | | | |
| **Royalties and Production taxes** | | | | |
| Canada | **112,727** | 195,531 | **577,562** | 813,437 |
| United States(1) | **663,404** | - | **932,068** | - |
| | **776,131** | 195,531 | **1,509,630** | 813,437 |
| **As a % of Revenue** | | | | |
| Canada | **15%** | 18% | **17%** | 18% |
| United States(1) | **30%** | - | **30%** | - |
| | **26%** | 18% | **23%** | 18% |
| **Per boe** | | | | |
| Canada | **2.21** | 4.45 | **3.44** | 4.62 |
| United States(1) | **21.12** | - | **22.38** | - |
| | **9.41** | 4.45 | **7.21** | 4.62 |

*Note:*
*(1) Results contributed since the asset acquisitions in Wyoming on August 14, 2018, and October 5, 2018.*

The addition of crude oil production following the asset acquisitions in Wyoming, United States, resulted in a higher royalties and production taxes rate as a percentage of revenue, during the three months and year ended December 31, 2018, compared to the same periods in 2017.

In Canada, lower crude oil production, partially offset by higher natural gas production during the three months and year ended December 31, 2018, resulted in a lower royalties and production taxes rate as a percentage of revenue, compared to the same periods in 2017.

Royalties and production taxes of $9.41 per boe and $7.21 per boe for the three months and year ended December 31, 2018, respectively, increased from $4.45 per boe and $4.62 per boe for the three months and year ended December 31, 2017, respectively, primarily due to the addition of crude oil production following the asset acquisitions in Wyoming, United States.

**Operating and Transportation expense**

| | Three months ended December 31 | | Years ended December 31 | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| ($, except per boe) | | | | |
| **Operating and Transportation expense** | | | | |
| Canada | **481,323** | 280,127 | **1,451,672** | 1,344,247 |
| United States(1) | **441,307** | - | **589,130** | - |
| | **922,630** | 280,127 | **2,040,802** | 1,344,247 |
| **Per boe** | | | | |
| Canada | **9.43** | 6.38 | **8.65** | 7.64 |
| United States(1) | **14.05** | - | **14.15** | - |
| | **11.19** | 6.38 | **9.75** | 7.64 |

*Note:*

*(1) Results contributed since the asset acquisitions in Wyoming on August 14, 2018, and October 5, 2018.*

Operating and transportation expense of $11.19 per boe and $9.75 per boe for the three months and year ended December 31, 2018, respectively, increased from $6.38 per boe and $7.64 per boe for the three months and year ended December 31, 2017, respectively, primarily due to higher crude oil production in the United States, following the asset acquisitions in Wyoming, United States, and higher natural gas production in Canada, partially offset by lower crude oil production in Canada.

**Company Operating Netback**(1)

| | Three months ended December 31 | | Years ended December 31 | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| ($ per boe) | | | | |
| **Canada** | | | | |
| Average realized price | **15.16** | 24.19 | **20.36** | 25.82 |
| Royalties | **(2.21)** | (4.45) | **(3.44)** | (4.62) |
| Operating and transportation | **(9.43)** | (6.38) | **(8.65)** | (7.64) |
| Operating netback | **3.52** | 13.36 | **8.27** | 13.56 |
| **United States** | | | | |
| Average realized price | **71.33** | - | **74.89** | - |
| Royalties and production taxes | **(21.12)** | - | **(22.38)** | - |
| Operating and transportation | **(14.05)** | - | **(14.15)** | - |
| Operating netback | **36.16** | - | **38.36** | - |
| **Company** | | | | |
| Average realized price | **36.55** | 24.19 | **31.20** | 25.82 |
| Royalties and production taxes | **(9.41)** | (4.45) | **(7.21)** | (4.62) |
| Operating and transportation | **(11.19)** | (6.38) | **(9.75)** | (7.64) |
| Operating netback | **15.95** | 13.36 | **14.24** | 13.56 |

*Note:*

*(1) See "Non–GAAP Measures".*

The Company's operating netback increased to $15.95 per boe and $14.24 per boe for the three months and year ended December 31, 2018, respectively, from $13.36 per boe and $13.56 per boe for the three months and year ended December 31, 2017, primarily due to the addition of crude oil production following the asset acquisitions in Wyoming, United States.

Higher average realized prices per boe from strengthening crude oil prices on this additional crude oil production was partially offset by higher combined royalties and production taxes and operating and transportation expense per boe, for the three months and year ended December 31, 2018, compared to the Canadian operating netback for the same periods.

In Canada, operating netbacks decreased to $3.52 per boe and $8.27 per boe for the three months and year ended December 31, 2018, respectively, from $13.36 per boe and $13.56 per boe for the three months and year ended December 31, 2017. The decrease was primarily due to lower crude oil prices per boe realized in Canada, particularly in the fourth quarter of 2018, lower natural gas prices per boe, and higher operating and transportation expense per boe, partially offset by lower royalties per boe.

**Depletion and Depreciation ("D&D")**

| | Three months ended December 31 | | Years ended December 31 | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| ($, except per boe) | | | | |
| **D&D** | | | | |
| Canada | **359,013** | 294,189 | **1,129,482** | 1,178,849 |
| United States[(1)] | **523,792** | - | **792,465** | - |
| | **882,805** | 294,189 | **1,921,947** | 1,178,849 |
| **Per boe** | | | | |
| Canada | **7.03** | 6.70 | **6.73** | 6.70 |
| United States[(1)] | **16.68** | - | **19.03** | - |
| | **10.71** | 6.70 | **9.18** | 6.70 |

*Note:*
*(1) Results contributed since the asset acquisitions in Wyoming on August 14, 2018, and October 5, 2018.*

Depletion and depreciation expense increased for the three months and year ended December 31, 2018, compared to the same periods in 2017, primarily due to the increase in the carrying costs of property and equipment, following completion of the Arrangement and the asset acquisitions in Wyoming, United States.

**Exploration and Evaluation expense**

During 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 2017, the Company recorded exploration and evaluation expense of $5,236,079, primarily associated with two wells drilled in 2016 and six wells drilled in 2017, in Alberta, Canada, that were considered unsuccessful and abandoned.

## Impairment

During 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 in Alberta, Canada, 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.

## General and Administrative ("G&A") expense

| | Three months ended December 31 | | Years ended December 31 | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| ($) | | | | |
| Gross G&A | **1,583,804** | 561,865 | **5,117,359** | 2,141,993 |
| Capitalized G&A | **(145,257)** | (208,406) | **(421,952)** | (831,884) |
| Net G&A | **1,438,547** | 353,459 | **4,695,407** | 1,310,109 |

During the three months ended December 31, 2018, net G&A expenses increased to $1,438,547, compared to $353,459, for the same period in 2017, primarily due to higher salary costs, higher legal and professional fees, higher consulting costs, and severance payments, mostly attributable to integration activities following completion of the Arrangement and the asset acquisitions in Wyoming, United States.

In 2018, net G&A expenses substantially increased to $4,695,407, compared to $1,310,109, for the year ended December 31, 2017, primarily due to transaction costs of $1,690,779 related to the Arrangement and Asset Acquisition that closed on August 14, 2018. In addition, the Company incurred higher salary costs, higher legal and professional fees, higher consulting costs, and severance payments, during the year ended December 31, 2018, compared to 2017, mostly attributable to integration activities in 2018. The focus of the 2018 capital program (see Capital Expenditures) also decreased capitalized G&A for the year ended December 31, 2018, compared to the year ended December 31, 2017.

The Company's policy of allocating and capitalizing costs directly attributable to investments in exploration and evaluation assets remained unchanged for the three months and year ended December 31, 2018.

## Share-Based Compensation ("SBC")

| | Three months ended December 31 | | Years ended December 31 | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| ($) | | | | |
| Gross SBC | **422,862** | 116,792 | **973,439** | 673,379 |
| Capitalized SBC | **(104,987)** | (52,194) | **(185,715)** | (301,087) |
| Net SBC | **317,875** | 64,598 | **787,724** | 372,292 |

The 1,455,000 stock options granted to officers, directors, employees and consultants of the Company, on August 27, 2018, resulted in higher SBC expense, during the three months and year ended December 31, 2018, compared to the same periods in 2017.

No stock options were granted during the three months ended December 31, 2018.

Under reverse acquisition accounting, holders of Junex stock options, which were outstanding immediately prior to completion of the Arrangement, are deemed to exchange these instruments for stock options of CEI ("Replacement stock options") with no adjustment to the quantity outstanding or terms and conditions. On August 14, 2018, 422,900 Replacement stock options, which fully vested pursuant to the Arrangement, had a financial impact of $124,171. Of this amount, $13,053 was capitalized to exploration and evaluation assets and $111,118 was expensed as share-based compensation.

The Company's policy to capitalize costs that are directly attributable to investments in exploration and evaluation assets remained unchanged for the three months and year ended December 31, 2018.

**Finance Costs**

| | Three months ended December 31 | | Years ended December 31 | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| ($) | | | | |
| Interest on credit facility | **1,511,414** | - | **2,754,271** | - |
| Interest on convertible debentures | **33,407** | - | **69,803** | - |
| Other | **4,930** | - | **7,406** | 4,525 |
| | **1,549,751** | - | **2,831,480** | 4,525 |
| Interest income | **(41,935)** | - | **(75,594)** | - |
| | **1,507,816** | - | **2,755,886** | 4,525 |

Finance costs include interest and accretion expense on the credit facility, and interest and accretion expense on the convertible debentures acquired from Junex, offset by interest income.

**Foreign Exchange gain**

During the three months and year ended December 31, 2018, the Company recorded an unrealized foreign exchange gain of $2,168,629 and $1,627,372, respectively, substantially all of which relates to an intercompany loan to a foreign subsidiary that is denominated in USD.

**Income taxes**

The Company is not currently cash taxable. The Company acquired non-capital losses of $22,484,917 from the Arrangement. The Company has $35,475,618 in Canadian non-capital losses at December 31, 2018, which expire between 2026 and 2038. The Company has $5,449,211 in U.S. non-capital losses at December 31 2018, which expire in 2038.

**Capital Expenditures**

| | Three months ended December 31 | Years ended December 31 |
|---|---|---|

| | 2018 | 2017 | 2018 | 2017 |
|---|---|---|---|---|
| ($) | | | | |
| **Exploration and Evaluation** | | | | |
| Acquisitions – United States | **1,204,563** | - | **1,204,563** | - |
| Additions – United States | **803,720** | - | **823,422** | - |
| Additions – Canada | **114,790** | 509,723 | **813,057** | 5,389,269 |
| | **2,123,073** | 509,723 | **2,841,042** | 5,389,269 |
| **Property and Equipment** | | | | |
| Acquisitions – United States | **333,255** | - | **40,999,450** | - |
| Additions – United States | **5,918,487** | - | **8,851,513** | - |
| Additions – Canada | **6,159** | 366,736 | **78,005** | 994,429 |
| | **6,257,901** | 366,736 | **49,928,968** | 994,429 |
| **Total** | **8,380,974** | 876,459 | **52,770,010** | 6,383,698 |

In 2018, the Company's capital expenditures were focused on the acquisition of certain oil and natural gas properties in the Powder River Basin of Wyoming, United States. On August 14, 2018, the Company acquired a 27.75 percent working interest in the Barron Flats (Deep) Unit, and subsequently on October 5, 2018 a 33.33 percent working interest in the Cole Creek Unit, both located in the Powder River Basin of Wyoming, United States.

The Company invested significant capital into oil field development and associated infrastructure in the Barron Flats (Deep) Unit in 2018 to create liquids production and build out the facilities for a planned miscible flood in the Shannon formation.

In Canada, reduced cash flows and less attractive investment economics from lower commodity prices, decreased exploration and evaluation expenditures for the year ended December 31, 2018 to $813,057 from $5,389,269 for the year ended December 31, 2017.

**LIQUIDITY**

As at December 31, 2018, the Company has a $36,609,132 working capital deficit (see Non-GAAP Measures) which includes a credit facility in the amount of $35,000,000, payable on demand and maturing on June 29, 2019, and $3,116,750 related to an obligation to purchase shares from a dissenting shareholder. The ability to fulfill the working capital deficit 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 crude oil and natural 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.

As a result of the current commodity pricing environment, uncertainty exists in the commodity, credit and capital markets, which the Company continues to monitor in conjunction with its financing alternatives. For additional information regarding risks impacting the Company, refer to "Risk Factors and Risk Management" included in the "Advisories" section at the end of this MD&A.
Management uses adjusted funds flow from (used in) operations to analyze operating performance and considers adjusted funds flow from (used in) operations to be a key measure as it demonstrates the Company's ability to generate the cash necessary to manage working capital and future capital

expenditures. Adjusted funds flow from (used in) operations and adjusted funds flow from (used in) operations per share should not be considered as an alternative to, or more meaningful than, cash flow from (used in) operating activities presented on the statements of cash flows which is considered the most directly comparable measure under IFRS.

**Cash Flow and Adjusted Funds Flow (used in) Operations**

| | Three months ended December 31 | | Years ended December 31 | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| ($, except per share) | | | | |
| Cash flow from (used in) operating activities | **284,841** | 83,327 | **(5,171,984)** | 1,429,796 |
| Decommissioning liabilities settled | **-** | 107,629 | **3,788** | 107,629 |
| Changes in non-cash operating working capital | **(1,325,319)** | 42,113 | **1,609,367** | (467,740) |
| Adjusted funds flow from (used in) operations(1) | **(1,040,478)** | 233,069 | **(3,558,829)** | 1,069,685 |
| Per share – basic and diluted | **(0.05)** | 0.03 | **(0.29)** | 0.15 |

*Note:*
*(1) See "Non–GAAP Measures".*

Higher net G&A expense, and higher interest expense on the Company's credit facility, partially offset by higher operating netbacks from additional crude oil production from the asset acquisitions in Wyoming, United States, completed in 2018, resulted in adjusted funds flow used in operations of $1,040,478, for the three months ended December 31, 2018. The Company generated cash flow from operating activities of $83,327 and adjusted funds flow from operations of $233,069, for the three months ended December 31, 2017.

For the year ended December 31, 2018, higher net G&A expense, primarily attributable to the Arrangement and Asset Acquisition that closed on August 14, 2018 and integration activities in 2018, and higher interest expense on the Company's credit facility, partially offset by higher operating netbacks from additional crude oil production from the asset acquisitions in Wyoming, United States, completed in 2018, resulted in cash flow used in operating activities of $5,171,984 and adjusted funds flow used in operations of $3,558,829. The Company generated cash flow from operating activities of $1,429,796 and adjusted funds flow from operations of $1,069,685, for the year ended December 31, 2017.

## CAPITAL RESOURCES

The Company considers its capital structure to include shareholders' equity, convertible debentures, credit facility, bank debt, if any, and working capital deficit. 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.

### 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 percent 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 two percent 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. The proceeds of the Facility, net of issuance costs, were used to fund the Asset Acquisition (see Description of Business).

**Convertible Debentures**

The series A and series B convertible debentures bear interest at a rate of 12 percent per annum, payable semi-annually, are unsecured and are scheduled to mature on July 21, 2020. The Company may, at its option, pay up to 50 percent 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 percent, 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.

In connection with the Arrangement, 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.

At December 31, 2018, and April 29, 2019, the principal amount of the convertible debentures outstanding was $1,500,000; series A principal amount of $750,000 and series B principal amount of $750,000.

**Shareholders' Equity**

*Common Shares*

As at December 31, 2018 there were 21,929,855 common shares outstanding.

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

| | Number of Common Shares |
|---|---|
| **Balance at December 31, 2017** | 7,249,988 |
| Exercise of warrants | 1,353,923 |
| Issued on August 14, 2018 | |
| • Acquisition of Junex | 7,985,270 |
| • Asset Acquisition | 2,090,645 |
| • Conversion of convertible debentures | 268,817 |
| Issued from private placement | 2,981,212 |
| **Balance at December 31, 2018** | 21,929,855 |

A shareholder of Junex who owned 875,000 common shares of Junex, after giving effect to the 10 to 1 share consolidation, exercised rights of dissent available under the *Business Corporations Act (Quebec)* 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 *Business Corporations Act (Quebec)*. 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.

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.

As at April 29, 2019, there were 21,963,396 common shares outstanding.

*Warrants*
Warrants which entitle their holders to subscribe to an equivalent number of common shares as at December 31, 2018:

- 954,546 warrants exercisable at a price of $5.30 per share until August 4, 2020
- 999,907 warrants exercisable at a price of $4.00 per share until August 14, 2020
- 437,500 warrants exercisable at a price of $5.90 per share until October 20, 2021

In connection with the Arrangement, 999,907 arrangement warrants were issued. Each whole arrangement warrant will entitle the holder thereof to purchase one COGI common share at a price of $4.00 per common share for a period of 24 months. The arrangement warrants will vest upon the earlier of (i) the date on which the COGI common shares achieve a 20-day weighted average price of $6.40 per common 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 common share. As at April 29, 2019, no arrangement warrants have vested.

Under reverse acquisition accounting, holders of Junex common share purchase warrants, which were outstanding immediately prior to completion of the Arrangement, are deemed to exchange these instruments for common share purchase warrants of CEI with no adjustment to the quantity outstanding or terms and conditions.

As at April 29, 2019, there were 2,391,953 warrants outstanding.

*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 stock options granted is 10 years. Unless otherwise determined by the Board of Directors at the time of grant, stock options vest as to one-third on each of the first, second and third anniversary dates of the date of grant.

Outstanding stock options at December 31, 2018, are presented below:

| | **Options** | **Weighted average exercise price** |
|---|---|---|
| | | $ |
| **Balance at December 31, 2017** | 840,823 | 3.06 |
| Exercised | (406,965) | 1.87 |
| Replacement stock options | 422,900 | 6.90 |
| Granted | 1,455,000 | 3.71 |
| Forfeited | (138,544) | 4.10 |
| Expired | (5,000) | 28.40 |
| **Balance at December 31, 2018** | 2,168,214 | 4.34 |

Pursuant to the Arrangement, 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.

Under reverse acquisition accounting, holders of Junex stock options, which were outstanding immediately prior to completion of the Arrangement, are deemed to exchange these instruments for Replacement stock options of CEI with no adjustment to the quantity outstanding or terms and conditions. On August 14, 2018, 422,900 Replacement stock options fully vested, pursuant to the terms of the Arrangement.

On August 27, 2018, the Company granted 1,455,000 stock options to officers, directors, employees and consultants of the Company with an exercise price of $3.71.

During the year ended December 31, 2018, 138,544 stock options were forfeited and 5,000 stock options expired.

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

As at April 29, 2019 the Company had 2,062,214 stock options outstanding, of which 538,988 were vested and exercisable for an aggregate of 538,988 common shares under the terms of the Company's stock option plan.

**Dividends**
The Company has not paid or declared any dividends since the date of incorporation, nor are any contemplated in the foreseeable future.

## COMMITMENTS AND CONTRACTUAL OBLIGATIONS

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

| ($) | 2019 | 2020 | 2021 | 2022 | 2023 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| Lease rentals(1) | 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 |
| Credit facility | 35,000,000 | - | - | - | - | - | 35,000,000 |
| Interest on credit facility | 2,536,329 | - | - | - | - | - | 2,536,329 |
| Convertible debentures | - | 1,500,000 | - | - | - | - | 1,500,000 |
| Interest on convertible debentures | 180,000 | 99,836 | - | - | - | - | 279,836 |
| Obligation for purchase of common shares(2) | 3,116,750 | - | - | - | - | - | 3,116,750 |
| Decommissioning liability(3) | 189,656 | - | 465,400 | - | 1,011,419 | 3,748,982 | 5,415,457 |
| Capital commitment(4) | 9,477,375 | | - | - | - | - | 9,477,375 |
| Total | 50,945,970 | 1,873,361 | 705,056 | 210,768 | 1,160,318 | 3,897,881 | 58,793,354 |

*Notes:*

*(1) Includes the Company's mineral and surface lease rental obligations.*

*(2) See Shareholders Equity, Common Shares*

*(3) At December 31, 2018, the total undiscounted future cash flows required to settle its decommissioning obligations was approximately $5,415,457. The estimated present value of these obligations is $4,458,322 (see note 16 to the Financial Statements). The timing of any payments is difficult to determine with certainty and have been included in the table above using best estimates.*

*(4) Includes the Company's capital commitments in Wyoming, United States for 2019, to complete a gas gathering and processing facility, gas injection facilities and electrical powerline facilities.*

## OFF BALANCE SHEET ARRANGEMENTS

As at December 31, 2018, the Company did not have any material off–balance sheet arrangements, other than those previously discussed.

## 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 (see Shareholders Equity, Common Shares).

## SELECTED ANNUAL INFORMATION(1)

| | Years ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |

| ($, except per share) | | | |
|---|---|---|---|
| **Financial** | | | |
| Total revenue | 6,533,743 | 4,542,003 | 1,116,145 |
| | | | |
| Adjusted funds flow from (used in) operations(2) | (3,558,829) | 1,069,685 | (518,379) |
| Exploration and evaluation | (2,200,565) | (5,236,079) | (3,022,282) |
| Share-based compensation | (787,724) | (372,292) | (460,064) |
| Depletion and depreciation | (1,921,947) | (1,178,849) | (147,230) |
| Impairment | - | (550,378) | - |
| Accretion of credit facility and convertible debentures | (863,408) | - | - |
| Accretion of decommissioning liability | (39,783) | (7,312) | (1,422) |
| Foreign exchange gain | 1,627,372 | - | - |
| Deferred tax recovery | - | 341,053 | 328,265 |
| Net loss | (7,744,884) | (5,934,172) | (3,821,112) |
| Per share – basic and diluted | (0.63) | (0.82) | (0.62) |
| | | | |
| Capital expenditures and acquisitions | 52,770,010 | 6,383,698 | 10,861,932 |
| Working capital surplus (deficit)(2) | (36,609,132) | 2,823,459 | 6,862,553 |
| Credit facility | 33,886,089 | - | - |
| Convertible debentures - liability | 1,439,763 | - | - |
| Total assets | 114,726,838 | 13,217,082 | 19,429,087 |
| | | | |
| **Operating** | | | |
| Average daily production volumes (boe/d) | | | |
| *Canada* | 460 | 482 | 79 |
| *United States(1)* | 114 | - | - |
| Average realized price ($/boe) | 31.20 | 25.82 | 38.79 |
| Operating netback ($/boe)(2) | 14.24 | 13.56 | 23.92 |

*Notes:*
*(1) Results contributed since the asset acquisitions in Wyoming on August 14, 2018, and October 5, 2018.*
*(2) See "Non–GAAP Measures".*

## SUMMARY OF QUARTERLY INFORMATION[1]

| ($, except per share) | December 31, 2018 | September 30, 2018 | June 30, 2018 | March 31, 2018 |
|---|---|---|---|---|
| **Financial** | | | | |
| Total revenue | 3,013,933 | 1,120,993 | 748,261 | 1,650,556 |
| Adjusted funds flow from (used in) operations[2] | (1,040,478) | (1,939,251) | (999,211) | 420,111 |
| Exploration and evaluation | (1,896,207) | (269,294) | (35,064) | - |
| Share-based compensation | (317,875) | (237,661) | (167,590) | (64,598) |
| Depletion and depreciation | (882,805) | (360,224) | (214,430) | (464,488) |
| Accretion of credit facility and convertible debentures | (561,146) | (302,262) | - | - |
| Accretion of decommissioning liability | (24,176) | (10,778) | (2,401) | (2,428) |
| Foreign exchange gain (loss) | 2,168,629 | (541,257) | - | - |
| Net loss | (2,554,058) | (3,660,727) | (1,418,696) | (111,403) |
| Per share – basic and diluted | (0.12) | (0.26) | (0.19) | (0.02) |
| Capital expenditures and acquisitions | 8,380,974 | 43,718,175 | 185,694 | 485,167 |
| **Operating** | | | | |
| Average daily production volumes (boe/d) | | | | |
| *Canada* | 555 | 50 | 382 | 860 |
| *United States[1]* | 341 | 111 | - | - |
| Average realized price ($/boe) | 36.55 | 75.59 | 21.54 | 21.33 |
| Operating netback ($/boe)[2] | 15.95 | 40.70 | 8.35 | 10.01 |

## SUMMARY OF QUARTERLY INFORMATION (Continued)

| ($,except per share) | December 31, 2017 | September 30, 2017 | June 30, 2017 | March 31, 2017 |
|---|---|---|---|---|
| **Financial** | | | | |
| Total revenue | 1,062,186 | 280,071 | 834,369 | 2,365,377 |
| | | | | |
| Adjusted funds flow from (used in) operations[2] | 233,069 | (186,420) | 117,337 | 905,699 |
| Exploration and evaluation | (5,192,144) | (44,634) | - | 699 |
| Share-based compensation | (64,598) | (73,547) | (97,552) | (136,595) |
| Depletion and depreciation | (294,189) | (37,736) | (188,172) | (658,752) |
| Impairment | (550,378) | - | - | - |
| Accretion of decommissioning liability | (2,556) | (2,012) | (1,183) | (1,561) |
| Deferred tax recovery | - | 341,053 | - | - |
| Net income (loss) | (5,870,796) | (3,296) | (169,570) | 109,490 |
| Per share – basic | (0.81) | 0.00 | (0.02) | 0.02 |
| Per share – diluted | (0.81) | 0.00 | (0.02) | 0.01 |
| | | | | |
| Capital expenditures and acquisitions | 876,459 | 2,729,863 | 2,002,741 | 774,635 |
| | | | | |
| **Operating** | | | | |
| Average daily production volumes (boe/d) | | | | |
| *Canada* | 477 | 54 | 306 | 1,102 |
| *United States*[1] | - | - | - | - |
| Average realized price ($/boe) | 24.19 | 56.17 | 29.99 | 23.84 |
| Operating netback ($/boe)[2] | 13.36 | 24.14 | 15.98 | 12.42 |

*Notes:*
*(1) Results contributed since the asset acquisitions in Wyoming on August 14, 2018, and October 5, 2018.*
*(2) See "Non–GAAP Measures".*

## CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The Company's significant accounting policies are disclosed in note 5 to the Financial Statements. 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 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 the 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 exploration and evaluation 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 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.

The Company 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 Liquidity).

**ADOPTION OF NEW ACCOUNTING POLICIES**

There were no new or amended accounting standards or interpretations adopted in the year ended December 31, 2018, other than the following:

**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 the Company'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 the 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 International Accounting Standard (“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.

**FUTURE ACCOUNTING PRONOUNCEMENTS**

In January 2016, the International Accounting Standards Board 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 the Company 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.

**ADVISORIES**

**Non-GAAP Measures**

This MD&A contains the terms “adjusted funds flow from (used in) operations”, “adjusted funds flow from (used in) operations per share”, “operating netback”, and “working capital surplus (deficit)”, which do not have standardized meanings prescribed by IFRS and therefore may not be comparable with the calculation of similar measures presented by other issuers.

- ***Adjusted funds flow from (used in) operations*** denotes cash flow from (used in) operating activities as it appears on the Company’s statement of cash flows before decommissioning expenditures, if any, and changes in non-cash operating working capital.
- ***Adjusted funds flow from (used in) operations per share*** is calculated as adjusted funds flow from (used in) operations divided by the weighted average number of basic and diluted common shares outstanding.

- ***Operating netback*** denotes total revenue less royalty and production tax expenses, and operating and transportation costs calculated on a per boe basis. Management uses operating netback on a per boe basis in operational and capital allocation decisions.
- ***Working capital surplus (deficit)*** is calculated as current assets less current liabilities.

**Forward–Looking Statements and Information**

This MD&A contains forward-looking information. All statements other than statements of historical fact included in this MD&A are forward-looking statements that involve various risks and uncertainties and are based on forecasts of future operational or financial results, estimates of amounts not yet determinable and assumptions of management. Risk factors that could prevent forward looking statements from being realized include market conditions, ongoing permitting requirements, the actual results of current exploration and development activities, operational risks, risks associated with drilling and completions, uncertainty of geological and technical data, conclusions of economic evaluations and changes in project parameters as plans continue to be refined as well as future oil and gas prices. Although the Company has attempted to identify important factors that could cause actual results to differ materially, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. The Company disclaims any intention and has no obligation or responsibility, except as required by law, to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

**Risk Factors**

COGI is exposed to a number of risks inherent in exploring for, developing and producing crude oil, natural gas and NGLs, some that impact the oil and gas industry as a whole and others that are unique to COGI's operations. This section describes the important risks and other matters that could cause actual results of COGI to differ materially from those reflected in forward-looking statements. The impact of any risk or a combination of risks may adversely affect, among other things, COGI's business, reputation, financial condition, results of operations and cash flows. The risks described below may not be the only risks that COGI faces, as COGI's business and operations may also be subject to risks that COGI does not yet know of, or that COGI currently believes are immaterial. When assessing the materiality of the following risk factors, COGI takes into account a number of qualitative and quantitative factors, including, among others, financial, operational, environmental, regulatory, reputation and safety aspects of the identified risk factor. Events or circumstances described below could materially and adversely affect COGI's business, financial condition, results of operations or cash flows. The risks described below are interconnected, and more than one of these risks could materialize simultaneously or in short sequence if certain events or circumstances described below actually occur. If any of the following risks develop into actual events, COGI's business, financial condition, cash flows or results of operations could be materially and adversely affected.

**Volatility of Crude Oil, Natural Gas and NGL Prices**

COGI's financial performance and condition are highly sensitive to the prevailing prices of crude oil, natural gas and NGL. Fluctuations in these prices could have a material effect on COGI's operations and financial condition, the value of its oil and natural gas reserves and its level of expenditure for oil and gas exploration and development. Prices for liquids and natural gas fluctuate in response to changes in the supply of and demand for liquids and natural gas, market uncertainty and a variety of additional factors that are largely beyond COGI's control. Fluctuations in crude oil and gas prices could have a material effect on the volatility of COGI's earnings. Oil prices are largely determined by international supply and demand. Factors which affect crude oil prices include, among others, the actions of the Organization of Petroleum Exporting Countries, world economic conditions, government regulation, political stability throughout the world, the foreign supply of crude oil, the price of foreign imports, the ability to secure adequate transportation for products which could be affected by pipeline constraints, the availability of alternative fuel sources, technological advances affecting energy production and consumption, and weather conditions. Historically, NGLs prices have generally been correlated with oil prices, and are determined based on supply and demand in international and domestic NGLs markets. Natural gas prices are impacted by North American inventory levels which have increased year-over-year due to production growth in North America.

The substantial and extended decline in the prices of crude oil, natural gas and NGLs have resulted in delay or cancellation of drilling, development or construction programs, and curtailment in production and/or unutilized long-term transportation and drilling commitments, all of which could have a material adverse impact on COGI. Natural gas and oil producers in Canada currently receive discounted prices for their production relative to certain international prices due to constraints on their ability to transport and sell such production to international markets. A failure to resolve such constraints may result in continued discounted or reduced commodity prices realized by natural gas and oil producers, including COGI. Poor economics for developing assets have resulted in an industry-wide reduction of drilling activity which may lead to loss of leases and skilled workers. Moreover, changes in commodity prices may result in COGI making downward adjustments to COGI's estimated reserves. If this occurs, or if COGI's estimates of production or economic factors change, accounting rules may require COGI to impair, as a non-cash charge to earnings, the carrying value of COGI's oil and gas properties. COGI is required to perform impairment tests on oil and gas properties whenever events or changes in circumstances indicate that the carrying value of properties may not be recoverable. To the extent such tests indicate a reduction of the estimated useful life or estimated future cash flows of COGI's oil and gas properties, the carrying value may not be recoverable and, therefore, an impairment charge will be required to reduce the carrying value of the properties to their estimated fair value. COGI may incur impairment charges in the future, which could materially affect COGI's results of operations, and its balance sheet, in the period incurred.

The continued low commodity price environment affects COGI's ability to access capital. COGI cannot be certain that funding will be available, if needed and to the extent required, on acceptable terms, or at all. If funding is not available when needed, or if funding is available only on unfavorable terms, COGI may be unable to meet its obligations as they come due or be required to post collateral to support its obligations, or COGI may be unable to meet its drilling commitments, implement its development plans, enhance its existing business, complete acquisitions or otherwise take advantage of business opportunities or respond to competitive pressures, any of which could have a material adverse effect on COGI's production, revenues, results of operations or financial condition. Moreover, if COGI is unable to obtain funding to make acquisitions of additional properties containing proved oil or natural gas reserves, its total level of estimated oil and natural gas reserves may decline, and COGI may be unable to maintain its level of production and cash flow.

**Uncertainty of Reserve Estimates**

The process of estimating oil and gas reserves is complex and involves a significant number of assumptions in evaluating available geological, geophysical, engineering and economic data. In addition, the process requires future projections of reservoir performance and economic conditions; therefore, reserves estimates are inherently uncertain. Since all reserves estimates are, to some degree, uncertain, reserves classification attempts to qualify the degree of uncertainty involved.

Since the evaluation of reserves involves the evaluator's interpretation of available data and projections of price and other economic factors, estimates of the economically recoverable oil and natural gas reserves attributable to any particular group of properties, the classification of such reserves based on estimated uncertainty, and the estimates of future net revenue or future net cash flows prepared by different evaluators or by the same evaluators at different times may vary substantially. COGI's actual production, revenues, royalties, taxes, and development and operating expenditures with respect to its reserves will likely vary from such estimates and such variances could be material.

The estimates contained herein are based in part on the timing and success of activities COGI intends to undertake in future years. The reserves and estimated future net revenues contained herein will be reduced in future years to the extent that such activities do not achieve the production performance set forth herein.

Estimates of reserves that may be developed in the future are often based upon volumetric calculations and upon analogy to actual production history from similar reservoirs and wells, rather than upon actual production history. Estimates based on these methods generally are less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history will result in variations, which may be material, in the previously estimated reserves.

**Operational Risks**

COGI's business is subject to all of the operating risks normally associated with the exploration for, development of and production of natural gas, oil and NGLs. These risks include blowouts, explosions, fire, gaseous leaks, migration of harmful substances and liquid spills, acts of vandalism and terrorism, any of which could cause personal injury, result in damage to, or destruction of, natural gas and oil wells or formations or production facilities and other property, equipment and the environment, as well as interrupt operations.

In addition, all of COGI's operations will be subject to all of the risks normally incident to the transportation, processing, storing and marketing of natural gas, oil, NGLs and other related products, drilling and completion of natural gas and oil wells, and the operation and development of natural gas and oil properties, including encountering unexpected formations or pressures, premature declines of reservoir pressure or productivity, blowouts, equipment failures and other accidents, sour gas releases, uncontrollable flows of natural gas, oil or well fluids, adverse weather conditions, pollution and other environmental risks.

If any of these industry-operating risks occur, COGI could have substantial losses. Substantial losses may be caused by injury or loss of life, severe damage to or destruction of property, natural resources and equipment, pollution or other environmental damage, clean-up responsibilities, regulatory investigation and penalties and suspension of operations. Consistent with industry practice, COGI maintains insurance against some, but not all, of the risks described above. Generally, pollution-related environmental risks are not fully insurable. There can be no assurances that insurance maintained by COGI will be adequate to fully cover COGI's losses or liabilities. Also, COGI cannot predict the continued availability of insurance at premium levels that justify its purchase. The occurrence of a significant event against which COGI is not fully insured could have a material adverse effect on COGI's financial position.

**Risks Related to Mergers and Acquisitions**

COGI believes that possible future mergers or acquisitions may strengthen its position and create the opportunity to realize certain benefits, including, among other things, operational synergies and potential cost savings. Achieving the benefits of mergers or acquisitions depends in part on successfully consolidating functions and integrating operations and procedures in a timely and efficient manner, as well as being able to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations. Mergers and acquisitions could also result in difficulties in being able to hire, train or retain qualified personnel to manage and operate such properties.

Acquiring oil and natural gas properties requires COGI to assess reservoir and infrastructure characteristics, including estimated recoverable reserves, type curve performance and future production, commodity prices, revenues, development and operating costs and potential environmental and other liabilities. Such assessments are inexact and inherently uncertain and, as such, the acquired properties may not produce as expected, may not have the anticipated reserves and may be subject to increased costs and liabilities.

Although the acquired properties are reviewed prior to completion of an acquisition, such reviews are not capable of identifying all existing or potentially adverse conditions. This risk may be magnified where the acquired properties are in geographic areas where COGI has not historically operated or in new or emerging formations. New or emerging formations and areas often have limited or no production history and COGI may be less able to predict future drilling and production results over the life-cycles of the wells in such areas.

Further, COGI also may not be able to obtain or realize upon contractual indemnities from the seller for liabilities created prior to an acquisition and it may be required to assume the risk of the physical condition of the properties that may not perform in accordance with its expectations.

**Capital Allocation and Project Decisions**
COGI's long-term financial performance is sensitive to the capital allocation decisions taken and the underlying performance of the projects undertaken. Capital allocation and project decisions are undertaken after assessing reserve and production projections, capital and operating cost estimates and applicable fiscal regimes that govern the respective government take from any project. All of these factors are evaluated against common commodity pricing assumptions and the relative risks of projects.

These factors are used to establish a relative ranking of projects and capital allocation, which is then calibrated to ensure the debt and liquidity of COGI is not compromised. However, material changes to project outcomes and deviation from forecasted assumptions, such as production volumes and rates, realized commodity price, cost or tax and/or royalties, could have a material impact on COGI's cash flow and financial performance as well as assessed impacts of impairments on COGI's assets. Adverse economic and/or fiscal conditions could impact the prioritization of projects and capital allocation to these projects, which in turn could lead to adverse effects such as asset under investment, asset performance impairments or land access expiries.

**Project Delivery**
COGI's ability to operate, generate sufficient cash flows, and complete projects depends upon numerous factors beyond COGI's control. In addition to commodity prices and continued market demand for its products, these non-controllable factors include, among others, general business and market conditions, economic recessions and financial market turmoil, the overall state of the capital markets, including investor appetite for investments in the oil and gas industry generally and COGI's securities in particular, the ability to secure and maintain cost effective financing for its commitments, legislative, environmental and regulatory matters, reliance on industry partners and service providers, unexpected cost increases, royalties, taxes, and volatility in oil, natural gas or NGLs prices. The global demand for project resources

can impact the access to appropriately competent contractors and construction yards as well as to raw products, such as steel. Typical execution risks include, among others, the availability of seismic data, the availability of pipeline and processing capacity, transportation interruptions and constraints, technology failures, accidents, reservoir quality, the availability and proximity of pipeline capacity, the availability of drilling and other equipment, the ability to access water for hydraulic fracturing operations, the ability to access lands, weather, unexpected cost increases, accidents, the availability of skilled labour, including engineering and project planning personnel, the need for government approvals and permits, and regulatory matters. Subsurface challenges can also result in additional risk of cost overruns and scheduling delays if conditions are not typical of historical experiences. COGI utilizes materials and services which are subject to general industry-wide conditions. Cost escalation for materials and services may be unrelated to commodity price changes and may continue to have a significant impact on project planning and economics. In addition, some of these risks may be magnified due to the concentrated nature of funding certain assets within COGI's portfolio of oil and natural gas properties that are operated within limited geographic areas. As a result, a number of COGI's assets could experience any of the same risks and conditions at the same time, resulting in a relatively greater impact on COGI's financial condition and results of operations compared to other companies that may have a more geographically diversified portfolio of properties.

Declines in oil, natural gas or NGLs prices or a continued low price environment for natural gas, oil or NGLs create fiscal challenges for the oil and gas industry. These conditions have impacted companies in the oil and gas industry and COGI's spending and operating plans and may continue to do so in the future. There may be unexpected business impacts from market uncertainty, including volatile changes in currency exchange rates, inflation, interest rates, defaults of suppliers and general levels of investing and consuming activity.

COGI manages a variety of projects, including exploration and development projects. Project delays may impact expected revenues and project cost overruns could make projects uneconomic. All of COGI's operations are subject to regulation and intervention by governments that can affect or prohibit the drilling, completion and tie-in of wells, production, the construction or expansion of facilities and the operation and abandonment of fields. Contract rights can be cancelled or expropriated. Changes to government regulation could impact COGI's existing and planned projects.

**Egress and Gas & Liquid Buyers**

COGI delivers its products through gathering, processing and pipeline systems (some of which COGI does not own). The amount of oil and natural gas that COGI can sell is subject to the accessibility, availability, proximity and capacity of these systems. This access to market affects regional price differentials, which could result in the inability to realize the full economic potential of COGI's production. Although transportation systems are expanding, the lack of firm transportation capacity continues to affect the industry and has the potential to limit the ability to produce and to market COGI's production. In addition, the pro-rationing of capacity on inter-provincial pipeline systems also continues to affect the ability to export oil. North America has an integrated network of natural gas pipelines; however regional restrictions can arise resulting in curtailments. Any significant change in market factors, infrastructure regulation or other conditions affecting these infrastructure systems and facilities, as well as any delays in constructing new infrastructure systems and facilities, could negatively impact COGI's business and, in turn, its financial condition, results of operations and funds from operations. A portion of COGI's production is processed through third-party owned facilities which COGI does not control. From time-to-time these facilities may discontinue or decrease operations either as a result of normal servicing requirements or as a result of unexpected events. A discontinuance or decrease of operations could adversely affect COGI's ability to process its production and to deliver the same for sale.

**Credit and Liquidity**

Market events and conditions, including disruptions in the international credit markets and other financial systems and the American and European sovereign debt levels, may cause significant volatility of the credit markets, which may then restrict timely access and limit COGI's ability to secure and maintain cost effective financing on acceptable terms and conditions.

COGI's ability to access the private and public equity and debt markets and complete future asset monetization transactions is also dependent upon oil, natural gas and NGL prices, in addition to a number of other factors, some of which are outside COGI's control. These factors include, among others:

- the value and performance of COGI's debt and equity securities;
- domestic and global economic conditions; and
- conditions in the domestic and global financial markets.

Recent credit concerns and related turmoil in the energy sector have had an impact on COGI's business and its access to capital, and COGI may face additional challenges if economic and financial market conditions worsen. The weakened economic conditions also may adversely affect the collectability of COGI's trade receivables. For example, COGI's accounts receivable are primarily from purchasers of COGI's oil, natural gas and NGL production and other exploration and production companies operating in the oil and gas industry. This industry concentration could adversely impact COGI's overall credit risk because COGI's customers may be similarly affected by changes in economic and financial market conditions, commodity prices and other conditions.

Due to these factors, COGI cannot be certain that funding, if needed, will be available to the extent required, or on acceptable terms, or at all. If COGI is unable to access funding when needed on acceptable terms, COGI may not be able to implement its business plans, meet its capital commitments, take advantage of business opportunities, respond to competitive pressures or refinance debt obligations, if any, as they come due, any of which could have a material adverse effect on COGI's business, financial condition, cash flows and results of operations.

**Ability to Find, Develop or Acquire Additional Reserves**

COGI's future oil, natural gas and NGLs reserves and production, and therefore its cash flows, are highly dependent upon its success in exploiting its current reserves base and acquiring, discovering or developing additional oil and gas reserves that are economically recoverable. Without additions to reserves through exploration, acquisition or development activities, COGI's production will decline over time as reserves are depleted.

The business of exploring for, developing or acquiring reserves is capital intensive. To the extent COGI's cash flows from operations are insufficient to fund capital expenditures and external sources of capital become limited or unavailable, COGI's ability to make the necessary capital investments to maintain and expand its oil, natural gas and NGLs reserves will be impaired. In addition, there can be no certainty that COGI will be able to find and develop or acquire additional reserves to replace its production at acceptable costs.

Hydrocarbons are a limited resource, and COGI is subject to increasing competition from other companies. Exploration and development drilling may not result in commercially productive reserves and, if production begins, reservoir performance may be less than projected. Successful acquisitions require an assessment of a number of factors, many of which are uncertain. These factors include recoverable reserves, development potential, future oil and gas prices, operating costs and potential environmental and other liabilities. Such assessments are inexact and their accuracy is inherently uncertain. If a high impact prospect identified by COGI fails to materialize in a given year, COGI's multi-year exploration and/or development portfolio may be compromised. See "Risk Factors – Volatility of Crude Oil, Natural Gas and NGL Prices". The recent decline in commodity prices, if sustained, may result in promising exploration and development projects being deemed uneconomic. Continued failure to achieve anticipated reserve and resource addition targets may result in COGI's withdrawal from an area, which in turn may result in a write-down of any associated reserves and/or resources for that area.

**Major Incident, Major Spill / Loss of Well Control**

Oil and gas drilling and producing operations are subject to many risks, which even a combination of experience, knowledge and careful evaluation may not be able to overcome, including, among others, the risk of fire, explosions, mechanical failure, pipe or well cement failure, well casing collapse, pressure or irregularities in formations, chemical and other spills, unauthorized access to hydrocarbons, illegal tapping of pipelines, accidental flows of oil, natural gas or well fluids, sour gas releases, contamination, vessel collision, structural failure, loss of buoyancy, storms or other adverse weather conditions and other occurrences. If any of these should occur, COGI could incur legal defence costs and remedial costs and could suffer substantial losses due to injury or loss of life, human health risks, severe damage to or destruction of property, natural resources and equipment, pollution or other environmental damage, unplanned production outage, cleanup responsibilities, regulatory investigation and penalties, increased public interest in COGI's operational performance and suspension of operations. COGI's application of horizontal and multi-stage hydraulic fracture stimulation techniques involve greater risk of mechanical problems than vertical and shallow drilling operations.

**Health Hazards and Personal Safety Incidents**

The employee and contractor personnel involved in exploration and production activities and operations of COGI are subject to many inherent health and safety risks and hazards, which could result in occupational illness or health issues, personal injury, and loss of life, facility quarantine and/or facility and personnel evacuation.

**Regulatory Approvals / Compliance and Changes to Laws and Regulations**

COGI's exploration and production operations are subject to extensive regulation at many levels of government, including municipal, state, provincial and federal governments, and operations are subject to interruption or termination by governmental and regulatory authorities based on environmental or other considerations. Moreover, COGI has incurred and will continue to incur costs in COGI's efforts to comply with the requirements of environmental, safety and other regulations. Further, the regulatory environment in the oil and gas industry could change in ways that COGI cannot predict and that might substantially increase COGI's costs of compliance and, in turn, materially and adversely affect COGI's business, results of operations and financial condition.

Failure to comply with the applicable laws or regulations may result in significant increases in costs, fines or penalties and even shutdowns or losses of operating licenses or criminal sanctions. If regulatory approvals or permits required for operations are delayed or not obtained, COGI could experience delays or abandonment of projects, decreases in production and increases in costs. This could result in an inability of COGI to fully execute its strategy and adverse impacts on its financial condition. See "Risk Factors – Socio-Political Risks".

Changes to existing laws and regulations or new laws could have an adverse effect on COGI's business by increasing costs, impacting development schedules, reducing revenue and cash flow from natural gas and oil sales, reducing liquidity or otherwise altering the way COGI conducts business. There have been various proposals to enact new, or amend existing, laws and regulations relating to greenhouse gas emissions, hydraulic fracturing (including associated additives, water use, induced seismicity, and disposal) and shale gas development generally. See "Risk Factors – Environmental Risks".

COGI continues to monitor and assess any new policies, legislation or regulations in the areas where COGI operates to determine the impact on COGI's operations. Governmental organizations unilaterally control the timing, scope and effect of any currently proposed or future laws or regulations, and such enactments are subject to a myriad of factors, including political, monetary and social pressures. COGI acknowledges that the direct and indirect costs of such laws and regulations (if enacted) could materially and adversely affect COGI's business, results of operations and financial condition.

**Fiscal Stability**

Governments may amend or create new legislation that could impact COGI's operations and that could result in increased capital, operating and compliance costs. Moreover, COGI's operations are subject to various levels of taxation in the jurisdictions in which COGI operates. Federal, provincial and territorial income tax rates or incentive programs relating to the oil and gas industry in the jurisdictions where COGI operates may in the future be changed or interpreted in a manner that could materially affect the economic value of the respective assets.

**Stakeholder Opposition**

COGI's planned activities may be adversely affected if there is strong community opposition to its operations. For example, there is heightened public concern regarding hydraulic fracturing in parts of North America, which could materially affect COGI's shale operations. In some circumstances, this risk of community opposition may be higher in areas where COGI operates alongside indigenous communities who may have additional concerns regarding land ownership, usage or claim compensation.

**Non-Operatorship and Partners Relations**

COGI may have future projects that are conducted through, joint ventures, partnerships or other arrangements, where COGI has a limited ability to influence or control operations (or their associated costs) or future development, safety and environmental standards and amount of capital expenditures. Companies which operate these properties may not necessarily share COGI's health, safety and environmental standards or strategic or operational goals or approach to partner relationships, which may result in accidents, regulatory noncompliance, project delays or unexpected future costs, all of which may affect the viability of these projects and COGI's standing in the external market. COGI may have dependence on the operator and other working interest owners for these properties and assets, and its limited ability to influence operations and associated costs, could materially adversely affect COGI's financial performance. The success and timing of COGI's activities on assets operated by others therefore will depend upon a number of factors that are outside of COGI's control, including timing and amount of capital expenditures, timing and amount of operating and maintenance expenditures, the operator's expertise and financial resources, approval of other participants, selection of technology and risk management practices.

In circumstances where co-participants do not approve or are unable to fund their contractual share of certain capital or operating expenditures, suspend or terminate such arrangements or otherwise fulfill their obligations, this may result in project delays or additional future costs to COGI, all of which may affect the viability of such projects.

Co-participants may also have strategic plans, objectives and interests that do not coincide with and may conflict with those of COGI. While certain operational decisions may be made solely at the discretion of COGI in its capacity as operator of certain projects, major capital and strategic decisions affecting such projects may require agreement among the co-participants. COGI generally seeks consensus with co-participants with respect to major decisions concerning the direction and operation of project assets, however no assurance can be provided that the future demands or expectations of any party, including COGI, relating to such assets will be met satisfactorily or in a timely manner. Failure to satisfactorily meet such demands or expectations may affect COGI's or co-participants' participation in the operation of such assets or the timing for undertaking various activities, which could negatively affect COGI's operations and financial results. Further, COGI may be involved from time to time in disputes with its co-participants and, as such, it may be unable to dispose of assets or interests in certain arrangements if such disputes cannot be resolved in a satisfactory or timely manner.

**Attraction, Retention and Development of Personnel**

Successful execution of COGI's plans is dependent on COGI's ability to attract and retain talented personnel who have the skills necessary to deliver on COGI's strategy and maintain safe operations. This includes not only key talent at a senior level, but also individuals with the professional and technical skill sets critical for COGI's business, particularly geologists, geophysicists, engineers, accountants and other specialists. Any deterioration of COGI's corporate culture or loss of key talent could adversely affect COGI's operations and long-term success.

**Information Systems**

COGI has become increasingly dependent upon the availability, capacity, reliability and security of COGI's information technology ("IT") infrastructure and COGI's ability to expand and continually update this infrastructure, to conduct daily operations. COGI depends on various IT systems to estimate reserve quantities, process and record financial and operating data, analyze seismic and drilling information, and communicate with employees and any future third-party partners. COGI's IT systems are increasingly integrated in terms of geography, number of systems, and key resources supporting the delivery of IT systems. The performance of COGI's key suppliers is critical to ensure appropriate delivery of key services. Any failure to manage, expand and update COGI's IT infrastructure, any failure in the extension or operation of this infrastructure, or any failure by COGI's key resources or service providers in the performance of their services could materially and adversely harm COGI's business.

The ability of the IT function to support COGI's business in the event of a disaster such as fire, flood or loss/denial of any of COGI's data centres or major office locations and COGI's ability to recover key systems from unexpected interruptions cannot be fully tested. There is a risk that, if such an event actually occurs, the business continuity plan may not be adequate to immediately address all repercussions of the disaster. In the event of a disaster affecting a data centre or key office location, key systems may be unavailable for a number of days, leading to inability to perform some business processes in a timely manner.

Unauthorized access to these systems by employees or third parties could lead to corruption or exposure of confidential, fiduciary or proprietary information, interruption to communications or operations or disruption to COGI's business activities or its competitive position. Further, disruption of critical IT services, or breaches of information security, could have a negative effect on COGI's operational performance and earnings, as well as on COGI's reputation.

COGI applies technical and process controls in line with industry-accepted standards to protect its information assets and systems; however these controls may not adequately prevent cyber-security breaches. There is no assurance that COGI will not suffer losses associated with cyber-security breaches in the future, and COGI may be required to expend significant additional resources to investigate, mitigate and remediate any potential vulnerabilities.

**Claims, Litigation, Administrative Proceedings and Regulatory Actions**

COGI may be subject to claims, litigation, administrative proceedings and regulatory actions. The outcome of these matters may be difficult to assess or quantify, and there cannot be any assurance that such matters will be resolved in COGI's favour. If COGI is unable to resolve such matters favourably, COGI or its directors, officers or employees may become involved in legal proceedings that could result in an onerous or unfavourable decision, including fines, sanctions, monetary damages or the inability to engage in certain operations or transactions. The defense of such matters may also be costly and time consuming, and could divert the attention of management and key personnel from COGI's operations. COGI may also be subject to adverse publicity associated with such matters, regardless of whether such allegations are valid or whether COGI is ultimately found liable. As a result, such matters could have a material adverse effect on COGI's reputation, financial position, results of operations or liquidity.

**Securing and Maintaining Title to Properties**

COGI's properties are held in the form of licenses and leases and working interests in licenses and leases. If COGI or the holder of the license or lease fails to meet the specific requirement of a license or lease, the license or lease may terminate or expire. There can be no assurance that any of the obligations required to maintain each license or lease will be met. The termination or expiration of a license or lease or the working interest relating to a license or lease may have a material adverse effect on COGI's results of operations and business. In addition title to the properties can become subject to dispute and defeat COGI's claim to title over certain of its properties. Furthermore, there may be legislative changes which affect title to the oil and natural gas properties COGI controls that, if successful or made into law, could impair its activities on them and result in a reduction of the revenue received.

**Socio-Political Risks**

COGI's operations may be adversely affected by political or economic developments or social instability in the jurisdictions in which it operates, which are not within the control of COGI, including, among other things, a change in crude oil, natural gas or NGL pricing policy and/or related regulatory delays, the risks of war, terrorism, abduction, expropriation, nationalization, renegotiation or nullification of existing concessions and contracts, difficulties in enforcing contractual terms, a change in taxation policies, economic sanctions, the imposition of specific drilling obligations, the imposition of rules relating to development and abandonment of fields, access to or development of infrastructure, jurisdictional boundary disputes, and currency controls.

**Future Changes in Laws**

Income tax laws, royalty regimes (including as contemplated in the recently announced Alberta royalty framework), environmental laws or other laws and regulations may in the future be changed or interpreted in a manner that adversely affects COGI or its security holders. Tax authorities having jurisdiction over COGI or its shareholders could change their administrative practices, or may disagree with the manner in which COGI calculates its tax liabilities or structures its arrangements, to the detriment of COGI or its security holders. Changes to existing laws and regulations or the adoption of new laws and regulations could also increase COGI's cost of compliance and adversely affect COGI's business, financial position, cash flows or results of operations.

**Exchange Rate Fluctuations**

Worldwide prices for natural gas and oil are set in U.S. dollars, and COGI's expenses are denominated in Canadian dollars. Fluctuations in the exchange rate between the U.S. dollar and the Canadian dollar could impact COGI's revenue and expenses and have an adverse effect on COGI's financial performance and condition.

**Counterparty Risk**

COGI is exposed to the risks associated with counterparty performance including credit risk and performance risk. COGI may experience material financial losses in the event of customer payment default for commodity sales. Performance risk can impact COGI's operations by the non-delivery of contracted products or services by counterparties, which could impact project timelines or operational efficiency. Fluctuations in prevailing prices of crude oil, natural gas and NGLs could have a material adverse effect on the operations and financial condition of counterparties. COGI also has credit risk arising from cash and cash equivalents held with banks and financial institutions.

**Competitive Risk**

The global oil and gas industry is highly competitive. COGI faces significant competition and many of COGI's competitors have resources in excess of COGI's available resources. COGI actively competes for the acquisition and divestment of properties, the exploration for and development of new sources of supply, the contractual services for oil and gas drilling and production equipment and services, the transportation and marketing of current production, and industry personnel, including, but not limited to, geologists, geophysicists, engineers and other specialists that enable the business. Many of COGI's competitors have the ability to pay more for seismic and lease rights in crude oil and natural gas properties and exploratory prospects. They can define, evaluate, bid for and purchase a greater number of properties and prospects than COGI's financial or human resources permit. If COGI is not successful in the competition for oil and gas reserves or in the marketing of production, COGI's financial condition and results of operations may be adversely affected. Many of COGI's competitors have resources substantially greater than COGI's and, as a consequence, COGI may be at a competitive disadvantage.

**Income Taxes**

Income tax laws, other laws or government incentive programs relating to the oil and gas industry may in the future be changed or interpreted in a manner that adversely affects COGI and its shareholders. Tax authorities having jurisdiction over COGI or its shareholders may disagree with how the COGI calculates its income for tax purposes or could change administrative practices to its detriment or the detriment of its shareholders. COGI is also subject to income tax audit and reassessment risks, the outcome of which may result in reduction in COGI's tax pools, loss carry forwards, or even cash tax liabilities.

**Environmental Risks**

***General***

All phases of COGI's oil, natural gas and NGLs business are subject to environmental regulation pursuant to a variety of laws and regulations in the jurisdictions in which COGI does business (collectively, "environmental regulation").

Environmental regulation imposes, among other things, restrictions, liabilities and obligations in connection with the use, generation, handling, storage, transportation, treatment and disposal of chemicals, hazardous substances and waste associated with the finding, production, transmission and storage of COGI's products, including the hydraulic fracturing of wells, the decommissioning of facilities and in connection with spills, releases and emissions of various substances to the environment. It also imposes restrictions, liabilities and obligations in connection with the management of fresh or potable water sources that are being used, or whose use is contemplated, in connection with oil and natural gas operations.

Environmental regulation also requires that wells, facility sites and other properties associated with COGI's operations be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. In addition, certain types of operations including exploration and development projects and changes to certain existing projects may require the submission and approval of environmental impact assessments or permit applications. Compliance with environmental legislation can require significant expenditures and failure to comply with environmental legislation may result in the imposition of fines and penalties.

Although COGI currently believes that the costs of complying with environmental legislation and dealing with environmental civil liabilities will not have a material adverse effect on COGI's financial condition or results of operations, there can be no assurance that such costs will not have such an effect in the future.

COGI's business is subject to the trend toward increased rigour in regulatory compliance and civil or criminal liability for environmental matters in Canada. Compliance with environmental legislation can require significant expenditures, and failure to comply with environmental legislation may result in the assessment of administrative, civil and criminal penalties, the cancellation or suspension of regulatory permits, the imposition of investigatory or remedial obligations or the issuance of injunctions restricting or prohibiting certain activities. Under existing environmental laws and regulations, COGI could be held strictly liable for the remediation of previously released materials or property contamination resulting from its operations, regardless of whether those operations were in compliance with all applicable laws at the time they were performed. Regulatory delays, legal proceedings and reputational impacts from an environmental incident could result in a material adverse effect on COGI's business. Increased stakeholder concerns and regulatory actions regarding shale gas development could lead to third party or governmental claims, and could adversely affect COGI's business and financial condition.

A number of federal, provincial and territorial governments have announced intentions to regulate greenhouse gases and certain air pollutants. These governments are currently developing the regulatory and policy frameworks to deliver on their announcements. The Canadian federal government has announced it will work with the provinces and territories to establish a pan-Canadian climate change framework that is consistent with the outcome reached at the 21st Conference of the Parties in Paris. The Alberta government outlined its Climate Leadership Plan which includes four (4) key areas, one of which is targeting a 45 percent reduction in methane gas emissions from oil and gas operations by 2025.
Additionally, the Canadian federal government and certain Canadian provincial governments continue to review certain aspects of the scientific, regulatory and policy framework under which hydraulic fracturing operations are conducted. At present, most of these governments are primarily engaged in the collection, review and assessment of technical information regarding the hydraulic fracturing process and have not provided specific details with respect to any significant actual, proposed or contemplated changes to the hydraulic fracturing regulatory construct. However, certain environmental and other groups have suggested that additional federal, provincial, territorial and municipal laws and regulations may be

needed to more closely regulate the hydraulic fracturing process, and have made claims that hydraulic fracturing techniques are harmful to surface water and drinking water sources.
Further, certain governments in jurisdictions where COGI does not currently operate have considered or implemented moratoriums on hydraulic fracturing until further studies can be completed and some governments have adopted, and others have considered adopting, regulations that could impose more stringent permitting, disclosure and well construction requirements on hydraulic fracturing operations. Any new laws, regulations or permitting requirements regarding hydraulic fracturing could lead to operational delays, increased operating costs or third party or governmental claims, and could increase COGI's cost of compliance and doing business as well as reduce the amount of natural gas and oil that COGI is ultimately able to produce from its reserves.

COGI is unable to predict the total impact of the potential regulations upon its business. Therefore, it is possible that COGI could face increases in operating costs or curtailment of production in order to comply with legislation governing emissions and hydraulic fracturing.

**Hydraulic Fracturing**

COGI utilizes horizontal drilling, multi-stage hydraulic fracturing, specially formulated drilling fluids and other technologies in its drilling and completion activities. Hydraulic fracturing is a method of increasing well production by injecting fluid under high pressure down a well, which causes the surrounding rock to crack or fracture. The fluid typically consists of water, sand, chemicals and other additives and flows into the cracks where the sand remains to keep the cracks open and enable natural gas or liquids to be recovered. Fracturing fluids flow back to the surface through the wellbore and are stored for reuse or future disposal in accordance with regional regulations, which may include injection into underground wells. The design of the well bores protects groundwater aquifers from the fracturing process.

Hydraulic fracturing has been in use for some time in the oil and gas industry; however, the proliferation of fracturing in recent years to access hydrocarbons in unconventional reservoirs, such as shale formations, has given rise to public concerns about the environmental impacts of this technology. Public concern over the environmental impacts of the hydraulic fracturing process has focused on a number of issues, including water aquifer contamination; other qualitative and quantitative effects on water resources as large quantities of water are used and injected fluids either remain underground or flow back to the surface to be collected, treated and disposed; and the potential for fracturing activities to induce seismic events. Regulatory authorities in certain jurisdictions have announced initiatives in response to such concerns. Federal, provincial, territorial and local legislative and regulatory initiatives relating to hydraulic fracturing, as well as governmental reviews of such activities, could result in increased costs, additional operating restrictions or delays, and adversely affect COGI's production. Public perception of environmental risks associated with hydraulic fracturing can further increase pressure to adopt new laws, regulation or permitting requirements, or lead to regulatory delays, legal proceedings and/or reputational impacts. Any new laws, regulations or permitting requirements regarding hydraulic fracturing could lead to operational delays, increased operating costs and third party or governmental claims. They could also increase COGI's costs of compliance and doing business as well as delay the development of hydrocarbon (natural gas and oil) resources from shale formations, which may not be commercial without the use of hydraulic fracturing.

If legal restrictions are adopted in jurisdictions in which COGI is currently conducting or in the future plans to conduct operations, COGI may incur additional costs to comply with such requirements that may be significant in nature, experience delays or curtailment in the pursuit of exploration, development, or production activities, and perhaps even be precluded from the drilling of wells. In addition, if hydraulic fracturing becomes more regulated, COGI's fracturing activities could become subject to additional permitting requirements and result in permitting delays as well as potential increases in costs. Restrictions on hydraulic fracturing could also reduce the amount of oil and natural gas that COGI is ultimately able to produce from its reserves. It is anticipated that federal, provincial and territorial regulatory frameworks to address concerns related to hydraulic fracturing will continue to emerge. While COGI is unable to predict the impact of any potential regulations upon its business, the implementation of new regulations with respect to water usage or hydraulic fracturing generally could increase COGI's costs of compliance, operating costs, the risk of litigation and environmental liability, or negatively impact COGI's prospects, any of which may have a material adverse effect on COGI's business, financial condition and results of operations.

**Greenhouse Gas Emissions ("GHG")**

COGI is subject to various GHG emissions-related legislation. COGI operates in jurisdictions with existing GHG legislation as well as in regions which currently do not have GHG emissions legislation and jurisdictions where GHG emissions legislation is emerging or is subject to change. COGI monitors GHG legislative developments in all areas in which COGI operates. Potential new or additional GHG legislation and associated compliance costs, in particular in association with the adoption of the Paris Agreement under the United Nations Framework Convention on Climate Change, may have a material impact on COGI.

In particular, key unresolved issues in relation to Canadian federal and provincial GHG regulatory requirements include the form of regulation, an appropriate common facility emissions level, availability and duration of compliance mechanisms and resolution of federal/provincial harmonization agreements. In November 2015, the Government of Alberta announced a Climate Leadership Plan, including measures to reduce methane emissions, implement an emissions limit for oil sands, introduce a broad based carbon price (with phase-in for the upstream industry), and modify the existing regulatory system for large emitting facilities.

Current GHG emissions legislation does not result in material compliance costs, but compliance costs may increase in the future and may impact COGI's operations and financial results. Given the evolving nature of the debate related to climate change and the control of GHG and resulting requirements, it is not possible to predict the impact of such matters on COGI's operations and financial condition.

**Environmental and Decommissioning Liabilities**

Despite COGI's implementation of health, safety and environmental standards, there is a risk that accidents or regulatory non-compliance can occur, the outcomes of which, including remedial work or regulatory intervention, cannot be foreseen or planned for. COGI expects to incur site restoration costs over a prolonged period as existing fields are depleted. The process of estimating decommissioning abilities is complex and involves significant uncertainties concerning the timing of the decommissioning activity; legislative changes; technological advancement; regulatory, environmental and political changes; and the appropriate discount rate used in estimating the liability. Any change to these assumptions could result in a change to the decommissioning liabilities to which COGI is subject.

Alberta, Saskatchewan and British Columbia have developed liability management programs designed to prevent taxpayers from incurring costs associated with suspension, abandonment, remediation and reclamation of wells, facilities and pipelines in the event that a licensee or permit holder becomes defunct. These programs generally involve an assessment of the ratio of a licensee's deemed assets to deemed liabilities. If a licensee's deemed liabilities exceed its deemed assets, a security deposit is required. Changes of the ratio of COGI's deemed assets to deemed liabilities or changes to the requirements of liability management programs may result in significant increases to the security that must be posted.

**GLOSSARY**

| | |
|---|---|
| bbl | barrel |
| bbl/d | barrels per day |
| boe [(1)] | barrels of oil equivalent |
| boe/d | barrels of oil equivalent per day |
| CAD or Cdn$ | Canadian dollar |
| Mcf | thousand cubic feet |
| Mcf/d | thousand cubic feet per day |
| USD or US$ | United States dollar |
| GAAP | generally accepted accounting principles |
| WTI | West Texas Intermediate, a grade of light sweet crude oil used as benchmark pricing in the United States |
| AECO | Alberta Energy Company, a grade or heating content of natural gas used as benchmark pricing in Alberta, Canada |

*Note:*

*(1) COGI has adopted the standard of 6 Mcf:1 bbl when converting natural gas to boe. Boe may be misleading, particularly if used in isolation. A boe conversion ratio of six Mcf per barrel is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given that the value ratio based on the current price of crude oil, compared to natural gas is significantly different than the energy equivalency of the 6:1 conversion ratio, utilizing the 6:1 conversion ratio may be misleading as an indication of value.*