Cuda Oil and Gas Inc.

Consolidated Financial Statements
Years Ended December 31, 2019 and 2018

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Cuda Oil and Gas Inc.

Opinion

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

– the consolidated statements of financial position as at December 31, 2019 and December 31, 2018
– the consolidated statements of loss and comprehensive loss for the years then ended
– the consolidated statements of changes in shareholders' equity for the years then ended
– the consolidated statements of cash flows for the years then ended
– and notes to the consolidated financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2019 and December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

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

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the financial statements, which indicates that for the years ended December 31, 2019 and 2018 the Company reported net losses of approximately $41.9 million and approximately $7.7 million, respectively and used cash flows in operating activities of approximately $5.7 million and approximately $5.2 million, respectively. As at

December 31, 2019 the Company had a working capital deficiency of approximately $46.5 million including credit facilities outstanding with a principal balance of approximately $41.7 million which are due on July 30, 2020 and convertible debentures with a principal balance of $1.5 million which are due on July 21, 2020. The Company currently has no ability to settle any of the credit facilities, the convertible debentures, its' ongoing commitments in Wyoming, U.S. or its working capital deficiency.

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

Our opinion is not modified in respect of this matter.

Other Information

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

– the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

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

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

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

We have nothing to report in this regard.

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

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

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

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

KPMG LLP

Chartered Professional Accountants
Calgary, Canada
July 4, 2020

Cuda Oil and Gas Inc.
Consolidated Statements of Financial Position
As at December 31, 2019 and 2018
(in Canadian dollars)

	December 31, 2019	December 31, 2018
	$	$
ASSETS		
Current		
Cash	**207,166**	1,530,926
Restricted cash and deposits (Note 9)	**-**	898,000
Accounts receivable (Note 20)	**4,341,801**	1,740,533
Inventory	**71,111**	108,393
Prepaid expenses and deposits	**151,951**	281,538
Assets associated with discontinued operation (Notes 8 and 20)	**415,623**	-
	5,187,652	4,559,390
Non-current		
Restricted cash and deposits (Note 9)	**-**	7,484,173
Exploration and evaluation assets (Note 10)	**2,678,966**	34,879,232
Property and equipment (Note 11)	**72,197,715**	67,804,043
	80,064,333	114,726,838
LIABILITIES		
Current		
Credit facilities (Note 12)	**41,687,121**	33,886,089
Accounts payable and accrued liabilities	**8,268,852**	3,979,471
Obligation for purchase of shares (Notes 7(a) and 8)	**-**	3,116,750
Lease obligations (Note 13)	**33,048**	-
Convertible debentures (Note 14)	**1,477,444**	-
Decommissioning liability (Note 15)	**24,000**	186,212
Liabilities associated with discontinued operation (Note 8)	**159,389**	-
	51,649,854	41,168,522
Non-current		
Obligation for exploration work (Note 8)	**-**	7,484,173
Convertible debentures (Note 14)	**-**	1,439,763
Decommissioning liability (Note 15)	**2,020,753**	4,272,110
	53,670,607	54,364,568
SHAREHOLDERS' EQUITY		
Share capital (Note 16)	**79,724,551**	73,957,687
Warrants (Note 16)	**5,294,360**	3,956,098
Contributed surplus (Note 16)	**3,558,145**	1,674,541
Accumulated other comprehensive income (loss)	**(343,655)**	712,635
Deficit	**(61,839,675)**	(19,938,691)
	26,393,726	60,362,270
Basis of Presentation (Notes 1 and 3)		
Going Concern (Note 2)		
Commitments (Note 18)		
Subsequent Events (Notes 2, 12, 16 and 26)		
	80,064,333	114,726,838

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

Approved on behalf of the Board of Directors:

(signed)	(signed)
Glenn Dawson, Director	Bruce Lawrence, Director

Cuda Oil and Gas Inc.

Consolidated Statements of Loss and Comprehensive Loss

Years ended December 31, 2019 and 2018

(in Canadian dollars)

	December 31, 2019	December 31, 2018
		(restated - Note 8)
	$	$
REVENUE		
Petroleum and natural gas sales (Note 21)	**9,352,720**	6,533,743
Royalties	**(1,808,889)**	(1,206,562)
Production taxes	**(761,437)**	(303,068)
Net revenue from petroleum and natural gas sales	**6,782,394**	5,024,113
EXPENSES		
Operating and transportation	**3,182,637**	2,040,802
Exploration and development expense (Note 10)	**-**	304,358
Impairment (Notes 10 and 11)	**5,902,999**	-
General and administrative (Note 7)	**3,908,347**	4,332,476
Share-based compensation (Note 16)	**1,854,010**	787,724
Depletion and depreciation (Note 11)	**2,523,115**	1,775,117
Accretion of decommissioning liability (Note 15)	**39,975**	19,966
Finance costs, net (Note 22)	**7,695,610**	2,807,763
Foreign exchange loss (gain) (Note 23)	**2,070,545**	(1,627,372)
	27,177,238	10,440,834
NET LOSS FROM CONTINUING OPERATIONS	**(20,394,844)**	(5,416,721)
DISCONTINUED OPERATION		
Net loss from discontinued operation (Note 8)	**(21,506,140)**	(2,328,163)
NET LOSS	**(41,900,984)**	(7,744,884)
Other comprehensive (loss) income	**(1,056,290)**	712,635
NET LOSS AND COMPREHENSIVE LOSS	**(42,957,274)**	(7,032,249)
Basic and diluted net loss per share (Note 16)		
Continuing operations	(0.73)	(0.44)
Discontinued operation	(0.76)	(0.19)
Total basic and diluted net loss per share	(1.49)	(0.63)
Weighted average number of common shares outstanding (Note 16)	**28,055,513**	12,352,553

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

Cuda Oil and Gas Inc.
Consolidated Statements of Cash Flows
Years ended December 31, 2019 and 2018
(in Canadian dollars)

	December 31, 2019	December 31, 2018
	$	$
OPERATING ACTIVITIES		
Net loss for the year	**(41,900,984)**	(7,744,884)
Non-cash items		
Depletion and depreciation	**2,691,384**	1,921,947
Exploration and evaluation expense	**-**	2,200,565
Impairment	**5,902,999**	-
Share-based compensation	**1,854,010**	787,724
Accretion of credit facilities and convertible debentures	**2,797,974**	863,408
Accretion of decommissioning liabilities	**71,717**	39,783
Foreign exchange loss (gain)	**2,085,972**	(1,627,372)
Loss on disposal of discontinued operation	**20,714,654**	-
Interest on debentures paid with shares	**90,003**	-
Decommissioning obligation settled	**-**	(3,788)
Net change in working capital items (Note 25)	**(34,535)**	(1,609,367)
Cash flows used in operations	**(5,726,806)**	(5,171,984)
INVESTING ACTIVITIES		
Property and equipment expenditures (Notes 7 and 11)	**(12,381,031)**	(49,928,968)
Exploration and evaluation asset expenditures and acquisitions (Notes 7 and 10)	**(1,156,828)**	(2,841,042)
Proceeds on disposal of discontinued operation (Note 8)	**4,039,194**	-
Costs of disposal of discontinued operation (Note 8)	**(502,344)**	-
Cash and deposits acquired from Junex (Note 7(a))	**-**	14,840,187
Reduction of restricted cash and deposits	**1,218,256**	125,044
Reduction of obligation for exploration work	**(320,256)**	(125,044)
Net change in working capital items (Note 25)	**1,688,478**	974,854
Cash flows used in investing activities	**(7,414,531)**	(36,954,969)
FINANCING ACTIVITIES		
Exercise of warrants	**-**	1,888,000
Exercise of stock options	**-**	(1,185,392)
Proceeds from private placement	**7,141,000**	7,154,909
Share issue costs	**(465,944)**	(604,643)
Proceeds from credit facilities, net of repayments	**6,653,865**	35,000,000
Credit facilities costs	**(1,273,059)**	(1,975,280)
Payments on lease obligations	**(225,366)**	-
Net change in working capital items (Note 25)	**36,324**	(142,183)
Cash flows from financing activities	**11,866,820**	40,135,411
Effect of foreign currency translation on cash	**(49,243)**	52,233
NET CHANGE IN CASH	**(1,323,760)**	(1,939,309)
Cash, beginning of year	**1,530,926**	3,470,235
Cash, end of year	**207,166**	1,530,926
Cash interest paid	**4,766,773**	1,873,780
Cash flows of discontinued operation (Note 8)		

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

Cuda Oil and Gas Inc.
Consolidated Statements of Changes in Shareholders' Equity
Years ended December 31, 2019 and 2018
(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 convertible debentures	90,003	-	-	-	-	90,003
Issued from private placement	6,142,805	998,195	-	-	-	7,141,000
Share issue costs	(465,944)	-	-	-	-	(465,944)
Issued to lender	-	340,067	-	-	-	340,067
Share-based compensation	-	-	1,883,604	-	-	1,883,604
Net loss	-	-	-	-	(41,900,984)	(41,900,984)
Other comprehensive loss	-	-	-	(1,056,290)	-	(1,056,290)
Balance at December 31, 2019	79,724,551	5,294,360	3,558,145	(343,655)	(61,839,675)	26,393,726
Balance at December 31, 2017	19,178,187	816,431	2,145,051	-	(10,503,517)	11,636,152
Exercise of warrants	3,229,650	(816,431)	(525,219)	-	-	1,888,000
Exercise of stock options	-	-	(1,185,392)	-	-	(1,185,392)
Issued on August 14, 2018						
Acquisition of Junex (Note 7(a))	34,735,924	2,265,808	266,662	-	-	37,268,394
Asset Acquisition (Note 7(b))	9,094,306	-	-	-	-	9,094,306
Conversion of debentures (Note 14)	1,169,354	-	-	-	-	1,169,354
Distribution of arrangement warrants (Note 7(a))	-	1,690,290	-	-	(1,690,290)	-
Issued from private placement	7,154,909	-	-	-	-	7,154,909
Share issue costs	(604,643)	-	-	-	-	(604,643)
Share-based compensation	-	-	973,439	-	-	973,439
Net loss	-	-	-	-	(7,744,884)	(7,744,884)
Other comprehensive income	-	-	-	712,635	-	712,635
Balance at December 31, 2018	73,957,687	3,956,098	1,674,541	712,635	(19,938,691)	60,362,270

1. NATURE OF BUSINESS

Cuda Oil and Gas Inc., ("**COGI**" or the "**Company**") is a company incorporated under the *Business Corporations Act* (Quebec).

Currently, the main activity of COGI is oil and natural gas exploration, development and production in Alberta, Canada and in the State of Wyoming in the United States. COGI's principal place of business is located at 1930, 440 2 Avenue SW, Calgary, Canada T2P 5E9. COGI's common shares are listed under the symbol "CUDA" on the TSX Venture Exchange ("**TSXV**").

2. GOING CONCERN

These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and payment of liabilities in the ordinary course of business and under the macro economic conditions described earlier. 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.

At December 31, 2019 the Company has credit facilities (see Note 12) outstanding with a principal balance of approximately $41.7 million which are due on July 30, 2020 and convertible debentures (see Note 14) with a principal balance of $1.5 million which are due on July 21, 2020. Upon maturity of the credit facilities the Company is also required to pay a financing fee of $1.4 million. The Company had a reporting covenant to deliver audited consolidated financial statements within 120 days to the lender of the credit facilities. The Company was unable to meet this deadline however the Company received a waiver relating to this covenant violaton. At December 31, 2019 the Company has a working capital deficiency (including the credit facilities and convertible debentures) of approximately $46.5 million and an accumulated deficit of approximately $61.8 million. Capital commitments in Wyoming, U.S. for 2020 include costs of approximately $9.1 million (USD $7.0 million) to complete the drilling program, a gas gathering and processing facility, gas injection facilities, the makeup gas pipeline and an electrical powerline. Further, for the years ended December 31, 2019 and 2018, the Company reported net losses of approximately $41.9 million and approximately $7.7 million, respectively and used cash flows in operating activities of approximately $5.7 million and approximately $5.7 million, respectively. The Company currently has no ability to settle any of the credit facilities, the convertible debentures, its ongoing commitments in Wyoming, U.S. or its working capital deficiency. The Company will need to raise siginificant additional financing in order to be able to meet both its existing and future obligations. There is no guarantee that the Company will be successful in this regard and the current macro-environment as a result of the coronavirus ("COVID-19") health pandemic and price volatility arising from OPEC+ disputes (discussed further below) have created further significant challenges to the Company in this regard. As such a material uncertainty exists that casts significant doubt on the Company's ability to continue as a going concern.

Subsequent to December 31, 2019, global oil prices declined considerably caused by reduced demand driven by the COVID-19 health pandemic and over supply concerns stemming from failed negotiations between OPEC+ countries on production curtailments. While the OPEC+ countries have now reached an agreement on production cuts, the macro economic environment remains weak and considerable uncertainty exists regarding the duration and extent of oil demand destruction from the COVID-19 pandemic. The current challenging economic climate may have significant adverse impacts on the Company, including, but not limited to:

- material declines in revenue and cash flows due to reduced commodity prices,
- declines in future revenue, which could result in increased impairment charges on long-term assets,
- prolonged demand destruction, which could continue to negatively impact the Company's ability to maintain liquidity.

The current situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on the Company is not known at this time. Estimates and judgments made by management in the preparation of these consolidated financial statements are subject to a higher degree of measurement uncertainty during this volatile period.

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

3. BASIS OF PRESENTATION

a) Statement of compliance

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

These consolidated financial statements were authorized for issuance by the Board of Directors on July 4, 2020.

b) Reverse acquisition

As a result of the Arrangement described in Note 7(a), these consolidated financial statements are a continuation of the financial statements of Cuda Energy Inc. ("**CEI**"). As such, the comparative figures prior to the Arrangement represent those of CEI.

c) Basis of measurement

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

d) Functional and presentation currency

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

4. JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

Critical judgments in applying accounting policies:

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

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

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

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

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

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

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

Key sources of estimation uncertainty:

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

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

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

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

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

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

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

As part of its capital management process, the Company prepares budgets and forecasts, which are used by management and the Board of Directors to direct and monitor the strategy and ongoing operations and liquidity of the Company. Budgets and forecasts are subject to significant judgement and estimates relating to activity levels, future cash flows and the timing thereof and other factors which may or may not be within the control of the Company. The current volatility in commodity prices and overall global market uncertainty creates significant inherent challenges with the preparation of financial forecasts. See further discussions relating to going concern and liquidity in Notes 2 and 20.

5. SIGNIFICANT ACCOUNTING POLICIES

a) Consolidation

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

b) Cash and cash equivalents

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

c) Inventories

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

d) Jointly controlled assets

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

e) Exploration and evaluation assets

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

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

f) Property and equipment

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

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

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

g) Depletion and depreciation

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

(i) total estimated proved and probable reserves, before royalties, as evaluated by independent reserve engineers at least annually and calculated in accordance with NI 51- 101;

(ii) total net carrying value of D&P assets plus estimated future development costs of proved and probable reserves, including future estimated asset retirement costs; and

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

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

E&E assets are not depleted.

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

h) Impairment assessment

<u>Developed and producing assets</u>

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

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

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

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

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

Exploration and evaluation assets

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

i) Decommissioning liabilities

The Company's oil and gas operating activities give rise to dismantling, decommissioning and site remediation activities. COGI recognizes a liability for the estimated present value of the future decommissioning liabilities at each balance sheet date using a risk-free discount rate. The associated decommissioning cost is capitalized and depleted over the same period as the underlying asset. Changes in the estimated liability resulting from revisions to estimated timing, amount of cash flows, or changes in the discount rate are recognized prospectively as a change in the decommissioning liability and related capitalized decommissioning cost.

Decommissioning costs capitalized to property and equipment are included in the calculation of depreciation and depletion. Increases in decommissioning liabilities resulting from the passage of time are recorded as accretion of decommissioning liability. Actual expenditures incurred are charged against the decommissioning liability.

j) 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 Consolidated Statement of Financial Position.

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.

k) Financial instruments

Amortized Cost

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

Fair Value through Profit or Loss (“FVTPL”)

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

Impairment of Financial Assets

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

Transaction costs

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

l) Business combinations

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

m) Foreign currency translation

Foreign transactions

Transactions completed in currencies other than the functional currency are translated into the functional currency at the exchange rates prevailing at the time of the transactions. Foreign currency assets and liabilities are translated into the functional currency at the period-end exchange rate. Revenue and expenses are translated into the functional currency using the average exchange rate for the period.

Realized and unrealized gains and losses resulting from the settlement or translation of foreign currency transactions are included in income (loss).

Foreign operations

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

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

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

n) Deferred income taxes

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

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

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

o) Per share amounts

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

p) Flow-through shares

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

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

q) Share capital

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

r) Share-based compensation

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

s) Revenue recognition

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

t) Segmented information

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

u) Changes in accounting policies

Leases

Effective January 1, 2019, the Company has applied IFRS 16 "Leases" ("**IFRS 16**"), which replaced IAS 17 "Leases", 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 13.
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.

v) Future changes in accounting policies

Business Combinations

On October 22, 2018, the IASB issued amendments to the guidance in IFRS 3 - Business Combinations ("**IFRS 3**"), revising the definition of a business and providing for the addition of an optional 'concentration test' to determine if the acquisition is a business. To be considered a business under the amendments to IFRS 3, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. The three elements of a business are defined as follows:

- Input - Any economic resource that creates outputs, or has the ability to contribute to the creation of outputs, when one or more processes are applied to it.
- Process - Any system, standard, protocol, convention or rule that, when applied to an input or inputs, creates outputs or has the ability to contribute to the creation of outputs.
- Output - The result of inputs and processes applied to those inputs that provide goods or services to customers, generate investment income or generate other income from ordinary activities.

The optional 'concentration test' permits a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets. An entity may elect to apply, or not apply, the test. An entity may make such an election separately for each transaction or other event. If the concentration test is met, the sets of activities and assets is determined not to be a business and no further assessment is needed.

The amendments to IFRS 3 apply to businesses acquired in annual reporting periods beginning on or after January 1, 2020, with early adoption permitted. The Company has chosen to adopt the amendments to IFRS 3 effective January 1, 2020.

6. DETERMINATION OF FAIR VALUES

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

(i) Property and equipment and exploration and evaluation assets

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

(ii) Share-based compensation

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

(iii) Financial instruments

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

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

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

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

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

7. BUSINESS COMBINATIONS

a) Plan of arrangement

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

For this business combination, CEI 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 are 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 (Note 7(b))	6,658,400
Restricted cash and deposits held for exploration work	7,609,217
Exploration and evaluation assets	27,799,112
Property and equipment	2,109,960
Restricted deposits	597,102
Guarantee deposits	303,000
Working capital deficiency, excluding all cash	(1,395,554)
Obligation for purchase of shares	(3,116,750)
Obligation for exploration work	(7,609,217)
Convertible debentures	(2,607,078)
Due to partner	(90,000)
Decommissioning liability	(1,171,585)
	37,268,394

The share consideration was based upon 7,985,270 COGI common shares issued at $4.35 per share, based upon COGI's closing share price quoted on the TSXV on August 14, 2018. Under reverse acquisition accounting, holders of Junex stock options and share purchase warrants, which were outstanding immediately prior to completion of the Arrangement, are deemed to exchange these instruments for stock options and share purchase warrants (collectively the "**Replacement Instruments**") of CEI with no adjustment to the quantity outstanding or terms and conditions. As a result, the fair value of the vested Replacement Instruments on August 14, 2018 was recognized by CEI as additional consideration. The determination of fair value for the Replacement Instruments is described in Note 16.

The fair value of convertible debentures was based upon the fair value of the COGI common shares issued in exchange for the portion of the debt that was converted (Note 14) immediately after closing of the Arrangement and discounted cash flows calculated using observable market rates for the portion of the debt that continued as a liability.

Under reverse acquisition accounting, the arrangement warrants issued to CEI shareholders are not included as consideration for this business combination and have been accounted for as a distribution to CEI shareholders. The terms and conditions of and the determination of fair value for the arrangement warrants are described in Note 16.

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 8).
The decommissioning liability was determined using internal estimates of the timing and estimated costs associated with the abandonment and reclamation of the exploration wells acquired and was

initially recognized using a fair value discount rate of approximately 15%. Following the closing of the acquisition, the liability was subsequently revalued using a risk free rate of approximately 2.4% resulting in an increase in liability of $1,067,465 with a corresponding increase to exploration and evaluation assets.

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

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

b) Wyoming asset acquisition

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

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

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

The share consideration was based upon 2,090,645 COGI common shares issued at $4.35 per share, based upon on COGIs closing share price quoted on the TSXV on August 14, 2018, the closing date of the Asset Acquisition. The cash portion of the consideration was funded from the credit facility (Note 12), cash acquired from Junex (Note 7(a)) and available cash on hand.

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

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

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

c) Cole Creek asset acquisition

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

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

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

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

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

8. 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 $3,787,659 after costs to sell of $502,344. 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 7(a)) 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.

($)	**Total**
Quebec Assets	
Restricted cash and deposits	7,163,918
Accounts receivable	384,143
Property and equipment – cost	2,332,144
Property and equipment – accumulated depletion and depreciation	(301,323)
Exploration and evaluation assets	28,184,947
Balance	37,763,829
Liabilities associated with disposition of Quebec Assets	
Obligation for exploration work	7,163,918
Lease obligation	183,546
Due to partner	90,000
Decommissioning liabilities	2,707,302
Obligation for purchase of shares	3,116,750
Balance	13,261,516
Net assets	24,502,313
Proceeds of disposition, net of disposal costs	3,787,659
Loss on disposal of discontinued operation	20,714,654

As at December 31, 2019, assets associated with the discontinued operation are comprised of the Escrow Amount of $300,000, and accounts receivable of $115,623 (Note 20), and liabilities associated with the discontinued operation are comprised of accounts payable and accrued liabilities of $159,389.

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 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:

	Year ended December 31,	
	2019	2018
	$	$
Revenue	**39,660**	45,745
Expenses and other items	**831,146**	2,373,908
Loss from discontinued operation	**(791,486)**	(2,328,163)
Loss on disposal of discontinued operation	**(20,714,654)**	-
	(21,506,140)	(2,328,163)

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

	Year ended December 31,	
	2019	2018
	$	$
Cash flows used in operating activities	**(932,280)**	(464,387)
Cash flows from investing activities	**4,067,810**	17,663
Cash flows used in financing activities	**(38,638)**	-
	3,096,892	(446,724)

9. RESTRICTED CASH AND DEPOSITS

The current portion of restricted cash and deposits as at December 31, 2018, were acquired from Junex (Note 7(a)) and were comprised of restricted deposits of $595,000 in the form of secured letters of credit and performance guarantee deposits of $303,000 issued to and held by the Quebec Ministry of Energy and Natural Resources (the "**MERN**") as security for future decommissioning and site restoration costs in Quebec. In the first quarter of 2019, the MERN removed the restrictions on the $595,000 and refunded the $303,000 in performance guarantee deposits.

The long-term portion of restricted cash and deposits as at December 31, 2018 were comprised of cash and term deposits totaling $7,484,173 for purposes of settling eligible costs associated with the Galt project work program. In September 2019, the Company disposed of the restricted cash and deposits and obligation for exploration work related to the Galt project work program as part of the sale of all of its oil and gas assets in Quebec.

10. EXPLORATION AND EVALUATION ASSETS

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

($)	**Total**
Balance, December 31, 2017	4,327,386
Acquisition of Junex (Note 7(a))	27,799,112
Asset Acquisition (Note 7(b))	531,020
Cole Creek Acquisition (Note 7(c))	1,204,563
Additions	1,813,419
Change in decommissioning cost	1,318,993
Transfers to property and equipment (Note 11)	(12,783)
Exploration and evaluation expense	(2,200,565)
Foreign currency translation	98,087
Balance, December 31, 2018	34,879,232
Additions	1,197,778
Change in decommissioning cost	147,438
Transfer to property and equipment (note 11)	(453,422)
Impairment	(4,776,654)
Dispositions (Note 8)	(28,184,947)
Foreign currency translation	(130,459)
Balance, December 31, 2019	**2,678,966**

E&E assets consist of the Company's exploration projects, which are pending the determination of proved or probable reserves. The Company capitalized general and administrative and share based compensation costs directly attributable to E&E additions of $171,088 in the year ended December 31, 2019 (December 31, 2018 – $607,667).

In the year ended December 31, 2018, the Company expensed $2,200,565 of costs in: (i) its Quebec CGU, where management made the decision not to renew certain permits and/or properties for a total of $1,896,207; and (ii) Alberta, where management made the decision to discontinue exploration activities for a total of $304,358.

Impairment Assessment 2019

As at December 31, 2019, COGI determined that indicators of impairment existed with respect to its E&E assets in the Southeastern Alberta (“**Alberta**”) CGU, largely as a result of changes in future development plans as it focuses primarily on the Powder River Basin, Wyoming (“**Wyoming**”) CGU. As such an impairment test was performed. For the purposes of impairment testing, the recoverable amount of E&E assets in Alberta were determined using internal estimates of fair value less costs to sell for the undeveloped land and seismic assets. For the year ended December 31, 2019, COGI recognized impairment expense of $4,776,654 relating to its Alberta exploration and evaluation asssets. At December 31, 2019 there was no E&E impairment recorded in relation to exploration and evaluations assets in Wyoming of which all of the Company’s remaining exploration and evaluation assets relate to.

11. PROPERTY AND EQUIPMENT

The following table reconciles COGI's property and equipment:

Cost ($)	Developed and Producing Assets	Drilling and Field Equipment	Right-Of-Use and Administrative Assets	Total
Balance, December 31, 2017	6,195,434	-	87,561	6,282,995
Acquisition of Junex (Note 7(a))	-	2,073,558	36,402	2,109,960
Asset Acquisition (Note 7(b))	49,854,660	-	-	49,854,660
Cole Creek Acquisition (Note 7(c))	724,558	-	-	724,558
Additions	8,924,341	-	6,172	8,930,513
Change in decommissioning cost	845,455	-	-	845,455
Transfers from E&E assets	12,783	-	-	12,783
Foreign currency translation	2,324,087	-	-	2,324,087
Balance, December 31, 2018	68,881,318	2,073,558	130,135	71,085,011
Additions	12,377,017	-	4,014	12,381,031
Adoption of IFRS 16 (Notes 5 and 13)	-	-	441,960	441,960
Change in decommissioning cost	144,040	-	-	144,040
Dispositions (Note 8)	-	(2,073,558)	(258,586)	(2,332,144)
Transfers from E&E assets	453,422	-	-	453,422
Foreign currency translation	(3,246,851)	-	-	(3,246,851)
Balance December 31, 2019	78,608,946	-	317,523	78,926,469
Accumulated depletion, depreciation and impairment ($)				
Balance, December 31, 2017	(1,289,427)	-	(40,308)	(1,329,735)
Depletion and depreciation	(1,756,885)	(140,406)	(24,656)	(1,921,947)
Foreign currency translation	(29,286)	-	-	(29,286)
Balance, December 31, 2018	(3,075,598)	(140,406)	(64,964)	(3,280,968)
Depletion and depreciation (1)	(2,342,146)	(109,599)	(250,996)	(2,702,741)
Impairment	(1,126,345)	-	-	(1,126,345)
Dispositions (Note 8)	-	250,005	51,318	301,323
Foreign currency translation	79,977	-		79,977
Balance December 31, 2019	(6,464,112)	-	(264,642)	(6,728,754)
Carrying amounts ($)				
As at December 31, 2018	65,805,720	1,933,152	65,171	67,804,043
As at December 31, 2019	72,144,834	-	52,881	72,197,715

(1) Balance includes $168,269 in depletion and depreciation related to the discontinued operation for the year ended December 31, 2019 (December 31, 2018 - $133,054).

Included in property and equipment at December 31, 2019 are right-of-use assets related to Canadian office space with a cost of $219,776, accumulated depreciation of $188,379 and a carrying amount of $31,397.

At December 31, 2019, estimated future development costs of $157,937,000 (2018 – $141,003,000) associated with the development of the Company's proved and probable reserves were added to the Company's net book value in the depletion calculation. Developed and producing assets includes costs of facilities under construction that were not included in the depletion calculation in the amount of $1,901,286.

Subsequent to December 31, 2019 the operator of the Company's oil and gas operations in Wyoming notified the Company that certain of the Company's property and equipment had liens placed on by a single supplier.

Impairment Assessment 2019

As at December 31, 2019, indicators of impairment were determined to exist in each of COGI's CGUs, as a result of a sustained decline in forward commodity benchmark prices for oil, natural gas and natural gas liquids. As such impairment tests were carried out on each of COGI's CGUs, the Alberta CGU and the Wyoming CGU. In the impairment test conducted on the Wyoming CGU, the recoverable amount was determined to exceed the carrying value and as such no impairment charge was recorded at December 31, 2019. However, for the Alberta CGU it was determined that the carrying value exceeded the recoverable amount and an impairment charge of $1,126,345 was recorded at December 31, 2019. As a result of this impairment charge the remaining carrying value net of decommissioning liabilities attributable to the Alberta CGU was $1,797,564 at December 31, 2019.

The recoverable amount of each CGU tested for impairment at December 31, 2019 was determined using the value in use methodology which was considered higher than the fair value less cost to sell approach and considering the following estimates and assumptions.

The proved plus probable reserve values were based on COGI's December 31, 2019 reserve report as prepared by its independent reserve engineer. The recoverable amount of the CGUs were estimated based on proved plus probable reserves using before-tax discount rates specific to the underlying composition of reserve categories and risk profile residing in each CGU. The discount rates applied to the different reserve categories ranged from 10 to 25% for the value in use methodology. Key input estimates used in the determination of cash flows from COGI's oil and gas reserves included: quantities of reserves and future production; forward commodity pricing as prepared by the independent reserve engineer; development costs; operating costs, royalty and production tax obligations; abandonment costs; and discount rates.

Forward Commodity Prices used in the December 31, 2019 Impairment Test(1)

Year	Edmonton Light Crude Oil	WTI Oil	AECO Gas	Foreign Exchange Rate
	(CDN $/bbl)	(US $/bbl)	(CDN $/MMBtu)	(US $/CDN $)
2020	71.08	60.00	2.04	0.760
2021	73.64	63.00	2.27	0.770
2022	76.86	66.00	2.53	0.772
2023	78.99	68.00	2.71	0.774
2024	81.12	70.00	2.84	0.775
2025	83.23	72.00	2.96	0.777
2026	85.86	74.50	3.01	0.779
2027	87.44	76.00	3.07	0.780
2028	89.03	77.52	3.12	0.781
2029	90.64	79.07	3.18	0.783
Thereafter	2.0%/year	2.0%/year	2.0%/year	2.0%/year

(1) Per the independent reserve engineer price forecast effective January 1, 2020.

The results of COGI's impairment tests are sensitive to changes in any of the key estimates of which changes could decrease or increase the recoverable amounts of assets and result in additional impairment charges or in the recovery of previously recorded impairment charges.

Impairment Assessment 2018

At December 31, 2018, COGI determined that indicators of potential impairment existed with respect to its property and equipment assets in its Alberta CGU and as such performed an impairment test. The net present value of the before tax cash flows from proved plus probable oil and gas reserves was estimated for these assets, and their carrying amount did not exceed the net present value. As a result, no impairment was recorded in Alberta.

At December 31, 2018 COGI determined that no indicators of potential impairment existed with respect to its property and equipment assets in its Wyoming CGU and as such no impairment test was performed.

12. CREDIT FACILITIES

At December 31, 2019 the Company had $41.7 million outstanding under two credit facilities as further described below.

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 from June 29, 2019 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. On May 5, 2020 the maturity date was further extended to July 30, 2020 (refer to Going Concern Note 2).

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, payable on demand, and interest compounds monthly at a rate of 10.75% per annum which is payable monthly. On November 29, 2019, the Company amended the Additional Facility whereby the maturity date was extended from December 31, 2019 to March 31, 2020, and on May 5, 2020 the maturity date was further extended to July 30, 2020. In addition, the interest rate on the additional facility was amended from 10.75% to 18.0%. As of December 31, 2019, $6.7 million was 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. On May 5, 2020, the Company agreed to pay $25,000 per month toward interest accruing on the Credit Facilities for the months of April, May, June and July 2020.

Refinancing costs for the Credit Facilities of $1,613,126 were recorded as a reduction against the liability, and include the cost of 2,385,000 share purchase warrants issued to the Lender with a fair value of $340,067. In addition, finance costs include the amortization of fees which are required to be paid upon maturity of the facilities totaling $1,400,000. The terms and conditions of and determination of fair value for the share purchase warrants are described in Note 16. The accretion charge on the Credit Facilities for the year ended December 31, 2019 was $3,460,294 (December 31, 2018 – $861,369), and the balance of unamortized costs as at December 31, 2019 was $1,236,743 (2018 – $1,113,911).

13. LEASE OBLIGATIONS

On transition to IFRS 16, the Company recognized $441,960 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 December 31, 2019.

($)	December 31, 2019
Less than 1 year	33,498
Total lease payments	33,498
Amounts representing interest over the term of the lease	(450)
Present value of net lease payments	33,048
Current portion of lease obligations	33,048

For the year ended December 31, 2019, the Company recorded interest expense of $27,912 and lease payments of $225,366 related to its lease obligations.

In December 2019, the Company entered into a new four year lease for its Calgary office space commencing on March 1, 2020. The estimated right-of-use asset and lease liability that will be recognized by the Company on possession of the new office space is approximately $258,000.

14. CONVERTIBLE DEBENTURES

As of December 31, 2019, convertible debentures with a stated value of $1,500,000 are outstanding, comprised of series A with a stated value of $750,000 and series B with a stated value of $750,000. 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 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, 2017	-
Acquisition of Junex (Note 7(a))	2,607,078
Conversion of debentures	(1,169,354)
Accretion on debentures	2,039
Balance, December 31, 2018	1,439,763
Conversion of debentures	-
Accretion on debentures	37,681
Balance, December 31, 2019	**1,477,444**

In connection with the Arrangement (Note 7(a)), an institutional investment fund converted Junex convertible debentures with a face value of $1,000,000 into 268,817 Junex common shares. 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.

15. DECOMMISSIONING LIABILITY

The Company's decommissioning liability results from ownership interests in petroleum and natural gas properties and equipment including well sites and facilities and management's estimates of costs to abandon and reclaim those well sites and facilities as well as an estimate of the future timing of these costs. COGI estimates the total undiscounted future cash flows required to settle its decommissioning obligations as at December 31, 2019 to be approximately $2,471,612 (2018 – $5,415,457) with the costs anticipated to be incurred between 2020 and 2075. The net present value of the decommissioning liability was calculated using risk-free discount rates of 1.63 to 1.67 percent (2018 – 1.90 to 2.15 percent) based on the timing to abandon and an inflation rate of 2.0 percent (2018 – 2.0 percent).

A reconciliation of the decommissioning liability is provided below:

	Year Ended December 31, 2019	Year Ended December 31, 2018
Balance, beginning of year	4,458,322	506,015
Acquisition of Junex (Note 7(a))	-	1,171,585
Asset Acquisition (Note 7(b))	-	145,780
Cole Creek Acquisition (Note 7(c))	-	391,303
Additions	558,672	330,172
Change in estimates	(267,194)	1,834,276
Decommissioning liabilities settled	-	(3,788)
Accretion(1)	71,717	39,783
Dispositions (Note 8)	(2,707,302)	-
Foreign currency translation	(69,462)	43,196
Balance, end of year	2,044,753	4,458,322
Current portion of decommissioning liability	24,000	186,212
Long-term portion of decommissioning liability	2,020,753	4,272,110

(1) Balance includes $31,742 in accretion expense related to the discontinued operation for the year ended December 31, 2019 (December 31, 2018 - $51,877).

16. SHARE CAPITAL

Authorized

Unlimited number of shares without par value

Common shares, voting and participating;

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

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

Issued and outstanding

	Number of Common Shares	Amount ($)
Balance, December 31, 2017	7,249,988	19,178,187
Exercise of warrants	1,353,923	3,229,650
Issued on August 14, 2018		
Acquisition of Junex (Note 7(a))	7,985,270	34,735,924
Asset Acquisition (Note 7(b))	2,090,645	9,094,306
Conversion of debentures (Note 14)	268,817	1,169,354
Issued from private placement	2,981,212	7,154,909
Share issue costs	-	(604,643)
Balance, December 31, 2018	21,929,855	73,957,687
Issued in exchange for interest on debentures	117,284	90,003
Issued from private placement	14,282,000	6,142,805
Share issue costs	-	(465,944)
Balance, December 31, 2019	**36,329,139**	**79,724,551**

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 until July 30, 2021. On July 30, 2019, the Company issued 14,282,000 Units for gross proceeds of $7,141,000; net proceeds of $6,675,056 after share issuance costs of $465,944. Of these amounts, 1,330,000 common shares for gross proceeds of $665,000 were issued to certain officers and directors of the Company. 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 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.

On October 17, 2018, the Company entered into a letter agreement with a syndicate of investment dealers in connection with a commercially reasonable efforts agency private placement of up to 4,166,667 common shares at a price of $2.40 per share for gross proceeds of up to $10 million. On November 9, 2018, the Company issued 2,981,212 common shares for gross proceeds of $7,154,909. Of these amounts, 198,312 common shares for gross proceeds of $475,949 were issued to certain officers and directors of the Company.

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

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

In February, 2020, the Company issued 107,081 common shares at a price of $0.43 per share in exchange for the payment of interest on convertible debentures in the amount of $45,616.

Stock options

The Company has a stock option plan for directors, officers, employees and service providers. Under the plan, stock options may be granted to purchase up to 4,349,477 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.

	Options	**Weighted Average exercise price**
		$
Outstanding, December 31, 2017	840,823	3.06
Exercised	(406,965)	1.87
Replacement stock options (Note 7(a))	422,900	6.90
Granted	1,455,000	3.71
Forfeited	(138,544)	4.10
Expired	(5,000)	28.40
Outstanding, December 31, 2018	2,168,214	4.34
Granted	2,350,000	0.50
Forfeited	(96,667)	0.50
Expired	(337,787)	0.50
Outstanding, December 31, 2019[(1)]	**4,083,760**	**0.50**

(1) In the table above, both 2019 activity and the options outstanding at December 31, 2019 have been restated to reflect the option repricing which is noted below.

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 4,349,477 common shares. The Company also amended 1,762,445 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. No other changes to the terms of these options were made. 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 1,585,000 were approved on this date. The balance, 725,000 were approved by COGI shareholders at a special meeting on November 6, 2019.

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 8), as a condition of their severance arrangements, which stock options vested immediately and expire on August 31, 2020.

On August 14, 2018, pursuant to the Arrangement (Note 7(a)), holders of 406,965 CEI stock options were entitled to receive a cash amount equal to the five day volume weighted average price of Junex common shares less the exercise price per CEI stock option, immediately prior to closing of the Arrangement and upon each holder surrendering their stock options to CEI. The payment of $1,185,392 has been accounted for as a reduction in contributed surplus.

On August 14, 2018, pursuant to the Arrangement (Note 7(a)), holders of 422,900 Junex stock options were deemed to exchange these instruments for stock options of CEI ("Replacement Options"). As a result, share based compensation of $266,662 was recognized by CEI as additional consideration in the business combination.

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

Outstanding options			Exercisable options	
Number	**Weighted average remaining contractual life**	**Weighted average exercise price**	**Number**	**Weighted average exercise price**
	Years	**$**		**$**
72,900	0.7	0.50	72,900	0.50
279,677	3.4	0.50	279,677	0.50
50,350	3.6	0.50	50,350	0.50
1,333,333	5.5	0.50	476,666	0.50
2,310,000	6.6	0.50	-	0.50
37,500	7.6	0.50	37,500	0.50
4,083,760	5.9	0.50	917,093	0.50

During the year ended December 31, 2019, the fair value of each stock option granted was $0.24 and was estimated on the grant date using the Black-Scholes valuation model based on the following weighted average assumptions:

	Options Granted
Expected volatility	84%
Risk-free interest rate	1.3%
Expected term	4.4 years
Expected dividends	None
Share price	$0.41
Exercise price	$0.50

During the year ended December 31, 2018, the fair value of each Replacement Option and each stock option granted was $0.94 and $2.52, respectively, and was estimated at the grant date using the Black-Scholes valuation model based on the following weighted average assumptions:

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

The Company’s share-based compensation relating to stock options for the year ended December 31, 2019 was $1,883,604 (December 31, 2018 – $973,439), of which $29,594 was capitalized (December 31, 2018 – $185,715). Of these amounts, $142,870 of share-based compensation relates to the change of exercise price for certain stock options (December 31, 2018 – $Nil), of which $1,896 was capitalized (December 31, 2018 – $Nil).

Warrants

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

	Number of warrants	**Amount ($)**
Outstanding, December 31, 2017	1,353,923	816,431
Exercised	(1,353,923)	(816,431)
Arrangement warrants (Note 7(a))	999,907	1,690,290
Replacement warrants (Note 7(a))	1,392,046	2,265,808
Outstanding, December 31, 2018	2,391,953	3,956,098
Lender warrants	2,385,000	340,067
Offering warrants	5,891,000	998,195
Outstanding, December 31, 2019	**10,667,953**	**5,294,360**

In connection with the Credit Facilities (Note 12), the Company issued to the Lender; (i) 1,500,000 common share purchase warrants on June 26, 2019, where each warrant entitles the holder to purchase one COGI share at a price of $0.65 per share for a period of 24 months until June 26, 2021, and (ii) 885,000 common share purchase warrants on November 29, 2019, where each warrant entitles the holder to purchase one COGI share at a price of $0.45 per share for a period of 12 months until November 26, 2020.

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 until July 30, 2021.

The fair value of each Lender warrant and Offering warrant issued was $0.19, $0.06, 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	**Lender warrants**	**Offering warrants**
Expected volatility	83%	84%	84%
Risk-free interest rate	1.47%	1.37%	1.37%
Expected term	2 years	1 year	2 years
Expected dividends	None	None	None
Share price	$0.50	$0.31	$0.45
Exercise price	$0.65	$0.45	$0.60

In connection with the Arrangement (Note 7(a)), 999,907 arrangement warrants were issued. Each whole arrangement warrant will entitle the holder thereof to purchase one COGI share at a price of $4.00 per share until August 14, 2020. The arrangement warrants will vest upon the earlier of (i) the date on which the COGI shares achieve a 20-day weighted average price of $6.40 per share; and (ii) the date on which COGI completes an equity financing of a minimum of $10 million at a price of at least $6.00 per share. As of December 31, 2019, no arrangement warrants have vested.

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

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

A summary of the Company's outstanding warrants as at December 31, 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
885,000	0.45	November 29, 2020
1,500,000	0.65	June 26, 2021
5,891,000	0.60	July 30, 2021
437,500	5.90	October 20, 2021
10,667,953		

Weighted average number of common shares

For the years ended December 31, 2019 and 2018, the stock options, warrants and convertible debentures (Note 14) were not included in the calculation of diluted loss per share as their inclusion would have an antidilutive effect.

17. INCOME TAXES

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

($)	**As at December 31, 2019**	As at December 31, 2018
Loss before income taxes	**(41,900,984)**	(7,744,884)
Statutory income tax rate	**26.0%**	26.1%
Computed income tax recovery	**(10,903,526)**	(2,021,124)
Increase (decrease) in income taxes resulting from:		
Non-deductible share-based compensation	**493,146**	211,399
Non-deductible items	**(11,704)**	5,151
Unrealized foreign exchange loss (gain)	**275,382**	(217,254)
Changes in deferred tax assets not recognized and other	**7,408,513**	2,021,828
Change in tax rates	**2,738,189**	-
	-	-

The statutory federal tax rate decreased to 26.0% in 2019 from 26.1% in 2018. The Alberta tax rate decreased to 26.5% in 2019 from 27% in 2018. The U.S tax rate remained constant at 21% in 2019 and 2018.

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

($)	December 31, 2019	December 31, 2018
Deferred income tax liabilities:		
Property and equipment	-	(2,456,066)
Tax credits receivable	-	(30,571)
Unrealized foreign exchange gain	-	(214,487)
Deferred income tax assets:		
E&E assets	-	668,698
Decommissioning liability	-	1,109,673
Debt and share issue costs	-	255,278
Deferred interet expense	-	313,819
Non-capital losses	-	353,656
Deferred tax assets (liabilities)	-	-

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

($)	December 31, 2019	December 31, 2018
Decommissiong liability	**2,044,753**	-
Share issue costs	**1,029,080**	483,714
Property and equipment / Research & development	**21,657,765**	380,899
Non-capital losses	**48,498,849**	38,337,124
	73,230,447	**39,201,737**

The Company has $36,542,802 (2018 – $35,475,618) in Canadian non-capital losses which expire between 2026 and 2039. The Company has $11,956,047 (2018 – $5,449,211) in U.S. non-capital losses which expire between 2038 and 2039. In 2018, the Company acquired non-capital losses of $22,484,917 from the Arrangement (Note 7(a)).

18. COMMITMENTS

	2020	2021	2022	2023	2024	Thereafter	Total
Lease rentals	29,315	29,315	28,419	27,523	29,671	29,671	173,914

On January 1, 2019, the Company adopted IFRS 16 which resulted in the recognition of lease obligations and associated assets related to leases on the balance sheet. These liabilities were previously reported as commitments. Capital commitments in Wyoming, U.S. for 2020 include estimated costs totaling approximately $9.1 million (USD $7.0 million) to complete the 2019 and first quarter 2020 drilling program, a gas gathering and processing facility, gas injection facilities, the makeup gas pipeline and an electrical powerline. Otherwise, all future capital expenditures are considered discretionary.

19. RELATED PARTY TRANSACTIONS

The Company had no related party transactions for the years ended December 31, 2019 and 2018, except for shares acquired by related parties from the private placements (Note 16).

Compensation of key management personnel[(1)]

Key management personnel are persons who have the authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. This includes all directors and executives of the Company. Short-term compensation includes salaries, bonuses and short-term benefits paid to executives and fees paid to directors. Share-based compensation represents amortization of the expense associated with stock options, granted to executives and directors.

	Year ended December 31,	
	2019	2018
	$	$
Short-term compensation	**1,530,975**	2,432,887
Share-based compensation	**1,572,394**	699,143
Total	**3,103,369**	3,132,030

(1) Balance includes $365,031 related to the discontinued operation for the year ended December 31, 2019 (December 31, 2018 – $149,814).

20. 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, accounts receivable, accounts payable and accrued liabilities, credit facilities, and convertible debentures.

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

Credit risk

Credit risk arises from the potential for non-performance by counterparties of contractual financial obligations. The Company's maximum exposure to credit risk is equal to the carrying amounts of cash, and accounts receivable. The Company reduces its credit risk on cash 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.

The Company mitigates collection risk from petroleum and natural gas marketers by reviewing the credit risk of these entities and by entering into agreements only with parties that meet certain credit tests.
The Company mitigates collection risk from the joint operations receivables by requiring partner approval of significant capital expenditures prior to expenditure. Joint operation receivables are from partners in the petroleum and natural gas industry who are subject to the risks and conditions of the industry. Significant changes in industry conditions and risks that negatively impact the partners' ability to generate cash flow will increase the risk of not collecting joint operations receivables.

The Company's accounts receivable as at December 31, 2019, which includes amounts associated with continuing and discontinued operations (Note 8), and December 31, 2018 are as follows:

	December 31, 2019	December 31, 2018
	$	$
Trade accounts receivable	**59,850**	243,130
Joint operations receivable	**4,066,055**	972,824
Escrow Amount	**300,000**	-
Other	**87,580**	190,199
Tax credits receivable	**114,498**	114,498
Commodity taxes receivable	**129,441**	219,882
	4,757,424	1,740,533

The accounts receivable balance as at December 31, 2019 is primarily comprised of: 86% due from one joint operations partner in the United States; and 5% percent due from the Canada Revenue Agency. Of the amount due from the joint operations partner, approximately $3,274,000 relates to payments made by the Company for capital cash calls by the joint operations partner in Wyoming. This amount is used by the joint operations partner to fund the Company's proportionate share of future property and equipment expenditures. The accounts receivable balance of $415,623 associated with the discontinued operation (Note 8) is comprised of the Escrow Amount of $300,000, $71,112 of other receivables, and $44,511 of tax credits receivable.

The Company's trade receivables (excluding cash call payments made) have been aged as follows:

	Year ended December 31,	
	2019	2018
	$	$
Current	**532,976**	1,263,790
31 – 60 Days	**329,568**	161,559
61 – 90 Days	**36,489**	-
> 90 Days	**584,391**	315,184
	1,483,424	1,740,533

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 as all amounts have either been collected to date or have been assessed by management as fully collectable. The capital cash call payment made to the joint operations partner in Wyoming will be used to fund property and equipment expenditures in 2020.

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 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 [1]	**41,687,121**	-
Accounts payable and accrued liabilities	**8,428,241**	-
Convertible debentures [1]	**1,500,000**	-
	51,615,362	-

[1] Amount does not include contractual interest payments or the $1,400,000 fee due upon the maturity of the credit facilities.

Financial liabilities as at December 31, 2019 include $159,389 associated with the discontinued operation (Note 8) which is comprised of $159,389 of accounts payable and accrued liabilities.

As discussed in Note 2, the Company currently has no ability to settle any of the credit facilities, the convertible debentures, its ongoing commitments in Wyoming, U.S. or its working capital deficiency. The Company will need to raise significant additional financing in order to be able to meet both its existing and future obligations. There is no guarantee that the Company will be successful in this regard and the current macro-environment as a result of COVID-19 health pandemic and price volatility arising from OPEC+ disputes have created further significant challenges to the Company in this regard. As such a material uncertainty exists that casts significant doubt on the Company's ability to continue as a going concern (see note 2).

Market risk

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

Commodity price risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. A significant change in commodity prices can materially impact the Company's cash flows. Lower commodity prices may also reduce the Company's ability to raise capital. Commodity prices for petroleum and natural gas are not only influenced by supply and demand in Canada and the United States, but also by world events that dictate the levels of supply and demand. The Company had no risk management contracts that would be affected by commodity prices in place at December 31, 2019 and 2018.

Foreign currency risk

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

The Company had no risk management contracts that would be affected by foreign currency changes in place at December 31, 2019 and 2018.

Interest rate risk
Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate risk through its fixed-rate credit facilities and convertible debentures. The Company had no risk management contracts that would be affected by interest rates in place at December 31, 2019 and 2018.

Capital management

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, and working capital (deficiency). In order to maintain or adjust the capital structure, the Company may from time to time issue shares or debt and adjust its capital spending to manage current and projected debt levels. To facilitate the management of the capital expenditures and level of debt, the Company prepares annual budgets, which are regularly monitored and updated as considered necessary. The annual and updated budgets are approved by the board of directors. The Company has not paid or declared any dividends since the date of incorporation, nor are any contemplated in the foreseeable future.

See further discussions in Note 2, Going Concern and Note 20, Liquidity risk.

The Company's capital structure is summarized below:

	December 31, 2019	December 31, 2018
	$	$
Cash	**(207,166)**	(1,530,926)
Current assets, excluding cash	**(4,980,486)**	(3,028,464)
Current liabilities, excluding credit facilities and convertible debentures	**8,485,289**	7,282,433
Credit facilities	**41,687,121**	33,886,089
Convertible debentures	**1,477,444**	1,439,763
Shareholders' equity	**26,393,726**	60,362,270
	72,855,928	98,411,165

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

21. 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:

	Year ended December 31,	
	2019	2018
	$	$
Crude oil	**7,568,798**	4,425,872
Natural gas	**1,371,868**	1,623,610
Natural gas liquids	**412,054**	484,261
	9,352,720	6,533,743

Sales in the U.S. are predominantly made to one customer and sales in Canada are made to predominantly three customers, representing approximately 18%, 63% and 19% of Canadian sales for the year ended December 31, 2019.

22. FINANCE COSTS(1)

	Year ended December 31,	
	2019	2018
	$	$
Interest on credit facilities	**7,459,554**	2,754,271
Interest on convertible debentures	**216,940**	69,803
Interest on lease obligations	**14,260**	-
Other	**12,205**	3,393
	7,702,959	2,827,467
Interest income	**(7,349)**	(19,704)
	7,695,610	2,807,763

(1) Balance excludes $78,649 of interest income, net of interest expense, related to the discontinued operation for the year ended December 31, 2019 (December 31, 2018 - $51,877).

23. FOREIGN EXCHANGE LOSS (GAIN)

The Company recorded a net foreign exchange loss of $2,070,545 for the year ended December 31, 2019 (net foreign exchange gain of $1,627,372 for the year ended December 31, 2018). A significant portion of the foreign exchange loss (gain) relates to an intercompany loan to a foreign subsidiary that is denominated in U.S. dollars.

24. SEGMENT INFORMATION

The Company and its wholly owned subsidiaries are engaged in the exploration, development and production of oil and natural gas in western Canada and the United States and are viewed as one operating segment by management for the purpose of resource allocation and assessing performance.

Geographical information

The Company conducts operations in the following geographic areas:

	Revenues		Non-current assets	
	Year ended December 31, 2019	Year ended December 31, 2018	**As at December 31, 2019**	As at December 31, 2018
Canada	**$ 2,168,594**	3,415,083	**2,328,363**	45,726,773
United States	**7,184,126**	3,118,660	**72,548,318**	64,440,675
	$ 9,352,720	$ 6,533,743	**$ 74,876,681**	$ 110,167,448

25. SUPPLEMENTAL CASH FLOW INFORMATION

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

	Year ended December 31,	
	2019	2018
	$	$
Provided by (used in):		
Accounts receivable	(2,601,268)	(200,639)
Inventory	37,282	42,671
Prepaid expenses and deposits	129,587	30,479
Accounts payable and accrued liabilities	4,289,381	(592,816)
Effect of foreign exchange on working capital	(164,715)	(56,391)
	1,690,267	(776,696)

	Year ended December 31,	
	2019	2018
	$	$
Provided by (used in):		
Operating activities	(34,535)	(1,609,367)
Investing activities	1,688,478	974,854
Financing activities	36,324	(142,183)
	1,690,267	(776,696)

26. SUBSEQUENT EVENTS

a) On February 11, 2020, the Company amended its Additional Facility (Note 12) whereby the remaining balance of available funding of $1,500,000 would be advanced to the Company to provide financing for the Wyoming capital program, payment of overdue interest and for general operating purposes.

b) On May 5, 2020, the Company amended its Facility and Additional Facilities whereby the maturity of the Facility and the Additional Facility has been extended from June 27, 2020 and March 31, 2020, respectively, to July 30, 2020. In addition, the interest rate on the Additional Facility was amended from 10.75% to 18.0%. The Company also agreed to pay $25,000 per month toward interest accruing on the Credit Facilities for the months of April, May, June, and July 2020.

c) On May 5, 2020, the Company granted an unsecured promissory note, with the approval of the Lender, in favour of a third-party advisor in the amount of $100,000 to be held for future interest payments noted in (b). The promissory note bears interest at 2.0% per month and is payable quarterly in arrears at the end of each quarter on which the note is outstanding. The maturity date is the earlier of the refinancing of the Company or the date of occurrence of an event of default on the Credit Facilities.