

Cuda Oil and Gas Inc.

(Formerly Junex Inc.)

**Interim Condensed Consolidated Financial Statements
Three and Nine Months Ended September 30, 2018 and 2017**

The interim condensed consolidated financial statements of Cuda Oil and Gas Inc. (formerly Junex Inc.) for the three and nine months ended September 30, 2018 as well as the corresponding comparative data were not subject to a review by the Company's auditor.

Cuda Oil and Gas Inc.**(Formerly Junex Inc.)****Interim Condensed Consolidated Statements of Financial Position**

September 30, 2018 and December 31, 2017

(Unaudited)

(in Canadian dollars)

	September 30, 2018	December 31, 2017
	\$	\$
ASSETS		
Current		
Cash	3,257,040	3,470,235
Restricted cash (Note 6)	492,000	-
Accounts receivable (Note 7)	3,195,309	313,640
Tax credits receivable	69,987	-
Inventory	102,854	42,671
Prepaid expenses and deposits	321,188	109,890
	<u>7,438,378</u>	<u>3,936,436</u>
Non-current		
Restricted cash (Note 6)	7,714,319	-
Guarantee deposits (Note 8)	303,000	-
Exploration and evaluation assets (Note 9)	34,201,805	4,327,386
Property and equipment (Note 10)	58,905,766	4,953,260
	<u>108,563,268</u>	<u>13,217,082</u>
LIABILITIES		
Current		
Credit facility (Note 11)	33,369,169	-
Accounts payable and accrued liabilities	4,276,935	1,074,915
Obligation for purchase of shares (Note 5(a))	3,116,750	-
Obligation for exploration work (Note 12)	492,000	-
Decommissioning liability (Note 13)	288,658	38,062
	<u>41,543,512</u>	<u>1,112,977</u>
Non-current		
Obligation for exploration work (Note 12)	7,117,217	-
Convertible debentures (Note 14)	1,451,130	-
Due to partner (Note 15)	90,000	-
Decommissioning liability (Note 13)	3,276,871	467,953
	<u>53,478,730</u>	<u>1,580,930</u>
SHAREHOLDERS' EQUITY		
Share capital (Note 16)	67,958,653	19,178,187
Warrants (Note 16)	3,956,098	816,431
Contributed surplus (Note 16)	700,447	2,145,051
Accumulated other comprehensive loss	(146,027)	-
Deficit	<u>(17,384,633)</u>	<u>(10,503,517)</u>
	<u>55,084,538</u>	<u>11,636,152</u>
Going Concern (Note 1)		
Commitments (Note 17)		
Subsequent events (Note 25)		
	<u>108,563,268</u>	<u>13,217,082</u>

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

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

Interim Condensed Consolidated Statements of Loss and Comprehensive Loss

Three and nine-month periods ended September 30, 2018 and 2017

(Unaudited)

(in Canadian dollars)

	Three-month period ended September 30		Nine-month period ended September 30	
	2018	2017	2018	2017
	\$	\$	\$	\$
Revenue				
Petroleum and natural gas sales	1,120,993	280,071	3,519,810	3,479,817
Royalties	(227,440)	(85,489)	(649,223)	(617,906)
Production taxes	(84,276)	-	(84,276)	-
Net revenue from petroleum and natural gas sales	809,277	194,582	2,786,311	2,861,911
Other sales	16,178	-	16,178	-
	<u>825,455</u>	<u>194,582</u>	<u>2,802,489</u>	<u>2,861,911</u>
Expenses and other items				
Operating and transportation	205,708	74,186	1,118,172	1,064,120
Exploration and evaluation expense (Note 9)	269,294	44,634	304,358	43,935
General and administrative	1,633,327	302,291	3,256,860	956,650
Share-based compensation (Note 16)	237,661	73,547	469,849	307,694
Depletion and depreciation (Note 10)	360,224	37,736	1,039,142	884,660
Accretion of decommissioning liability (Note 13)	10,778	2,012	15,607	4,756
Finance costs (Note 21)	1,227,933	4,525	1,248,070	4,525
Foreign exchange loss (Note 22)	541,257	-	541,257	-
	<u>4,486,182</u>	<u>538,931</u>	<u>7,993,315</u>	<u>3,266,340</u>
Loss before income taxes	(3,660,727)	(344,349)	(5,190,826)	(404,429)
Income taxes				
Current	-	-	-	-
Deferred tax recovery	-	341,053	-	341,053
Net loss	(3,660,727)	(3,296)	(5,190,826)	(63,376)
Other comprehensive loss	<u>(146,027)</u>	<u>-</u>	<u>(146,027)</u>	<u>-</u>
Net loss and comprehensive loss	<u>(3,806,754)</u>	<u>(3,296)</u>	<u>(5,336,853)</u>	<u>(63,376)</u>
Basic and diluted net loss per share				
	<u>(0.26)</u>	<u>(0.00)</u>	<u>(0.54)</u>	<u>(0.01)</u>
Weighted average number of common shares outstanding	<u>13,992,974</u>	<u>7,249,984</u>	<u>9,550,921</u>	<u>7,249,984</u>

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

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

Interim Condensed Consolidated Statements of Changes in Equity

Nine-month periods ended September 30, 2018 and 2017

(Unaudited)

(in Canadian dollars)

	Share capital	Warrants	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total equity
	\$	\$	\$	\$	\$	\$
Balance at December 31, 2017	19,178,187	816,431	2,145,051	-	(10,503,517)	11,636,152
Exercise of warrants	3,229,650	(816,431)	(525,219)	-	-	1,888,000
Exercise of stock options	551,232	-	(1,736,624)	-	-	(1,185,392)
Issued on August 14, 2018						
Acquisition of Junex (Note 5(a))	34,735,924	2,265,808	266,662	-	-	37,268,394
Asset Acquisition (Note 5(b))	9,094,306	-	-	-	-	9,094,306
Conversion of debentures (Note 14)	1,169,354	-	-	-	-	1,169,354
Distribution of arrangement warrants (Note 5(a))	-	1,690,290	-	-	(1,690,290)	-
Share-based compensation	-	-	550,577	-	-	550,577
Net loss	-	-	-	-	(5,190,826)	(5,190,826)
Other comprehensive loss	-	-	-	(146,027)	-	(146,027)
Balance at September 30, 2018	<u>67,958,653</u>	<u>3,956,098</u>	<u>700,447</u>	<u>(146,027)</u>	<u>(17,384,633)</u>	<u>55,084,538</u>
Balance at December 31, 2016	19,178,187	816,431	1,471,672	-	(4,569,345)	16,896,945
Share-based compensation	-	-	556,587	-	-	556,587
Net loss and other comprehensive loss	-	-	-	-	(63,376)	(63,376)
Balance at September 30, 2017	<u>19,178,187</u>	<u>816,431</u>	<u>2,028,259</u>	<u>-</u>	<u>(4,632,721)</u>	<u>17,390,156</u>

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

Cuda Oil and Gas Inc.

(Formerly Junex Inc.)

Interim Condensed Consolidated Statements of Cash Flows

Three and nine month periods ended September 30, 2018 and 2017

(Unaudited)

(in Canadian dollars)

	Three-month period ended September 30		Nine-month period ended September 30	
	2018	2017	2018	2017
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Net loss for the period	(3,660,727)	(3,296)	(5,190,826)	(63,376)
Non-cash items				
Depletion and depreciation	360,224	37,736	1,039,142	884,660
Exploration and evaluation expense	269,294	44,634	304,358	43,935
Share-based compensation	237,661	73,547	469,849	307,694
Accretion of credit facility and convertible debentures	302,262	-	302,262	-
Accretion of decommissioning liability	10,778	2,012	15,607	4,756
Deferred tax recovery	-	(341,053)	-	(341,053)
Unrealized foreign exchange loss	541,257	-	541,257	-
Decommissioning liabilities settled	(3,788)	-	(3,788)	-
Net change in working capital items (Note 24)	(2,793,112)	173,407	(2,934,686)	509,853
Cash flows used in operating activities	(4,736,151)	(13,013)	(5,456,825)	1,346,469
INVESTING ACTIVITIES				
Property and equipment expenditures	(43,599,221)	(137,327)	(43,671,067)	(627,693)
Exploration and evaluation asset expenditures	(118,954)	(2,592,536)	(717,969)	(4,879,546)
Proceeds on disposition	-	927,690	-	927,690
Cash acquired from Junex (Note 5(a))	14,840,187	-	14,840,187	-
Net change in working capital items (Note 24)	(163,802)	(373,125)	(77,774)	4,591
Cash flows used in investing activities	(29,041,790)	(2,175,298)	(29,626,623)	(4,574,958)
FINANCING ACTIVITIES				
Exercise of warrants	75,000	-	1,888,000	-
Exercise of stock options	(1,185,392)	-	(1,185,392)	-
Proceeds from credit facility	35,000,000	-	35,000,000	-
Credit facility issue costs	(1,919,687)	-	(1,919,687)	-
Net change in working capital items (Note 24)	1,091,857	-	1,087,332	(21,551)
Cash flows from (used in) financing activities	33,061,778	-	34,870,253	(21,551)
Net change in cash	(716,163)	(2,188,311)	(213,195)	(3,250,040)
Cash, beginning of period	3,973,203	6,984,816	3,470,235	8,046,545
Cash, end of period	3,257,040	4,796,505	3,257,040	4,796,505

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

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

Notes to the Interim Condensed Consolidated Financial Statements

Three and Nine Months Ended September 30, 2018 and 2017

(Unaudited)

(in Canadian dollars)

1. NATURE OF BUSINESS AND GOING CONCERN

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

On June 8, 2018, Junex Inc. (“Junex”) entered into an arrangement agreement with Cuda Energy Inc. (“CEI”) providing for Junex’s acquisition of CEI by way of plan of arrangement under the *Business Corporations Act (Quebec)* (the “Arrangement”). On August 14, 2018, the Arrangement was completed and Junex acquired all of the issued and outstanding Class “A” common shares of CEI. Pursuant to the Arrangement, Junex consolidated its outstanding share capital on a 10 to 1 basis and changed its name to Cuda Oil and Gas Inc. Concurrent with the Arrangement, the Company also completed the acquisition of certain oil and natural gas properties in the state of Wyoming, USA for \$50.4 million and a \$35.0 million debt issuance.

The business combination resulting from the Arrangement has been accounted for as a reverse acquisition of Junex by CEI. As a result, the historic financial information presented prior to August 14, 2018 is a continuation of the financial statements of CEI, except for the number of common shares issued and outstanding which reflects the legal share capital of Junex.

These transactions are further described in Notes 5 and 11, and the impacts on share information resulting from the 10 to 1 share consolidation and the reverse acquisition are described in Note 16.

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

GOING CONCERN

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

For the nine months ended September 30, 2018, the Company reported a net loss of \$5,190,826 and used \$5,456,825 of cash flows used in operating activities. As at September 30, 2018, the Company has an accumulated deficit of \$17,384,633, and a \$34,105,134 working capital deficit which includes a credit facility in the amount of \$35,000,000, payable on demand and maturing on June 29, 2019 (Note 11) and \$3,116,750 related to an obligation to purchase shares from a dissenting shareholder (Note 5(a)). These conditions indicate the existence of a material uncertainty that may cast significant doubt upon the Company’s ability to continue as a going concern. Capital commitments in Wyoming for the balance of 2018 include the acquisition of certain producing oil and natural gas properties and undeveloped lands for total cash consideration of \$2,269,144 completed in October 2018 (Note 25(b)) combined with additional capital of \$2,112,000 on an additional well, a gas plant and gathering system and electrical powerline

facilities. Otherwise, all future capital expenditures are considered discretionary. On November 9, 2018, the Company closed the first tranche of a Private Placement offering (Note 26(a)) by issuing 2,981,212 common shares for gross proceeds of \$7,154,909 (net proceeds of approximately \$6,550,000 after issue costs) as a step towards reducing this risk. On November 19, 2018, the Company obtained stock exchange approval to complete an additional tranche of the Offering on or before December 19, 2018.

Further rationalization of assets and/or funding through future share issuances, private placements, restructuring of existing or new credit facilities, non-core property sales, increased production from core properties combined with improvements in realized oil and gas prices received and/or a combination of these alternatives will be required to continue as a going concern. There is no assurance the Company will be able to obtain adequate financing in the future or that such financing will be on terms acceptable to the Company. There is no certainty that these and/or other strategies will be sufficient to enable the Company to continue as a going concern. These interim 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.

2. BASIS OF PRESENTATION, STATEMENT OF COMPLIANCE AND APPROVAL

As a result of the Arrangement described in Notes 1 and 5, these interim consolidated financial statements are a continuation of the financial statements of CEI, except for the number of common shares issued and outstanding which reflects the legal share capital of Junex.

These interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, as issued by the International Accounting Standards Board. They do not include all of the information required in annual financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”), and should be read in conjunction with CEI’s audited financial statements for the year ended December 31, 2017.

Except as outlined in Note 4, these interim consolidated financial statements were prepared using the same accounting policies as described in Note 3 of CEI’s audited financial statements for the year ended December 31, 2017.

These interim consolidated financial statements were authorized for issuance by the Board of Directors on November 29, 2018.

3. JUDGMENTS, ESTIMATES AND ASSUMPTIONS

Except as outlined below, these interim consolidated financial statements were prepared using the same judgments, estimates and assumptions as described in Note 2 of CEI’s audited financial statements for the year ended December 31, 2017.

a) Business combinations

The determination of fair value for assets and liabilities acquired 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.

b) 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.

4. SIGNIFICANT ACCOUNTING POLICIES

a) Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. 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) 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 interim consolidated financial statements include the Company's ownership-interest share of the assets, liabilities, revenue and expenses of these joint operations.

c) 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.

d) 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 net income or 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 US 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 or 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 net income or loss.

e) 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.

f) New accounting policies adopted on January 1, 2018

IFRS 9 – Financial Instruments (“IFRS 9”)

The Company adopted IFRS 9, with a date of initial application of January 1, 2018. IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes a new classification and measurement approach for financial assets and a forward-looking “expected credit loss” model. The adoption of IFRS 9 did not have a material impact on the measurement and carrying values of the Company's financial assets or liabilities.

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

The Company adopted IFRS 15 on January 1, 2018. IFRS 15 establishes a comprehensive framework for determining whether, how much, and when revenue from contracts with customers is recognized. The Company's revenue primarily relates to the sale of petroleum and natural gas to customers at specified delivery points at benchmark prices.

The Company adopted IFRS 15 using the modified retrospective adoption approach. Under this transitional provision, the cumulative effect of initially applying IFRS 15 is recognized on the date of initial application as an adjustment to retained earnings. No adjustment to retained earnings was required upon adoption of IFRS 15.

IFRS 15 requires additional disclosures relating to the disaggregation of revenue – this additional disclosure has been included in Note 20 to these interim consolidated financial statements. In addition, as a result of this adoption, the Company has revised the description of its accounting policy for revenue recognition as follows:

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.

g) Future accounting pronouncements

IFRS 16 – Leases, was issued in January 2016 and it replaces IAS 17 – Leases. For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15. The standard is required to be adopted either retrospectively or using a modified retrospective approach. The Company is currently evaluating the potential impact of the standard on its consolidated financial statements.

5. 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 8,603,907 Junex common shares and 999,907 arrangement warrants to CEI shareholders, after giving effect to the 10 to 1 share consolidation.

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

The preliminary estimated fair value at August 14, 2018 of the total consideration transferred, and the assets and liabilities acquired is outlined in the table below. The purchase price allocation is subject to change pending finalization of fair value determinations for the exploration portfolio and drilling and well service equipment of Junex.

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	8,181,787
Cash held in trust for Asset Acquisition (Note 5(b))	6,658,400
Restricted cash	8,206,319
Exploration and evaluation assets	27,799,112
Property and equipment	2,109,960
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 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.

Management and the Board of Directors believe that the Arrangement provides for the creation of a new, high netback, light oil, North American producer. The new management team has a track record of developing assets in Canada and the United States and in particular has prior exposure to the Utica shale.

A shareholder of Junex who owned 875,000 shares of Junex, after giving effect to the 10 to 1 share consolidation, exercised rights of dissent available under the Quebec Business Corporations Act ("QBCA") in respect of the Arrangement. Pursuant to the Arrangement, the 875,000 common shares were deemed to be transferred to the Company and cancelled on closing of the Arrangement and are not reflected in the share consideration for the transaction. The Company and the dissenting shareholder have not yet reached an agreement as to the fair value of the shares as defined in the QBCA.

An accrual in the amount of \$3,116,750 has been made for management's best estimate of fair value which will be paid to the dissenting shareholder. The estimated fair value is subject to measurement uncertainty and the Company's liability to the dissenting shareholder will not be determined until the dissent process is complete.

The fair value of accounts receivable was \$334,085, which consisted of trade accounts and commodity taxes receivables. The gross contractual amount is \$334,085 and no amount is expected to be uncollectible.

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 \$1,168,914 of transaction and employee severance costs associated with the Arrangement for the nine months ended September 30, 2018.

The acquired business contributed other sales of approximately \$16,178, and an operating loss of \$80,797, which is defined as other sales less directly attributable costs of \$41,209, and depreciation of \$55,766, to COGI for the period from August 14, 2018 to September 30, 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 nine months period ended September 30, 2018.

b) Wyoming asset acquisition

Concurrent with the completion of the Arrangement 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), before final closing adjustments. The consideration is comprised of 2,090,645 COGI common shares, after giving effect to the 10 to 1 share consolidation, having a value of USD \$6.9 million (CAD \$9.1 million) and USD \$31.5 million (CAD \$41.2 million) in cash (the "Asset Acquisition").

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

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

The share consideration was based upon 2,090,645 COGI common shares issued at \$4.35 per share, based upon on COGIs closing share price quoted on the TSXV on August 14, 2018, the closing date of the Asset Acquisition. The cash portion of the consideration was funded from the Facility (Note 11), cash acquired from Junex (Note 5(a)) and available cash on hand.

Management and the Board of Directors believe that shareholders will benefit from various attributes associated with the acquisition of the Wyoming Assets including premium sweet light oil focused assets with low risk infill vertical drilling and several deeper zones that have already been proven economic.

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 liability of \$497,079 with a corresponding increase to property and equipment.

Included in general and administrative expenses are \$489,429 of transaction costs associated with the Asset Acquisition for the nine months ended September 30, 2018.

The Asset Acquisition contributed revenues consisting of petroleum and natural gas sales net of royalties and production taxes of approximately \$610,099 and operating income which is defined as petroleum and natural gas sales net of royalties and production taxes less operating and transportation costs of \$462,276 to COGI for the period from August 14, 2018 to September 30, 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 nine months period ended September 30, 2018.

6. RESTRICTED CASH

Restricted cash was acquired from Junex (Note 5(a)) and is comprised of \$597,102 relating to issued letters of guarantee for future decommissioning and site restoration costs in Quebec which are secured by cash, and \$7,609,217 relating to cash held for purposes of settling eligible costs associated with the Galt project work program (Note 12).

\$492,000 of restricted cash has been classified as current as it will settle current obligations for exploration work (Note 12).

7. ACCOUNTS RECEIVABLE

	<u>2018-09-30</u>	<u>2017-12-31</u>
	\$	\$
Trade accounts receivable	156,768	313,640
Joint operations receivable	2,682,829	-
Other	95,312	-
Commodity taxes receivable	260,400	-
	<u>3,195,309</u>	<u>313,640</u>

8. GUARANTEE DEPOSITS

Guarantee deposits were acquired from Junex (Note 5(a)) and are on deposit with the Quebec Ministry of Energy and Natural Resources as a performance guarantee for future decommissioning and site restoration costs in Quebec, of which \$90,000 was assumed by a partner (Note 15).

9. EXPLORATION AND EVALUATION (“E&E”) ASSETS

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

<u>(\$)</u>	<u>Total</u>
Balance, December 31, 2017	4,327,386
Acquisition of Junex (Note 5(a))	27,799,112
Asset Acquisition (Note 5(b))	531,020
Additions	805,587
Change in decommissioning cost	1,042,570
Transfers from property and equipment (Note 10)	7,454
Exploration and evaluation expense	(304,358)
Foreign currency translation	(6,966)
Balance, September 30, 2018	34,201,805

E&E assets consist of the Company's exploration projects, which are pending the determination of proved or probable reserves. The Company capitalized cash and non-cash general and administrative and share based compensation expenses, directly attributable to E&E additions, of \$60,106 and \$357,423 for the three and nine months ended September 30, 2018, respectively.

In the nine months ended September 30, 2018, the Company expensed costs related to properties where management made the decision to discontinue exploration activities for a total of \$304,358 (September 30, 2017 - \$43,935).

On September 20, 2018, the Ministry of Energy and Natural Resources in Quebec (the “Ministry”) adopted new legislative and regulatory provisions pertaining to the exploration and exploitation of hydrocarbons in Quebec under the Petroleum Resources Act (the “Act”). The Act replaces the Mining Act previously in force. These legislative and regulatory changes include the banning of hydraulic fracturing of shale and affect some projects associated with the Company’s assets located in the Saint-Lawrence Lowlands region. The impact of these new regulations on the carrying value of the Company’s exploration and evaluation assets in Quebec of \$28,919,687 is uncertain and requires further evaluation given the recent adoption of these regulations by the Ministry. As at September 30, 2018, no impairment was recorded on the Quebec exploration and evaluation assets.

For the Company’s exploration and evaluation assets in Alberta and Wyoming, there were no indicators of impairment identified as at September 30, 2018. Accordingly, an impairment test was not required.

10. PROPERTY AND EQUIPMENT

The following table reconciles COGI's property and equipment:

Cost (\$)	Developed and Producing Assets	Administrative Assets	Total
Balance, December 31, 2017	6,195,434	87,561	6,282,995
Acquisition of Junex (Note 5(a))	2,073,558	36,402	2,109,960
Asset Acquisition (Note 5(b))	49,854,660	-	49,854,660
Additions	3,023,010	2,820	3,025,830
Change in decommissioning cost	687,760	-	687,760
Transfers to E&E assets (Note 9)	(7,454)	-	(7,454)
Foreign currency translation	(672,218)	-	(672,218)
Balance, September 30, 2018	61,154,750	126,783	61,281,533
Accumulated depletion and depreciation and impairment (\$)			
Balance, December 31, 2017	(1,289,427)	(40,308)	(1,329,735)
Depletion and depreciation	(1,029,228)	(16,804)	(1,046,032)
Balance, September 30, 2018	(2,318,655)	(57,112)	(2,375,767)
Carrying amounts (\$)			
As at December 31, 2017	4,906,007	47,253	4,953,260
As at September 30, 2018	58,836,095	69,671	58,905,766

At September 30, 2018, estimated future development costs of \$11,371,900 (December 31, 2017 - \$1,510,000) associated with the development of the Company's proved and probable reserves were added to the Company's net book value in the depletion calculation. Developed and producing assets includes costs of facilities under construction that were not included in the depletion calculation in the amount of \$3,562,870.

Depreciation related to specific exploration projects of \$6,890 was capitalized as exploration and evaluation assets during the three and nine months ended September 30, 2018 (\$Nil – 2017).

As at September 30, 2018, there were no indicators of impairment identified. Accordingly, an impairment test was not required.

11. CREDIT FACILITY

The Company has a \$35 million credit facility with an institutional lender (the "Facility") which is non-revolving, and interest compounds monthly at a rate of 10.5% per annum which is payable monthly. The Facility is payable on demand and will mature on June 29, 2019, and the Company may re-pay the Facility in whole or in part and all accrued interest at any time prior with 90 days notice. Should the Company repay the Facility in full, a fee equal to 1% or 2% of the Facility, depending on the timing of repayment, will also be payable. The Facility is secured by a first priority charge over the consolidated assets of the Company. Covenants include reporting requirements, permitted encumbrances and other standard business operating covenants; the Company is not subject to any financial covenants. The proceeds of the Facility were used to fund the Asset Acquisition (Note 5(b)).

Facility issuance costs of \$1,919,687 were recorded as a reduction against the liability. The accretion charge on the Facility for the three and nine months ended September 30, 2018 was \$288,856 (2017 – \$Nil).

12. OBLIGATION FOR EXPLORATION WORK

	<u>Amount (\$)</u>
Balance, December 31, 2017	-
Acquisition of Junex (Note 5(a))	7,609,217
Eligible exploration work	-
Balance, September 30, 2018	<u>7,609,217</u>

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

In exchange for its \$8.4 million share of costs in the exploration program, RQI acquired from Junex an undivided 17.13% interest in the Galt project. Under the terms of the Partnership, \$8.2 million was originally deposited into a joint account, which can only be withdrawn for purposes of settling eligible costs associated with the Galt Project that have been approved by both RQI and Junex. The cash held in the joint account is recorded as restricted cash (Note 6) with a corresponding amount recorded as obligation for exploration work. Eligible expenditures incurred on the Galt project reduce both the restricted cash and the obligation for exploration work by an equal amount. Junex retained an undivided 52.87% interest in the Galt project.

\$492,000 has been classified as current as it is expected to be settled within the next twelve months.

13. DECOMMISSIONING LIABILITY

The Company's decommissioning liability results from ownership interests in petroleum and natural gas properties and equipment including well sites and facilities and management's estimates of costs to abandon and reclaim those well sites and facilities as well as an estimate of the future timing of these costs. COGI estimates the total undiscounted future cash flows required to settle its decommissioning obligations as at September 30, 2018 to be approximately \$4,679,900 with the costs anticipated to be incurred between 2019 and 2054. The net present value of the decommissioning liability was calculated using risk-free discount rates of 2.18 to 2.43 percent based on the timing to abandon and an inflation rate of 2.0 percent. A reconciliation of the decommissioning liability is provided below:

	Amount (\$)
Balance, December 31, 2017	506,015
Acquisition of Junex (Note 5(a))	1,171,585
Asset Acquisition (Note 5(b))	145,780
Additions	190,681
Change in estimates	1,539,649
Decommissioning liabilities settled	(3,788)
Accretion	15,607
Balance, September 30, 2018	3,565,529
Current portion of decommissioning liability	288,658
Long-term portion of decommissioning liability	3,276,871

The Company has issued letters of guarantee (Note 6) and paid guarantee deposits (Note 8) to the Quebec Ministry of Energy and Natural Resources as security for future decommissioning and site restoration costs in Quebec.

14. CONVERTIBLE DEBENTURES

The series A and series B convertible debentures bear interest at a rate of 12% per annum, payable biannually, and are scheduled to mature in July 2020. The 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. The debentures have a conversion feature whereby the holder can convert at any time the debt to equity at the price specified in the debenture of \$11.70, after giving effect to the 10 to 1 share consolidation.

	Amount (\$)
Balance, December 31, 2017	-
Acquisition of Junex (Note 5(a))	2,607,078
Conversion of debentures	(1,169,354)
Accretion charge on debentures	13,406
Balance, September 30, 2018	1,451,130

In connection with the Arrangement (Note 5(a)), an institutional investment fund converted Junex convertible debentures with a face value of \$1,000,000 into 268,817 Junex common shares, after giving effect to the 10 to 1 share consolidation. The fair value attributed to these debentures was based upon 268,817 COGI common shares issued at a share price of \$4.35 per share, COGI's closing share price quoted on the TSXV on August 14, 2018.

As of September 30, 2018, convertible debentures with a stated value of \$1,500,000 are outstanding, comprised of series A with a stated value of \$750,000 and series B with a stated value of \$750,000.

15. DUE TO PARTNER

A partner advanced \$90,000 to fund their share of the guarantee deposits (Note 8). This amount is non-interest bearing, unsecured and has been classified as a non-current liability as it will be recovered by the partner once the security deposits are released by the Quebec Ministry of Energy and Natural Resources.

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	7,249,984	19,178,187
Exercise of warrants	1,353,923	3,229,650
Exercise of stock options	-	551,232
Issued on August 14, 2018		
Acquisition of Junex (Note 5(a))	7,985,270	34,735,924
Asset Acquisition (Note 5(b))	2,090,645	9,094,306
Conversion of debentures (Note 14)	268,817	1,169,354
Balance, September 30, 2018	18,948,639	67,958,653

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

In connection with the Arrangement (Notes 1 and 5(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.

Stock options

A summary of the Company's outstanding stock options at September 30, 2018 is presented below:

	Options	Weighted average exercise price
		\$
Outstanding, December 31, 2017	840,823	3.06
Exercised	(406,965)	3.06
Replacement stock options (Note 5(a))	422,900	6.90
Granted	1,455,000	3.71
Forfeited	(93,226)	4.18
Expired	(5,000)	28.40
Outstanding, September 30, 2018	2,213,532	4.34

Pursuant to the Arrangement (Note 5(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 share capital.

The exercise prices for stock options outstanding and exercisable under the plan at September 30, 2018 is as follows:

	Outstanding options			Exercisable options	
	Number	Weighted average remaining contractual life Years	Weighted average exercise price \$	Number	Weighted average exercise price \$
Employees, officers and directors	106,000	0.5	8.80	106,000	8.80
	83,400	2.1	7.10	83,400	7.10
	138,500	2.7	5.90	138,500	5.90
	90,000	4.2	4.80	90,000	4.80
	340,632	4.6	4.18	227,088	4.18
	1,455,000	6.9	3.71	-	3.71
	2,213,532	5.7	4.34	644,988	5.77

Options are vested on the basis of 20% or 33% per year. In connection with the Arrangement (Note 5(a)), all unvested Junex stock options outstanding at August 14, 2018 became fully vested which had a financial impact of \$124,171. Of this amount, \$13,053 was capitalized to exploration and evaluation assets and \$111,118 was expensed as share-based compensation.

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

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

Warrants

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

	Number of warrants	Amount (\$)
Outstanding, December 31, 2017	1,353,923	816,431
Exercised	(1,353,923)	(816,431)
Arrangement warrants (Note 5(a))	999,907	1,690,290
Replacement warrants (Note 5(a))	1,392,046	2,265,808
Outstanding, September 30, 2018	2,391,953	3,956,098

In connection with the Arrangement (Note 5(a)), 999,907 arrangement warrants were issued. Each whole arrangement warrant will entitle the holder thereof to purchase one COGI share at a price of \$4.00 per share for a period of 24 months. The arrangement warrants will vest upon the earlier of (i) the date on which the COGI shares achieve a 20-day weighted average price of \$6.40 per share; and (ii) the date on which COGI completes an equity financing of a minimum of \$10 million at a price of at least \$6.00 per share. As of September 30, 2018, no arrangement warrants have vested.

A summary of the Company's outstanding warrants as at September 30, 2018 is as follows:

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

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

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

Weighted average number of common shares

The weighted average number of common shares outstanding has been adjusted retrospectively for all periods presented to give effect to the 10 to 1 share consolidation as described in Note 5(a).

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. COMMITMENTS

As of September 30, 2018, the Company's commitments are as follows:

	2018	2019	2020	2021	2022	Thereafter	Total
Lease rentals	35,607	145,439	147,061	147,527	149,214	149,214	774,062
Office leases	56,659	301,809	128,995	92,728	63,315	-	643,506
	92,266	447,248	276,056	240,255	212,529	149,214	1,417,568

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

18. RELATED PARTY TRANSACTIONS

The Company had no related party transactions that were entered into under the normal course of business for the nine month period ended September 30, 2018 or September 30, 2017.

Compensation of key management personnel

The aggregate compensation of key management personnel was as follows:

	Nine month period ended September 30,	
	2018	2017
	\$	\$
Salaries and benefits	845,515	865,556
Share-based compensation	179,700	379,618
Total compensation	1,025,215	1,245,174

19. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT

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

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

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

The Company classified the fair value of its financial instruments measured at fair value according to the following hierarchy based on the nature of the inputs used to value the instrument:

- Level 1 – observable inputs such as quoted prices in active markets;
- Level 2 – inputs, other than the quoted market prices in active markets, which are observable, either directly and/or indirectly; and
- Level 3 – one or more of the significant inputs is not based on observable market data.

The fair value of the convertible debentures as at September 30, 2018 was determined using level 2 observable inputs and approximated its carrying amount.

Credit risk

Credit risk arises from the potential for non-performance by counterparties of contractual financial obligations. The Company's exposure to credit risk includes cash, restricted cash, accounts receivable, and guarantee deposits. The Company reduces its credit risk on cash and restricted cash by maintaining its bank accounts at large international financial institutions, and the guarantee deposits are held by the Government

of Quebec. Accounts receivable consists mainly of amounts due from petroleum and natural gas marketers, and capital and revenue (net of royalties and production taxes) amounts due from a joint operations partner.

Receivables from petroleum and natural gas marketers are normally collected on the 25th day of the month following production. The Company manages the risk by reviewing the credit risk of these entities and by entering into agreements only with parties that meet certain credit tests. The maximum exposure to credit risk is equal to the carrying value of the financial assets.

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 a partner in the petroleum and natural gas industry who is subject to the risks and conditions of the industry. Significant changes in industry conditions and risks that negatively impact the partners' ability to generate cash flow will increase the risk of not collecting joint operations receivables.

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

	<u>2018-09-30</u>	<u>2017-12-31</u>
	\$	\$
Current	156,768	313,640
31 – 60 Days	2,682,829	-
61 – 90 Days	355,712	-
> 90 Days	-	-
	<u>3,195,309</u>	<u>313,640</u>

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

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's objective is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due. To achieve this objective, the Company prepares annual budgets for operating cashflows and capital expenditures, which are regularly monitored and updated as considered necessary. The Company's liquidity risk is further outlined in Note 1.

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 facility	33,369,169	-
Accounts payable and accrued liabilities	4,276,935	-
Obligation for purchase of shares	3,116,750	-
Obligation for exploration work	492,000	7,117,217
Convertible debentures	-	1,451,130
Due to partner	-	90,000
	<u>41,254,854</u>	<u>8,658,347</u>

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

On November 9, 2018, the Company closed the first tranche of a private placement by issuing 2,981,212 common shares for gross proceeds of \$7,154,909 (net proceeds of approximately \$6,550,000 after issue costs) (Note 25(a)).

Market risk

The Company is exposed to market risks resulting from fluctuations in commodity prices, foreign exchange rates and interest rates. Derivative instruments may be used to reduce exposure to these risks.

Commodity price risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. A significant change in commodity prices can materially impact the Company's cash flows. Lower commodity prices may also reduce the Company's ability to raise capital. Commodity prices for petroleum and natural gas are not only influenced by supply and demand in Canada and the United States, but also by world events that dictate the levels of supply and demand. The Company had no risk management contracts that would be affected by commodity prices in place at September 30, 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. While substantially all of the Company's sales are denominated in Canadian dollars, the market prices in Canada for oil and natural gas are impacted by changes in the exchange rate between the Canadian dollar and the United States dollar. The Company also funds certain operating expenses and capital expenditures in the United States on a cash call. The Company had no risk management contracts that would be affected by foreign currency changes in place at September 30, 2018.

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate risk through its fixed-rate credit facility and convertible debentures. The Company had no risk management contracts that would be affected by interest rates in place at September 30, 2018.

Capital management

The Company's policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain the future development and commitments of the business. The Company actively manages its capital structure in response to changes in economic conditions and the risk characteristics of its petroleum and natural gas properties. The Company considers its capital structure to include shareholders' equity, convertible debentures, credit facility, bank debt, if any, and working capital deficiency. In order to maintain or adjust the capital structure, the Company may from time to time issue shares, obtain debt financing and adjust its capital spending to manage current and projected debt levels. To facilitate the management of the capital expenditures and level of debt, if any, the Company prepares annual budgets, which are regularly monitored and updates 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.

The Company's current capital structure is summarized below:

	<u>2018-09-30</u>	<u>2017-12-31</u>
	\$	\$
Cash	3,257,040	3,470,235
Current assets, excluding cash	4,181,338	466,201
Current liabilities, excluding credit facility	(8,174,343)	(1,112,977)
Credit facility	(33,369,169)	-
Convertible debentures	(1,451,130)	-
Shareholders' equity	55,084,538	11,636,152
	<u>19,528,274</u>	<u>14,459,611</u>

20. REVENUE

The Company sells its 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.

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

	Three month period ended September 30,		Nine month period ended September 30,	
	2018	2017	2018	2017
	\$	\$	\$	\$
Crude oil	1,104,748	280,071	2,070,277	1,188,416
Natural gas	8,348	-	1,161,138	1,861,213
Natural gas liquids	7,897	-	288,395	430,188
	1,120,993	280,071	3,519,810	3,479,817

21. FINANCE COSTS

	Three month period ended September 30,		Nine month period ended September 30,	
	2018	2017	2018	2017
	\$	\$	\$	\$
Interest on credit facility	1,222,720	-	1,242,857	-
Interest on convertible debentures	36,396	-	36,396	-
Other	2,476	4,525	2,476	4,525
	1,261,592	4,525	1,281,729	4,525
Interest income	(33,659)	-	(33,659)	-
	1,227,933	4,525	1,248,070	4,525

22. FOREIGN EXCHANGE LOSS

The Company recorded an unrealized foreign exchange loss related to an intercompany loan to a foreign subsidiary that is denominated in U.S. dollars.

23. SEGMENT INFORMATION

For management purposes, the Company's activities are conducted in two geographic segments: Canada and the United States. All activities relate to the exploration, development, and production of oil and natural gas.

There were no transactions between the reportable segments for the three and nine month periods ended September 2018 and 2017.

	Three-month period ended September 30					
	Canada		United States		Total	
	2018	2017	2018	2017	2018	2017
	\$	\$	\$	\$	\$	\$
Revenue						
Petroleum and natural gas sales	242,230	280,071	878,763	-	1,120,993	280,071
Royalties	(43,052)	(85,489)	(184,388)	-	(227,440)	(85,489)
Production taxes	-	-	(84,276)	-	(84,276)	-
Net revenue from petroleum and natural gas sales	199,178	194,582	610,099	-	809,277	194,582
Other sales	16,178	-	-	-	16,178	-
	215,356	194,582	610,099	-	825,455	194,582
Segmented expenses						
Operating and transportation	57,885	74,186	147,823	-	205,708	74,186
Exploration and evaluation expense	269,294	44,634	-	-	269,294	44,634
Depletion and depreciation	91,551	37,736	268,673	-	360,224	37,736
Accretion of decommissioning liability	8,575	2,012	2,203	-	10,778	2,012
	427,305	158,568	418,699	-	846,004	158,568
Segmented income (loss) before taxes	(211,949)	36,014	191,400	-	(20,549)	36,014
Non-segmented expenses						
General and administrative					1,633,327	302,291
Share-based compensation					237,661	73,547
Finance costs					1,227,933	4,525
Foreign exchange loss					541,257	-
					3,640,178	(380,363)
Loss before income taxes					(3,660,727)	(344,349)

23. SEGMENT INFORMATION (Continued)

	Nine-month period ended September 30					
	Canada		United States		Total	
	2018	2017	2018	2017	2018	2017
	\$	\$	\$	\$	\$	\$
Revenue						
Petroleum and natural gas sales	2,641,047	3,479,817	878,763	-	3,519,810	3,479,817
Royalties	(464,835)	(617,906)	(184,388)	-	(649,223)	(617,906)
Production taxes	-	-	(84,276)	-	(84,276)	-
Net revenue from petroleum and natural gas sales	2,176,212	2,861,911	610,099	-	2,786,311	2,861,911
Other sales	16,178	-	-	-	16,178	-
	<u>2,192,390</u>	<u>2,861,911</u>	<u>610,099</u>	<u>-</u>	<u>2,802,489</u>	<u>2,861,911</u>
Segmented expenses						
Operating and transportation	970,349	1,064,120	147,823	-	1,118,172	1,064,120
Exploration and evaluation expense	304,358	43,935	-	-	304,358	43,935
Depletion and depreciation	770,469	884,660	268,673	-	1,039,142	884,660
Accretion of decommissioning liability	13,404	4,756	2,203	-	15,607	4,756
	<u>2,058,580</u>	<u>1,997,471</u>	<u>418,699</u>	<u>-</u>	<u>2,477,279</u>	<u>1,997,471</u>
Segmented income before taxes	<u>133,810</u>	<u>864,440</u>	<u>191,400</u>	<u>-</u>	<u>325,210</u>	<u>864,440</u>
Non-segmented expenses						
General and administrative					3,256,860	956,650
Share-based compensation					469,849	307,694
Finance costs					1,248,070	4,525
Foreign exchange loss					541,257	-
					<u>5,516,036</u>	<u>(1,268,869)</u>
Loss before income taxes					<u>(5,516,036)</u>	<u>404,429</u>
Assets as at September 30, 2018	<u>52,677,344</u>	<u>-</u>	<u>55,885,924</u>	<u>-</u>	<u>108,563,268</u>	<u>-</u>
Assets as at December 31, 2017	<u>-</u>	<u>13,217,082</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,217,082</u>

24. SUPPLEMENTAL CASH FLOW INFORMATION

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

	Three month period ended September 30,		Nine month period ended September 30,	
	2018	2017	2018	2017
	\$	\$	\$	\$
Provided by (used in):				
Accounts receivable	(577,065)	147,355	(499,576)	734,404
Inventory	-	5,029	42,671	28,088
Prepaid expenses and deposits	31,464	21,023	(4,175)	(11,046)
Accounts payable and accrued liabilities,	(1,316,504)	(373,125)	(1,461,096)	(258,553)
Effect of foreign exchange on working capital	(2,952)	-	(2,952)	-
	<u>(1,865,057)</u>	<u>(199,718)</u>	<u>(1,925,128)</u>	<u>492,893</u>

	Three month period ended September 30,		Nine month period ended September 30,	
	2018	2017	2018	2017
	\$	\$	\$	\$
Provided by (used in):				
Operating activities	(2,793,112)	173,407	(2,934,686)	509,853
Investing activities	(163,802)	(373,125)	(77,774)	4,591
Financing activities	1,091,857	-	1,087,332	(21,551)
	<u>(1,865,057)</u>	<u>(199,718)</u>	<u>(1,925,128)</u>	<u>492,893</u>

25. SUBSEQUENT EVENTS

a) Private placement

On October 17, 2018, the Company entered into a letter agreement with a syndicate of investment dealers in connection with a commercially reasonable efforts agency private placement of up to 4,166,667 common shares at a price of \$2.40 per share for gross proceeds of up to \$10 million (“the Offering”). The Company granted the agents an over-allotment option, exercisable for a period of 30 days from closing, to sell additional common shares representing 15% of the base Offering at \$2.40 per common share.

Concurrent with the Offering, the Company may complete a non-brokered private placement of common shares to insiders and other investors identified by the Company to be included on a president’s list at a price of \$2.40 per common share for aggregate gross proceeds of up to \$2 million.

On November 9, 2018, the Company closed the first tranche of the Offering by issuing 2,981,212 common shares for gross proceeds of \$7,154,909 (net proceeds of approximately \$6,550,000 after issue costs). Of this amount, 198,312 common shares for gross proceeds of \$475,949 were issued to certain

officers and directors of the Company. The common shares issued pursuant to the Offering are subject to a four month hold period.

b) Wyoming land acquisitions

In October 2018, the Company completed the acquisition of certain producing oil and natural gas properties and undeveloped lands in the State of Wyoming, USA for total cash consideration of \$2,269,144, before customary closing adjustments.