# Cuda Oil and Gas Inc.

# Interim Condensed Consolidated Financial Statements

# Three and Nine Months Ended September 30, 2019 and 2018

**(Unaudited)**

The unaudited interim condensed consolidated financial statements of Cuda Oil and Gas Inc. for the three and nine months ended September 30, 2019 and 2018 were not subject to a review by the Company's auditor.

# Cuda Oil and Gas Inc.
## Interim Condensed Consolidated Statements of Financial Position
(Unaudited)
(in Canadian dollars)

| | **September 30, 2019** | December 31, 2018 |
|---|---|---|
| | **$** | $ |
| ***ASSETS*** | | |
| Current | | |
| Cash | **1,094,330** | 1,530,926 |
| Restricted deposits | **-** | 595,000 |
| Accounts receivable (Note 17) | **2,736,812** | 1,626,035 |
| Guarantee deposits | **-** | 303,000 |
| Tax credits receivable | **69,987** | 114,498 |
| Inventory | **105,222** | 108,393 |
| Prepaid expenses and deposits | **195,778** | 281,538 |
| Assets associated with discontinued operation (Note 7) | **1,030,151** | - |
| | **5,232,280** | 4,559,390 |
| Non-current | | |
| Restricted cash and deposits (Note 7) | **-** | 7,484,173 |
| Exploration and evaluation assets (Note 8) | **8,240,779** | 34,879,232 |
| Property and equipment (Note 9) | **69,029,815** | 67,804,043 |
| | **82,502,874** | 114,726,838 |
| ***LIABILITIES*** | | |
| Current | | |
| Credit facilities (Note 10) | **36,846,839** | 33,886,089 |
| Accounts payable and accrued liabilities | **3,474,790** | 3,889,471 |
| Obligation for purchase of shares (Notes 6 and 7) | **-** | 3,116,750 |
| Due to partner | **-** | 90,000 |
| Lease obligations (Note 11) | **158,924** | - |
| Decommissioning liability (Note 12) | **24,000** | 186,212 |
| Convertible debentures (Note 13) | **1,467,337** | - |
| Liabilities associated with discontinued operation (Note 7) | **700,936** | - |
| | **42,672,826** | 41,168,522 |
| Non-current | | |
| Obligation for exploration work (Note 7) | **-** | 7,484,173 |
| Lease obligations (Note 11) | **181,155** | - |
| Convertible debentures (Note 13) | **-** | 1,439,763 |
| Decommissioning liability (Note 12) | **2,450,204** | 4,272,110 |
| | **45,304,185** | 54,364,568 |
| ***SHAREHOLDERS' EQUITY*** | | |
| Share capital (Note 14) | **79,730,191** | 73,957,687 |
| Warrants (Note 14) | **5,238,030** | 3,956,098 |
| Contributed surplus (Note 14) | **3,113,454** | 1,674,541 |
| Accumulated other comprehensive income | **181,110** | 712,635 |
| Deficit | **(51,064,096)** | (19,938,691) |
| | **37,198,689** | 60,362,270 |
| Going Concern (Note 2) | | |
| Commitments (Note 15) | | |
| Subsequent events (Note 23) | | |
| | **82,502,874** | 114,726,838 |

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

## Cuda Oil and Gas Inc.

## Interim Condensed Consolidated Statements of Loss and Comprehensive Loss

Three and nine months ended September 30, 2019 and 2018
(Unaudited)
(in Canadian dollars)

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | | (restated- Note 7) | | (restated- Note 7) |
| | **$** | $ | **$** | $ |
| ***REVENUE*** | | | | |
| Petroleum and natural gas sales (Note 18) | **1,672,886** | 1,120,993 | **7,060,134** | 3,519,810 |
| Royalties | **(327,363)** | (227,440) | **(1,342,222)** | (649,223) |
| Production taxes | **(198,537)** | (84,276) | **(591,819)** | (84,276) |
| Net revenue from petroleum and natural gas sales | **1,146,986** | 809,277 | **5,126,093** | 2,786,311 |
| ***EXPENSES AND OTHER ITEMS*** | | | | |
| Operating and transportation | **563,687** | 205,708 | **2,542,845** | 1,118,172 |
| Exploration and evaluation expense | **-** | 269,294 | **-** | 304,358 |
| General and administrative | **823,030** | 1,482,605 | **2,685,607** | 3,106,138 |
| Share-based compensation (Note 14) | **318,096** | 237,661 | **1,074,461** | 469,849 |
| Depletion and depreciation (Note 9) | **453,193** | 300,587 | **1,848,810** | 979,505 |
| Accretion of decommissioning liability (Note 12) | **8,730** | 4,543 | **30,964** | 9,372 |
| Finance costs (Note 19) | **1,872,120** | 1,246,188 | **5,663,619** | 1,266,325 |
| Foreign exchange (gain) loss (Note 20) | **(452,954)** | 541,257 | **1,270,204** | 541,257 |
| | **3,585,902** | 4,287,843 | **15,116,510** | 7,794,976 |
| ***NET LOSS FROM CONTINUING OPERATIONS*** | **(2,438,916)** | (3,478,566) | **(9,990,417)** | (5,008,665) |
| ***DISCONTINUED OPERATION*** | | | | |
| Net loss from discontinued operation (Note 7) | **(616,045)** | (182,161) | **(21,134,988)** | (182,161) |
| ***NET LOSS*** | **(3,054,961)** | (3,660,727) | **(31,125,405)** | (5,190,826) |
| Other comprehensive income (loss) | **261,281** | (146,027) | **(531,525)** | (146,027) |
| ***NET LOSS AND COMPREHENSIVE LOSS*** | **(2,793,680)** | (3,806,754) | **(31,656,930)** | (5,336,853) |
| Basic and diluted net loss per share | | | | |
| Continuing operations | **(0.08)** | (0.25) | **(0.39)** | (0.52) |
| Discontinued operation | **(0.02)** | (0.01) | **(0.84)** | (0.02) |
| Total basic and diluted net loss per share | **(0.10)** | (0.26) | **(1.23)** | (0.54) |
| Weighted average number of common shares outstanding (Note 14) | **31,788,974** | 13,992,974 | **25,267,331** | 9,550,921 |

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

# Cuda Oil and Gas Inc.
# Interim Condensed Consolidated Statements of Changes in Shareholders' Equity

Nine months ended September 30, 2019 and 2018
(Unaudited)
(in Canadian dollars)

| | Share capital | Warrants | Contributed surplus | Accumulated other comprehensive income (loss) | Deficit | Total equity |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| **Balance at December 31, 2018** | 73,957,687 | 3,956,098 | 1,674,541 | 712,635 | (19,938,691) | 60,362,270 |
| Issued in exchange for interest on debentures | 90,003 | - | - | - | - | 90,003 |
| Issued from private placement | 6,142,805 | 998,195 | - | - | - | 7,141,000 |
| Share issue costs | (460,304) | - | - | - | - | (460,304) |
| Share-based compensation | - | 283,737 | 1,438,913 | - | - | 1,722,650 |
| Net loss | - | - | - | - | (31,125,405) | (31,125,405) |
| Other comprehensive loss | - | - | - | (531,525) | - | (531,525) |
| **Balance at September 30, 2019** | 79,730,191 | 5,238,030 | 3,113,454 | 181,110 | (51,064,096) | 37,198,689 |
| **Balance at December 31, 2017** | 19,178,187 | 816,431 | 2,145,051 | - | (10,503,517) | 11,636,152 |
| Exercise of warrants | 3,229,650 | (816,431) | (525,219) | - | - | 1,888,000 |
| Exercise of stock options | 551,232 | - | (1,736,624) | - | - | (1,185,392) |
| Issued on August 14, 2018 | | | | | | |
| Acquisition of Junex | 34,735,924 | 2,265,808 | 266,662 | - | - | 37,268,394 |
| Asset Acquisition | 9,094,306 | - | - | - | - | 9,094,306 |
| Conversion of debentures | 1,169,354 | - | - | - | - | 1,169,354 |
| Distribution of arrangement warrants | - | 1,690,290 | - | - | (1,690,290) | - |
| Share-based compensation | - | - | 550,577 | - | - | 550,577 |
| Net loss | - | - | - | - | (5,190,826) | (5,190,826) |
| Other comprehensive loss | - | - | - | (146,027) | - | (146,027) |
| **Balance at September 30, 2018** | 67,958,653 | 3,956,098 | 700,447 | (146,027) | (17,384,633) | 55,084,538 |

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

# Cuda Oil and Gas Inc.
## Interim Condensed Consolidated Statements of Cash Flows

Three and nine months ended September 30, 2019 and 2018
(Unaudited)
(in Canadian dollars)

| | Three months ended September 30, 2019 | Three months ended September 30, 2018 | Nine months ended September 30, 2019 | Nine months ended September 30, 2018 |
|---|---|---|---|---|
| | **$** | $ | **$** | $ |
| ***OPERATING ACTIVITIES*** | | | | |
| Net loss for the period | **(3,054,961)** | (3,660,727) | **(31,125,405)** | (5,190,826) |
| Non-cash items | | | | |
| Depletion and depreciation | **473,954** | 360,224 | **2,025,190** | 1,039,142 |
| Exploration and evaluation expense | **-** | 269,294 | **-** | 304,358 |
| Share-based compensation | **318,096** | 237,661 | **1,074,461** | 469,849 |
| Accretion of credit facilities and convertible debentures | **751,032** | 302,262 | **2,582,777** | 302,262 |
| Accretion of decommissioning liability | **15,490** | 10,778 | **62,706** | 15,607 |
| Foreign exchange (gain) loss | **(460,175)** | 541,257 | **1,287,302** | 541,257 |
| Loss on disposal of discontinued operation (Note 7) | **162,851** | - | **20,374,036** | - |
| Gain on disposal of property and equipment | **-** | - | **(49,191)** | - |
| Decommissioning liabilities settled | **-** | (3,788) | **-** | (3,788) |
| Net change in working capital items (Note 22) | **(2,426,594)** | (2,793,112) | **120,502** | (2,934,686) |
| Cash flows used in operating activities | **(4,220,307)** | (4,736,151) | **(3,647,622)** | (5,456,825) |
| ***INVESTING ACTIVITIES*** | | | | |
| Property and equipment expenditures and acquisitions | **(1,868,766)** | (43,599,221) | **(5,820,876)** | (43,671,067) |
| Proceeds on disposal of property and equipment | **-** | - | **49,191** | - |
| Exploration and evaluation asset expenditures and acquisitions | **(300,557)** | (118,954) | **(1,031,604)** | (717,969) |
| Proceeds on disposal of discontinued operation (Note 7) | **3,990,003** | - | **3,990,003** | - |
| Costs of disposal for discontinued operation (Note 7) | **(529,510)** | - | **(529,510)** | - |
| Cash acquired from Junex | **-** | 14,840,187 | **-** | 14,840,187 |
| Reduction of restricted cash and deposits | **145,975** | - | **915,256** | - |
| Reduction of obligation for exploration work | **(145,975)** | - | **(320,256)** | - |
| Refund of guarantee deposits | **-** | - | **303,000** | - |
| Net change in working capital items (Note 22) | **(3,673,546)** | (163,802) | **(2,601,635)** | (77,774) |
| Cash flows used in investing activities | **(2,382,376)** | (29,041,790) | **(5,046,431)** | (29,626,623) |
| ***FINANCING ACTIVITIES*** | | | | |
| Exercise of warrants | **-** | 75,000 | **-** | 1,888,000 |
| Exercise of stock options | **-** | (1,185,392) | **-** | (1,185,392) |
| Proceeds from private placement | **7,141,000** | - | **7,141,000** | - |
| Share issue costs | **(460,304)** | - | **(460,304)** | - |
| Proceeds from credit facilities, net of repayments | **153,865** | 35,000,000 | **3,653,865** | 35,000,000 |
| Credit facilities costs | **584** | (1,919,687) | **(2,964,581)** | (1,919,687) |
| Payments on lease obligations | **(65,393)** | - | **(191,133)** | - |
| Net change in working capital items (Note 22) | **(1,509,837)** | 1,091,857 | **1,127,874** | 1,087,332 |
| Cash flows from financing activities | **5,259,915** | 33,061,778 | **8,306,721** | 34,870,253 |
| Effect of foreign currency translation on cash | **(4,458)** | - | **(49,264)** | - |
| ***NET CHANGE IN CASH*** | **(1,347,226)** | (716,163) | **(436,596)** | (213,195) |
| Cash, beginning of period | **2,441,556** | 3,973,203 | **1,530,926** | 3,470,235 |
| Cash, end of period | **1,094,330** | 3,257,040 | **1,094,330** | 3,257,040 |
| Cash interest paid | **1,120,420** | 951,679 | **3,020,178** | 951,679 |

Cash flows of discontinued operation (Note 7)

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

## 1. NATURE OF BUSINESS

Cuda Oil and Gas Inc. ("**COGI**" or the "**Company**") is a company incorporated under the *Business Corporations Act* (Quebec). The main activity of COGI is oil and natural gas exploration, development and production in Alberta and Quebec in Canada and in the State of Wyoming in the United States. On September 4, 2019, the Company closed a series of Asset Purchase Agreements to sell all of its oil and gas assets and related decommissioning liabilities in Quebec, Canada (Note 7). COGI's principal place of business is located at 2110, 440 2 Avenue SW, Calgary, Canada T2P 5E9. COGI's common shares are listed under the symbol "CUDA" on the TSX Venture Exchange ("**TSXV**").

## 2. GOING CONCERN

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

For the three and nine months ended September 30, 2019, the Company reported net losses of $3,054,961 and $31,125,405, respectively, and used cash flows in operating activities of $4,220,307 and $3,647,622, respectively. Further, as at September 30, 2019, the Company has a deficit of $51,064,096 and a working capital deficiency of $37,440,546, which includes credit facilities in the amount of $38,653,865 payable on demand, of which $3,653,865 matures on December 31, 2019 and $35,000,000 matures on June 27, 2020 (Note 10) and convertible debentures in the amount of $1,500,000 which mature on July 21, 2020 (Note 13). These conditions indicate the existence of a material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern. The ability of the Company to continue as a going concern is dependent upon its ability to generate future profitable operations and to obtain new financing or renegotiate existing financing to meet its obligations and repay its liabilities in the normal course of business when they become due, and to generate sufficient funds to continue its capital program. Capital commitments in Wyoming, U.S. for the balance of 2019 include estimated costs totaling approximately $4.6 million to complete a drilling program, gas injection and electrical powerline facilities and a source gas pipeline. Otherwise, all future capital expenditures are considered discretionary.

On June 26, 2019, the Company amended its $35 million credit facility with an institutional lender to extend the maturity of the facility to June 27, 2020 and a new $8 million credit facility was made available to the Company by the lender (Note 10). On September 4, 2019, the Company closed a series of Asset Purchase Agreements to sell all of its oil and gas assets and related decommissioning liabilities in Quebec, Canada for net proceeds of $3,760,393, and the purchasers also caused the Company to be released and discharged from a claim associated with the obligation to purchase shares from a dissenting shareholder in the amount of $3,116,750 (Note 7). On July 30, 2019, the Company issued 14,282,000 Units for gross proceeds of $7,141,000; net proceeds of $6,680,696 after share issuance costs of $460,304 (Note 14).

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

## 3. BASIS OF PRESENTATION, STATEMENT OF COMPLIANCE AND APPROVAL

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, as issued by the International Accounting Standards Board. They do not include all of the information required in annual financial statements prepared in accordance with International Financial Reporting Standards ("**IFRS**"), and should be read in conjunction with COGI's audited consolidated financial statements for the year ended December 31, 2018.

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

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

## 4. JUDGMENTS, ESTIMATES AND ASSUMPTIONS

Except as outlined in Note 5, these interim condensed consolidated financial statements were prepared using the same judgments, estimates and assumptions as described in Note 4 of COGI's audited consolidated financial statements for the year ended December 31, 2018.

## 5. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

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

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

**IFRS 16 - *Leases***

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

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

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

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

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

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

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

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

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

## 6. BUSINESS COMBINATION

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

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

The fair value at August 14, 2018 of the total consideration transferred, and the assets and liabilities acquired is outlined in the table below. The fair value determinations were based upon recent comparable transactions in the market involving similar assets and/or estimates of expected future cash flows, as appropriate for specific assets, and these determinations required significant management judgement.

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

A shareholder of Junex who owned 875,000 shares of Junex, after giving effect to the 10 to 1 share consolidation, exercised rights of dissent available under the Quebec Business Corporations Act ("**QBCA**") in respect of the Arrangement. Pursuant to the Arrangement, the 875,000 common shares were deemed to be transferred to the Company and cancelled on closing of the Arrangement and are not reflected in the share consideration for the transaction. On December 27, 2018, the dissenting shareholder filed a statement of claim in the amount of $3,116,750, with costs, against the Company. On July 23, 2019, the Company and the dissenting shareholder entered into an agreement to settle this claim (Note 7).

## 7. DISCONTINUED OPERATION

On July 23, 2019, the Company entered into a series of binding Asset Purchase Agreements ("**APAs**") to sell all of its oil and gas assets and related decommissioning liabilities in Quebec, Canada for cash consideration of $4,290,003; net proceeds of $3,760,493 after estimated costs to sell of $529,510. On September 4, 2019, the Company closed the APAs and disposed of all its land permits, licenses, production rights and interests in Quebec, including the restricted cash and deposits and obligation for exploration work related to the Galt oil and gas project in the Gaspe Peninsula of Quebec, as well as all associated drilling and field equipment and other tangible assets (the "**Quebec Assets**"). The purchasers also caused COGI to be released and discharged from a claim associated with the exercise of dissent rights in connection with the Arrangement (Note 6) in the amount of $3,116,750.

$300,000 of the cash consideration is being held in escrow (the "**Escrow Amount**") in a lawyer's trust account and may be released to the Company after an assessment is performed regarding the costs to complete the closure and site restoration work for a specific suspended well (the "**Well Liabilities**"). If the Well Liabilities exceed a specified amount, then COGI will receive the Escrow Amount less the amount by which the actual cost of the Well Liabilities exceeds the specified amount. The Company assessed the probability that the Well Liabilities will exceed the specified amount and has not reduced the Escrow Amount.

| **($)** | | **Total** |
|---|---|---|
| **Quebec Assets** | | |
| Restricted cash and deposits | $ | 7,163,917 |
| Property and equipment – cost | | 2,109,960 |
| Property and equipment – accumulated depletion and depreciation | | (260,927) |
| Exploration and evaluation assets | | 28,109,548 |
| Balance | $ | 37,122,498 |
| | | |
| **Liabilities associated with disposition of Quebec Assets** | | |
| Obligation for exploration work | $ | 7,163,917 |
| Decommissioning liabilities | | 2,707,302 |
| Obligation for purchase of shares | | 3,116,750 |
| Balance | $ | 12,987,969 |
| **Net assets** | $ | 24,134,529 |
| Proceeds of disposition, net of disposal costs | $ | 3,760,493 |
| **Loss on disposal of discontinued operation** | $ | 20,374,036 |

As at June 30, 2019, these assets were classified as held for sale and were measured at the lower of their carrying amount and fair value less costs to sell ("**FVLCS**"). As the FVLCS was lower than the carrying amount of the assets, a preliminary loss was recognized, subject to final adjustments.

Upon closing of the APAs, the cash consideration, less the Escrow Amount, of $4.0 million was used to partially re-pay the Credit Facilities (Note 10).

As at September 30, 2019, assets associated with discontinued operations are comprised of the Escrow Amount of $300,000, accounts receivable of $685,640 (Note 17) and tax credits receivable of $44,511, and liabilities associated with discontinued operations are comprised of accounts payable and accrued liabilities of $610,936 and due to partner of $90,000.

Operating results related to the Quebec Assets have been included in net loss from discontinued operation for the period of ownership. Comparative period balances in the Interim Condensed Consolidated Statements of Loss and Comprehensive Loss have been restated to show the discontinued operation separately from continuing operations. Net loss from discontinued operation is comprised of the following:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **$** | $ | **$** | $ |
| Revenue | 9,458 | 16,178 | 39,660 | 16,178 |
| Expenses and other items(1) | 462,652 | 198,339 | 800,612 | 198,339 |
| Loss from discontinued operation | (453,194) | (182,161) | (760,952) | (182,161) |
| Loss on disposal of discontinued operation | (162,851) | - | (20,374,036) | - |
| Net loss from discontinued operation | (616,045) | (182,161) | (21,134,988) | (182,161) |

(1) Balance includes employee severance costs paid upon closing of the APAs of $392,700 for the three and nine months ended September 30, 2019 (three and nine months ended September 30, 2018 - $Nil), and a gain on disposal of property and equipment of $Nil and $49,191 for the three and nine months ended September 30, 2019, respectively (three and nine months ended September 30, 2018 - $ Nil)

The cash flows from discontinued operation, including changes in related non-cash working capital items, are as follows:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **$** | $ | **$** | $ |
| Cash flows used in operating activities | (581,432) | (113,816) | (884,144) | (113,816) |
| Cash flows from (used in) investing activities | 3,763,947 | (33,167) | 4,221,423 | (33,167) |
| Cash flows used in financing activities | (18,102) | - | (52,919) | - |
| | 3,164,413 | (146,983) | 3,284,360 | (146,983) |

## 8. EXPLORATION AND EVALUATION ("E&E") ASSETS

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

| ($) | Total |
|---|---:|
| Balance, December 31, 2018 | 34,879,232 |
| Additions | 1,396,056 |
| Change in decommissioning cost | 152,788 |
| Dispositions (Note 7) | (28,109,548) |
| Foreign currency translation | (77,749) |
| Balance, September 30, 2019 | 8,240,779 |

E&E assets consist of the Company's exploration projects, which are pending the determination of proved or probable reserves. The Company capitalized cash and non-cash general and administrative and share based compensation costs directly attributable to E&E assets of $923,979 in the nine months ended September 30, 2019 (nine months ended September 30, 2018 – $357,423).

There were no indicators of impairment identified as at September 30, 2019 for the Company's E&E assets. Accordingly, an impairment test was not required.

## 9. PROPERTY AND EQUIPMENT

The following table reconciles COGI's property and equipment:

| Cost ($) | Developed and Producing Assets | Drilling and Field Equipment | Right-Of-Use and Administrative Assets | Total |
|---|---|---|---|---|
| Balance, December 31, 2018 | 68,881,318 | 2,073,558 | 130,135 | 71,085,011 |
| Additions | 5,820,876 | - | - | 5,820,876 |
| Adoption of IFRS 16 (Notes 5 and 11) | - | - | 531,212 | 531,212 |
| Change in decommissioning cost | 550,603 | - | - | 550,603 |
| Dispositions (Note 7) | - | (2,073,558) | (36,402) | (2,109,960) |
| Foreign currency translation | (1,834,853) | - | - | (1,834,853) |
| Balance, September 30, 2019 | 73,417,944 | - | 624,945 | 74,042,889 |
| **Accumulated depletion and depreciation and impairment ($)** | | | | |
| Balance, December 31, 2018 | (3,075,598) | (140,406) | (64,964) | (3,280,968) |
| Depletion and depreciation(1) | (1,694,240) | (109,599) | (221,351) | (2,025,190) |
| Dispositions (Note 7) | - | 250,005 | 10,922 | 260,927 |
| Foreign currency translation | 32,157 | - | - | 32,157 |
| Balance, September 30, 2019 | (4,737,681) | - | (275,393) | (5,013,074) |
| **Carrying amounts ($)** | | | | |
| As at December 31, 2018 | 65,805,720 | 1,933,152 | 65,171 | 67,804,043 |
| As at September 30, 2019 | 68,680,263 | - | 349,552 | 69,029,815 |

(1) Balance includes $20,761and $176,380 in depletion and depreciation related to discontinued operation for the three and nine months ended September 30, 2019, respectively (three and nine months ended September 30, 2018 - $59,637).

Included in property and equipment at September 30, 2019 are right-of-use assets related to Canadian office space with a cost of $531,212, accumulated depreciation of $203,569 and a carrying amount of $327,643. No amounts related to right-of-use assets are recorded in prior periods (Notes 5 and 11).

At September 30, 2019, estimated future development costs of $135,186,000 (December 31, 2018 - $141,003,000) associated with the development of the Company's proved and probable reserves were added to the Company's net book value in the depletion calculation. Developed and producing assets includes costs of facilities and a pipeline under construction that were not included in the depletion calculation in the amount of $2,829,600 (December 31, 2018 - $3,292,172).

## 10. CREDIT FACILITIES

On June 26, 2019, the Company amended its $35 million credit facility (the "**Facility**") with an institutional lender (the "**Lender**") to extend the maturity of the Facility to June 27, 2020. The Facility is non-revolving, payable on demand, and interest compounds monthly at a rate of 10.5% per annum which is payable monthly.

In addition, a new $8 million credit facility (the "**Additional Facility**") was made available to the Company by the Lender. The Additional Facility is non-revolving, and interest compounds monthly at a rate of 10.75% per annum which is payable monthly. The Additional Facility is payable on demand and will mature on December 31, 2019. The Company has drawn $7.8 million on the Additional Facility and has repaid $4.1 million, primarily from the cash consideration on disposal of discontinued operation (Note 7), less the Escrow Amount, of $4.0 million. As of September 30, 2019, $3.7 million is outstanding on the Additional Facility.

The Facility and the Additional Facility are collectively the "**Credit Facilities**". The Company may re-pay the Credit Facilities in whole or in part and all accrued interest at any time prior with 90 days notice. The Credit Facilities are secured by a first priority floating charge over the consolidated assets of the Company. Covenants include reporting requirements, permitted encumbrances, other standard business operating covenants and the Company must maintain producing petroleum and natural gas reserves with respect to its U.S. assets in an amount of at least $50 million, as evidenced by an external reserve report to be prepared as of December 31, 2019; the Company is not subject to any financial covenants.

The Additional Facility was amended subsequent to September 30, 2019, as described in Note 23(c).

Refinancing costs for the Credit Facilities of $3,248,318 were recorded as a reduction against the liability, and include the cost of 1,500,000 share purchase warrants issued to the Lender with a fair value of $283,737. The terms and conditions of and determination of fair value for the share purchase warrants are described in Note 14. If the Facility is repaid in full after December 31, 2019, an additional fee of $350,000 will be payable to the Lender. The accretion charge on the Credit Facilities for the nine months ended September 30, 2019 was $2,555,203 (nine months ended September 30, 2018 – $288,856), and the balance of unamortized costs as at September 30, 2019 was $1,807,026 (December 31, 2019 - $1,113,911).

## 11. LEASE OBLIGATIONS

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

The Company had the following future commitments associated with its lease obligations at September 30, 2019.

| | September 30, 2019 |
|---|---|
| Less than 1 year | 184,569 |
| 1 – 3 years | 201,648 |
| 3 – 5 years | - |
| After 5 years | - |
| Total lease payments | 386,217 |
| Amounts representing interest over the term of the lease | (46,138) |
| Present value of net lease payments | 340,079 |
| Current portion of lease obligations | 158,924 |
| Long-term portion of lease obligations | 181,155 |

For the three and nine months ended September 30, 2019, the Company recorded interest expense of $10,076 and $35,241, respectively, and lease payments of $75,469 and $226,374, respectively, related to its lease obligations.

## 12. DECOMMISSIONING LIABILITY

The Company's decommissioning liability results from ownership interests in petroleum and natural gas properties and equipment including well sites and facilities and management's estimates of costs to abandon and reclaim those well sites and facilities as well as an estimate of the future timing of these costs. COGI estimates the total undiscounted future cash flows required to settle its decommissioning obligations as at September 30, 2019 to be approximately $3,105,472 (December 31, 2018 - $5,415,457) with the costs anticipated to be incurred between 2020 and 2048. The net present value of the decommissioning liability was calculated using risk-free discount rates of 1.40 to 1.54 percent (December 31, 2018 – 1.90 to 2.15 percent) based on the timing to abandon and an inflation rate of 2.0 percent (December 31, 2018 – 2.0 percent). A reconciliation of the decommissioning liability is provided below:

| | **Amount ($)** |
|---|---|
| Balance, December 31, 2018 | 4,458,322 |
| Additions | 441,426 |
| Change in estimates | 261,965 |
| Accretion(1) | 62,706 |
| Dispositions (Note 7) | (2,707,302) |
| Foreign currency translation | (42,913) |
| **Balance, September 30, 2019** | **2,474,204** |
| Current portion of decommissioning liability | 24,000 |
| Long-term portion of decommissioning liability | 2,450,204 |

(1) Balance includes $6,760 and $31,742 in accretion expense related to discontinued operation for the three and nine months ended September 30, 2019, respectively (three and nine months ended September 30, 2018 - $6,235).

## 13. CONVERTIBLE DEBENTURES

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

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

| | **Amount ($)** |
|---|---|
| Balance, December 31, 2018 | 1,439,763 |
| Accretion charge on debentures | 27,574 |
| **Balance, September 30, 2019** | **1,467,337** |

As of September 30, 2019, convertible debentures with a stated value of $1,500,000 are outstanding, comprised of series A with a stated value of $750,000 and series B with a stated value of $750,000.

## 14. SHARE CAPITAL

**Authorized**

Unlimited number of shares without par value

Common shares, voting and participating;

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

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

**Issued and outstanding**

| | **Number of Common Shares** | **Amount ($)** |
|---|---|---|
| Balance, December 31, 2018 | 21,929,855 | 73,957,687 |
| Issued in exchange for interest on debentures | 117,284 | 90,003 |
| Issued from private placement | 14,282,000 | 6,142,805 |
| Share issue costs | - | (460,304) |
| Balance, September 30, 2019 | 36,329,139 | 79,730,191 |

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

In March 2019, the Company issued 33,541 common shares at a price of $1.36 per share in exchange for the payment of interest on convertible debentures in the amount of $45,619. In August 2019, the Company issued 83,743 common shares at a price of $0.53 per share in exchange for the payment of interest on convertible debentures in the amount of $44,384.

In June 2019, the Company entered into an agreement with a syndicate of investment dealers in connection with a commercially reasonable efforts agency private placement of up to 16,000,000 units at a price of $0.50 per unit for gross proceeds of up to $8 million ("**the Offering**"). Each unit ("**Unit**") consisted of one common share plus one-half of a common share purchase warrant. Each warrant is exercisable for one common share at a price of $0.60 per share for a term of 24 months from closing. On July 30, 2019, the Company issued 14,282,000 Units for gross proceeds of $7,141,000; net proceeds of $6,680,696 after share issuance costs of $460,304. The lead agent of the Offering subscribed for 2,500,000 Units and agreed to cancel its entitlement to the associated 1,250,000 share purchase warrants. The common shares and common share purchase warrants issued pursuant to the Offering are subject to a four month hold period.

The gross proceeds of $7,141,000 from the Offering have been allocated between share capital and the common share purchase warrants. The fair value of the warrants was determined to be $998,195, as described below under "**Warrants**", and the residual amount of $6,142,805 was allocated to share capital.

**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 3,624,539 common shares of COGI and the maximum term of options granted is 10 years. Unless otherwise determined by the Board of Directors at the time of grant, options vest as to one-third on each of the first, second and third anniversary dates of the date of grant.

A summary of the Company's outstanding stock options at September 30, 2019 is presented below:

| | Options | Weighted average exercise price |
|---|---|---|
| | | $ |
| Outstanding, December 31, 2018 | 2,168,214 | 4.34 |
| Granted | 2,310,000 | 0.50 |
| Expired | (295,102) | 6.84 |
| Forfeited | (96,667) | 3.71 |
| Outstanding, September 30, 2019 | 4,086,445 | 2.01 |

The exercise prices for stock options outstanding and exercisable under the plan at September 30, 2019 is as follows:

| | Outstanding options | | | Exercisable options | |
|---|---|---|---|---|---|
| | Number | Weighted average remaining contractual life | Weighted average exercise price | Number | Weighted average exercise price |
| | | Years | $ | | $ |
| Employees, officers and directors | | | | | |
| | 42,900 | 0.9 | 7.10 | 42,900 | 7.10 |
| | 54,350 | 3.6 | 5.90 | 54,350 | 5.90 |
| | 308,362 | 3.6 | 4.18 | 308,362 | 4.18 |
| | 37,500 | 7.9 | 4.80 | 37,500 | 4.80 |
| | 1,333,333 | 5.4 | 3.71 | 476,667 | 3.71 |
| | 2,310,000 | 6.8 | 0.50 | - | 0.50 |
| | 4,086,445 | 6.0 | 2.01 | 919,779 | 4.20 |

On August 6, 2019, the Company amended the stock option plan to increase the number of common shares that may be issued pursuant to stock options from 2,226,032 common shares to 3,624,539 common shares and, subject to shareholder approval, a further increase to the number of common shares that may be issued pursuant to stock options to 4,349,447 common shares. The Company also amended 2,036,214 stock options that were previously granted at exercise prices ranging from $3.71 to $7.10, by changing the exercise price on those options from their respective grant date price per share to $0.50 per share, which is subject to shareholder approval. These stock option amendments were approved by COGI shareholders at a special meeting on November 6, 2019.

On August 6, 2019, the Company granted 2,310,000 stock options to officers, directors and employees at an exercise price of $0.50 per share, of which 725,000 are subject to shareholder approval. The 725,000 stock options granted were approved by COGI shareholders at a special meeting on November 6, 2019.

Changes to stock options outstanding subsequent to September 30, 2019 are described in Note 23(b).

The fair value of each stock option granted in the period was $0.25 and was estimated on the grant date using the Black-Scholes valuation model based on the following weighted average assumptions:

| | |
|---|---|
| Expected volatility | 84% |
| Risk-free interest rate | 1.23% |
| Expected term | 4.5 years |
| Expected dividends | None |
| Share price | $0.42 |
| Exercise price | $0.50 |

The Company’s share-based compensation relating to stock options for the three and nine months ended September 30, 2019 was $361,259 and $1,438,913, respectively, (three and nine months ended September 30, 2018 - $257,374 and $550,577, respectively), of which $43,163 and $364,452, respectively, was capitalized (three and nine months ended September 30, 2018 - $19,713 and $80,728, respectively).

**Warrants**

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

| | Number of warrants | Amount ($) |
|---|---|---|
| Outstanding, December 31, 2018 | 2,391,953 | 3,956,098 |
| Issued | 7,391,000 | 1,281,932 |
| Outstanding, September 30, 2019 | 9,782,953 | 5,238,030 |

In connection with refinancing the Credit Facilities (Note 10), 1,500,000 common share purchase warrants were issued to the Lender and each warrant entitles the holder to purchase one COGI share at a price of $0.65 per share for a period of 24 months. In connection with the Offering, 5,891,000 common share purchase warrants were issued and each warrant entitles the holder to purchase one COGI share at a price of $0.60 per share for a period of 24 months. The fair value of each Lender warrant and Offering warrant issued was $0.19 and $0.17, respectively, and was estimated on the date of issue using the Black-Scholes valuation model based on the following assumptions:

| | Lender warrants | Offering warrants |
|---|---|---|
| Expected volatility | 83% | 84% |
| Risk-free interest rate | 1.47% | 1.37% |
| Expected term | 2 years | 2 years |
| Expected dividends | None | None |
| Share price | $0.50 | $0.45 |
| Exercise price | $0.65 | $0.60 |

A summary of the Company's outstanding warrants as at September 30, 2019 is as follows:

| Number of warrants | Exercise Price ($) | Expiry Date |
|---|---|---|
| 954,546 | 5.30 | August 4, 2020 |
| 999,907 | 4.00 | August 14, 2020 |
| 1,500,000 | 0.65 | June 26, 2021 |
| 5,891,000 | 0.60 | July 30, 2021 |
| 437,500 | 5.90 | October 20, 2021 |
| 9,782,953 | | |

In connection with the Arrangement (Note 6), 999,907 arrangement warrants were issued. Each arrangement warrant will entitle the holder thereof to purchase one COGI share at a price of $4.00 per share for a period of 24 months. The arrangement warrants will vest upon the earlier of (i) the date on which the COGI shares achieve a 20-day weighted average price of $6.40 per share; and (ii) the date on which COGI completes an equity financing of a minimum of $10 million at a price of at least $6.00 per share. As of September 30, 2019, no arrangement warrants have vested.

**Weighted average number of common shares**

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

## 15. COMMITMENTS

The Company's office leases have been accounted for as right-of-use assets and lease obligations on transition to IFRS 16 (Notes 5, 9 and 11). The Company's expected future commitments related to lease rentals have changed since December 31, 2018 as a result of the discontinued operation (Note 7) and are estimated at $34,501 per annum for 2020 to 2023 and $33,605 thereafter.

Capital commitments in Wyoming, U.S. for the balance of 2019 include estimated costs totaling approximately $4.6 million to complete a drilling program, gas injection and electrical powerline facilities and a source gas pipeline. Otherwise, all future capital expenditures are considered discretionary.

## 16. RELATED PARTY TRANSACTIONS

The Company had no related party transactions for the nine months ended September 30, 2019 and 2018.

**Compensation of key management personnel**[(1)]

The aggregate compensation of key management personnel was as follows:

| | Nine months ended September 30, | |
|---|---|---|
| | **2019** | 2018 |
| | **$** | $ |
| Salaries and benefits | **1,177,917** | 845,515 |
| Share-based compensation | **1,195,924** | 179,700 |
| Total compensation | **2,373,841** | 1,025,215 |

(1) Balance includes $362,605 related to discontinued operations for the nine months ended September 30, 2019, (nine months ended September 30, 2018 – $20,198).

## 17. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT

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

Financial instruments comprise cash, restricted cash and deposits, accounts receivable, accounts payable and accrued liabilities, credit facilities, due to partner and convertible debentures.

The carrying amounts for cash, accounts receivable, accounts payable and accrued liabilities, credit facilities, and due to partner are reasonable approximations of their respective fair values due to the short-term maturities of these instruments. The carrying amounts for restricted cash and deposits and convertible debentures approximate their respective fair values.

**Credit risk**

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

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

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

The Company's accounts receivable as at September 30, 2019, which includes amounts associated with continuing operations and discontinued operation (Note 7), are as follows:

| | **September 30, 2019** | December 31, 2018 |
|---|---|---|
| | **$** | $ |
| Trade accounts receivable | **36,707** | 243,130 |
| Joint operations receivable | **3,066,454** | 927,824 |
| Other | **187,719** | 190,199 |
| Commodity taxes receivable | **131,572** | 219,882 |
| | **3,422,452** | 1,626,035 |

The accounts receivable balance of $685,640 associated with the discontinued operation (Note 7) is comprised of $8,087 of trade accounts receivable, $447,140 of joint operations receivable, $130,482 of other and $99,931 of commodity taxes receivable.

The accounts receivable balance as at September 30, 2019 is primarily comprised of: 76 percent due from one joint operations partner in the United States (December 31, 2018 – 46 percent); 5 percent due from one joint operations partner in Canada (December 31, 2018 – 9 percent); 1 percent due from three purchasers of petroleum and natural gas in Canada (December 31, 2018 – 14 percent); and 4 percent due from the Canada Revenue Agency (December 31, 2018 – 14 percent).

The Company’s trade receivables, which includes amounts associated with continuing operations and discontinued operation (Note 7), have been aged as follows:

| | **September 30, 2019** | December 31, 2018 |
|---|---|---|
| | **$** | $ |
| Current | **2,110,410** | 1,263,790 |
| 31 – 60 Days | **924,618** | 161,559 |
| 61 – 90 Days | **30,921** | - |
| > 90 Days | **356,503** | 200,686 |
| | **3,422,452** | 1,626,035 |

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

**Liquidity risk**

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

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

| | **Less than one year** | **Beyond one year** |
|---|---|---|
| | **$** | **$** |
| Credit facilities | 38,653,865 | - |
| Accounts payable and accrued liabilities | 4,085,726 | - |
| Due to partner | 90,000 | - |
| Convertible debentures | 1,500,000 | - |
| | 44,329,591 | - |

Financial liabilities as at September 30, 2019 include $700,936 associated with the discontinued operation (Note 7) which is comprised of $610,936 of accounts payable and accrued liabilities and the $90,000 due to partner.

The ability to fulfill these liabilities is dependent on the expected upcoming production capability of new and existing assets and the Company’s ability to attain profitable operations and generate funds therefrom, including improvements in realized oil and gas prices, together with the continued ability to raise capital through public issuances, private placements, debt financing, property sales or some combination of these alternatives. The Company is actively pursuing each of these options, taking into consideration the cost/benefit of each alternative.

## Market risk

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

*Commodity price risk*
Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. A significant change in commodity prices can materially impact the Company's cash flows. Lower commodity prices may also reduce the Company's ability to raise capital. Commodity prices for petroleum and natural gas are not only influenced by supply and demand in Canada and the United States, but also by world events that dictate the levels of supply and demand. The Company had no risk management contracts that would be affected by commodity prices in place at September 30, 2019.

*Foreign currency risk*
Foreign currency risk is the risk that future cash flows will fluctuate as a result of changes in foreign currency exchange rates. Approximately 80% and 20% of the Company's petroleum and natural gas sales were denominated in United States dollars and in Canadian dollars, respectively, for the nine months ended September 30, 2019. While the market prices in Canada for petroleum and natural gas are impacted by changes in the exchange rate between the Canadian dollar and the United States dollar, the exchange rate effect cannot be quantified. Generally an increase in the value of the Canadian dollar as compared to the U.S. dollar will reduce the prices received by the Company for its Canadian petroleum and natural gas sales.

The Company had no risk management contracts that would be affected by foreign currency changes in place at September 30, 2019.

*Interest rate risk*
Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate risk through its fixed-rate credit facilities and convertible debentures. The Company had no risk management contracts that would be affected by interest rates in place at September 30, 2019.

## Capital management

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

The Company's current capital structure is summarized below:

| | **September 30, 2019** | December 31, 2018 |
|---|---|---|
| | **$** | $ |
| Cash | **(1,094,330)** | (1,530,926) |
| Current assets, excluding cash | **(4,137,950)** | (3,028,464) |
| Current liabilities, excluding credit facilities and convertible debentures | **4,358,650** | 7,282,433 |
| Credit facilities | **36,846,839** | 33,886,089 |
| Convertible debentures | **1,467,337** | 1,439,763 |
| Shareholders' equity | **37,198,689** | 60,362,270 |
| | **74,639,235** | 98,411,165 |

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

**18. REVENUE**

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

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

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **$** | $ | **$** | $ |
| Crude oil | **1,661,498** | 1,104,748 | **5,924,685** | 2,070,277 |
| Natural gas | **8,297** | 8,348 | **874,735** | 1,161,138 |
| Natural gas liquids | **3,091** | 7,897 | **260,714** | 288,395 |
| | **1,672,886** | 1,120,993 | **7,060,134** | 3,519,810 |

Sales in the U.S. are predominantly made to one customer and sales in Canada are predominantly made to three customers representing approximately 61%, 21% and 18% of Canadian sales for the nine months ended September 30, 2019. As at September 30, 2019, receivables from contracts with customers were $28,620 (December 31, 2018 - $235,837).

## 19. FINANCE COSTS[1]

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **$** | $ | **$** | $ |
| Interest on credit facilities | **1,819,852** | 1,222,720 | **5,487,940** | 1,242,857 |
| Interest on lease obligations | **10,076** | - | **35,241** | - |
| Interest on convertible debentures | **55,110** | 36,396 | **161,463** | 36,396 |
| Other | **2,722** | 2,476 | **10,211** | 2,476 |
| | **1,887,760** | 1,261,592 | **5,694,855** | 1,281,729 |
| Interest income | **(27,436)** | (33,659) | **(100,838)** | (33,659) |
| | **1,860,324** | 1,227,933 | **5,594,017** | 1,248,070 |

(1) Balance includes $11,796 and $69,602 of interest income, net of interest expense, related to discontinued operation for the three and nine months ended September 30, 2019, respectively (three and nine months ended September 30, 2018 – $18,255)

## 20. FOREIGN EXCHANGE (GAIN) LOSS

The Company recorded an unrealized foreign exchange (gain) loss of ($460,175) and $1,287,302 for the three and nine months ended September 30, 2019, respectively (foreign exchange loss of $541,257 for the three and nine months ended September 30, 2018), and a realized foreign exchange (gain) loss of $7,221 and ($17,098) for the three and nine months ended September 30, 2019, respectively. Substantially all of the foreign exchange (gain) loss relates to an intercompany loan to a foreign subsidiary that is denominated in U.S. dollars.

## 21. SEGMENT INFORMATION

For management purposes, the Company's activities are conducted in two geographic segments: Canada and the United States. Canadian and U.S. activities relate to the exploration, development, and production of oil and natural gas. Non-segmented expenses include corporate activities and items not allocated between operating segments. There were no transactions other than intercompany loans between the reportable segments for the three and nine months ended September 30, 2019 and 2018.

| | Three months ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | Canada | | United States | | Total | |
| | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 |
| | **$** | $ | **$** | $ | **$** | $ |
| **Revenue** | | | | | | |
| Petroleum and natural gas sales | **90,832** | 242,230 | **1,582,054** | 878,763 | **1,672,886** | 1,120,993 |
| Royalties | **(10,848)** | (43,052) | **(316,515)** | (184,388) | **(327,363)** | (227,440) |
| Production taxes | **-** | - | **(198,537)** | (84,276) | **(198,537)** | (84,276) |
| Net revenue from petroleum and natural gas sales | **79,984** | 199,178 | **1,067,002** | 610,099 | **1,146,986** | 809,277 |
| **Segmented expenses** | | | | | | |
| Operating and transportation | **53,501** | 57,885 | **510,186** | 147,823 | **563,687** | 205,708 |
| Exploration and evaluation expense | **-** | 269,294 | **-** | - | **-** | 269,294 |
| Depletion and depreciation | **67,215** | 31,914 | **385,978** | 268,673 | **453,193** | 300,587 |
| Accretion of decommissioning liability | **1,878** | 2,340 | **6,852** | 2,203 | **8,730** | 4,543 |
| | **122,594** | 361,433 | **903,016** | 418,699 | **1,025,610** | 780,132 |
| **Segmented income (loss)** | **(42,610)** | (162,255) | **163,986** | 191,400 | **121,376** | 29,145 |
| **Non-segmented expenses** | | | | | | |
| General and administrative | | | | | **823,030** | 1,482,605 |
| Share-based compensation | | | | | **318,096** | 237,661 |
| Finance costs | | | | | **1,872,120** | 1,246,188 |
| Foreign exchange (gain) loss | | | | | **(452,954)** | 541,257 |
| | | | | | **2,560,292** | 3,507,711 |
| **Net loss from continuing operations** | | | | | **(2,438,916)** | (3,478,566) |
| **E&E assets(1)** | **5,172,223** | 32,222,140 | **3,068,556** | 2,657,092 | **8,240,779** | 34,879,232 |
| **Property & equipment(1)** | **4,047,631** | 6,020,460 | **64,982,184** | 61,783,583 | **69,029,815** | 67,804,043 |
| **Total assets(1)** | **11,732,466** | 49,435,861 | **70,770,408** | 65,290,977 | **82,502,874** | 114,726,838 |
| **Capital expenditures** | **221,242** | 99,252 | **1,948,081** | 43,618,923 | **2,169,323** | 43,718,175 |

(1) Current year represents balances at September 30, 2019. Prior year represents balances at December 31, 2018.

| | Nine months ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | Canada | | United States | | Total | |
| | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 |
| | **$** | $ | **$** | $ | **$** | $ |
| **Revenue** | | | | | | |
| Petroleum and natural gas sales | **1,432,196** | 2,641,047 | **5,627,938** | 878,763 | **7,060,134** | 3,519,810 |
| Royalties | **(230,351)** | (464,835) | **(1,111,871)** | (184,388) | **(1,342,222)** | (649,223) |
| Production taxes | **-** | - | **(591,819)** | (84,276) | **(591,819)** | (84,276) |
| Net revenue from petroleum and natural gas sales | **1,201,845** | 2,176,212 | **3,924,248** | 610,099 | **5,126,093** | 2,786,311 |
| **Segmented expenses** | | | | | | |
| Operating and transportation | **658,241** | 970,349 | **1,884,604** | 147,823 | **2,542,845** | 1,118,172 |
| Exploration and evaluation expense | **-** | 304,358 | **-** | - | **-** | 304,358 |
| Depletion and depreciation | **502,418** | 710,832 | **1,346,392** | 268,673 | **1,848,810** | 979,505 |
| Accretion of decommissioning liability | **6,809** | 7,169 | **24,155** | 2,203 | **30,964** | 9,372 |
| | **1,167,468** | 1,992,708 | **3,255,151** | 418,699 | **4,422,619** | 2,411,407 |
| **Segmented income** | **34,377** | 183,504 | **669,097** | 191,400 | **703,474** | 374,904 |
| **Non-segmented expenses** | | | | | | |
| General and administrative | | | | | **2,685,607** | 3,106,138 |
| Share-based compensation | | | | | **1,074,461** | 469,849 |
| Finance costs | | | | | **5,663,619** | 1,266,325 |
| Foreign exchange loss | | | | | **1,270,204** | 541,257 |
| | | | | | **10,693,891** | 5,383,569 |
| **Net loss from continuing operations** | | | | | **(9,990,417)** | (5,008,665) |
| **E&E assets[(1)]** | **5,172,223** | 32,222,140 | **3,068,556** | 2,657,092 | **8,240,779** | 34,879,232 |
| **Property & equipment[(1)]** | **4,047,631** | 6,020,460 | **64,982,184** | 61,783,583 | **69,029,815** | 67,804,043 |
| **Total assets[(1)]** | **11,732,466** | 49,435,861 | **70,770,408** | 65,290,977 | **82,502,874** | 114,726,838 |
| **Capital expenditures** | **883,624** | 770,113 | **5,968,856** | 43,618,923 | **6,852,480** | 44,389,036 |

[(1)] Current year represents balances at September 30, 2019. Prior year represents balances at December 31, 2018.

## 22. SUPPLEMENTAL CASH FLOW INFORMATION

The net change in working capital items includes assets and liabilities associated with continuing operations and discontinued operation (Note 7), and is detailed as follows:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **$** | $ | **$** | $ |
| Provided by (used in): | | | | |
| Accounts receivable | (2,324,606) | (577,065) | (1,796,417) | (499,576) |
| Inventory | (1,239) | - | 3,171 | 42,671 |
| Prepaid expenses and deposits | 61,590 | 31,464 | 85,760 | (4,175) |
| Accounts payable and accrued liabilities | (5,363,665) | (1,316,504) | 196,255 | (1,461,096) |
| Effect of foreign exchange on working capital | 17,943 | (2,952) | 157,972 | (2,952) |
| | (7,609,977) | (1,865,057) | (1,353,259) | (1,925,128) |

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **$** | $ | **$** | $ |
| Provided by (used in): | | | | |
| Operating activities | (2,426,594) | (2,793,112) | 120,502 | (2,934,686) |
| Investing activities | (3,673,546) | (163,802) | (2,601,635) | (77,774) |
| Financing activities | (1,509,837) | 1,091,857 | 1,127,874 | 1,087,332 |
| | (7,609,977) | (1,865,057) | (1,353,259) | (1,925,128) |

## 23. SUBSEQUENT EVENTS

a. On October 1, 2019, the Company closed the acquisition of certain undeveloped lands in the Barron Flats Unit in Wyoming, U.S. for total consideration of USD $384,772 (CAD $509,554). The consideration is comprised of USD $341,217 (CAD $451,874) in cash and E&E assets with an attributed value of USD $43,555 (CAD $57,680).

b. On October 29, 2019, 14,000 stock options at exercise prices ranging from $5.90 to $7.10 per share expired. On November 21, 2019, the Company granted 40,000 stock options at an exercise price of $0.50 per share to former employees associated with the Quebec assets (Note 7), as a condition of their severance arrangements, which stock options vested immediately and expire on August 31, 2020.

c. On November 29, 2019, the Company amended its Additional Facility (Note 10) whereby the maturity of the Additional Facility has been extended from December 31, 2019 to March 31, 2020, and $4.5 million of additional funding will be made available to the Company by the Lender. The Company will issue 885,000 common share purchase warrants to the Lender and each warrant will entitle the holder to purchase one COGI share at price of $0.45 per share for a period of 12 months, subject to regulatory approval.