



**Unaudited Condensed Interim Consolidated Financial  
Statements**

**For the three and nine month periods ended**

**September 30, 2019 and 2018**

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying unaudited condensed interim consolidated financial statements of CGX Energy Inc. (the "Company") are the responsibility of the management and Board of Directors of the Company.

The unaudited condensed interim consolidated financial statements have been prepared by management, on behalf of the Board of Directors, in accordance with the accounting policies disclosed in the notes to the unaudited condensed interim consolidated financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the statement of financial position date. In the opinion of management, the interim consolidated financial statements have been prepared within acceptable limits of materiality and are in accordance with International Accounting Standard 34 Interim Financial Reporting of International Financial Reporting Standards using accounting policies consistent with International Financial Reporting Standards appropriate in the circumstances.

Management has established systems of internal control over the financial reporting process, which are designed to provide reasonable assurance that relevant and reliable financial information is produced.

The Board of Directors is responsible for reviewing and approving the unaudited condensed interim consolidated financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the unaudited condensed interim consolidated financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the unaudited condensed interim consolidated financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

Toronto, Canada  
November 7, 2019

*"Suresh Narine"*

Suresh Narine  
Executive Chairman and Executive Director  
(Guyana)

*"Tralisa Maraj"*

Tralisa Maraj  
Chief Financial Officer

**CGX Energy Inc.**  
**Unaudited Condensed Interim Consolidated Statements of Financial Position**  
*(US\$'s)*

| As at,  | September 30,<br>2019 | December 31,<br>2018 |
|---|-----------------------|----------------------|
|   | \$                    | \$                   |
| <b>Assets</b>   |                       |                      |
| <b>Current assets</b>   |                       |                      |
| Cash and cash equivalents <i>(note 6)</i>                               | 18,399,047            | 2,842,455            |
| Trade receivables and other assets <i>(note 7)</i>                      | 1,650,859             | 140,734              |
| Deferred transaction costs <i>(note 8)</i>                              | -                     | 431,500              |
| <b>Total current assets</b>   | <b>20,049,906</b>     | <b>3,414,689</b>     |
| <b>Property, plant and equipment</b> <i>(note 9)</i>                    | <b>7,180,060</b>      | <b>7,161,098</b>     |
| <b>Exploration and evaluation expenditures</b> <i>(notes 10 and 17)</i> | <b>11,037,900</b>     | <b>27,889,599</b>    |
| <b>Total assets</b>   | <b>38,267,866</b>     | <b>38,465,386</b>    |
| <b>Liabilities</b>  |                       |                      |
| <b>Current liabilities</b>  |                       |                      |
| Trade and other payables <i>(notes 10, 11, 12 and 17)</i>               | 14,904,845            | 35,018,164           |
| Loans from related party <i>(notes 10 and 11)</i>                       | -                     | 22,549,225           |
| Debentures from related party <i>(note 11)</i>                          | -                     | 1,747,618            |
| <b>Total current liabilities</b>  | <b>14,904,845</b>     | <b>59,315,007</b>    |
| <b>Warrant liability</b> <i>(note 13)</i>                               | <b>7,788,000</b>      | <b>-</b>             |
| <b>Total liabilities</b>  | <b>22,692,845</b>     | <b>59,315,007</b>    |
| <b>Shareholders' equity (deficiency)</b>                                |                       |                      |
| Share capital <i>(note 14)</i>  | 287,095,028           | 259,034,321          |
| Reserve for share based payments <i>(note 15)</i>                       | 21,708,131            | 21,708,131           |
| Deficit   | (293,228,138)         | (301,592,073)        |
| <b>Total shareholders' equity (deficiency)</b>                          | <b>15,575,021</b>     | <b>(20,849,621)</b>  |
| <b>Total liabilities and shareholders' equity (deficiency)</b>          | <b>38,267,866</b>     | <b>38,465,386</b>    |

*Nature of operations and going concern uncertainty (note 1)*

*Commitments and contingencies (notes 9, 10, 11 and 17)*

*Subsequent event (notes 17 and 18)*

Approved on behalf of the Board of Directors on November 2, 2019:

("Signed" Duncan Nightingale)  
\_\_\_\_\_, Director  
Duncan Nightingale

("Signed" Dennis Mills)  
\_\_\_\_\_, Director  
Dennis Mills

*The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.*

**CGX Energy Inc.**  
**Unaudited Condensed Interim Consolidated Statements of Comprehensive Income (Loss)**  
*(US\$'s)*

| For the periods ended September 30,  | Three months       |                    | Nine months        |                    |
|--|--------------------|--------------------|--------------------|--------------------|
|  | 2019               | 2018               | 2019               | 2018               |
|  | \$                 | \$                 | \$                 | \$                 |
| <b>Operating expenses</b>  |                    |                    |                    |                    |
| General and administrative <i>(note 9)</i>   | 153,606            | 324,795            | 596,972            | 867,825            |
| Management and consulting <i>(note 11)</i>   | 285,229            | 339,955            | 1,328,797          | 1,678,813          |
| Interest expense <i>(notes 10 and 11)</i>  | 355,355            | 769,761            | 1,559,805          | 2,211,841          |
| Professional fees  | 40,727             | 45,927             | 110,070            | 94,117             |
| Shareholder information  | 4,919              | 5,778              | 37,007             | 60,246             |
| Foreign exchange loss (gain)   | 156,463            | 122,341            | 73,276             | (240,918)          |
|  | <b>(996,299)</b>   | <b>(1,608,557)</b> | <b>(3,705,927)</b> | <b>(4,671,924)</b> |
| Recovery of previously impaired exploration and evaluation expenditures <i>(note 10)</i> | -                  | -                  | 7,600,000          | -                  |
| Gain on settlement of trade and other payables <i>(note 10)</i>                          | -                  | -                  | 9,998,862          | -                  |
| (Loss) on revaluation of warrant liability <i>(note 13)</i>                              | <b>(3,759,000)</b> | -                  | <b>(5,529,000)</b> | -                  |
| <b>Net income (loss) and comprehensive income (loss)</b>                                 | <b>(4,755,299)</b> | <b>(1,608,557)</b> | <b>8,363,935</b>   | <b>(4,671,924)</b> |
| <b>Basic net income (loss) per share</b>   | <b>(0.02)</b>      | <b>(0.01)</b>      | <b>0.04</b>        | <b>(0.04)</b>      |
| <b>Diluted net income (loss) per share</b>   | <b>(0.02)</b>      | <b>(0.01)</b>      | <b>0.04</b>        | <b>(0.04)</b>      |
| <b>Weighted average number of shares (000's) – basic</b>                                 | <b>235,248</b>     | <b>110,388</b>     | <b>203,035</b>     | <b>110,388</b>     |
| <b>Weighted average number of shares (000's) – diluted</b>                               | <b>235,248</b>     | <b>110,388</b>     | <b>214,251</b>     | <b>110,388</b>     |

*The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.*

**CGX Energy Inc.**  
**Unaudited Condensed Interim Consolidated Statements of Changes in Equity (Deficit)**  
*(US\$'s)*

|   | Share Capital      |                      | Reserves            |                        |                        |
|---|--------------------|----------------------|---------------------|------------------------|------------------------|
|   | Number of Shares   | Amount               | Share based         | Deficit                | Total                  |
| Balance at December 31, 2017  | 110,388,033        | \$257,864,691        | \$21,708,131        | \$(295,535,712)        | \$ (15,962,890)        |
| Shares issued for debt  | 5,714,285          | 1,200,000            | -                   | -                      | 1,200,000              |
| Share issue costs   | -                  | (30,370)             | -                   | -                      | (30,370)               |
| Net (loss) and comprehensive (loss) for the year                              | -                  | -                    | -                   | (6,056,361)            | (6,056,361)            |
| <b>Balance at December 31, 2018</b>   | <b>116,102,318</b> | <b>\$259,034,321</b> | <b>\$21,708,131</b> | <b>\$(301,592,073)</b> | <b>\$ (20,849,621)</b> |
| <b>Shares issued for rights offering</b>                                      | <b>116,102,318</b> | <b>21,779,530</b>    | <b>-</b>            | <b>-</b>               | <b>21,779,530</b>      |
| <b>Share issue costs</b>  | <b>-</b>           | <b>(428,823)</b>     | <b>-</b>            | <b>-</b>               | <b>(428,823)</b>       |
| <b>Warrants issued under rights offering</b>                                  | <b>-</b>           | <b>(2,259,000)</b>   | <b>-</b>            | <b>-</b>               | <b>(2,259,000)</b>     |
| <b>Shares issued on conversion of convertible debenture</b>                   | <b>40,000,000</b>  | <b>8,800,000</b>     | <b>-</b>            | <b>-</b>               | <b>8,800,000</b>       |
| <b>Equity portion of convertible debenture</b>                                | <b>-</b>           | <b>-</b>             | <b>169,000</b>      | <b>-</b>               | <b>169,000</b>         |
| <b>Transfer of contributed surplus on conversion of convertible debenture</b> | <b>-</b>           | <b>169,000</b>       | <b>(169,000)</b>    | <b>-</b>               | <b>-</b>               |
| <b>Net income and comprehensive income for the period</b>                     | <b>-</b>           | <b>-</b>             | <b>-</b>            | <b>8,363,935</b>       | <b>8,363,935</b>       |
| <b>Balance at September 30, 2019</b>  | <b>272,204,636</b> | <b>\$287,095,028</b> | <b>\$21,708,131</b> | <b>\$(293,228,138)</b> | <b>\$ 15,575,021</b>   |
| <hr/>   |                    |                      |                     |                        |                        |
| Balance at December 31, 2017  | 110,388,033        | \$257,864,691        | \$21,708,131        | \$(295,535,712)        | \$ (15,962,890)        |
| Net loss and comprehensive loss for the period                                | -                  | -                    | -                   | (4,671,924)            | (4,671,924)            |
| Balance at September 30, 2018   | 110,388,033        | \$257,864,691        | \$21,708,131        | \$(300,207,636)        | \$ (20,634,814)        |

*The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.*

**CGX Energy Inc.**  
**Unaudited Condensed Interim Consolidated Statements of Cash Flow**  
(US\$'s)

| <b>Nine month period ended September 30,</b>  | <b>2019</b>         | <b>2018</b> |
|---|---------------------|-------------|
| <b>Operations</b>   | <b>\$</b>           | <b>\$</b>   |
| Net income (loss) for the period  | <b>8,363,935</b>    | (4,671,924) |
| Adjustments to reconcile net income (loss) for the period to cash flow from operating activities:         |                     |             |
| Unrealized foreign exchange loss (gain)   | <b>73,276</b>       | (240,918)   |
| Amortization  | <b>25,953</b>       | 27,419      |
| Interest accretion on trade and other payables, loans and convertible debentures payable to related party | <b>1,146,218</b>    | 2,211,877   |
| Recovery of previously impaired exploration and evaluation expenditures                                   | <b>(7,600,000)</b>  | -           |
| Gain on settlement of trade and other payables  | <b>(9,998,862)</b>  | -           |
| Loss on revaluation of warrant liability  | <b>5,529,000</b>    | -           |
| Net change in non-cash working capital items:   |                     |             |
| Trade receivables and other assets  | <b>(1,510,125)</b>  | (75,594)    |
| Deferred transaction costs  | <b>431,500</b>      | -           |
| Trade and other payables  | <b>(8,163,441)</b>  | 214,106     |
| <b>Cash flow (used in) operating activities</b>   | <b>(11,702,546)</b> | (2,535,034) |
| <b>Financing</b>  |                     |             |
| Proceeds from shares issued for rights offering   | <b>21,779,530</b>   | -           |
| Share issue costs for rights offering   | <b>(428,823)</b>    | -           |
| Proceeds from loans from related party  | <b>961,763</b>      | 4,716,479   |
| <b>Cash flow from financing activities</b>  | <b>22,312,470</b>   | 4,716,479   |
| <b>Investing</b>  |                     |             |
| Purchases of exploration and evaluation expenditures  | <b>(6,588,060)</b>  | (1,344,783) |
| Proceeds from disposition of exploration and evaluation expenditures                                      | <b>11,615,887</b>   | -           |
| Purchases of property, plant and equipment  | <b>(88,318)</b>     | (61,687)    |
| <b>Cash flow from (used in) investing activities</b>  | <b>4,939,509</b>    | (1,406,470) |
| <b>Net increase in cash and cash equivalents</b>  | <b>15,549,433</b>   | 774,975     |
| Effect of exchange rate changes on cash held in foreign currencies  | <b>7,159</b>        | 23,860      |
| Cash and cash equivalents at beginning of period  | <b>2,842,455</b>    | 416,676     |
| <b>Cash and cash equivalents at end of period</b>   | <b>18,399,047</b>   | 1,215,511   |
| <b>Supplementary Information</b>  |                     |             |
| Interest paid   | <b>204,312</b>      | -           |
| Income tax paid   | -                   | -           |
| Grant date fair value of warrants issued under rights offering  | <b>2,259,000</b>    | -           |
| Shares issued on conversion of convertible debenture  | <b>8,800,000</b>    | -           |
| Settlement of related party debt on disposition of exploration and evaluation expenditures                | <b>21,717,813</b>   | -           |

*The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.*

## CGX Energy Inc.

### Notes to the Unaudited Condensed Interim Consolidated Financial Statements – (US\$'s) For the Three and Nine Month Periods Ended September 30, 2019 and 2018

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#### General

CGX Energy Inc. (“**CGX**” or the “**Company**”) is incorporated under the laws of Ontario. The Company’s head office is located at 333 Bay Street, Suite 1100, Toronto, Ontario, M5H 2R2. Its principal business activity is petroleum and natural gas exploration offshore the Cooperative Republic of Guyana, South America (“**Guyana**”).

#### 1. Nature of operations and going concern uncertainty

The Company is in the process of exploring and evaluating petroleum and natural gas properties in the Guyana Suriname basin in South America. The business of petroleum and natural gas exploration involves a high degree of risk and there can be no assurance that the Company’s exploration programs will result in profitable operations. The amounts shown as exploration and evaluation expenditures include acquisition costs and are net of any impairment charges to date; these amounts are not necessarily representative of present or future cash flows. The recoverability of the Company’s exploration and evaluation expenditures is dependent upon the discovery of economically recoverable petroleum and natural gas reserves; securing and maintaining title and beneficial interest in the properties; the ability to obtain the necessary financing to complete exploration, development and construction of processing facilities; obtaining certain government approvals and attaining profitable production or alternatively, upon the Company’s ability to dispose of its interest on an advantageous basis; all of which are uncertain.

The Company has a history of operating losses and as at September 30, 2019 had working capital of \$5,145,061 (December 31, 2018 - working capital deficiency of \$55,900,318) and an accumulated deficit of \$293,228,138 (December 31, 2018 - \$301,592,073). The ability of the Company to continue as a going concern is dependent on securing additional required financing through issuing additional equity or debt instruments, the sale of Company assets, or securing a joint farm-out for its Petroleum Production Licences (“**PPLs**”). As a result and given the Company’s capital commitment requirements under the Company’s PPLs outlined in note 10, the Company does not have sufficient cash flow to meet its operating requirements for the 12 month period from the statement of financial position date. While the Company has been successful in raising financing in the past and believes in the viability of its strategy and that the actions presently being taken provide the best opportunity for the Company to continue as a going concern, there can be no assurances to that effect. As a result there exist material uncertainties which cast significant doubt as to the Company’s ability to continue as a going concern.

The Company’s PPLs title may be subject to government licensing requirements or regulations, unregistered prior agreements, unregistered claims, aboriginal claims, and non-compliance with regulatory, environmental and social requirements.

These unaudited condensed interim consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying unaudited condensed interim consolidated financial statements. Such adjustments could be material. It is not possible to predict whether the Company will be able to raise adequate financing or to ultimately attain profitable levels of operations.

**Notes to the Unaudited Condensed Interim Consolidated Financial Statements – (US\$’s)  
For the Three and Nine Month Periods Ended September 30, 2019 and 2018**

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**2. Basis of Preparation**

**2.1 Statement of compliance**

These unaudited condensed interim consolidated financial statements, including comparatives, have been prepared in accordance with International Accounting Standards (“IAS”) 34 ‘Interim Financial Reporting’ (“IAS 34”) using accounting policies consistent with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

**2.2 Basis of presentation**

These unaudited condensed interim consolidated financial statements were authorized by the Board of Directors of the Company on November 2, 2019.

The notes herein include only significant transactions and events occurring since the Company’s last fiscal year end and are not fully inclusive of all matters required to be disclosed in the annual audited consolidated financial statements. Accordingly, these unaudited condensed interim consolidated financial statements should be read in conjunction with our most recent annual consolidated financial statements for the year ended December 31, 2018.

***New standards, interpretations and amendments adopted by the Company***

The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the Company’s annual consolidated financial statements for the year ended December 31, 2018, except for the adoption of new standards and interpretations effective as of January 1, 2019 outlined in note 2.4.

**2.3 Use of management estimates, judgments and measurement uncertainty**

The preparation of these unaudited condensed interim consolidated financial statements requires management to make judgements and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the unaudited condensed interim consolidated financial statements and reported amounts of revenues and expenses during the reporting years. Such estimates primarily relate to unsettled transactions and events as at the date of the unaudited condensed interim consolidated financial statements. On an ongoing basis, management evaluates its judgements and estimates in relation to assets, liabilities, revenue and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgements and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions. The most significant estimates relate to the valuation of exploration and evaluation expenditures, property, plant and equipment (“PP&E”), warrant liability, deferred income tax amounts, determination of cash generating units and impairment testing, functional currency and the valuation of share-based payments. Significant estimates and judgments made by management in the preparation of these unaudited condensed interim consolidated financial statements are outlined below:

***Exploration and evaluation (“E&E”) expenditures (Note 10) and PP&E (Note 9)***

The application of the Company’s accounting policy for exploration and evaluation expenditures requires judgement to determine whether it is probable that future economic benefits are likely, from either future exploitation or sale, or whether activities have not reached a stage which permits a reasonable assessment of the existence of reserves. The determination of reserves and resources is itself an estimation process that requires varying degrees of uncertainty depending on how the resources are classified. These estimates directly impact when the Company defers exploration and evaluation expenditures. The deferral policy requires management to make certain estimates and assumptions as to future events and circumstances; in particular, whether an economically viable extraction operation can be established. Any such estimates and assumptions may change as new information becomes available.

**Notes to the Unaudited Condensed Interim Consolidated Financial Statements – (US\$'s)  
For the Three and Nine Month Periods Ended September 30, 2019 and 2018**

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**2. Basis of Preparation** *(continued)*

**2.3 Use of management estimates, judgments and measurement uncertainty** *(continued)*

**Exploration and evaluation (“E&E”) expenditures (Note 10) and PP&E (Note 9)** *(continued)*

If, after an expenditure is capitalised or for PP&E, information becomes available suggesting that the recovery of the expenditure or PP&E is unlikely or if an impairment of the expenditure or PP&E has incurred, the relevant capitalised amount is written off in profit or loss in the period when the new information becomes available.

**Valuation of share based payments and warrant liability**

The Black-Scholes option pricing model is used to determine the fair value for the share based payments and warrant liability and utilizes subjective assumptions such as expected price volatility and expected life of the option or warrant. Discrepancies in these input assumptions can significantly affect the fair value estimate.

**Cash generating units and impairment testing**

Cash generating units (“CGU’s”) are identified to be the major producing fields, the lowest level at which there are identifiable cash inflows that are largely independent of cash inflows of other groups of assets. The determination of CGUs requires judgment in defining a group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. CGUs are determined by similar geological structure, shared infrastructure, geographical proximity, commodity type, similar exposure to market risks and materiality.

The Company prepares and reviews separate detailed budgets and forecast calculations for each of the CGUs. Impairment assessment is generally carried out separately for each CGU based on cash flow forecasts calculated based on proven reserves for each CGU (value in use).

**Functional currency**

The determination of the Company's functional currency requires analyzing facts that are considered primary factors, and if the result is not conclusive, the secondary factors. The analysis requires the Company to apply significant judgment since primary and secondary factors may be mixed. In determining its functional currency the Company analyzed both the primary and secondary factors, including the currency of the Company's operating costs in Canada, United States and Guyana, and sources of financing.

**Income taxes**

The Company is subject to income, value added, withholding and other taxes. Significant judgment is required in determining the Company's provisions for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company's income, value added, withholding and other tax liabilities requires interpretation of complex laws and regulations. The Company's interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax related filings are subject to government audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made.

## 2. Basis of Preparation *(continued)*

### 2.4 New and revised standards and interpretations

#### ***New standards and interpretations adopted in current year***

At January 1, 2019, the Company adopted the following standards:

- IFRS 16 *Leases* (“**IFRS 16**”), sets out the principles for the recognition, measurement and disclosure of leases. IFRS 16 provides revised guidance on identifying a lease and for separating lease and nonlease components of a contract. IFRS 16 introduces a single accounting model for all lessees and requires a lessee to recognize right-of-use assets and lease liabilities for leases with terms of more than 12-months, unless the underlying asset is of low value. Under IFRS 16, lessor accounting for operating and finance leases will remain substantially unchanged. The adoption of this standard had no material impact on the unaudited condensed interim consolidated financial statements of the Company.

## 3. Capital management

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of petroleum and natural gas properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of management to sustain future development of the business. The properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and will be required to raise additional funding. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company’s approach to capital management during the nine month period ended September 30, 2019 and the year ended December 31, 2018.

The Company is not subject to any capital requirements imposed by a lending institution or regulatory body, other than of the TSX Venture Exchange (“**TSXV**”) which requires adequate working capital or financial resources of the greater of (i) \$50,000 and (ii) an amount required in order to maintain operations and cover general and administrative expenses for a period of 6 months. As of September 30, 2019 and the date of these unaudited condensed interim consolidated financial statements, the Company may not be compliant with the policies of the TSXV. The impact of this violation is not known and is ultimately dependent on the discretion of the TSXV.

The Company considers its capital to be equity, which as at September 30, 2019 totaled \$15,575,021 and was comprised of share capital, reserve accounts and deficit (December 31, 2018 – \$3,447,222, comprised of share capital, reserve accounts, deficit, debentures from related party and loans from related party).

The Company invests all capital that is surplus to its immediate operational needs in short-term, liquid and highly rated financial instruments, such as cash, short-term guarantee deposits, all held with major Canadian financial institutions and Canadian or United States government treasury bills.

Management plans to secure any necessary future financing through a combination of the issuance of new equity, debt instruments or the sale of Company assets. There is no assurance, however, that these initiatives will be successful.

#### 4. Financial instruments

##### Fair value

Cash and cash equivalents and trade receivables and other assets are measured at amortized cost which approximates fair value due to their short-term nature. Trade and other payables, loans from related party and debentures from related party are measured at amortized cost which also approximates fair value due to their short-term nature. Warrant liability is measured as fair value through profit and loss with level two classification within the fair value hierarchy.

The fair value hierarchy has the following levels:

- Level one includes quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level two includes inputs that are observable other than quoted prices included in level one.
- Level three includes inputs that are not based on observable market data.

As at September 30, 2019 and December 31, 2018, the Company does not have any financial assets measured at fair value and that require classification within the fair value hierarchy.

These estimates are subject to and involve uncertainties and matters of significant judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

A summary of the Company's risk exposures as it relates to financial instruments are reflected below:

##### i) Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The credit risk is attributable to various financial instruments, as noted below. The credit risk is limited to the carrying value amount carried on the statement of financial position:

- a) **Cash and cash equivalents** – Cash and cash equivalents are held mainly with major Canadian and American financial institutions in Canada and the United States and therefore the risk of loss is minimal. The Company keeps only a minimal amount of cash and cash equivalents in major Guyanese banks to pay only its current month activities.
- b) **Trade receivables and other assets** – The Company is exposed to credit risk attributable to its farm-in partner. The Company does not believe that this risk is significant. (See Note 7)

The Company's maximum exposure to credit risk as at September 30, 2019 is the carrying value of cash and cash equivalents and trade receivables and other assets.

##### ii) Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities as they become due. As at September 30, 2019, the Company had a working capital of \$5,145,061 (December 31, 2018 - working capital deficiency of \$55,900,318). In order to meet its working capital and property exploration expenditures, the Company must secure further financing to ensure that those obligations are properly discharged (See Note 1). There can be no assurance that the Company will be successful in its efforts to arrange additional financing on terms satisfactory to the Company. If additional financing is raised by the issuance of shares from the treasury of the Company, control of the Company may change and shareholders may suffer additional dilution. If adequate financing is not available, the Company may be required to delay, reduce the scope of, or eliminate one or more exploration activities or relinquish rights to certain of its interests.

## CGX Energy Inc.

### Notes to the Unaudited Condensed Interim Consolidated Financial Statements – (US\$'s) For the Three and Nine Month Periods Ended September 30, 2019 and 2018

#### 4. Financial instruments (continued)

##### iii) Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, commodity prices and/or stock market movements (price risk).

##### a) Interest rate risk

The Company is not exposed to significant interest rate price risk due to the short-term nature of its monetary assets and liabilities. Cash not required in the short term is invested in short-term guaranteed investment certificates, as appropriate.

##### b) Currency risk

The Company's exploration and evaluation activities are substantially denominated in US dollars. The Company's funds are predominantly kept in Canadian ("C\$") and US dollars, with major Canadian and US financial institutions. As at September 30, 2019, the Company had approximately C\$10,015,000 (December 31, 2018 - C\$1,000) in Canadian dollar denominated cash deposits. The Company has one significant C\$ Bridge Loan from related party payable, which as at September 30, 2019 had a principal balance of C\$Nil (December 31, 2018 - C\$9,200,000).

#### 5. Sensitivity analysis

The Company's funds are mainly kept in Canadian and US dollars with major Canadian and US financial institutions. As at September 30, 2019, the Company's exposure to foreign currency balances approximate as follows:

| Account                     | Foreign Currency | Exposure           |                 |
|-----------------------------|------------------|--------------------|-----------------|
|                             |                  | September 30, 2019 | 2018            |
| Cash and cash equivalents   | C \$             | \$ 10,000,000      | \$ 100,000      |
| Trade and other receivables | C \$             | 100,000            | -               |
| Trade and other payables    | C \$             | (200,000)          | (1,000,000)     |
| Loans from related party    | C \$             | -                  | (9,100,000)     |
|                             |                  | \$ 9,900,000       | \$ (10,000,000) |

Based on management's knowledge and experience of the financial markets, the Company believes it is reasonably possible over a one year period that a change of 10% in foreign exchange rates would increase/decrease net loss for the nine month period ended September 30, 2019 by \$990,000 (2018 - \$1,000,000).

#### 6. Cash and cash equivalents

The balance of cash and cash equivalents at September 30, 2019, consisted of \$10,866,496 (December 31, 2018 - \$2,817,455) on deposit with major financial institutions and \$7,532,551 (December 31, 2018 - \$25,000) in short-term guaranteed investment certificates and fixed instruments with remaining maturities on the date of purchase of less than 90 days.

**CGX Energy Inc.**

**Notes to the Unaudited Condensed Interim Consolidated Financial Statements – (US\$'s)  
For the Three and Nine Month Periods Ended September 30, 2019 and 2018**

**7. Trade receivables and other assets**

The Company's trade receivables and other assets arise from harmonized sales tax ("HST") receivable, trade receivables, receivables from farm-in partner and prepaid expenses. These are broken down as follows:

| <b>As at,</b>                                   | <b>September 30, 2019</b> | <b>December 31, 2018</b> |
|---|---------------------------|--------------------------|
| Trade receivables                               | \$ 25,299                 | \$ 37,575                |
| Receivables from farm-in partner                | 1,500,599                 | -                        |
| HST   | 15,259                    | 18,063                   |
| Prepaid expenses                                | 109,702                   | 85,096                   |
| <b>Total trade receivables and other assets</b> | <b>\$ 1,650,859</b>       | <b>\$ 140,734</b>        |

Below is an aged analysis of the Company's trade receivables:

| <b>As at,</b>                  | <b>September 30, 2019</b> | <b>December 31, 2018</b> |
|--------------------------------|---------------------------|--------------------------|
| 1 -90 days                     | \$ -                      | \$ 37,575                |
| Over 90 days                   | 25,299                    | -                        |
| <b>Total trade receivables</b> | <b>\$ 25,299</b>          | <b>\$ 37,575</b>         |

At September 30, 2019 and December 31, 2018, the Company anticipates full recovery of these amounts receivable and therefore no additional allowance has been recorded against these receivables. The credit risk on the receivables has been further discussed in Note 4(i). The Company holds no collateral for any receivable amounts outstanding as at September 30, 2019 and December 31, 2018.

Receivables from farm-in partner as at September 30, 2019 are presented net of amounts cash called in advance of expenditures not yet incurred. The balance as at September 30, 2019 consists of \$4,791,555 in cash calls receivable less amounts requested in advance of future expenditures of \$3,290,956.

**8. Deferred transaction costs**

As at September 30, 2019, the Company has incurred legal and regulatory costs of \$Nil (December 31, 2018 - \$431,500) related to transactions that provided future economic benefit to the Company through a farm-in agreement on two of its PPLs and Petroleum Agreements ("PAs") and a rights offering completed in the nine month period ended September 30, 2019 (see notes 10 and 14). These costs were recorded as an asset until the transactions were completed and these costs were recorded against the proceeds received as transaction costs.

CGX Energy Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements – (US\$'s)  
For the Three and Nine Month Periods Ended September 30, 2019 and 2018

9. Property, plant and equipment

|                                   | Staging Facility <sup>(1)</sup> | Logistics Yard <sup>(1)</sup> | Vehicles, office furniture and fixtures | Computer, software and equipment | Total               |
|-----------------------------------|---------------------------------|-------------------------------|---|----------------------------------|---------------------|
| <b>Cost</b>                       |                                 |                               |   |                                  |                     |
| As at December 31, 2017           | \$ 6,291,806                    | \$ 686,111                    | \$ 178,878                              | \$ 539,637                       | \$ 7,696,432        |
| Net additions                     | 52,361                          | 19,874                        | -                                       | -                                | 72,235              |
| <b>As at December 31, 2018</b>    | <b>\$ 6,344,167</b>             | <b>\$ 705,985</b>             | <b>\$ 178,878</b>                       | <b>\$ 539,637</b>                | <b>\$ 7,768,667</b> |
| <b>Net additions</b>              | <b>240</b>                      | <b>199</b>                    | <b>44,476</b>                           | <b>-</b>                         | <b>44,915</b>       |
| <b>As at September 30, 2019</b>   | <b>\$ 6,344,407</b>             | <b>\$ 706,184</b>             | <b>\$ 223,354</b>                       | <b>\$ 539,637</b>                | <b>\$ 7,813,582</b> |
| <b>Accumulated amortization</b>   |                                 |                               |   |                                  |                     |
| As at December 31, 2017           | \$ -                            | \$ -                          | \$ 98,947                               | \$ 472,205                       | \$ 571,152          |
| Amortization <sup>(2)</sup>       | -                               | -                             | 17,006                                  | 19,411                           | 36,417              |
| <b>As at December 31, 2018</b>    | <b>\$ -</b>                     | <b>\$ -</b>                   | <b>\$ 115,953</b>                       | <b>\$ 491,616</b>                | <b>\$ 607,569</b>   |
| <b>Amortization<sup>(2)</sup></b> | <b>-</b>                        | <b>-</b>                      | <b>15,640</b>                           | <b>10,313</b>                    | <b>25,953</b>       |
| <b>As at September 30, 2019</b>   | <b>\$ -</b>                     | <b>\$ -</b>                   | <b>\$ 131,593</b>                       | <b>\$ 501,929</b>                | <b>\$ 633,522</b>   |
| <b>Net book value</b>             |                                 |                               |   |                                  |                     |
| As at December 31, 2018           | \$ 6,344,167                    | \$ 705,985                    | \$ 62,925                               | \$ 48,021                        | \$ 7,161,098        |
| <b>As at September 30, 2019</b>   | <b>\$ 6,344,407</b>             | <b>\$ 706,184</b>             | <b>\$ 91,761</b>                        | <b>\$ 37,708</b>                 | <b>\$ 7,180,060</b> |

Notes: <sup>(1)</sup> No amortization has been recorded on these assets as they are still under construction.

<sup>(2)</sup> Amortization has been recorded within general and administrative expense in the statement of comprehensive loss.

The lands upon which the staging facility is located are subject to an industrial lease of State land with the Commissioner of Lands and Surveys in Guyana. The term of the lease is for a period of 50 years commencing in 2010 with an option to renew for an additional 50 years. This land is subject to annual rental commitments relating to this lease.

10. Exploration and evaluation expenditures

|  | Corentyne            | Berbice             | Demerara            | Total                |
|--|----------------------|---------------------|---------------------|----------------------|
| Balance, December 31, 2017   | \$ 16,090,096        | \$ 1,086,732        | \$ 8,264,094        | \$ 25,440,922        |
| Net additions  | 1,791,425            | 277,750             | 379,502             | 2,448,677            |
| <b>Balance, December 31, 2018</b>  | <b>\$ 17,881,521</b> | <b>\$ 1,364,482</b> | <b>\$ 8,643,596</b> | <b>\$ 27,889,599</b> |
| <b>Net additions</b>   | <b>7,928,079</b>     | <b>50,027</b>       | <b>528,195</b>      | <b>8,506,301</b>     |
| <b>Proceeds on farm-out</b>  | <b>(16,666,500)</b>  | <b>-</b>            | <b>(16,666,500)</b> | <b>(33,333,000)</b>  |
| <b>Transaction costs related to farm-out</b>                                   | <b>187,500</b>       | <b>-</b>            | <b>187,500</b>      | <b>375,000</b>       |
| <b>Recovery of previously impaired exploration and evaluation expenditures</b> | <b>-</b>             | <b>-</b>            | <b>7,600,000</b>    | <b>7,600,000</b>     |
| <b>Balance, September 30, 2019</b>   | <b>\$ 9,330,600</b>  | <b>\$ 1,414,509</b> | <b>\$ 292,791</b>   | <b>\$ 11,037,900</b> |

As at September 30, 2019 and December 31, 2018, the expenditures capitalized above include costs for licence acquisitions and maintenance of licences, general exploration, geological and geophysical consulting, surveys, 3D-seismic acquisition, processing and interpretation, drill planning and well exploration costs.

## CGX Energy Inc.

### Notes to the Unaudited Condensed Interim Consolidated Financial Statements – (US\$'s) For the Three and Nine Month Periods Ended September 30, 2019 and 2018

#### 10. Exploration and evaluation expenditures *(continued)*

##### Corentyne PA, Guyana

The Company's 100% owned subsidiary, CGX Resources Inc. ("**CGX Resources**"), was granted the Corentyne PA on June 24, 1998. On November 27, 2012, the Company was issued a new PA and PPL offshore Guyana. On December 15, 2017, the Company was issued an addendum to the November 27, 2012 PA ("**Addendum I**"). Under the terms of the Addendum I, the Company's work commitments were modified and the Company relinquished 25% of the original contract area block. Effective May 20, 2019, the Corentyne PPL and PA is 66.667% (December 31, 2018 – 100%) owned by CGX Resources. During the nine month period ended September 30, 2019, the Company received an addendum to the Addendum I on the Corentyne PPL, whereby the principal agreement has now been modified as follows, with all other aspects of the Addendum I remaining unchanged:

##### First Renewal Period, Phase Two (27<sup>th</sup> November 2017 to 27<sup>th</sup> November 2019)

"During phase two of the first renewal period, the Company shall complete additional seismic acquisition or seismic processing."

##### Second Renewal Period, Phase One (27<sup>th</sup> November 2019 to 27<sup>th</sup> November 2020)

"During phase one of the second renewal period, the Company shall drill one (1) Exploration Well."

The table below outlines the commitments under the Addendum I as at September 30, 2019:

| Period                                   | Phase  | Exploration Obligation                                    | Dates                       |
|--|--|---|-----------------------------|
| First<br>Renewal<br>Period - 3<br>Years  | Phase One - 12 Months  | Commence planning to drill 1 exploration well (Completed) | Nov 27, 2016 - Nov 27, 2017 |
|  | - At the end of phase one of the first renewal period, the Company shall elect either to relinquish the entire Contract Area except for any Discovery Area and the area contained in any Petroleum Production Licence or commit to the work programme in phase 2. (Company has committed to complete work in phase 2)  |   |                             |
|  | Phase Two - 24 Months  | Complete additional seismic acquisition or reprocessing   | Nov 27, 2017 - Nov 27, 2019 |
|  | - At the end of the first renewal period of three (3) years, the Company shall elect either to relinquish the entire Contract Area except for any Discovery Area and the area contained in any Petroleum Production Licence or relinquish twenty-five (25%) percent of the Contract Area and renew the Petroleum Prospecting Licence for a second period of three (3) years. |   |                             |
| Second<br>Renewal<br>Period - 3<br>Years | Phase One - 12 Months  | Drill 1 exploration well                                  | Nov 27, 2019 - Nov 27, 2020 |
|  | - At the end of phase one of the second renewal period, the Company shall elect either to relinquish the entire Contract Area except for any Discovery Area and the area contained in any Petroleum Production Licence or commit to the work programme in phase 2.   |   |                             |
|  | Phase Two - 24 Months  | Drill 1 exploration well                                  | Nov 27, 2020 - Nov 27, 2022 |
|  | - At the end of the second renewal period of three (3) years, the Company shall relinquish the entire Contract Area except for any Discovery Area, the area contained in any Petroleum Production Licence and any other portion of the Contract Area on which the Minister Responsible for Petroleum agrees to permit the Company to conduct further exploration activities. |   |                             |

If a discovery is made, CGX has the right to apply to the Minister for a Petroleum Production Licence with respect to that portion of the contract area having a significant discovery.

After commercial production begins, the Company is allowed to recover contract costs as defined in the PA from "cost oil" produced and sold from the contract area and limited in any month to an amount which equals seventy-five percent (75%) of the total production from the contract area for such month excluding any crude oil and/or natural gas used in petroleum operations or which is lost. The Company's share of the remaining production or "profit oil" is 47%.

## CGX Energy Inc.

### Notes to the Unaudited Condensed Interim Consolidated Financial Statements – (US\$'s) For the Three and Nine Month Periods Ended September 30, 2019 and 2018

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#### 10. Exploration and evaluation expenditures *(continued)*

##### Corentyne PA, Guyana *(continued)*

To the extent that in any month recoverable contract costs exceed the value of cost oil and/or cost gas, the unrecoverable amount shall be carried forward and shall be recoverable in the immediately succeeding month, and to the extent not then recovered, in the subsequent month or months.

The Company has \$155,000,000 of recoverable contract costs brought forward from the original Corentyne licence. This cost can be recovered against any future commercial production.

Annual rental fees of \$100,000 and training fees of \$100,000 are required to be paid under the PPL.

##### Farm-in agreement

In December 2018, the Company and Frontera Energy Corporation (“**Frontera**”) entered into a letter of intent, whereby a Frontera subsidiary and CGX Resources, were to enter into Joint Operating Agreements (the “**JOAs**”) covering CGX Resources two shallow water offshore Petroleum Prospecting Licences in Guyana, the Corentyne and Demerara PPLs and PAs. On January 30, 2019, CGX Resources and Frontera Energy Guyana Corp. executed the JOAs, subject to amendments as agreed upon by both parties. The JOAs provided for a transfer of a 33.333% interest in both Corentyne and Demerara Petroleum Prospecting Licences in exchange for a \$33,333,000 signing bonus. Under the JOAs, Frontera Energy Guyana Corp. would pay one-third of the applicable costs plus an additional 8.333% of the Company’s direct drilling costs for the initial exploratory commitment wells in the two blocks. The additional 8.333% carry provided shall be subject to a maximum gross amount (including tax and all costs) of (i) \$30,000,000 for drilling the first exploratory well under the Corentyne Petroleum Agreement and (ii) \$40,000,000 for drilling the first exploratory well under the Demerara Petroleum Agreement. CGX Resources will be the operator.

On May 28, 2019, the transfers of the 33.333% interest in both the Corentyne and Demerara Prospecting Licences were completed. The transfers are effective May 20, 2019. As a result, on May 28, 2019, \$8,500,851 was due to the Company on closing, being the net of the \$33,333,000 signing bonus due from Frontera Energy Guyana Corp., less the amount of \$24,832,149 of outstanding debts due to Frontera Energy Guyana Corp. by the Company.

##### Settlement agreements

In 2014, the Company entered into a definitive rig agreement with Japan Drilling Co., Ltd. (“**JDC**”) (“**Drilling Agreement**”), and a rig sharing agreement (the “**Rig Sharing Agreement**”) with JDC and Teikoku Oil (Suriname) Co., Ltd. (“**INPEX**”) for the shared use of JDC’s HAKURYU-12 drilling rig (the “**Rig**”). This Rig was intended to be used for the first commitment well that is required under the Corentyne PPL. During the year ended December 31, 2015, the Company terminated these agreements.

Upon termination of the Drilling Agreement, the total amount payable to JDC was approximately \$20.35 million (the “**JDC Payable**”). Pursuant to the terms of the definitive agreement entered into with JDC with an effective date of November 30, 2015, the JDC Payable was to be paid as follows: (i) \$5.5 million payable in common shares; (ii) \$500,000 on or before December 1, 2015; (iii) approximately \$7.18 million on or before March 25, 2016; and (iv) approximately \$7.18 million on or before June 15, 2016. The amounts payable were included in trade and other payables as at December 31, 2018. During the year ended December 31, 2016, JDC was issued 16,522,500 common shares at a price of C\$0.44 per share as per the terms of the definitive agreement resulting in JDC owning approximately 15% of the Company on a non-diluted basis.

Per the definitive agreement, the payments not paid in full, totaling \$14.76 million, incur interest at a rate of 8% per annum.

## CGX Energy Inc.

### Notes to the Unaudited Condensed Interim Consolidated Financial Statements – (US\$'s) For the Three and Nine Month Periods Ended September 30, 2019 and 2018

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#### 10. Exploration and evaluation expenditures *(continued)*

##### Corentyne PA, Guyana *(continued)*

##### Settlement agreements *(continued)*

In October 2018, the Company entered into an agreement with JDC to settle all liabilities claimed by JDC under the JDC Payable, by proposing to pay JDC 45% of the principal amount of the funds claimed and recorded (or \$6,637,537), together with interest accrued on such reduced amount in the sum of \$1,266,500 (or \$7,904,037 in the aggregate), in order to fully satisfy all liabilities.

The completion of this transaction was conditional on the Company successfully completing a financing, which condition may be waived by the Company. The agreement between JDC and the Company would have terminated if the closing of the transaction was not completed on or before March 31, 2019. On March 28, 2019, the Company made the agreed settlement payment of \$7,904,037 and as a result recorded a gain on settlement of trade and other payables of \$9,998,862 during the nine month period ended September 30, 2019 (2018 - \$Nil).

Under the Rig Sharing Agreement, the Company owed approximately \$2.9 million to INPEX for shared costs incurred in the utilization of the Rig. INPEX agreed to allow the Company to defer payment until December 1, 2015. This amount was included in trade and other payables as at December 31, 2018. In accordance with the Rig Sharing Agreement, since the amount was not paid in full by December 1, 2015, amounts outstanding shall accrue interest at a rate of Libor plus 7% per annum. During the year ended December 31, 2018, Frontera in a transaction separate from the Company purchased the rights to the amounts owing to INPEX by the Company directly from INPEX. On May 28, 2019, this amount including all accrued interest and other assumed payables for a total of \$3,902,698 was settled as partial payment for the signing bonus under the JOAs and as a result at September 30, 2019, the total amount in trade and others payables owing now to Frontera for principal and interest related to the cancelled rig agreements was \$Nil (December 31, 2018 - \$3,792,968).

##### Rig agreement

During the nine month period ended September 30, 2019, the Company executed a letter of understanding (“LOU”) with Rowan Rigs S.a.r.l. (the “Contractor”) regarding the drilling rig contract entered into on December 14, 2018, which required the prepayment of certain costs for the use of the Ralph Coffman offshore jack-up rig. Under the terms of the LOU, the Company has agreed with the Contractor that all operational obligations under the drilling rig contract will be deferred until the parties can enter into an amended agreement. The Company will not be entitled to the reimbursement of the mobilization fee under the terms of the LOU of approximately \$1.17 million and, if an amended agreement is executed by CRI and the Contractor on or before July 1, 2020, the Company will receive a credit of \$4.17 million towards payments due under the amended agreement.

##### Berbice PA, Guyana

The Company, through its 62% owned subsidiary ON Energy Inc., acquired the Berbice PA in October 2003. The Berbice PA was renewable for up to two three-year periods.

On February 12, 2013, ON Energy Inc. entered into a new Berbice PA and PPL, which applies to the former Berbice licence and the former onshore portion of the Company’s original Corentyne Petroleum Agreement. On December 15, 2017, the Company was issued an addendum to the February 12, 2013 PA (“Addendum II”). Under the terms of the Addendum II, the Company’s work commitments were modified.

**CGX Energy Inc.**

**Notes to the Unaudited Condensed Interim Consolidated Financial Statements – (US\$'s)  
For the Three and Nine Month Periods Ended September 30, 2019 and 2018**

**10. Exploration and evaluation expenditures (continued)**

**Berbice PA, Guyana (continued)**

The table below outlines the commitments under the Addendum II as at September 30, 2019:

| Period                                   | Phase  | Exploration Obligation  | Dates                       |
|--|--|---|-----------------------------|
| First<br>Renewal<br>Period - 3<br>Years  | Phase One - 18 Months  | Compile all relevant data, information and budgetary allocations for a geochemical survey and submit to the GGMC for approval (Completed) | Feb 12, 2017 - Aug 12, 2018 |
|  | - At the end of phase one (1) of the first renewal period, the Company shall elect either to relinquish the entire Contract Area except for any Discovery Area and the area contained in any Petroleum Production License or commit to the work programme in phase two (2).  |   |                             |
|  | Phase Two - 18 Months  | (a) Complete a geochemical survey of a minimum 120 sq km (Completed)<br>(b) Commence a seismic program defined by the geochemical survey  | Aug 12, 2018 - Feb 12, 2020 |
|  | - At the end of the first renewal period of three (3) years, the Company shall elect either to relinquish the entire Contract Area except for any Discovery Area and the area contained in any Petroleum Production License or relinquish twenty-five (25%) percent of the Contract Area and renew the Petroleum Prospecting Licence for a second period of three (3) years. |   |                             |
| Second<br>Renewal<br>Period - 3<br>Years | Phase One - 18 Months  | Complete seismic program and all associated processing and interpretation   | Feb 12, 2020 - Aug 12, 2021 |
|  | - At the end of phase one (1) of the first renewal period, the Company shall elect either to relinquish the entire Contract Area except for any Discovery Area and the area contained in any Petroleum Production License or commit to the work programme in phase two (2).  |   |                             |
|  | Phase Two - 18 Months  | Drill 1 exploration well  | Aug 12, 2021 - Feb 12, 2023 |
|  | - At the end of the second renewal period of three (3) years, the Company shall relinquish the entire Contract Area except for any Discovery Area, the area contained in any Petroleum Production Licence and any other portion of the Contract Area on which the Minister Responsible for Petroleum agrees to permit the Company to conduct further exploration activities. |   |                             |

If a discovery is made, CGX has the right to apply to the Minister for a PPL with respect to that portion of the contract area having a significant discovery.

After commercial production begins, the Company is allowed to recover contract costs as defined in the PA from "cost oil" produced and sold from the contract area and limited in any month to an amount which equals seventy-five percent (75%) of the total production from the contract area for such month excluding any crude oil and/or natural gas used in petroleum operations or which is lost. The Company's share of the remaining production or "profit oil" is 47%.

To the extent that in any month recoverable contract costs exceed the value of cost oil and/or cost gas, the unrecoverable amount shall be carried forward and shall be recoverable in the immediately succeeding month, and to the extent not then recovered, in the subsequent month or months.

The Company has \$500,000 of recoverable costs brought forward from the original Berbice licence. This cost can be recovered against any future commercial production.

Annual rental fees of \$25,000 and training fees of \$25,000 are required to be paid under the PPL.

**Demerara PA, Guyana**

On February 12, 2013, the Company entered into the Demerara PA and PPL. The new PPL applies to the former offshore portion of the Annex PPL, which was a subset of the Company's original Corentyne Petroleum Agreement. On December 15, 2017, the Company was issued an addendum to the February 12, 2013 PA ("**Addendum III**").

## CGX Energy Inc.

### Notes to the Unaudited Condensed Interim Consolidated Financial Statements – (US\$'s) For the Three and Nine Month Periods Ended September 30, 2019 and 2018

#### 10. Exploration and evaluation expenditures *(continued)*

##### Demerara PA, Guyana *(continued)*

Under the terms of the Addendum III, the Company's work commitments were modified and the Company relinquished 25% of the original contract area block. Effective May 20, 2019, the Demerara PPL and PA is 66.667% (December 31, 2018 – 100%) owned by CRI. The table below outlines the commitments under the Addendum III as at September 30, 2019:

| Period                                   | Phase  | Exploration Obligation  | Dates                       |
|--|--|---|-----------------------------|
| First<br>Renewal<br>Period - 3<br>Years  | Phase One - 12 Months  | Conduct additional data processing and planning for 1st exploration well (Conducted)  | Feb 12, 2017 - Feb 12, 2018 |
|  | - At the end of phase one (1) of the first renewal period, the Company shall elect either to relinquish the entire Contract Area except for any Discovery Area and the area contained in any Petroleum Production Licence or commit to the work programme in phase 2. (Company has committed to complete work in phase 2)  |   |                             |
|  | Phase Two - 24 Months  | Complete any additional processing and planning, and secure all regulatory approvals for the drilling of 1st exploration well | Feb 12, 2018 - Feb 12, 2020 |
|  | - At the end of the first renewal period of three (3) years, the Company shall elect either to relinquish the entire Contract Area except for any Discovery Area and the area contained in any Petroleum Production Licence or relinquish twenty-five (25%) percent of the Contract Area and renew the Petroleum Prospecting Licence for a second period of three (3) years. |   |                             |
| Second<br>Renewal<br>Period - 3<br>Years | Phase One - 12 Months  | Drill 1 exploration well  | Feb 12, 2020 - Feb 12, 2021 |
|  | - At the end of phase one of the second renewal period, the Company shall elect either to relinquish the entire Contract Area except for any Discovery Area and the area contained in any Petroleum Production Licence or commit to the work programme in phase 2.   |   |                             |
|  | Phase Two - 24 Months  | Drill 1 exploration well  | Feb 12, 2021 - Feb 12, 2023 |
|  | - At the end of the second renewal period of three (3) years, the Company shall relinquish the entire Contract Area except for any Discovery Area, the area contained in any Petroleum Production Licence and any other portion of the Contract Area on which the Minister Responsible for Petroleum agrees to permit the Company to conduct further exploration activities. |   |                             |

If a discovery is made, CGX has the right to apply to the Minister for a PPL with respect to that portion of the contract area having a significant discovery.

After commercial production begins, the Company is allowed to recover contract costs as defined in the PA from "cost oil" produced and sold from the contract area and limited in any month to an amount which equals seventy-five percent (75%) of the total production from the contract area for such month excluding any crude oil and/or natural gas used in petroleum operations or which is lost. The Company's share of the remaining production or "profit oil" is 47%.

To the extent that in any month recoverable contract costs exceed the value of cost oil and/or cost gas, the unrecoverable amount shall be carried forward and shall be recoverable in the immediately succeeding month, and to the extent not then recovered, in the subsequent month or months.

The Company has \$1,000,000 of recoverable contract costs brought forward from the original Annex licence. This cost can be recovered against any future commercial production.

Annual rental fees of \$100,000 and training fees of \$100,000 are required to be paid under the PPL.

#### Farm-in agreement

On May 28, 2019, the transfers of the 33.333% interest in both the Corentyne and Demerara Prospecting Licences to Fronterra were completed with an effective date of May 20, 2019. See further discussion under Corentyne PA, Guyana – *Note 10*.

## CGX Energy Inc.

### Notes to the Unaudited Condensed Interim Consolidated Financial Statements – (US\$'s) For the Three and Nine Month Periods Ended September 30, 2019 and 2018

#### 10. Exploration and evaluation expenditures (continued)

##### Demerara PA, Guyana (continued)

##### Farm-in agreement (continued)

As a result of the proceeds received under the JOAs relating to the Demerara PPL and PA, the accounting value for this licence would have been in a negative position of \$7,600,000 on closing of the transaction. As a result, the Company recorded a reversal of the previously taken impairment in 2014 from the amount of the negative balance, being \$7,600,000 (2018 - \$Nil) during the nine month period ended September 30, 2019.

##### Demerara Seismic agreement

In September 2014, the Company entered into a contract with Prospector PTE. Ltd. (“**Prospector**”) to conduct a 3D seismic survey on the Company’s 100% owned Demerara Block as part of its commitments under the Demerara PA. The aggregate cost of this seismic survey was approximately \$19 million with \$7 million paid to Prospector by way of issuance of 15,534,310 common shares, \$2.5 million paid in cash in 2014 and the remainder of approximately \$9.5 million payable in cash twelve months after the conclusion of the seismic survey (December 2015), which is included in trade and other payables as at September 30, 2019 and December 31, 2018. In accordance with the contract with Prospector, the amounts outstanding twelve months after the conclusion of the seismic survey shall accrue interest at a rate of 12% per annum. On October 3, 2016, the Company renegotiated the interest rate down from 12% per annum to 6% per annum and agreed to have Prospector complete the seismic processing of the seismic survey. In exchange, CGX has agreed to be responsible under certain circumstances to Prospector for up to a maximum of \$500,000. The processing began in late 2016 and was substantially completed in 2017 and as a result, the Company has recorded a provision of \$500,000 recorded in trade and other payables as at September 30, 2019 and December 31, 2018.

The Company's exploration activities are subject to government laws and regulations, including tax laws and laws and regulations governing the protection of the environment. The Company believes that its operations comply in all material respects with all applicable past and present laws and regulations. The Company records provisions for any identified obligations, based on management's estimate at the time. Such estimates are, however, subject to changes in laws and regulations.

#### 11. Compensation of key management personnel and related party transactions

Under IFRS, parties are considered to be related if one party has the ability to “control” (financially or by share capital) the other party or have significant influence (management) on the other party in making financial, commercial and operational decisions.

In October 2014, the Company entered into a secured bridge loan agreement (the “**C\$ Bridge Loan**”) with Frontera in the aggregate principal amount of C\$7,500,000 (\$6,700,000). The C\$ Bridge Loan was a non-revolving term facility. The C\$ Bridge Loan accrued interest at an annual rate of 5% per annum.

The balances outstanding on the C\$ Bridge Loan from related party as at September 30, 2019 and December 31, 2018 are as follows:

| As at,                                      | September 30, 2019 | December 31, 2018   |
|---|--------------------|---------------------|
| Loan from related party                     | \$ -               | \$ 6,682,246        |
| Accrued interest on loan from related party | -                  | 64,076              |
| <b>Total loan from related party</b>        | <b>\$ -</b>        | <b>\$ 6,746,322</b> |

**CGX Energy Inc.**

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**11. Compensation of key management personnel and related party transactions** *(continued)*

The activity on the C\$ Bridge Loan from related party for the nine month period ended September 30, 2019 and the year ended December 31, 2018 is as follows:

|   | <b>September 30, 2019</b> | December 31, 2018   |
|---|---------------------------|---------------------|
| Opening balance at beginning of period/year | \$ 6,746,322              | \$ 6,986,933        |
| Loss (gain) on foreign exchange             | 80,435                    | (629,001)           |
| Accrued interest on loan from related party | 136,745                   | 388,390             |
| Settled against signing bonus under JOAs    | <b>(6,963,502)</b>        | -                   |
| <b>Total loan from related party</b>        | <b>\$ -</b>               | <b>\$ 6,746,322</b> |

In March 2016, the Company entered into a secured bridge loan agreement (the “**Bridge Loan I**”) with Frontera in the aggregate principal amount of up to \$2,000,000. The Bridge Loan I was a non-revolving term facility. The Bridge Loan I accrued interest at an annual rate of 5% per annum.

The balances outstanding on the Bridge Loan I from related party as at September 30, 2019 and December 31, 2018 are as follows:

| <b>As at,</b>                               | <b>September 30, 2019</b> | December 31, 2018   |
|---|---------------------------|---------------------|
| Loan from related party                     | \$ -                      | \$ 2,068,547        |
| Accrued interest on loan from related party | -                         | 263,462             |
| <b>Total loan from related party</b>        | <b>\$ -</b>               | <b>\$ 2,332,009</b> |

The activity on the Bridge Loan I from related party for the nine month period ended September 30, 2019 and the year ended December 31, 2018 is as follows:

|   | <b>September 30, 2019</b> | December 31, 2018   |
|---|---------------------------|---------------------|
| Opening balance at beginning of period/year | \$ 2,332,009              | \$ 2,228,581        |
| Accrued interest on loan from related party | 41,371                    | 103,428             |
| Settled against signing bonus under JOAs    | <b>(2,373,380)</b>        | -                   |
| <b>Total loan from related party</b>        | <b>\$ -</b>               | <b>\$ 2,332,009</b> |

In October 2016, the Company entered into a secured bridge loan agreement (the “**Bridge Loan II**”) with Frontera in the aggregate principal amount of up to \$2,000,000. The Bridge Loan II was a non-revolving term facility. The Bridge Loan II accrued interest at an annual rate of 5% per annum.

The balances outstanding on the Bridge Loan II from related party as at September 30, 2019 and December 31, 2018 are as follows:

| <b>As at,</b>                               | <b>September 30, 2019</b> | December 31, 2018   |
|---|---------------------------|---------------------|
| Loan from related party                     | \$ -                      | \$ 1,972,675        |
| Accrued interest on loan from related party | -                         | 195,691             |
| <b>Total loan from related party</b>        | <b>\$ -</b>               | <b>\$ 2,168,366</b> |

The activity on the Bridge Loan II from related party for nine month period ended September 30, 2019 and the year ended December 31, 2018 is as follows:

|   | <b>September 30, 2019</b> | December 31, 2018   |
|---|---------------------------|---------------------|
| Opening balance at beginning of period/year | \$ 2,168,366              | \$ 2,069,732        |
| Accrued interest on loan from related party | 39,609                    | 98,634              |
| Settled against signing bonus under JOAs    | <b>(2,207,975)</b>        | -                   |
| <b>Total loan from related party</b>        | <b>\$ -</b>               | <b>\$ 2,168,366</b> |

**CGX Energy Inc.**

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**11. Compensation of key management personnel and related party transactions** *(continued)*

In April 2017, the Company entered into a secured bridge loan agreement (the “**Bridge Loan III**”) with Frontera. On February 1, 2019, the Company and Frontera amended the Bridge Loan III to a non-revolving term facility in an amount of up to \$12,939,000, provided that the facility will be automatically reduced by a payment from the Company to a maximum principal amount of \$8,800,000 by May 28, 2019. This revised term facility carries an interest rate of up to 7% per annum and matures on September 30, 2019. The \$8,800,000 principal amount is convertible into common shares of the Company at the option of Frontera anytime prior to maturity or repayment at a price of \$0.22 per share. The Bridge Loan III accrued interest at an annual rate of 7% (5% prior to February 1, 2019) per annum. On September 24, 2019, Frontera elected to exercise the conversion feature and 40,000,000 common shares of the Company were issued to settle \$8,800,000.

The balances outstanding on the Bridge Loan III from related party as at September 30, 2019 and December 31, 2018 are as follows:

| <b>As at,</b>  | <b>September 30,<br/>2019</b> | December 31, 2018    |
|--|-------------------------------|----------------------|
| Loan from related party – non convertible            | \$ -                          | \$ 11,263,808        |
| Convertible portion of loan from related party       | -                             | -                    |
| Unamortized transaction costs and conversion feature | -                             | -                    |
| Accrued interest on loan from related party          | -                             | 38,720               |
| <b>Total loan from related party</b>                 | <b>\$ -</b>                   | <b>\$ 11,302,528</b> |

The activity on the Bridge Loan III from related party for the nine month period ended September 30, 2019 and the year ended December 31, 2018 is as follows:

|  | <b>September 30, 2019</b> | December 31, 2018    |
|--|---------------------------|----------------------|
| Opening balance at beginning of period/year                                    | \$ 11,302,528             | \$ 3,753,079         |
| Loan from related party  | 961,763                   | 7,658,420            |
| Trade and other payables and accrued interest added to loan from related party | 712,620                   | -                    |
| Repayment of principal through issuance of shares                              | -                         | (61,339)             |
| Conversion component of convertible debentures                                 | (169,000)                 | -                    |
| Interest accretion   | 169,000                   | -                    |
| Accrued interest on loan from related party                                    | 539,355                   | 341,319              |
| Accrued interest added to loan from related party                              | (86,375)                  | -                    |
| Settled against signing bonus under JOAs                                       | (4,425,579)               | -                    |
| Exercise of conversion feature   | (8,800,000)               | -                    |
| Cash payment of interest   | (204,312)                 | -                    |
| Repayment of interest through issuance of shares                               | -                         | (388,951)            |
| <b>Total loan from related party</b>   | <b>\$ -</b>               | <b>\$ 11,302,528</b> |

The Bridge Loan III was classified as a liability, with the exception of the portion relating to the conversion feature, resulting in the carrying value of the Bridge Loan III being less than face value. The discount was accreted over the term of the Bridge Loan III utilizing the effective interest rate method at a 10% discount rate.

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**11. Compensation of key management personnel and related party transactions** *(continued)*

The combined balances outstanding on the Bridge Loan I, Bridge Loan II, Bridge Loan III and C\$ Bridge Loan from related party as at September 30, 2019 and December 31, 2018 are as follows:

| <b>As at,</b>                         | <b>September 30, 2019</b> | <b>December 31, 2018</b> |
|---------------------------------------|---------------------------|--------------------------|
| C\$ Bridge Loan                       | \$ -                      | \$ 6,746,322             |
| Bridge Loan I                         | -                         | 2,332,009                |
| Bridge Loan II                        | -                         | 2,168,366                |
| Bridge Loan III                       | -                         | 11,302,528               |
| <b>Total loans from related party</b> | <b>\$ -</b>               | <b>\$ 22,549,225</b>     |

In November 2015, the Company entered into a convertible debenture (the “**Debenture**”) with Frontera in the aggregate principal amount of \$1,500,000. The Debenture accrues interest at an annual rate of 5% per annum and was repayable in full including all accrued interest in November 2016. This Debenture was convertible into shares of the Company at the option of Frontera at any time prior to November 15, 2016 at a price of C\$0.335, which lapsed.

The balances outstanding on the Debenture from related party as at September 30, 2019 and December 31, 2018 are as follows:

| <b>As at,</b>                                    | <b>September 30, 2019</b> | <b>December 31, 2018</b> |
|--|---------------------------|--------------------------|
| Debenture from related party                     | \$ -                      | \$ 1,736,438             |
| Accrued interest on Debenture from related party | -                         | 11,180                   |
| <b>Total Debenture from related party</b>        | <b>\$ -</b>               | <b>\$ 1,747,618</b>      |

The activity on the Debenture from related party for the nine month period ended September 30, 2019 and the year ended December 31, 2018 is as follows:

|   | <b>September 30, 2019</b> | <b>December 31, 2018</b> |
|---|---------------------------|--------------------------|
| Opening balance at beginning of period/year | \$ 1,747,618              | \$ 1,664,397             |
| Accrued interest on loan from related party | 32,542                    | 83,221                   |
| Settled against signing bonus under JOAs    | (1,780,160)               | -                        |
| <b>Total Debenture from related party</b>   | <b>\$ -</b>               | <b>\$ 1,747,618</b>      |

On February 7, 2019, to pay the required drilling rig minimum obligation fee of \$5,340,000 (covering the Company’s share of the mobilization fee, demobilization fee and 30-days of rig time charged at the stand-by rate) Frontera advanced the Company the full amount. Of this amount the Company signed a promissory note for \$3,115,035 (the “**Promissory Note**”), being the Company’s anticipated share pursuant to the terms of the JOAs. The Promissory Note bore interest at a rate of 7% per annum and matures on the earlier of Guyanese government approval or May 28, 2019. On May 28, 2019, the Promissory Note principal plus accrued interest of \$63,820 for a total of \$3,178,855 was netted against the \$33.3 million signing bonus on the JOAs.

The Bridge Loan III was secured by a pledge of the shares in the Company’s wholly owned subsidiaries – CGX Resources, GCIE Holdings Limited (“**GCIE**”) and CGX Energy Management Corp. (“**CGMC**”). In addition, during the year ended December 31, 2017, GCIE and CGMC signed a guarantee with Frontera for the Bridge Loan III.

## CGX Energy Inc.

### Notes to the Unaudited Condensed Interim Consolidated Financial Statements – (US\$’s) For the Three and Nine Month Periods Ended September 30, 2019 and 2018

#### 11. Compensation of key management personnel and related party transactions *(continued)*

The following sets out the details of the Company’s related party transactions (See also Note 14):

- During the year ended December 31, 2017, the Company entered into a technical service agreement with Frontera whereby Frontera will provide geological and geophysical consulting to the Company. In accordance with the terms of these agreements, the Company recognized an expense of \$Nil (2018 - \$Nil) for the nine month period ended September 30, 2019 and capitalized \$Nil (2018 - \$379,000) to exploration and evaluation expenditures, of which \$Nil (December 31, 2018 - \$2,000) was included in trade and other payables as at September 30, 2019. In addition, Frontera had paid expenses on behalf of the Company, of which \$Nil (December 31, 2018 - \$489,000) was included in trade and other payables as at September 30, 2019. As at September 30, 2019, Frontera owned approximately 72.5% of the common shares and 100% of the outstanding warrants of the Company (See note 14).
- During the year ended December 31, 2017, the Company entered into an exclusivity agreement with Frontera, whereby the Company will negotiate in good faith exclusively with Frontera in respect of completing either a restructuring transaction and/or financing transaction until December 31, 2018 (“**Exclusivity Period**”). If during the Exclusivity Period or during the nine months following the end of the Exclusivity Period the Company enters into an alternative transaction, Frontera will be given five days to match any alternative transaction. In the event that Frontera does not match the alternative transaction, the Company will pay to Frontera a \$5,000,000 work fee, in consideration for the substantial time, effort and expenses that Frontera has undertaken and will undertake in connection with the pursuit of a proposed transaction. As no transaction occurred prior to December 31, 2018, no amount has been recorded in these unaudited condensed interim financial statements related to this contingent payment.

Key management includes the Company’s directors, officers and any employees with authority and responsibility for planning, directing and controlling the activities of an entity, directly or indirectly. Compensation awarded to key management included:

| <b>Nine month period ended September 30,</b>     | <b>2019</b> |                  | 2018      |                  |
|--|-------------|------------------|-----------|------------------|
| Short-term employee benefits                     | \$          | <b>1,478,000</b> | \$        | 436,000          |
| Termination payments                             |             | -                |           | 700,000          |
| <b>Total compensation paid to key management</b> | <b>\$</b>   | <b>1,478,000</b> | <b>\$</b> | <b>1,136,000</b> |

At September 30, 2019, included in trade and other payables is \$42,000 (December 31, 2018 - \$188,000) due as a result of deferred payment of directors’ fees. These amounts are unsecured, non-interest bearing and due on demand.

#### 12. Trade and other payables

Trade and other payables of the Company are principally comprised of amounts outstanding for trade purchases relating to exploration activities and amounts payable for operating and financing activities. The usual credit period taken for trade purchases is between 30 to 90 days. The following is an aged analysis of the trade and other payables:

| <b>As at,</b>                                      | <b>September 30, 2019</b> |                   | December 31, 2018 |                   |
|--|---------------------------|-------------------|-------------------|-------------------|
| Less than one month, accruals and accrued interest | \$                        | <b>5,402,223</b>  | \$                | 7,743,561         |
| One month to three months                          |                           | <b>32,323</b>     |                   | 808               |
| Over three months                                  |                           | <b>9,470,299</b>  |                   | 27,273,795        |
| <b>Total trade and other payables</b>              | <b>\$</b>                 | <b>14,904,845</b> | <b>\$</b>         | <b>35,018,164</b> |

**CGX Energy Inc.**

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**13. Warrant liability**

As at September 30, 2019 and December 31, 2018, the warrant liability was comprised of the following:

| As at,                   | September 30, 2019  | December 31, 2018 |
|--------------------------|---------------------|-------------------|
| <b>Warrant liability</b> | <b>\$ 7,788,000</b> | <b>\$ -</b>       |

Each warrant entitles the holder to purchase a common share at C\$0.415 until March 13, 2024. The Company recorded the warrants issued as a derivative liability due to their exercise price being denominated in a currency other than the Company's US dollar functional currency.

The warrant liability was re-valued at the end of the reporting period with the change in fair value of the warrant liability recorded as a gain or loss in the Company's Consolidated Statements of Income (Loss). The warrant liability was accounted for at its fair value as follows:

|  | Nine month period<br>ended September<br>30, 2019 | Year ended<br>December<br>31, 2018 |
|--|--|------------------------------------|
| Warrant liability, beginning of period/year                        | \$ -   | \$ -                               |
| Grant date fair value of warrants issued during the year (note 14) | 2,259,000  |                                    |
| Change in fair value   | 5,529,000  | -                                  |
| <b>Warrant liability, end of period/year</b>                       | <b>\$ 7,788,000</b>                              | <b>\$ -</b>                        |

The Company utilized the Black-Scholes valuation model to estimate the fair value of the warrants at September 30, 2019 and December 31, 2018 using the following assumptions:

|                                | September 30, 2019  | December 31, 2018 |
|--------------------------------|---------------------|-------------------|
| Number of warrants outstanding | 15,009,026          | -                 |
| Exercise price                 | C\$0.415            | -                 |
| Risk-free interest rate        | 1.40%               | -                 |
| Expected life (years)          | 4.45                | -                 |
| Expected volatility            | 124%                | -                 |
| Expected dividends             | -                   | -                 |
| Market price of shares         | C\$0.79             | -                 |
| Fair value of warrants         | <b>\$ 7,788,000</b> | <b>\$ -</b>       |

Volatility for these warrants has been calculated using the historical volatility of the Company.

## CGX Energy Inc.

### Notes to the Unaudited Condensed Interim Consolidated Financial Statements – (US\$'s) For the Three and Nine Month Periods Ended September 30, 2019 and 2018

#### 14. Capital stock

##### Share capital

The Company is authorized to issue an unlimited number of common shares without par value. Changes in the issued and outstanding common shares are as follows:

|  | Number of Shares   | \$                   |
|--|--------------------|----------------------|
| Balance at December 31, 2017   | 110,388,033        | 257,864,691          |
| Shares issued for debt   | 5,714,285          | 1,200,000            |
| Share issue costs  | -                  | (30,370)             |
| <b>Balance at December 31, 2018</b>  | <b>116,102,318</b> | <b>259,034,321</b>   |
| Shares issued for rights offering  | 116,102,318        | 21,779,530           |
| Share issue costs  | -                  | (428,823)            |
| Warrants issued under rights offering                                      | -                  | (2,259,000)          |
| Shares issued on conversion of convertible debt                            | 40,000,000         | 8,800,000            |
| Value of contributed surplus transferred on conversion of convertible debt | -                  | 169,900              |
| <b>Balance at September 30, 2019</b>                                       | <b>272,204,636</b> | <b>\$287,095,028</b> |

#### 2019

On March 12, 2019, the Company completed a rights offering (the “**Offering**”). Pursuant to the Offering, the Company issued to holders of its outstanding common shares of record as at the close of business on February 11, 2019 an aggregate of 116,102,318 transferable rights (each, a “**Right**”) to subscribe for, until March 12, 2019 (the “**Expiry Date**”), an aggregate of 116,102,318 common shares. Each Right entitled the holder thereof to subscribe for one common share upon payment of the subscription price of C\$0.25 (equivalent of approximately \$0.1876) per common share prior to the Expiry Date. The Company issued 116,102,318 common shares, the maximum number of common shares available for issuance under the terms of the Offering, based on shareholders’ exercise of the basic subscription privilege and the additional subscription privilege, allocated pro-rata, for aggregate gross proceeds to the Company of C\$29,025,579 (equivalent of approximately \$21,779,530).

Frontera provided a standby commitment in connection with the Offering (the “**Standby Commitment**”), in which Frontera would acquire any common shares available as a result of any unexercised Rights under the Rights Offering, such that CGX was guaranteed to issue 116,102,318 common shares in connection with the Offering. In consideration for the Standby Commitment, Frontera received 5-year warrants to purchase up to 15,009,026 common shares at an exercise price equal to C\$0.415 per common share (each a “**Warrant**”). Since the Offering was oversubscribed, Frontera did not acquire any additional shares under the Standby Commitment.

Frontera acquired an aggregate of 101,316,916 common shares in connection with the Offering pursuant to the exercise of Rights under the Offering for cash consideration of C\$25,329,229 (equivalent of approximately \$19,005,950). Officers and directors of the Company acquired an aggregate of 202,859 common shares in connection with the Offering pursuant to the exercise of Rights under the Offering for cash consideration of C\$50,715 (equivalent of approximately \$38,054).

The grant date fair value of the 15,009,026 Warrants was estimated at \$2,259,000 using the Black-Scholes pricing model with the following assumptions: exercise price C\$0.415; expected dividend yield 0%; expected forfeiture rate 0%; risk free interest 1.65%; expected volatility 117%, an expected life of 5 years and market price of shares on date of issuance of C\$0.26.

On September 24, 2019, Frontera exercised the conversion feature on its Bridge Loan III and 40,000,000 common shares of the Company were issued at a conversion price of \$0.22 (C\$0.29) to settle \$8,800,000 in convertible debentures. The fair value share price on the date of exercise was C\$0.77.

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**14. Capital stock (continued)**

**2018**

On December 20, 2018, the Company entered into an agreement with Frontera to settle various debts of \$1,200,000 by issuing 5,714,285 common shares.

**Common share purchase warrants**

The exercise price and expiry date of the warrants outstanding at September 30, 2019 are as follows:

| Warrants   | Exercise Price | Expiry Date    |
|------------|----------------|----------------|
| 15,009,026 | C\$0.415       | March 13, 2024 |

Changes in the number of common share purchase warrants outstanding are as follows:

| <b>As at,</b>                           | <b>September 30, 2019</b>                           |                            | <b>December 31, 2018</b>                            |                            |
|---|---|----------------------------|---|----------------------------|
|   | <b>Weighted<br/>Average Exercise<br/>Price (\$)</b> | <b>No. of<br/>Warrants</b> | <b>Weighted<br/>Average Exercise<br/>Price (\$)</b> | <b>No. of<br/>Warrants</b> |
| Outstanding at beginning of period/year | -   | -                          | C\$1.70   | 37,008,900                 |
| Transactions during the period/year:    |   |                            |   |                            |
| Issued                                  | <b>C\$0.415</b>                                     | <b>15,009,026</b>          |   |                            |
| Expired                                 | -   | -                          | C\$1.70   | (37,008,900)               |
| Outstanding at end of period/year       | <b>C\$0.415</b>                                     | <b>15,009,026</b>          | -   | -                          |

**Options**

The Company established a share option plan to provide additional incentive to its directors, officers, employees and consultants for their efforts on behalf of the Company in the conduct of its affairs. The maximum number of common shares reserved for issuance under the share option plan comprising part of the share incentive plan may not exceed 10% of the number of common shares outstanding. Under the terms of the plan, all options vest immediately, unless otherwise specified. All options granted under the plan expire no later than the tenth anniversary of the grant date. As at September 30, 2019, the Company had 25,845,463 (December 31, 2018 – 10,235,231) options available for issuance under the plan.

Changes in the number of stock options outstanding are as follows:

| <b>As at,</b>                                 | <b>September 30, 2019</b>                           |                           | <b>December 31, 2018</b>                            |                           |
|---|---|---------------------------|---|---------------------------|
|   | <b>Weighted<br/>Average Exercise<br/>Price (\$)</b> | <b>No. of<br/>Options</b> | <b>Weighted<br/>Average Exercise<br/>Price (\$)</b> | <b>No. of<br/>Options</b> |
| Outstanding at beginning of period/year       | <b>0.11</b>   | <b>1,375,000</b>          | 0.40  | 4,220,000                 |
| Transactions during the period/year:          |   |                           |   |                           |
| Expired/Forfeited                             | -   | -                         | 0.52  | (2,845,000)               |
| Outstanding/Exercisable at end of period/year | <b>0.11</b>   | <b>1,375,000</b>          | 0.11  | 1,375,000                 |

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**14. Capital stock** *(continued)*

**Options** *(continued)*

The following table provides additional outstanding stock option information as at September 30, 2019:

| <b>Exercise Price</b>   | <b>No. of Options Outstanding and Exercisable</b> | <b>Weighted Average Remaining Life (Years)</b> | <b>Weighted Average Exercise Price</b> |
|-------------------------|---|--|--|
| \$ 0.06                 | 1,000,000   | 2.59   | \$0.06                                 |
| \$ 0.24                 | 375,000   | 0.22   | \$0.24                                 |
| <b>\$ 0.06 - \$0.24</b> | <b>1,375,000</b>                                  | <b>1.94</b>                                    | <b>\$0.11</b>                          |

**15. Reserve for share based payments**

A summary of the changes in the Company's reserve for share based payments for the nine month period ended September 30, 2019 and year ended December 31, 2018 is set out below:

|  | <b>September 30, 2019</b> | December 31, 2018 |
|--|---------------------------|-------------------|
| Balance at beginning of period/year                              | \$ 21,708,131             | \$ 21,708,131     |
| Equity portion of convertible debenture (note 11)                | 169,000                   | -                 |
| Value transferred on exercise of convertible debenture (note 14) | (169,000)                 | -                 |
| Balance at end of period/year                                    | \$ 21,708,131             | \$ 21,708,131     |

**16. Segmented information**

**Operating and Geographic segments**

At September 30, 2019 and December 31, 2018, the Company's operations comprised a single reporting operating segment engaged in petroleum and natural gas exploration in Guyana. The Company's corporate division only earns revenues that are considered incidental to the activities of the Company and therefore does not meet the definition of an operating segment as defined in IFRS 8 'Operating Segments'.

As the operations comprise a single reporting segment, amounts disclosed in the unaudited condensed interim consolidated financial statements also represent operating segment amounts.

The following is a detailed breakdown of the Company's assets by geographical location:

| <b>As at,</b>       | <b>September 30, 2019</b> | December 31, 2018    |
|---------------------|---------------------------|----------------------|
| Identifiable assets |                           |                      |
| Canada              | \$ 18,418,115             | \$ 2,767,020         |
| Guyana              | 19,849,751                | 35,698,366           |
|                     | <b>\$ 38,267,866</b>      | <b>\$ 38,465,386</b> |

## CGX Energy Inc.

### Notes to the Unaudited Condensed Interim Consolidated Financial Statements – (US\$'s) For the Three and Nine Month Periods Ended September 30, 2019 and 2018

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#### 17. Commitments and contingencies

##### Contractual obligations

The Company has entered into agreements for service contracts. The future minimum consultancy commitments and contract commitments over the next five years are as follows:

| <i>Fiscal Year Ended December 31,</i> | <b>Contractual Obligations</b> |
|---------------------------------------|--------------------------------|
| <b>2019</b>                           | <b>\$ 7,758,000</b>            |
| <b>2020</b>                           | <b>\$ 705,000</b>              |

The Company has entered into several contracts with various suppliers for exploration services including the following:

The Company has entered into a seismic contract for 3D seismic acquisition in the fall of 2019 to complete its requirement under the Corentyne PPL and subsequent processing. Aggregate minimum future obligations still outstanding under this agreement totals \$7,745,000 expected to be paid in 2019. Subsequent to September 30, 2019 and on November 2, 2019, this 3D Seismic acquisition was completed, thus completing the commitment under phase two of the first renewal period under the Corentyne PPL.

##### Contingencies

As at September 30, 2019, the Company is party to two (December 31, 2018 – two) separate written management agreements with certain senior officers of the Company. The two contracts currently require a total payment of up to \$1,870,000 (December 31, 2018 – \$1,170,000) be made upon the occurrence of certain events such as termination and change in control. As the likelihood of these events taking place was not determinable as at September 30, 2019, the contingent payments have not been reflected in these unaudited condensed interim consolidated financial statements.

In January 2018, the Company agreed to make a payment under a previous management contract. The Company agreed to the termination payment of \$700,000 and settled this amount by paying \$525,000 and recording a liability of \$175,000 to be settled in common shares of the Company in the same manner and on the same basis as other debt is ultimately settled for equity under any restructuring. As at September 30, 2019, the \$175,000 to be settled in common shares of the Company is recorded in trade and other payables.

Subsequent to September 30, 2019, the Company received a claim from the former officer suing for damages of over \$1,000,000 and claiming that the \$175,000 should have been settled in shares on December 31, 2018 at the same price of the debt settlement with Frontera, being \$0.21. CGX is contesting that the settlement of debt with Frontera in December 2018 constituted a restructuring and that any shares are owed at this time pursuant to the agreement. The Company believes that this claim is without merit and has not recorded any liability associated with this claim other than the \$175,000 that had previously been recorded and remained in trade and other payables as at September 30, 2019 and December 31, 2018.

#### 18. Subsequent Event

Subsequent to September 30, 2019, 115,000 stock options were exercised for gross proceeds of approximately \$28,000.