

Condensed Consolidated Interim  
Financial Statements

**Pinedale Energy Limited**

Unaudited- Expressed in Canadian  
Dollars

For the nine months ended  
September 30, 2018 and 2017

**PINEDALE ENERGY LIMITED**  
**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**September 30, 2018**

**Management's Comments on Unaudited Condensed Consolidated Interim Financial Statements**

The accompanying unaudited condensed consolidated interim financial statements of Pinedale Energy Limited for the nine month period ended September 30, 2018 have been prepared by the Company's management and approved by the Audit Committee and Board of Directors of the Company.

The accompanying unaudited condensed consolidated interim financial statements have not been reviewed by the Company's auditors.

**PINEDALE ENERGY LIMITED**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION**

[Unaudited- Expressed in Canadian dollars]

	September 30, 2018	December 31, 2017
	\$	\$
<b>ASSETS</b>		
<b>Current</b>		
Cash	564,832	2,957,089
Other receivables and prepaids	877,684	1,100,691
Derivative financial instruments	–	104,486
<b>Total current assets</b>	<b>1,442,516</b>	<b>4,162,266</b>
Oil and gas properties <i>[note 4]</i>	<b>26,545,755</b>	<b>18,730,131</b>
	<b>27,988,271</b>	<b>22,892,397</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	1,917,797	2,598,222
Income tax payable	33,294	16,183
<b>Total current liabilities</b>	<b>1,951,091</b>	<b>2,614,405</b>
Decommissioning liability <i>[note 5]</i>	734,342	545,874
Promissory note <i>[notes 6 and 9]</i>	3,793,318	3,677,116
Long-term debt <i>[note 7]</i>	7,249,200	3,638,050
Deferred tax liability	2,042,916	1,700,315
<b>Total liabilities</b>	<b>15,770,867</b>	<b>12,175,760</b>
<b>Shareholders' equity</b>		
Share capital <i>[note 8]</i>	5,319,746	5,319,746
Contributed Surplus	299,898	339,471
Accumulated other comprehensive income	746,589	258,327
Retained earnings	5,851,171	4,799,093
<b>Total shareholders' equity</b>	<b>12,217,404</b>	<b>10,716,637</b>
	<b>27,988,271</b>	<b>22,892,397</b>

*See accompanying notes*

Nature of Operations (Note 1)

On behalf of the Board:

*"Don Sharpe"*

Director

*"Brad Windt"*

Director

**PINEDALE ENERGY LIMITED**

**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**

[Unaudited- Expressed in Canadian dollars]

	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
	\$	\$	\$	\$
Oil and gas sales	<b>2,325,402</b>	1,209,785	<b>6,908,381</b>	2,875,332
Royalties (expense) recovery	<b>(508,481)</b>	(243,622)	<b>(1,482,441)</b>	(314,232)
<b>Net oil and gas revenue</b>	<b>1,816,921</b>	966,163	<b>5,425,940</b>	2,561,100
<b>Cost of sales</b>				
Consulting fees	<b>14,981</b>	25,732	<b>74,915</b>	73,167
Depletion [note 4]	<b>313,834</b>	66,449	<b>941,816</b>	118,049
Production tax	<b>221,520</b>	112,405	<b>667,087</b>	304,857
Gathering	<b>241,221</b>	121,806	<b>756,820</b>	291,648
Lease operating	<b>258,010</b>	62,307	<b>555,594</b>	169,701
Transportation	<b>15,236</b>	6,384	<b>66,611</b>	18,868
	<b>1,064,802</b>	395,083	<b>3,062,843</b>	976,290
	<b>752,119</b>	571,080	<b>2,363,097</b>	1,584,810
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>				
Administration services	<b>28,735</b>	19,307	<b>93,025</b>	74,819
Consulting fees	<b>38,144</b>	44,961	<b>153,499</b>	128,902
Share based compensation	<b>14,524</b>	38,002	<b>76,629</b>	41,791
Interest	<b>208,245</b>	78,870	<b>521,710</b>	170,093
Filing and regulatory	<b>4,685</b>	12,694	<b>15,114</b>	18,519
Franchise tax	<b>818</b>	–	<b>818</b>	–
Insurance	<b>8,070</b>	6,694	<b>24,690</b>	19,670
Reverse acquisition cost	–	9,450	–	515,904
Office and general	<b>18,062</b>	8,195	<b>20,780</b>	21,300
Travel and entertainment	<b>258</b>	6,480	<b>3,924</b>	6,480
Professional fees	<b>35,759</b>	52,138	<b>80,449</b>	79,433
Unrealized gain on derivative financial instruments	–	61,998	–	2,723
Foreign exchange loss	<b>58,174</b>	10,179	<b>1,927</b>	11,852
	<b>415,474</b>	348,968	<b>992,565</b>	1,091,486
<b>Net income before taxes</b>	<b>336,646</b>	222,112	<b>1,370,532</b>	493,324
Income tax expense	<b>80,941</b>	117,326	<b>318,454</b>	375,501
<b>Net income</b>	<b>255,704</b>	104,786	<b>1,052,078</b>	117,823
Other comprehensive income (loss):				
Exchange differences from translation of foreign operations	<b>45,578</b>	(275,505)	<b>746,589</b>	(498,296)
<b>Comprehensive income</b>	<b>301,282</b>	(170,719)	<b>1,798,667</b>	(380,473)
Basic earnings per share	<b>0.01</b>	0.01	<b>0.06</b>	0.02
Diluted earnings per share	<b>0.00</b>	0.00	<b>0.01</b>	0.00
Basic weighted average number of common shares	<b>18,140,647</b>	13,140,647	<b>17,784,483</b>	7,621,855
Diluted weighted average number of common shares	<b>125,786,177</b>	115,786,177	<b>125,430,013</b>	110,267,385

See accompanying notes

**PINEDALE ENERGY LIMITED**

**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

[Unaudited- Expressed in Canadian dollars]

	Number of issued and outstanding Class A Common shares #	Share capital \$	Contributed Surplus \$	Retained earnings \$	Accumulated other comprehensive income (loss) \$	Total equity \$
<b>Balance, December 31, 2016</b>	<b>2,472,114</b>	<b>2,374,558</b>	–	<b>3,251,359</b>	<b>790,581</b>	<b>6,416,498</b>
Shares issued for RTO	4,229,096	482,062	–	–	–	482,062
Shares issued for private placement	5,000,000	973,743	–	–	–	973,743
Shares issued from conversion	1,439,437	–	–	–	–	–
Share based compensation	–	–	41,791	–	–	41,791
Other comprehensive loss for the period	–	–	–	–	(498,296)	(498,296)
Net income for the period	–	–	–	117,823	–	117,823
<b>Balance, September 30, 2017</b>	<b>13,140,647</b>	<b>3,830,363</b>	<b>41,791</b>	<b>3,369,182</b>	<b>292,285</b>	<b>7,533,621</b>
<b>Balance, December 31, 2017</b>	<b>18,140,647</b>	<b>5,319,746</b>	<b>339,471</b>	<b>4,799,093</b>	<b>258,327</b>	<b>10,716,637</b>
Share based compensation	–	–	76,629	–	–	76,629
Accretion on related party loan	–	–	(116,202)	–	–	(116,202)
Other comprehensive income for the period	–	–	–	–	488,262	488,262
Net income for the period	–	–	–	1,052,078	–	1,052,078
<b>Balance, September 30, 2018</b>	<b>18,140,647</b>	<b>5,319,746</b>	<b>299,898</b>	<b>5,851,171</b>	<b>746,589</b>	<b>12,217,404</b>

*See accompanying notes*

**PINEDALE ENERGY LIMITED**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS**

[Unaudited- Expressed in Canadian dollars]

	Period ended September 30, 2018 \$	Period ended September 30, 2017 \$
<b>OPERATING ACTIVITIES</b>		
Net income for the period	1,052,078	117,823
Add items not affecting cash		
Deferred income tax expense	302,531	375,501
Non-cash portion of reverse acquisition cost	–	445,041
Unrealized gain on derivative financial instruments	–	2,723
Share based compensation	76,629	41,791
Non-cash portion of interest expense	3,996	2,382
Depletion	941,816	118,049
	<u>2,377,050</u>	<u>1,103,310</u>
Changes in non-cash working capital items		
Other receivables and prepaids	327,493	(209,399)
Accounts payable and accrued liabilities	(663,314)	3,278,421
<b>Cash provided by operating activities</b>	<u>2,041,229</u>	<u>4,172,332</u>
<b>INVESTING ACTIVITIES</b>		
Investment in oil and gas properties	(8,114,975)	(4,205,921)
<b>Cash used in investing activities</b>	<u>(8,114,975)</u>	<u>(4,205,921)</u>
<b>FINANCING ACTIVITIES</b>		
Funds received on issuance of share capital	–	973,743
Funds received on promissory note	–	4,000,000
Borrowings (repayment) on long-term debt	3,476,588	(417,074)
<b>Cash provided by financing activities</b>	<u>3,476,588</u>	<u>4,556,669</u>
<b>Effects of exchange rate changes on cash</b>	204,901	267,969
<b>Increase (decrease) in cash during the period</b>	(2,392,257)	4,791,049
Cash, beginning of period	2,957,089	251,245
<b>Cash, end of period</b>	<u>564,832</u>	<u>5,042,294</u>

*See accompanying notes*

**PINEDALE ENERGY LIMITED**  
**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2018 AND 2017**

[Unaudited- Expressed in Canadian dollars]

**1. NATURE OF OPERATIONS**

Pinedale Energy Limited [“Pinedale” or the “Company”] was incorporated under the British Columbia Business Corporations Act on December 17, 2007. The Company is a junior resource company engaged in the identification, and the exploration and development, of both proven and unproven reserves via drilling and/or acquisition with a focus on the State of Wyoming, U.S.A. The address of the Company's registered office is Suite 1500 - 701 West Georgia Street, Vancouver, British Columbia, V7Y 106. The Company is trading on the Toronto Venture Exchange (TSX-V) under the trading symbol “MCF”.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**Basis of presentation**

These condensed interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting (“IAS 34”) using accounting policies consistent with IFRS as issued by the IASB and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”). They do not include all of the information required for full annual financial statements and should be read in conjunction with the audited annual consolidated financial statements for the year ended December 31, 2017 (“2017 Annual Consolidated Financial Statements”), which have been prepared in accordance with IFRS.

**Significant accounting estimates and judgments**

The preparation of these condensed consolidated interim financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual outcomes could differ from these estimates. Certain estimates by their nature are uncertain. The impacts of such estimates could be pervasive throughout the financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Except for the impact of adoption of new accounting standards as discussed in Note 3 below, all accounting policies and methods of computation followed in the preparation of these condensed consolidated interim financial statements are the same as those disclosed in Note 2 of Pinedale’s Annual Consolidated Financial Statements and were authorized for issue by the Board of Directors (the “Board”) on November 27, 2018.

**Adoption of new and revised standards**

**Leases**

This IFRS, which supersedes IAS 17 – Leases, specifies how to recognize, present and disclose leases. The standard provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted if IFRS 15, has also been applied. The Company is currently assessing the impact of the adoption of this standard.

**PINEDALE ENERGY LIMITED**  
**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2018 AND 2017**

[Unaudited- Expressed in Canadian dollars]

**3. CHANGES IN ACCOUNTING POLICIES**

**IFRS 9 “Financial instruments”**

On January 1, 2018, Pinedale adopted IFRS 9 "Financial Instruments" as issued by the IASB. IFRS 9 includes a new classification and measurement approach for financial assets and a forward-looking 'expected credit loss' model.

Pinedale has revised the description of its accounting policy for financial instruments to reflect the new classification approach as follows:

**Financial Instruments**

On initial recognition, financial instruments are measured at fair value. Measurement in subsequent periods depends on the classification of the financial instrument as described below:

- Fair value through profit or loss: Financial instruments under this classification include cash and derivative assets and liabilities.
- Amortized cost: Financial instruments under this classification include accounts receivable, accounts payable, accrued liabilities, promissory notes and long-term debt.

The standard also provides a simplified approach to measuring expected credit losses using a lifetime expected loss allowance for all trade receivables and contract assets. The credit loss model groups receivables based on similar credit risk characteristics and days past due in order to estimate bad debts. The adoption of this approach did not result in a material impact to the Pinedale's financial statements due to the high credit quality of Pinedale's customers.

**IFRS 15 "Revenue from contracts with customers”**

On January 1, 2018, Pinedale adopted IFRS 15 "Revenue from Contracts with Customers". IFRS 15 establishes a comprehensive framework for determining whether, how much, and when revenue from contracts with customers is recognized. Pinedale's revenue relates to the sale of natural gas and natural gas liquids to customers at specified delivery points at benchmark prices. Pinedale adopted IFRS 15 using the modified retrospective approach. Under this transitional provision, the cumulative effect of initially applying IFRS 15 is recognized on the date of initial application as an adjustment to retained earnings. As a result of applying the requirements of IFRS 15, including the application of certain practical expedients such as the right to invoice method of measuring the Company's progress towards complete satisfaction of its performance obligations, no changes or adjustments to the comparative financial statements were required.

As a result of this adoption, Pinedale has revised the description of its accounting policy for revenue recognition as follows:

Revenue associated with the sale of natural gas and natural gas liquids is measured based on the consideration specified in contracts with customers. Revenue from contracts with customers is recognized when Pinedale satisfies a performance obligation by transferring a promised good or service to a customer. A good or service is transferred when the customer obtains control of that good or service. The transfer of control of natural gas and natural gas liquids usually coincides with title passing to the customer and the customer taking physical possession.



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**FOR THE PERIOD ENDED SEPTEMBER 30, 2018 AND 2017**

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**4. OIL AND GAS PROPERTIES**

**Sublette County, State of Wyoming, U.S.A.**

The Company acquired seventeen leases with an undivided working interest ranging from 11.56% to 21.25% covering approximately 1,680 net acres located in Sublette County in the State of Wyoming. The Company has agreements with joint working interest owners in the leases requiring it to participate in the development of oil and natural gas wells associated with leases. Failure by the Company to pay its share of a proposed capital program could result in a significant revenue penalty related to the subject wells. If a proposed capital program results in the continuation of a lease that would otherwise expire and the Company fails to pay its proportionate share of these costs, the Company shall be obligated to assign its undivided interest in the lease to the operator, free of charge and without any consideration or refund of the purchase price. Cumulative expenditures related to the Sublette County interests consist of the following:

<b>Balance, December 31, 2016</b>	<b>\$13,245,169</b>
Additions	6,825,561
Change in decommissioning liability	204,726
Depletion	(444,889)
Reporting currency translation adjustment	(1,100,436)
<b>Balance, December 31, 2017</b>	<b>\$18,730,131</b>
Additions	7,948,817
Change in decommissioning liability	166,158
Depletion	(941,816)
Reporting currency translation adjustment	642,465
<b>Balance, September 30, 2018</b>	<b>\$26,545,755</b>

**5. DECOMMISSIONING LIABILITY**

The Company estimates the total undiscounted amount of cash flow required to settle its decommissioning obligation is approximately \$979,000 (2017 - \$725,984). The payments to settle this obligation are expected to occur from 2039 to 2066. An inflation factor of 2.00% (2017 – 2.00%) has been applied to the estimated decommissioning liability as at September 30, 2018. The Company’s risk-free rate used to calculate the fair value of the decommissioning liability is 2.95% at September 30, 2018 (2017 – 2.95%).

<b>Balance, December 31, 2016</b>	<b>\$383,694</b>
Obligations acquired due to development activity	197,773
Accretion of discount	(9,548)
Reporting currency translation adjustment	(26,045)
<b>Balance, December 31, 2017</b>	<b>\$545,874</b>
Obligations acquired due to development activity	166,158
Accretion of discount	3,996
Reporting currency translation adjustment	18,314
<b>Balance, September 30, 2018</b>	<b>\$734,342</b>

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**6. PROMISSORY NOTE**

On September 1, 2017, the Company executed a promissory note to secure a loan advance of \$4,000,000. The promissory note payable is secured against the assets of the Company, bears interest at a rate of 10.0% per annum which can be repaid at any time without penalty with a maturity date of September 1, 2019. The loan was initially recorded at the fair market value of \$3,629,490 using the discount rate of 15%. As such, a discount of \$370,510, net of deferred tax of \$96,333, was allocated to contributed surplus.

During the period ended September 30, 2018, the Company recognized \$299,178 and \$116,202 of interest expense and accretion, respectively. As at September 30, 2018, the Company had \$3,826,195 outstanding on the Note, in which \$32,877 of interest payable was included in accounts payable and accrued liabilities.

**7. LONG-TERM DEBT**

On June 30, 2015, the Company's wholly owned subsidiary, Pinedale Energy Inc., entered into a US\$25 million revolving credit facility with CrossFirst Bank. The initial Revolver Commitment from the Bank allows for revolving loan advances to the Company to a maximum of US\$5 million. The facilities are secured by fixed and floating charges on the assets of the Company. The amount available under these facilities ("Collateral Borrowing Base") is re-determined at least twice a year and is primarily based on the Company's oil and gas reserves, the lending institution's forecast commodity prices, the current economic environment and other factors. As at September 30, 2018 the Collateral Borrowing Base was US\$6.0 million. The next scheduled Borrowing Base redetermination is to occur by March 31, 2019. These advances bear interest at Wall Street Journal Base Rate plus fifty basis points (0.50%).

At September 30, 2018, the Company had a balance due of \$7,249,200 (US\$5,600,000) under its existing credit facility (December 31, 2017 - \$3,638,050).

Pursuant to the terms of the Loan agreement, the Company is required to maintain a ratio of funded debt to EBITDAX of 4:1 at the end of each fiscal quarter calculated on a rolling twelve month basis. The Company had a ratio of funded debt to EBITDAX of 1.74:1 as at September 30, 2018 (December 31, 2017 – 1.46:1) and is in compliance with this covenant.

**8. SHARE CAPITAL**

**Authorized**

The Company is authorized to issue:

- An unlimited number of voting Class A common shares without par value; and
- An unlimited number of voting Class B common shares without par value.

**Issued and Outstanding**

On February 28, 2017, the Company ("Outrider") and its shareholders entered into the Share Exchange Agreement with 0970831 BC Ltd. ("Pinedale") through which Outrider would acquire all of the issued and outstanding Pinedale Shares in consideration for an aggregate amount of 4,229,096 Class A shares and 95,770,904 Class B shares at a deemed price of \$0.195 per share to the Pinedale shareholders (the "Acquisition"). This Acquisition was completed on June 1, 2017. The Class B common shares are non-voting and each Class B common share will, on a pro rata basis, be automatically converted into one Class A common share if the Company determines that upon such conversion the Company would have a sufficient percentage of Class A common shares in the "Public Float" (as that term is defined and such requirement is set out in the policies of the TSX Venture Exchange ("TSXV")).

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On June 26, 2017, the Company closed a non-brokered private placement for gross proceeds of \$975,000 as part of the Acquisition. The private placement consisted of 5,000,000 units at a price of \$0.195 per unit, each unit is comprised of one Class A common share in the capital of the Company and one transferable share purchase warrant. Each warrant is exercisable into one additional Class A common share at an exercise price of \$0.26 per share. These warrants expire on June 26, 2022.

On October 26, 2017, the Company closed a non-brokered private placement for gross proceeds of \$1,500,000. The private placement consisted of 5,000,000 units at a price of \$0.30 per unit, each unit is comprised of one Class A common share in the capital of the Company and one transferable share purchase warrant. Each warrant is exercisable into one additional Class A common share at an exercise price of \$0.36 per share. These warrants expire on October 26, 2022.

During the period ended September 30, 2018, no Class B shares were converted into class A shares (2017 – 1,439,437 Class B shares converted). As at September 30, 2018, there were 94,331,467 Class B shares outstanding (December 31, 2017 – 94,331,467).

**Stock Option Plan**

The Company has a 10% rolling stock option plan under which stock options to purchase common shares of the Company may be granted to directors, officers and consultants.

The Company has not issued any stock options in the nine month period ended September 30, 2018.

During the year ended December 31, 2017, the Company granted 1,314,064 options with an exercise price of \$0.26 and an expiry date of June 26, 2022. In connection with this grant, the Company recorded a share based compensation expense of \$76,629 during the period ended September 30, 2018 (2017 – \$41,791). As at September 30, 2018, the Company's stock options had a weighted average exercise price and weighted average remaining life of \$0.26 and 3.74 years, respectively.

The following weighted average assumptions were used for the Black-Scholes valuation of share options granted during the period ended September 30, 2018:

	<b>September 30, 2018</b>
Risk-free interest rate	0.89%
Expected life of options (in years)	5.00
Annualized volatility	75%
Share price	\$ 0.26
Fair value of options granted	\$ 0.26
Forfeiture rate	–
Dividend rate	–

**Warrants**

On June 26, 2017, the Company issued 5,000,000 warrants as part of a non-brokered private placement. These warrants have an exercise price of \$0.26 and expire on June 26, 2022.

On October 26, 2017, the Company issued 5,000,000 warrants as part of a non-brokered private placement. These warrants have an exercise price of \$0.36 and expire on October 26, 2022.

As at September 30, 2018 the Company has a total of 11,999,999 warrants outstanding in which the weighted average exercise price and the weighted average remaining life was \$0.44 and 3.45 years, respectively.

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**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
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**9. RELATED PARTY TRANSACTIONS**

Transactions with related parties were in the normal course of operations and are measured at the exchange amount established and agreed to by the related parties.

	September 30, 2018	September 30, 2017
Interest on promissory notes	\$299,178	\$26,301
Consulting Fees	\$106,000	\$66,000
Management fees	\$28,000	\$16,000
Share based compensation	\$51,086	\$27,833

The promissory note described in Note 6 is payable to two directors of the Company. The promissory note payable is at agreed upon terms. During the period ended September 30, 2018, the Company paid \$299,178 (September 30, 2017: \$26,301) in interest on the promissory note.

During the period ended September 30, 2018, the Company paid \$52,000 (September 30, 2017: \$45,000) to an officer of the Company. During the same period, the Company paid \$54,000 in consulting fees to a different officer of the Company (September 30, 2017: \$21,000).

During the period ended September 30, 2018, the Company paid \$28,000 (September 30, 2017: \$16,000) in fees to a private company controlled by a director of the Company. This fee is inclusive of administrative, finance and accounting fees, as well as certain office expenses.

As at September 30, 2018, accounts payable and accrued liabilities included \$43,877 related to these payments.

**10. CAPITAL MANAGEMENT**

It is management's objective to safeguard its capital in order that it will be able to continue as a going concern in the best interest of all stakeholders. The capital of the Company consists of cash and the items included in the consolidated shareholders' equity, which is consistent with the prior year.

The Company currently has limited sources of revenues. As such, the Company is dependent upon external financings to fund activities. In order to finance future projects and to pay for administrative activities, the Company will spend its existing working capital and raise additional funds as needed. Management reviews its capital management practices on an ongoing basis and believes that their approach, given the relative size of the Company, is reasonable. There has been no changes to the Company capital management process in the past year.

**11. FINANCIAL INSTRUMENTS RISK EXPOSURE AND RISK MANAGEMENT**

The Company is exposed in varying degrees to a variety of financial instrument related risks. The main types of risks are credit risk, liquidity risk and market risk. These risks arise throughout the normal course of operations and all transactions are undertaken as a going concern. The type of risk exposure and the way in which such exposure is managed is provided as follows:

**Credit risk**

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company is exposed to credit risk primarily associated with cash. The carrying amounts of these assets included on the consolidated statement of financial position represent the maximum credit

**PINEDALE ENERGY LIMITED**  
**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2018 AND 2017**

[Unaudited- Expressed in Canadian dollars]

exposure. The Company limits exposure to credit risk by maintaining its cash with institutions of high creditworthiness.

The Company's investment policy is to hold cash in interest-bearing bank accounts and highly liquid short-term interest bearing instruments with maturities of one year or less which can be liquidated at any time without penalties.

Trade and other receivables are comprised almost entirely of amounts receivable from marketing companies, pipeline operators and midstream companies which purchase the petroleum and natural gas produced by the properties. The accounts receivable are subject to the standard risk inherent in the industry in which those companies operate and are all current at period end.

**Foreign exchange risk**

Foreign exchange risk arises from the changes in foreign exchange rates that may affect the fair value or future cash flows of the Company's financial assets or liabilities. For the Company, it is the CAD/USD exchange rate which presents the most risk as the Company's operating cash flows and a significant portion of the Company's debt are denominated in U.S. dollars. An increase in the value of the Canadian dollar as compared to the U.S. dollar will reduce the net cash flow from the oil and gas operations but will reduce the Canadian dollar equivalent of the Company's debt and reduce the Canadian dollar equivalent cost of acquisitions. A \$0.01 increase (decrease) in the CAD/USD exchange rate would have increased (decreased) other comprehensive income (loss) by approximately \$9,900 for the period ended September 30, 2018 (2017 - \$9,800).

**Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash. The Company manages its capital in order to meet short term business requirements, after taking into account cash flows, capital expenditures and cash holdings. The Company believes that these sources should be sufficient to cover the likely short term requirements. In the long term, the Company may have to issue additional shares to ensure there is cash available for its programs. All current financial liabilities, being accounts payable and accrued liabilities, are payable within a 90 day period and are to be funded from cash.

**Market risk**

**Commodity price risk**

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. A significant change in commodity prices can materially impact the Company's revenue and ability to raise capital. Commodity prices for petroleum and natural gas are not only influenced by Canadian and United States demand, but also by world events that dictate the levels of supply and demand. A \$0.10 increase (decrease) in the NYMEX natural gas price would have increased (decreased) net income by approximately \$127,400 for the period ended September 30, 2018 (2017 - \$57,900).

The Company is party to certain derivative financial contracts in order to manage natural gas commodity price risks. The natural gas reference prices of our commodity derivative contracts are referenced to natural gas market index prices. As at September 30, 2018, the after tax unrealized loss on outstanding derivative financial contracts was \$5,221 (September 30, 2017: gain of \$5,743). The realized gain on settlement of derivative financial contracts during the period was \$5,489 after tax (September 30, 2017: \$17,352).

**PINEDALE ENERGY LIMITED**  
**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
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[Unaudited- Expressed in Canadian dollars]

A summary of contracts outstanding in respect of hedging is as follows:

<b>Natural Gas Period Hedged</b>	<b>Derivative Product Type</b>	<b>Quantity (MMBtu)</b>	<b>Price (USD/MMBtu)</b>
October 1, 2018 to December 31, 2018	Costless Collar <sup>(1)</sup>	40,000	\$2.91 - \$3.285
October 1, 2018 to December 31, 2018	Costless Collar <sup>(1)</sup>	12,000	\$2.80 - \$3.24
October 1, 2018 to December 31, 2018	Costless Collar <sup>(1)</sup>	12,000	\$2.80 - \$3.41
October 1, 2018 to December 31, 2018	Costless Collar <sup>(1)</sup>	57,000	\$2.80 - \$3.35
October 1, 2018 to December 31, 2018	Costless Collar <sup>(1)</sup>	34,000	\$2.50 - \$3.14
October 1, 2018 to December 31, 2018	Costless Collar <sup>(1)</sup>	3,000	\$2.70 - \$3.14
January 1, 2019 to December 31, 2019	Costless Collar <sup>(1)</sup>	44,000	\$2.80 - \$3.35

(1) NYMEX Henry Hub reference price

**Interest rate risk**

The Company is exposed to interest rate risk related to interest expense on its revolving credit facility due to the floating interest rate charged on advances. For the period ended September 30, 2018, if interest rates had been 25 basis points higher with all other variables held constant, after tax net income for the period would have been approximately \$7,900 (2017 – \$5,200) lower.

**12. SEGMENT INFORMATION**

The Company operates its business as a single operating segment being the development of proven and unproven reserves in the United States.

The breakdown by geographic area as at September 30, 2018 is as follows:

	<b>Canada</b>	<b>United States</b>	<b>Consolidated</b>
Current assets	\$ 196,639	\$ 1,245,877	\$ 1,442,516
Non-current assets	–	26,545,755	26,545,755
Total assets	196,639	27,791,632	27,988,271
Total liabilities	\$ 3,974,793	\$ 11,796,074	\$ 15,770,867
Revenues	\$ –	\$ 5,425,940	\$ 5,425,940

The breakdown by geographic area as at December 31, 2017 for total assets and total liabilities, and as at September 30, 2017 for revenue is as follows:

Current assets	\$ 1,134,686	\$ 3,027,580	\$ 4,162,266
Non-current assets	–	18,730,131	18,730,131
Total assets	1,134,686	21,757,711	22,892,397
Total liabilities	\$ 4,696,960	\$ 7,478,800	\$ 12,175,760
Revenues	\$ –	\$ 2,561,100	\$ 2,561,100

The Company does have two customers that make up more than 10% of total sales with Customer A making up 78.3% percent of sales and customer B making up 13.6% of total sales.