Canadian Overseas Petroleum Limited

Consolidated Financial Statements

As at and for the years ended December 31, 2017 and 2016

Management's Responsibility for Consolidated Financial Statements

The information provided in these consolidated financial statements is the responsibility of management. In the preparation of the statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying consolidated financial statements.

Management maintains a system of internal controls to provide reasonable assurance that the Company's assets are safeguarded and to facilitate the preparation of relevant and timely information.

Deloitte LLP was appointed by the shareholders to serve as the Company's external auditors. They have examined the consolidated financial statements and provided their independent auditor's report. The audit committee has reviewed the consolidated financial statements with management and the auditors, and has reported to the Board of Directors. The Board of Directors has approved the consolidated financial statements as presented.

Signed "Arthur S. Millholland"
Arthur S. Millholland
President and Chief Executive Officer
March 22, 2018

Signed "Aleksandra Owad"
Aleksandra Owad
Chief Financial Officer
March 22, 2018

Independent Auditor's Report

To the Shareholders of Canadian Overseas Petroleum Limited:

We have audited the accompanying consolidated financial statements of Canadian Overseas Petroleum Limited, which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in equity, and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Canadian Overseas Petroleum Limited as at December 31, 2017 and December 31, 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 2 to the consolidated financial statements which indicates that Canadian Overseas Petroleum Limited is pursuing exploration projects and contracts that, if successful, will require substantial additional financing. Canadian Overseas Petroleum Limited incurred a loss of $20.1 million during the year ended December 31, 2017 (2016: $6.8 million) and had negative cash flows from operating activities of $4.9 million (2016: $5.5 million). These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that casts significant doubt about Canadian Overseas Petroleum Limited's ability to continue as a going concern.

Signed "Deloitte LLP"

Chartered Professional Accountants
March 22, 2018
Calgary, Canada

Canadian Overseas Petroleum Limited
Consolidated Statements of Financial Position
(in thousands of United States dollars)

As at	**December 31, 2017**	December 31, 2016
Assets		
Current		
Cash and cash equivalents *(note 4)*	**$ 4,060**	$ 2,565
Accounts receivable	**36**	210
Prepaid expenses	**214**	179
	4,310	2,954
Deposits and prepayments	**44**	48
Exploration and evaluation assets *(note 6)*	**-**	15,407
Office equipment	**60**	71
Long-term receivable	**232**	-
	$ 4,646	$ 18,480
Liabilities		
Current		
Accounts payable and accrued liabilities *(note 7)*	**$ 1,208**	$ 991
	1,208	991
Derivative liability (*note 8(a)*)	**227**	335
	1,435	1,326
Shareholders' Equity		
Share capital *(note 8)*	**133,650**	124,874
Warrants *(note 8(b))*	**-**	2,612
Contributed capital reserve (*note 8(c))*	**50,394**	50,111
Deficit	**(178,595)**	(158,448)
Accumulated other comprehensive loss	**(2,238)**	(1,995)
	3,211	17,154
	$ 4,646	$ 18,480

Nature of operations *(note 1)*
Going concern *(note 2)*
Commitments and contractual obligations *(note 10)*

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board:

Signed "Arthur S. Millholland"
Director

Signed "John F. Cowan"
Director

Canadian Overseas Petroleum Limited

Consolidated Statements of Loss and Comprehensive Loss

(in thousands of United States dollars, except per share amounts)

For the years ended December 31	**2017**	2016
Operations		
Derecognition of exploration and evaluation assets *(note 6)*	**$ (15,642)**	$ (1,321)
Pre-license costs	**(372)**	-
Administrative	**(4,591)**	(5,182)
Depreciation	**(22)**	(40)
Stock-based compensation	**(283)**	(2,097)
	(20,910)	(8,640)
Finance income and costs		
Interest income	**9**	26
Derivative gain *(note 8)*	**436**	2,126
Foreign exchange gain / (loss)	**394**	(193)
	839	1,959
Loss before investments in joint ventures	**(20,071)**	(6,681)
Loss on investment in joint venture *(note 5)*	**(76)**	(80)
Net loss	**(20,147)**	(6,761)
(Loss) / gain on translation of foreign subsidiaries	**(243)**	467
Comprehensive loss	**$ (20,390)**	$ (6,294)
Loss per share (basic and diluted)	**$ (0.02)**	$ (0.01)
Weighted average number of shares outstanding	**1,032,240,720**	566,935,628

See accompanying notes to the consolidated financial statements.

Canadian Overseas Petroleum Limited

Consolidated Statements of Changes in Equity

(in thousands of United States dollars)

	Share Capital	Warrants	Contributed Capital Reserve	Deficit	Accumulated Other Comprehensive Loss[(1)]	Total Equity
Balance at January 1, 2015	**$ 120,730**	**$ 2,612**	**$ 48,014**	**$ (151,687)**	**$ (2,462)**	**$ 17,207**
Comprehensive loss for the year	-	-	-	(6,761)	467	(6,294)
Issued further to Offerings – net of issue cost and valuation of warrants classified as derivatives	2,875	-	-	-	-	2,875
Issued further to exercise of Warrants – including valuation of warrants exercised	1,269	-	-	-	-	1,269
Stock Options granted	-	-	2,097	-	-	2,097
Balance at December 31, 2016	**$ 124,874**	**$ 2,612**	**$ 50,111**	**$ (158,448)**	**$ (1,995)**	**$ 17,154**
Comprehensive loss for the year	**-**	**-**	**-**	**(20,147)**	**(243)**	**(20,390)**
Issued further to Offerings – net of issue cost and valuation of warrants classified as derivatives	**6,164**	**-**	**-**	**-**	**-**	**6,164**
Fair value of warrants that expired unexercised	**2,612**	**(2,612)**	**-**	**-**	**-**	**-**
Stock Options granted	**-**	**-**	**283**	**-**	**-**	**283**
Balance at December 31, 2017	**$ 133,650**	**$ -**	**$ 50,394**	**$ (178,595)**	**$ (2,238)**	**$ 3,211**

[(1)] As at December 31, 2016 and December 31, 2017 the accumulated other comprehensive loss balance consists of unrealized foreign exchange on translation of foreign subsidiaries.

See accompanying notes to the consolidated financial statements.

Canadian Overseas Petroleum Limited
Consolidated Statements of Cash Flows
(in thousands of United States dollars)

For the years ended December 31	**2017**	2016
Cash Used In Operating Activities		
Net loss	**$ (20,147)**	$ (6,761)
Interest income	**(9)**	(26)
Add (deduct) non-cash items:		
Derivative gain *(note 8)*	**(436)**	(2,126)
Depreciation	**22**	40
Stock-based compensation *(note 8 (c))*	**283**	2,097
Derecognition of exploration and evaluation assets	**15,642**	1,321
Unrealized foreign exchange (gain) / loss	**(432)**	342
Loss on investment in joint venture *(note 5)*	**76**	80
	(5,001)	(5,033)
Net change in non-cash working capital *(note 14)*	**128**	(451)
	(4,873)	(5,484)
Financing Activities		
Issuance of common shares, net of issue costs *(note 8)*	**6,469**	6,543
	6,469	6,543
Investing Activities		
Additions to office equipment	**(11)**	(4)
Additions to exploration and evaluation assets *(note 6)*	**(235)**	(273)
Additions to investment in joint venture *(note 5)*	**(76)**	(80)
Interest income	**9**	26
	(313)	(331)
Increase in cash and cash equivalents during the year	**1,283**	728
Effect of foreign exchange on cash and cash equivalents held in foreign currencies	**212**	(178)
Cash and cash equivalents, beginning of year	**2,565**	2 015
Cash and cash equivalents, end of year	**$ 4,060**	$ 2,565

See accompanying notes to the consolidated financial statements.

1. NATURE OF OPERATIONS

Canadian Overseas Petroleum Limited ("COPL" or the "Company"), is a widely-held publicly traded company incorporated and domiciled in Canada. The Company's common shares are traded on the TSX Venture Exchange in Canada and the London Stock Exchange in the UK. The Company's registered office is in Calgary, Alberta at 400, 444 – 7th Avenue S.W.

COPL and its subsidiaries are involved in the identification, acquisition, exploration and development of oil and natural gas offshore reserves. As at December 31, 2017, the Company has the following subsidiaries, all of which are wholly-owned directly or indirectly:

- COPL Technical Services Limited, which is involved in providing technical and administrative services to the COPL group of companies;
- Canadian Overseas Petroleum (UK) Limited ("COPL UK"), incorporated in the United Kingdom ("UK") provides technical and projects related services to the COPL group of companies;
- Canadian Overseas Petroleum (Bermuda Holdings) Limited, Canadian Overseas Petroleum (Bermuda) Limited ("COPL B") and Canadian Overseas Petroleum (Namibia) Limited, which were incorporated to conduct operations in offshore Liberia and elsewhere in Africa.
- Canadian Overseas Petroleum (Ontario) Limited ("COPL Ontario") which was incorporated on December 15, 2017 for the purpose of an anticipated operation in Canada.

The Company, along with an unrelated company, Shoreline Energy International Limited, incorporated Shoreline Canoverseas Petroleum Development Corporation Limited ("ShoreCan") in October 2014 in Bermuda to focus on acquisitions of upstream oil and gas exploration, development and producing assets in Africa. Both partners hold a 50% interest in the joint venture.

2. BASIS OF PREPARATION AND GOING CONCERN

Basis of Preparation and Compliance

The Company's consolidated financial statements ("financial statements") for the years ended December 31, 2017 and 2016 have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Company's consolidated financial statements have been prepared on an historical cost basis, except for certain financial assets and liabilities that have been measured at fair value.

These consolidated financial statements are presented in United States dollars ("$"), which is both the functional and presentation currency. All financial information presented in tables has been rounded to the nearest thousand United States dollars except where otherwise indicated.

Going Concern

These financial statements are prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business.

Currently, the Company does not have material cash inflows and/or adequate financing to develop profitable operations. The Company is pursuing exploration projects and contracts that will require substantial additional financing before they are able to generate positive operating cash flows. Accordingly, the Company's continued successful operations are dependent on its ability to obtain additional financing. There is no assurance that the Company will be able to obtain adequate financing in the future or that such financing will be obtained on terms advantageous to the Company. With no assurance that financing will be obtained in 2018, there is material uncertainty that may cast substantial doubt on the business' ability to continue as a going concern. These financial statements do not give effect to adjustments that would be necessary to the carrying values and classifications of assets and liabilities should the Company be unable to continue as a going concern.

The financial statements were authorized for issue by the Company's Board of Directors on March 22, 2018.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation
The consolidated financial statements include the financial statements of COPL and its subsidiaries.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. All intercompany transactions and balances have been eliminated on consolidation.

Cash and Cash Equivalents
Cash and cash equivalents include cash held at banks, cash in trust, bankers' acceptances, short-term deposits with an original maturity of three months or less, and credit card deposits.

Office Equipment
Office furniture and equipment is stated at purchase price net of accumulated impairment losses and accumulated depreciation. Depreciation is calculated on a straight line basis over estimated useful life.

Foreign Currency Translation
The consolidated financial statements are presented in United States dollars, which is currently the Company's functional and reporting currency.

Transactions denominated in foreign currencies are translated at the exchange rate prevailing on the transaction date. At each period end, monetary assets and liabilities denominated in a foreign currency are translated at the exchange rate prevailing at the period end date. All differences are recognized in net earnings. Non-monetary assets, liabilities and transactions denominated in a foreign currency and measured at historical cost are translated at the exchange rate in effect at the transaction date. Non-monetary items measured at fair value are translated using the exchange rates at the date when the fair value was determined.

For the purpose of consolidation, assets and liabilities of foreign subsidiaries are translated from their functional currency to United States dollars using the exchange rate prevailing at the period end date. The statements of comprehensive loss and cash flows are translated using the average exchange rates for the period. Foreign exchange differences resulting from such transactions are recorded in Shareholders' Equity as accumulated other comprehensive loss.

Revenue Recognition
The Company recognizes interest income as it is earned.

Pre-License Costs
The Company expenses amounts incurred in the evaluation and development of potential business ventures until the related business arrangements are consummated. The costs incurred prior to the award of oil and gas licenses, concessions and other exploration rights are recognized as an expense in the period incurred.

Exploration and Evaluation ("E&E")
The cost of exploring, appraising and evaluating oil and gas properties, including costs of farming into or acquiring the rights to explore, geological and geophysical studies, seismic data and modeling, exploration and/or appraisal drilling and directly related overheads are capitalized and classified as intangible E&E assets. These costs are accumulated in cost centers by field or project in anticipation of future allocation to Cash Generating Units.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Exploration and Evaluation ("E&E") (continued)

The E&E phase of a particular project is completed when either the technical feasibility and commercial viability of extracting oil or gas are demonstrable for the project or there is no prospect of a positive outcome for the project. E&E assets with commercial reserves will be reclassified to development and production assets and the carrying amounts will be assessed for impairment and adjusted (if appropriate) to their estimated recoverable amounts. If commercial reserves are not discovered, the E&E asset is written off to exploration expenses in the statement of comprehensive loss.

Joint Arrangements

Certain of the Company's activities are conducted through joint arrangements in which two or more parties have joint control. A joint arrangement is classified as either a joint operation or a joint venture, depending on the rights and obligations of the parties to the arrangement.

Joint operations arise when the Company has a direct ownership interest in jointly controlled assets and obligations for liabilities. The consolidated financial statements include the Company's proportionate share of the assets, liabilities, revenues, expenses, and cash flows of this type of arrangement.

Joint ventures arise when the Company has rights to the net assets of the arrangement. For these arrangements the Company uses the equity method of accounting and recognizes initial and subsequent investments at cost, adjusting for the Company's share of the joint venture's income or loss, less dividends received thereafter. The transactions between the Company and the joint venture are assessed for recognition in accordance with IFRS.

Under the equity method, losses from the joint venture are applied against the carrying amount of the investment and any loans to the associate that are considered part of the net investment. When the Company's share of losses in a jointly controlled entity exceeds the Company's interest, the Company discontinues recognizing its share of future losses. The Corporation does not recognize further losses unless a legal or constructive obligation exists. If the joint venture subsequently reports profits, the entity resumes recognizing its share of those profits only after its share of the profits equals the share of losses not recognized. Revenue is only recorded when collection is reasonably assured.

Joint ventures are tested for impairment whenever objective evidence indicates that the carrying amount of the investment many not be recoverable under the equity method of accounting. The impairment amount is measured as the difference between the carrying amount of the investment and the higher of its fair value less costs of disposal and its value in use. Impairment losses are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Stock-Based Compensation

The Company issues equity-settled stock options to its employees, directors and consultants and follows the fair value method of accounting. A Black-Scholes option-pricing model is used to determine the fair value of the award at the time the options are granted. The related expense is charged to the consolidated statement of comprehensive loss with a corresponding increase in equity as contributed capital reserve over the vesting term. Consideration received on the exercise of an option is credited to share capital, along with the related stock-based compensation previously recognized in contributed capital reserve.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

Rent payable for assets under operating lease is charged to the statement of comprehensive loss on a straight-line basis over the lease term.

Per Share Data

Basic net income (loss) per share is calculated using the weighted average number of shares outstanding during the year. The treasury stock method is used to calculate diluted earnings per share. This method assumes that only in-the-money stock options and warrants are exercised and that any proceeds would be used to purchase common shares at the average market price during the year.

Financial Instruments

The Company has classified each financial instrument into one of the following categories: financial assets and liabilities at Fair Value Through Profit and Loss ("FVTPL"), loans and receivables, financial assets available-for-sale, financial assets held-to-maturity and financial liabilities measured at amortized cost. All financial instruments are initially recognized at fair value on the statement of financial position, except in the case of "financial liabilities measured at amortized cost", which are initially measured at fair value net of directly attributable transaction costs. Subsequent measurement of financial instruments is based on their classification.

Financial assets and liabilities at FVTPL are subsequently measured at fair value with changes in those fair values recognized in net earnings. Financial assets "available-for-sale" are subsequently measured at fair value with changes in fair value recognized in other comprehensive income, net of tax.

Financial assets "held-to-maturity", "loans and receivables" and "financial liabilities measured at amortized cost" are subsequently measured at amortized cost using the effective interest method.

The Company determines the classification of its financial instruments at initial recognition and where allowed and appropriate, re–evaluates this designation at each financial year end.

Deferred Income Tax

The Company uses the liability method of accounting for income taxes, whereby deferred income tax assets and liabilities are recognized based on temporary differences between the tax basis of assets and liabilities and their carrying amount in the consolidated financial statements, and for unused tax loss carry-forwards.

Deferred tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted at the statement of financial position date.

Deferred income tax assets are recognized only to the extent it is probable that taxable profit will be available to utilize the associated tax deductions.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to offset current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same tax jurisdiction.

Significant accounting judgments and estimates

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions and to use judgment that affects the reported amounts of assets, liabilities, revenues and expenses. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accordingly, actual results may differ from those estimated amounts and differences may be material.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgments and estimates (continued)

In particular, significant areas of estimation uncertainty considered by management in preparing the consolidated financial statements are:

- Stock-based compensation, warrants and derivative liability – the amounts recorded in respect of stock options granted, share purchase warrants granted and the derivative liability for warrants issued are based on the Company's estimation of their fair value, calculated using assumptions regarding the life of the option or warrant, interest rates and volatility. By their nature, these estimates and assumptions are subject to uncertainty, and the actual fair value of options or warrants may differ at any time;
- Impairment of assets – E&E assets and office equipment are assessed for impairment annually and when circumstances suggest that the carrying amount might exceed the recoverable amount. These calculations require the use of estimates and assumptions and are subject to change as new information becomes available. Specifically for E&E assets, these estimates include future commodity prices, quantity of reserves and discount rates, as well as future development and operating expenses;
- Impairment of investment in joint venture – After application of the equity method, the net investment in joint venture is assessed for impairment annually and when circumstances suggest that the carrying amount might exceed the recoverable amount. The Company assesses whether it is necessary to recognize any additional impairment loss with respect to its net investment in the joint venture or any other amount that does not constitute part of the net investment. These estimates include the market, economic, legal and political environment in which the joint venture operates, as well as changes in the joint venture's financial condition. Any reversal of impairment losses is recognized to the extent that the recoverable amount of the investment subsequently increases;
- Deferred income tax – management assesses the likelihood that deferred income tax assets will be realized from future taxable earnings, and the amount of which is subject to measurement uncertainty; and
- Provisions, commitments and contingent liabilities – amounts recorded as provisions and amounts disclosed as commitments and contingent liabilities are estimated based on the terms of the related contracts and management's best knowledge at the time of issuing the consolidated financial statements. The actual results ultimately may differ from those estimates as future confirming events occur.

Significant judgments are involved in the determination of the functional currency of the subsidiaries and the time when exploration and evaluation projects are complete and the technical feasibility and commercial viability of extracting oil or gas are demonstrable for the project or there is no prospect of a positive outcome for the project. Determining the type of joint arrangement as either a joint operation or a joint venture is based on management's determination of whether it has joint control over another entity and considerations include assessment of contractual agreements for unanimous consent of the parties on decision making of relevant activities. Once classified as a joint arrangement, management assesses whether it is structured through a separate vehicle and whether the legal form and contractual arrangements give the entity the direct right to the assets and obligations for the liabilities within the normal course of business, as well as the entity's rights to the economic benefit of assets and its involvement and responsibility for settling liabilities associated with the arrangement.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Future Accounting Standards

IFRS 9 -"Financial Instruments"
In July 2014, the IASB issued final amendments to IFRS 9, replacing IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). IFRS 9 introduces new requirements for the classification, measurement and impairment of financial assets, and new requirements related to hedge accounting. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, and replaces the multiple category and measurement models in IAS 39. The categorization approach in IFRS 9 focuses on how an entity manages its financial instruments in the context of its business model, as well as the contractual cash flow characteristics of the financial assets. New hedge accounting requirements incorporated into IFRS 9 increase the scope of items that may qualify as a hedged item and changes the requirements of hedge effectiveness testing that must be met in order to apply hedge accounting. The requirements of IFRS 9 are effective for annual periods beginning on or after January 1, 2018. IFRS 9 replaced the multiple classification and measurement models for financial assets that existed under IAS 39 Financial Instruments, and the basis on which financial assets are measured determines their classification as either, at amortized cost, fair value through profit and loss, or fair value through other comprehensive income. Therefore, the adoption of this standard results in a reclassification of financial assets classified as loans and receivables to financial assets at amortized cost, however there is no impact to the measurement of these financial assets. Accordingly, the adoption of this standard will not have an impact on the Company's consolidated financial statements.

IFRS 15 - "Revenues from Contracts with Customers"
In May 2014, the IASB and FASB jointly issued IFRS 15 "Revenue from Contracts with Customers," which replaces IAS 18 "Revenue," IAS 11 "Construction Contracts," and other revenue related interpretations. In April 2016, the IASB issued amendments to IFRS 15, clarifying the application of certain of its underlying principles, including the identification of a performance obligation, and the determination of whether a company is a principal or is acting as an agent in the provision of a good or service. The amendments became effective concurrent with the effective date of IFRS 15 on January 1, 2018. The implementation of IFRS 15 will not have a material effect on the Company's consolidated financial statements.

IFRS 2 - "Share-based Payment"
In June 2016, the IASB issued amendments to IFRS 2, clarifying how to account for certain types of share-based payment transactions, including the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, accounting for share-based accounting transactions with a net settlement feature for withholding tax obligations, and accounting for modifications to the terms and conditions of a share-based payment that changes the classification of the share-based payment transaction from cash-settled to equity-settled. The IFRS 2 amendments are effective for annual periods beginning on or after January 1, 2018. The implementation of IFRS 2 will not have a material effect on the Company's consolidated financial statements.

IFRS 16 - "Leases"
In January 2016, the IASB issued IFRS 16 "Leases", which replaces IAS 17 "Leases". IFRS 16 eliminates the distinction between operating and financing leases and provides a single lessee accounting model that requires the lessee to recognize assets and liabilities for all leases on its balance sheet. Leases to explore for or use oil or natural gas are specifically excluded from the scope of IFRS 16. The standard 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 has not yet assessed the potential effect of the implementation of IFRS 16 on its consolidated financial statements.

4. CASH AND CASH EQUIVALENTS

($ 000's)	**December 31, 2017**	December 31, 2016
Cash	**$ 1,891**	$ 2,475
Cash in trust	**2,073**	-
Credit card deposits	**96**	90
	$ 4,060	$ 2,565

Cash balances earn interest, whenever possible, at floating rates based on daily bank deposit rates.

Cash in trust of $2.1 million as of December 31, 2017 represents a trust deposit held with the Company's lawyers in respect of a potential future transaction. There are no restrictions on this cash and the deposit is waiting further instructions from COPL.

Credit card deposits are bank deposits that cover the maximum credit limit available for corporate credit cards.

The fair value of cash and cash equivalents was $4.1 million as at December 31, 2017 ($2.6 million as at December 31, 2016). The Company deposits its cash with reputable Canadian and Bermuda banks. The Company did not have any overdraft facilities in place as at December 31, 2017, and December 31, 2016.

5. INVESTMENT IN JOINT VENTURE

The Company currently holds a 50% interest in a jointly controlled entity, ShoreCan, focusing on acquisitions of upstream oil and gas exploration, development and producing assets in Africa. The determination of ShoreCan as a joint venture was based on ShoreCan's structure through a separate legal entity whereby neither the legal form nor the contractual arrangement give the owners rights to the assets and obligations for the liabilities within the normal course of business, nor does it give the rights to the economic benefits of the assets or responsibility for settling liabilities associated with the arrangement.

The Company and its joint venture partner signed a funding agreement, effective October 24, 2014 (the "Funding Agreement") providing financial support as needed in proportion to its interest (50% each) in ShoreCan for ShoreCan's expenses and obligations. The Funding Agreement does not impose any guarantees from the Company and/or its joint venture partner. Amounts advanced to ShoreCan under the terms of the Funding Agreement are unsecured and payable on or before October 24, 2020 contingent upon ShoreCan generating its own cash flows. Interest is charged monthly at an annual rate of 3.0% above 12 month USD LIBOR.

From time to time the Company or its joint venture partner pay for ShoreCan's general and administrative expenses on behalf of the other partner. As at December 31, 2017 the Company had a receivable from its joint venture partner in respect of overpaid ShoreCan's expenses of $0.2 million that is recorded as a long term receivable.

5. INVESTMENT IN JOINT VENTURE (continued)

Namibia

During the third quarter of 2016, as a result of geological evaluation, ShoreCan decided to terminate its exploration project in Namibia and to relinquish its 80% interest in three offshore blocks in Namibe Basin. Accordingly, $0.5 million of ShoreCan's E&E assets related to Namibia project were written off as at December 31, 2016.

Nigeria

On September 13, 2016, ShoreCan closed an acquisition of 80% of the issued share capital of Essar Exploration and Production Limited (Nigeria) ("Essar Nigeria"), a company which sole asset is a 100% interest in exploration license OPL 226 offshore Nigeria. ShoreCan paid a cash consideration of $0.25 million and as part of the shareholder agreement, ShoreCan has agreed to cover the funding of Essar Nigeria's operations. As a party to a Production Sharing Contract ("PSC") signed with Nigerian National Petroleum Corporation ("NNPC") for OPL 226, Essar Nigeria is required to seek NNPC's consent for the transaction. The respective application has been made and the parties to the transaction are awaiting NNPC's reply.

In addition, ShoreCan has committed to invest up to a maximum of $80 million into Essar Nigeria in the form of an interest-free shareholder loan. The funds will be used for Essar Nigeria operations and in particular, to cover work program obligations, including the costs of drilling one well under Phase-1 of the PSC. NNPC has extended Phase-1 exploration period till November 30, 2017; however, on November 3, 2017 Essar Nigeria requested a further extension from NNPC as the company is still awaiting NNPC's consent to the transaction.

In 2017, three ShoreCan representatives were appointed Directors of Essar Nigeria, gaining a majority on Essar Nigeria board and legal control over Essar Nigeria. ShoreCan has assessed that the transaction does not meet criteria of a business acquisition as Essar Nigeria is in exploration/development stage. ShoreCan assessed the investment based on the fair values of Essar Nigeria's assets and liabilities upon obtaining control over Essar Nigeria. ShoreCan estimated a fair value of the Essar Nigeria loan to its previous parent at $6 million (as compared to the loan face value of $62.7 million as presented in Essar Nigeria audited financial statements as at December 31, 2016) as the shareholding agreement with Essar Nigeria provides for the repayment of this loan from anticipated future production. The loan is an interest free shareholder loan. Non-controlling interest ("NCI"), was recognized at the NCI proportionate share of net assets acquired.

Below are presented summarized consolidated statements of ShoreCan as at December 31, 2017 and results for the year ended December 31, 2017.

As at the date of filing these financial statements, COPL has not provided any guarantee in respect of obligations, commitments and/or losses of either ShoreCan or Essar Nigeria.

5. INVESTMENT IN JOINT VENTURE (continued)

Summarized statement of comprehensive loss for investment in joint venture under equity accounting:

For the years ended December 31 ($ 000's)	**2017**	2016
Revenues	**$ -**	$ -
Expenses		
Pre-license costs	**-**	(80)
Derecognition of evaluation and exploration assets	**-**	(495)
General and administration	**(3,066)**	(3,949)
	(3,066)	(4,524)
Finance expense		
Foreign exchange gain	**15**	10
Interest expense	**(586)**	(374)
	(571)	(364)
Loss	**(3,637)**	(4,888)
Non-controlling interest	**530**	-
Net Loss	**(3,107)**	(4,888)
Share of equity investment (percent)	**50%**	50%
Company's share of net loss	**$ (1,554)**	$ (2,444)

During the year ended December 31, 2017 the Company and its subsidiaries charged ShoreCan management and technical services of $1.7 million (2016 - $1.9 million), including $0.5 million of costs that were allocated to exploration and evaluation assets (2016 – $ nil) and charged an interest expense of $0.3 million (2016 - $0.2 million).

5. INVESTMENT IN JOINT VENTURE (continued)

Statement of financial position

($ 000's)	**December 31, 2017**	December 31, 2016
Assets		
Current		
Cash and cash equivalents	**$ 1**	$ -
Accounts Receivable & prepaid expenses	**3**	250
	4	250
Exploration and evaluation assets	**8,887**	-
Office equipment	**1**	2
	$ 8,892	$ 252
Liabilities		
Current		
Accounts payable and accrued liabilities	**2,239**	271
Long Term loan to NCI	**6,171**	-
ShoreCan Partners' loan	**15,069**	10,994
	$ 23,479	$ 11,265
Equity		
Non-controlling interest	**(467)**	-
Deficit	**(14,120)**	(11,013)
	$ (14,587)	$ (11,013)

Reconciliation of carrying amount of net investment in joint venture:

Carrying amount - Opening	**$ -**	$ -
Increases in net investment in joint venture during the period	**76**	80
Loss recognized on investment in joint venture	**(76)**	(80)
Carrying amount - Ending	**$ -**	$ -

As at December 31, 2017, ShoreCan's non-current liabilities included $7.5 million due to the Company under the terms of the Funding Agreement (December 31, 2016 - $5.5 million).

In 2017, the Company's share of ShoreCan's losses of $1.6 million (in 2016 - $2.4 million) exceed the Company's net investment of $76,000 for the year ended December 31, 2017 (December 31, 2016 - $80,000). Accordingly, under the equity method, the Company recognized loss on investment in ShoreCan's of $76,000 for the year ended December 31, 2017 (2016 - $80,000).

As at December 31, 2017, the Company's share in ShoreCan's accumulated losses is $7.1 million (December 31, 2016 - $5.5 million). Unrecognized accumulated losses on the investment as of December 31, 2017 are $6.2 million (December 31, 2016 - $4.7 million) including $1.5 million of unrecognized losses for year ended December 31, 2017 (for year ended December 31, 2016 – $2.4 million).

6. EXPLORATION AND EVALUATION ASSETS

($ 000's)	**TOTAL**
As at January 1, 2016	**$ 16,455**
Additions	273
Derecognition	(1,321)
As at December 31, 2016	**$ 15,407**
Additions	**235**
Derecognition	**(15,642)**
As at December 31, 2017	**$ -**

Liberia

The Company held a 17% working interest in Block LB-13 offshore Liberia, with the remaining 83% being held by ExxonMobil Exploration and Production Liberia Limited ("ExxonMobil"), who was the operator under this license. The Company's exploration and evaluation assets ("E&E") related entirely to the Liberia project and consisted mainly of 3D seismic of Block LB-13 and capitalized geological and geophysical evaluation work conducted on this block, net of $1.3 million of E&E derecognized in 2016, further to drilling Mesurado-1 well that was not commercially successful.

During 2017, ExxonMobil and the Company performed an evaluation of Mesurado-1 results and worked on implementation of these results into a geological and geophysical analysis for the rest of block LB-13. The obligations under a second exploration period under LB-13 license were completed with drilling Mesurado-1 and the second exploration period expired on September 25, 2017.

Both ExxonMobil and the Company have elected not to enter into third exploration period and accordingly, surrendered their rights to the LB-13 license, resulting in the expiration of the LB-13 production sharing contract on September 25, 2017. Accordingly, the Company derecognized the entire E&E balance of $15.6 million in third quarter of 2017.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

($ 000's)	**December 31, 2017**	December 31, 2016
Trade payables	**$ 966**	$ 841
Accrued liabilities	**231**	139
Other	**11**	11
Total	**$ 1,208**	$ 991

8. SHARE CAPITAL

a) Authorized and Issued Common Shares

Authorized
An unlimited number of common voting shares (the "Common Shares") without nominal or par value and an unlimited number of preferred shares, issuable in series.

Issued
The issued share capital is as follows:

	Number of Common Shares	Amount (000's)
Balance, January 1, 2016	**482,339,196**	**$ 120,730**
Issued pursuant to Non-Brokered Offering (i)	22,857,143	1,163
Issued pursuant to Brokered Offering (ii)	101,066,868	5,576
Valuation of Warrants issued from the Offerings (i & ii)	-	(2,800)
Issued pursuant to exercise of Warrants (i & ii)	10,876,143	694
Valuation of Warrants exercised (i & ii)	-	575
Share issue costs	-	(1,064)
Balance, December 31, 2016	**617,139,350**	**$ 124,874**
Issued pursuant to UK June Placing (iii)	656,000,000	**4,181**
Issued pursuant to UK October Placing (iv)	250,000,000	**3,318**
Fair value of warrants that expired unexercised (Note 8b)	-	**2,612**
Share issue costs	-	**(1,335)**
Balance, December 31, 2017	**1,523,139,350**	**$ 133,650**

(i) On April 28, 2016, further to the first tranche of a private placement to investors in the United Kingdom and on a non-brokered basis ("Non-Brokered Offering"), the Company issued 22,857,143 units at a price of GBP 0.035 ($0.051) for gross proceeds of GBP $0.8 million ($1.2 million). Each unit consisted of one common share in the capital of the Company and one share purchase warrant ("Non-Brokered Offering Warrant"). Each Non-Brokered Offering Warrant entitles the holder thereof to purchase one Common Share at an exercise price of GBP $0.0475 ($0.0695) per Common Share on or before the date that is 24 months following the closing date.

The fair value of the Non-Brokered Offering Warrants estimated at $0.6 million (using a Black-Scholes option pricing model with assumptions as noted in a table below) was netted against proceeds from share capital and a derivative liability of $0.6 million was recognized as at April 28, 2016. The Non-Brokered Offering Warrants' exercise price is in GBP, and the Company's functional currency is in USD. As there is variability in these exchange rates, the Non-Brokered Offering Warrants are classified as a derivative financial instrument.

During third and fourth quarter of 2016, further to an exercise of Non-Brokered Offering Warrants, the Company issued 8,252,142 Common Shares for proceeds of $0.5 million. The fair value of the exercised Warrants estimated at $0.5 million (using a Black-Scholes option pricing model) was recognized as an addition to the share capital and respective decrease in the derivative liability.

The derivative liability of the Non-Brokered Offering Warrants outstanding was revalued on a quarterly basis and in total a derivative loss of $38,000 on the derivative liability was recognized for the year ended December 31, 2017. The derivative liability in respect of the Non-Brokered Offering Warrants as at December 31, 2017, was estimated at $nil (December 31, 2016 - $37,000), using a Black-Scholes option pricing model with the assumptions as noted in the table below.

All amounts in United States dollars, except otherwise stated

8. SHARE CAPITAL (continued)

a) Authorized and Issued Common Shares (continued)

In connection with the Non-Brokered Offering, the Company paid a cash finder's fee of GBP $0.1 million ($0.2 million) and issued 1,177,114 warrants (the Finder's Warrants") as compensation warrants. Each Finder's Warrant entitles the holder thereof to purchase one Common Share of the Company at an exercise price of GBP 0.035 ($0.051) per Common Share on or before the date that is 24 months following the closing date. Other expenses related to the Non-Brokered Offering of Units amounted to $0.2 million.

The fair value of the Finder's Warrants estimated at $35,000 (using a Black-Scholes option pricing model with assumptions as noted in the table below) was netted against proceeds from share capital (as share issue costs) and a derivative liability of $35,000 was recognized as at April 28, 2016. The Finder's Warrants' exercise price is in GBP, and the Company's functional currency is in USD. As there is variability in these exchange rates, the Finder's Offering Warrants are classified as a derivative financial instrument.

As at December 31, 2017, the derivative liability was revalued and a derivative gain of $5,000 on the derivative liability was recognized for the year ended December 31, 2017. The derivative liability in respect of the Finder's Warrants as at December 31, 2017, was estimated at $nil (December 31, 2016 - $4,000), using a Black-Scholes option pricing model.

The following assumptions were used for Black-Scholes option pricing model to estimate a fair value of the Non-Brokered Offering Warrants and the Finder's Warrants as at the date of issue, as at December 31, 2016 and as at December 31, 2017:

	April 28, 2016	December 31, 2016	December 31, 2017
Risk-free interest rate	0.54%	0.07%	0.34%
Weighted average life (years)	2.0	1.3	0.3
Expected volatility	90%	90%	90%
Expected dividend yield	0%	0%	0%

During fourth quarter of 2016, further to an exercise of the 2015 Offering Warrants, the Company issued 574,000 Common Shares for a proceeds of $51,000. The fair value of the exercised Warrants estimated at $24,000 (using a Black-Scholes option pricing model) was recognized as an addition to the share capital and respective decease in the derivative liability.

(ii) On May 3, 2016, further to a brokered portion of the private placement in Canada ("Brokered Offering"), the Company issued 101,066,868 units at a price of CAD 0.07 ($0.055) for gross proceeds of CAD $7.1 million ($5.6 million). Each unit consisted of one common share in the capital of the Company ("Common Share") and one share purchase warrant ("Brokered Offering Warrant"). Each Brokered Offering Warrant entitles the holder thereof to purchase one Common Share at an exercise price of CAD 0.095 ($0.075) per Common Share on or before the date that is 24 months following the closing date.

The fair value of the Brokered Offering Warrants estimated at $2.2 million (using a Black-Scholes option pricing model with assumptions as noted in a table below) was netted against proceeds from share capital and a derivative liability of $2.2 million was recognized as at May 3, 2016. The Brokered Offering Warrants' exercise price is in CAD, and the Company's functional currency is in USD. As there is variability in these exchange rates, the Brokered Offering Warrants are classified as a derivative financial instrument.

All amounts in United States dollars, except otherwise stated

8. SHARE CAPITAL (continued)

a) Authorized and Issued Common Shares (continued)

During third and fourth quarter of 2016, further to an exercise of Brokered Offering Warrants, the Company issued 2,050,000 Common Shares for a proceeds of $147,000. The fair value of the exercised Warrants estimated at $93,000 (using a Black-Scholes option pricing model) was recognized as an addition to the share capital and respective decrease in the derivative liability.

The derivative liability of the Brokered Offering Warrants outstanding was revalued on a quarterly basis and in total a derivative gain of $0.3 million on the derivative liability was recognized for the year ended December 31, 2017. The derivative liability in respect of the Brokered Offering Warrants as at December 31, 2017, was estimated at $nil (December 31, 2016 - $0.3 million), using a Black-Scholes option pricing model with the assumptions as noted in the table below.

In connection with the Brokered Offering, the Company paid a cash commission to its Agents of CAD 0.4 million ($0.3 million) and issued 5,233,206 warrants (the "Agents' Warrants") as compensation warrants. Each Agents' Warrant entitles the holder thereof to purchase one Common Share of the Company at an exercise price of CAD 0.07 ($0.055) per Common Share on or before the date that is 24 months following the closing date. Other expenses related to the Brokered Offering of units amounted to $0.2 million.

The fair value of the Agents' Warrants estimated at $138,000 (using a Black-Scholes option pricing model with assumptions as noted in the table below) was netted against proceeds from share capital (as share issue costs) and a derivative liability of $138,000 was recognized as at May 3, 2016. The Agents' Warrants' exercise price is in CAD, and the Company's functional currency is in USD. As there is variability in these exchange rates, the Agents' Warrants are classified as a derivative financial instrument.

As at December 31, 2017, the derivative liability was revalued and a derivative gain of $21,000 on the derivative liability was recognized for the year ended December 31, 2017. The derivative liability in respect of the Agents' Warrants as at December 31, 2017, was estimated at $nil (December 31, 2016 - $20,000), using a Black-Scholes option pricing model.

The following assumptions were used for Black-Scholes option pricing model to estimate a fair value of the Brokered Offering Warrants and the Agents' Warrants as at the date of issue, December 31, 2016 and December 31, 2017:

	May 3, 2016	December 31, 2016	December 31, 2017
Risk-free interest rate	0.54%	0.73%	1.05%
Weighted average life (years)	2.0	1.3	0.3
Expected volatility	90%	90%	90%
Expected dividend yield	0%	0%	0%

iii) On June 12, 2017, further to a UK prospectus, the Company closed a placing of 656,000,000 Common Shares at a price of GBP 0.005 ($0.006) for gross proceeds of GBP 3.3 million ($4.2 million) (the "UK June Placing). The Brokers were paid a cash commission of GBP $0.2 million ($0.28 million) representing approximately 6.0% of the gross proceeds of the UK June Placing. Other expenses (mainly legal and stock exchanges fees) amounted to approximately GBP 0.4 million ($0.5 million). The Company uses net proceeds from the UK Placing of approximately $3.4 million to finance its administrative expenses.

All amounts in United States dollars, except otherwise stated

8. SHARE CAPITAL (continued)

a) Authorized and Issued Common Shares (continued)

In connection with the UK June Placing, the Company also issued 39,000,000 warrants to its broker (the Broker's Warrants") as compensation warrants. Each Broker's Warrant entitles the holder thereof to purchase one Common Share of the Company at an exercise price of GBP 0.005 ($0.006) per Common Share on or before June 12, 2019. The Broker's Warrants' exercise price is in GBP, and the Company's functional currency is in USD. As there is variability in these exchange rates, the Brokered Offering Warrants are classified as a derivative financial instrument.

The fair value of the Broker's Warrants estimated at $176,000 (using a Black-Scholes option pricing model) was netted against proceeds from share capital (as share issue costs) and a derivative liability of $176,000 was recognized as at June 12, 2017.

As at December 31, 2017, the derivative liability was revalued and a derivative gain of $12,000 on the derivative liability was recognized for the year ended December 31, 2017. The derivative liability in respect of the Broker's Warrants as at December 31, 2017, was estimated at $179,000, using a Black-Scholes option pricing model.

The following assumptions were used for Black-Scholes option pricing model to estimate the fair value of the June Broker's Warrants as at the date of issue and as at December 31, 2017:

	June 12, 2017	December 31, 2017
Risk-free interest rate	0.09%	0.45%
Weighted average life (years)	2.0	1.45
Expected volatility	90%	90%
Expected dividend yield	0%	0%

iv) On October 16, 2017, the Company closed another placing in the UK of 250,000,000 Common Shares at a price of GBP 0.01 ($0.013) for gross proceeds of GBP 2.5 million ($3.3 million) (the "UK October Placing). The Brokers were paid a cash commission of GBP $0.12 million ($0.16 million) representing approximately 4.9% of the gross proceeds of the UK October Placing. Other expenses (mainly legal and stock exchanges fees) amounted to approximately GBP 0.87 million ($0.12 million). The Company uses net proceeds from the UK October Placing of approximately $3.0 million to finance its administrative expenses.

In addition, the Company issued 15,000,000 warrants to its broker (the Broker's Warrants") as compensation warrants. Each Broker's Warrant entitles the holder thereof to purchase one Common Share of the Company at an exercise price of GBP 0.01 ($0.013) per Common Share on or before October 16, 2019. The Brokers' Warrants' exercise price is in GBP, and the Company's functional currency is in USD. As there is variability in these exchange rates, the Brokers' Warrants are classified as a derivative financial instrument.

The fair value of the Broker's Warrants estimated at $129,000 (using a Black-Scholes option pricing model) was netted against proceeds from share capital (as share issue costs) and a derivative liability of $129,000 was recognized as at October 16, 2017.

As at December 31, 2017, the derivative liability was revalued and a derivative gain of $84,000 on the derivative liability was recognized for the year ended December 31, 2017. The derivative liability in respect of the Broker's Warrants as at December 31, 2017, was estimated at $48,000, using a Black-Scholes option pricing model.

8. SHARE CAPITAL (continued)

a) Authorized and Issued Common Shares (continued)

The following assumptions were used for Black-Scholes option pricing model to estimate the fair value of the October Broker's Warrants as at the date of issue and as at December 31, 2017:

	October 16, 2017	December 31, 2017
Risk-free interest rate	0.45%	0.45%
Weighted average life (years)	2.0	1.8
Expected volatility	90%	90%
Expected dividend yield	0%	0%

b) Warrants

A summary of the Company's share purchase warrants outstanding at December 31, 2017 is as follows:

($ 000's)	**Number of Warrants**	**Weighted Average Exercise Price***	**Fair Value of Warrants**	**Expiry Date**
Balance, January 1, 2016	**136,280,968**	**$ 0.19**	**$ 2,612**	
Issued Non-Brokered Warrants (note 8 (a) (i))	22,857,143	0.07	-	April 28, 2018
Issued Finder's Warrants (note 8 (a) (i))	1,177,114	0.05	-	April 28, 2018
Issued Brokered Warrants (note 8 (a) (ii))	101,066,868	0.07	-	May 3, 2018
Issued Agents' Warrants (note 8 (a) (ii))	5,233,206	0.06	-	May 3, 2018
Warrants exercised (note 8 (a) (i and ii))	(10,876,143)	0.07	-	
Expired 2014 Offering Agent Warrants	(888,889)	$0.22	-	
Balance, December 31, 2016	**254,850,267**	**$ 0.14**	**$ 2,612**	
Issued June 2017 Broker's Warrants (note 8 (a) (iii))	**39,000,000**	**0.006**	**-**	June 12, 2019
Issued October 2017 Broker's Warrants (note 8 (a) (iv))	**15,000,000**	**0.013**	**-**	Oct. 16, 2019
Expired 2014 Offering Warrants	**(50,555,000)**	**0.370**	**(2,612)**	
Expired 2015 Offering Warrants	**(79,714,699)**	**0.090**	**-**	
Expired 2015 Offering Broker Warrants	**(4,548,380)**	**0.070**	**-**	
Balance, December 31, 2017	**174,032,188**	**$ 0.053**	**$ -**	

*The weighted average exercise price has been converted in USD based on the foreign exchange rate in effect at the date of issuance

All Warrants issued during 2016 and 2017 have an exercise price denominated in CAD or GBP; as the Company's functional currency is USD, these Warrants are classified as a derivative financial instruments and their fair value is netted against proceeds from share capital.

All amounts in United States dollars, except otherwise stated

8. SHARE CAPITAL (continued)

c) Incentive Stock Options

The Company has a stock option plan where the number of Common Shares reserved under the plan shall not exceed 10% of the issued and outstanding Common Shares and the number reserved for any one individual may not exceed 5% of the issued and outstanding shares. Exercise prices for stock options granted are determined by the closing market price on the day before the date of grant.

On May 12, 2016, the Company granted to its directors, officers, employees and consultants 40,780,000 stock options to acquire the Company's common shares at an exercise price of CAD 0.10 ($0.08). The options vest immediately and expire five years from the date of grant. The related stock-based compensation expense of $1.3 million has been recognized in the statement of comprehensive loss and as an addition to contributed capital reserve.

On August 12, 2016, the Company granted to its directors, officers and employees 4, 400,000 stock options to acquire the Company's common shares at an exercise price of CAD 0.115 ($0.088). The options vest immediately and expire five years from the date of grant. The related stock-based compensation expense of $0.3 million has been recognized in the statement of comprehensive loss and as addition to contributed capital reserve.

On November 15, 2016, the Company granted to its directors, officers and employees 7,500,000 stock options to acquire the Company's common shares at an exercise price of CAD 0.18 ($0.13). The options vest immediately and expire five years from the date of grant. The related stock-based compensation expense of $0.6 million has been recognized in the statement of comprehensive loss and as addition to contributed capital reserve.

On November 27, 2017, the Company granted to its directors, officers and employees 60,035,000 stock options to acquire the Company's common shares at an exercise price of CAD 0.015 ($0.012). The options vest immediately and expire five years from the date of grant. The related stock-based compensation expense of $0.3 million has been recognized in the statement of comprehensive loss and as addition to contributed capital reserve.

The fair value of each option granted was estimated on the date of grant using a Black-Scholes option pricing model with the following assumptions:

	May 12, 2016	August 12, 2016	November 15, 2016	November 27, 2017
Risk-free interest rate	0.64%	0.58%	0.67%	1.57%
Weighted average life (years)	4.0	4.0	3.0	4.0
Expected volatility	90%	90%	90%	90%
Expected dividend yield	0%	0%	0%	0%

During the year ended December 31, 2017, 5,800,000 stock options were forfeited (December 31, 2016 – 1,500,000). No stock options expired unexercised during the year ended December 31, 2017 (December 31, 2016 - 9,490,000). No stock options were exercised during the years ended 31 December 2017 and 2016.

8. SHARE CAPITAL (continued)

c) Incentive Stock Options (continued)

As at December 31, 2017, a total of 115,240,000 stock options to purchase Common Shares were outstanding, having a weighted average exercise price of $0.06 per share and a remaining weighted average contractual life of 4.04 years.

($ 000's)	Number of Options	Weighted Avg. Exercise Price*	Contributed Capital Reserve
Balance, January 1, 2016	**19,315,000**	**$ 0.46**	**$ 48,014**
Granted	52,680,000	0.09	2,097
Expired	(9,490,000)	0.68	-
Forfeited	(1,500,000)	0.35	-
Balance and exercisable December 31, 2016	**61,005,000**	**$ 0.11**	**$ 50,111**
Granted	60,035,000	0.01	283
Forfeited	(5,800,000)	0.10	-
Balance and exercisable December 31, 2017	**115,240,000**	**$ 0.06**	**$ 50,394**

*The weighted average exercise price has been converted in USD based on the foreign exchange rate in effect at the date of issuance

9. DEFERRED INCOME TAX

The tax effects of the temporary differences on deferred income tax assets (liabilities) are as follows:

($ 000's)	**December 31, 2017**	December 31, 2016
Non-capital income tax losses	**$ 8,539**	$ 7,460
Pre-trading expenses – UK	**1,307**	1,417
Capital losses	**795**	742
Share issue costs	**576**	590
Exploration and Evaluation assets	**10,668**	12,165
Office equipment	**42**	34
	21,927	22,408
Unrecognized tax benefits	**(21,927)**	(22,408)
Deferred income tax assets (liabilities)	**$ -**	$ -

The Company did not recognize a deferred tax asset as at December 31, 2017 or 2016, as currently, it is not expected that the assets will be recoverable in the foreseeable future.

The temporary differences associated with investments in subsidiaries, for which a deferred tax liability was not recognized amounted to $22.8 million as at December 31, 2017 (December 31, 2016 $21.3 million).

9. DEFERRED INCOME TAX (continued)

The provision for income taxes (recoveries) differs from the expected amounts using statutory income tax rates as follows:

($ 000's)	**2017**	2016
Net loss before investment in joint venture	**$ (20,071)**	$ (6,681)
Income tax rates	**27.0%**	27.0%
Provision at statutory rates	**(5,419)**	(1,804)
Tax rate differential (UK and Bermuda)	**5,720**	1,459
Non-deductible items:		
Stock-based compensation	**75**	528
Gain on derivatives	**(124)**	(598)
Depreciation in excess of capital allowance	**6**	9
Other	**530**	246
Share issue costs	**(308)**	(242)
Effect of tax rates changes (UK)	**(2,676)**	(11)
Effect of foreign exchange	**1,669**	(73)
Change in tax pools	**527**	486
Deferred income tax provision (recovery)	**$ -**	$ -

As at December 31, 2017, the Company had approximately $31.6 million (December 31, 2016 - $27.6 million) of non-capital losses, which can be applied against taxable income earned in Canada with the expiry dates between December 31, 2025 and December 31, 2037.

As at December 31, 2017, the Company also had capital losses of approximately $5.9 million (December, 31, 2016 - $5.5 million), which will carry forward indefinitely to reduce capital gains taxed in Canada.

In addition, the Company had cumulative pre-trading expenses in the UK as at December 31, 2017 of approximately $2.7 million or GBP 2.0 million (2016 - $2.4 million or GBP 2.0 million). These amounts will become non-capital losses within the next seven years if the Company obtains trading status in the UK, and these losses can be carried forward indefinitely against future income earned in the UK. If the Company does not obtain trading status the amounts will expire after seven years.

10. COMMITMENTS AND CONTRACTUAL OBLIGATIONS

As at December 31, 2017, the Company has the following commitments:

($ 000's)	**Total**	**Less than One Year**	**One to Three Years**	**Four to Five Years**	**After Five Years**
Office lease	**$ 1,008**	526	482	-	-

The Company is committed under operating lease agreements for the rental of office space in Calgary, Canada. The approximate total lease payments are $1.0 million and are payable over the next two years.

11. RELATED PARTY TRANSACTIONS

a) Related Parties

Related parties include subsidiaries, joint arrangements, key management personnel, the directors, immediate family members of key management personnel and directors, and entities which are, directly or indirectly, controlled by, jointly controlled by or significantly influenced by key management personnel, directors or their close family members.

b) Transactions with Directors and Officers

As at December 31, 2017, accounts due from related parties amounted to $8,000 (December 31, 2016 - $16,000), which represented travel advances, with $1,000 payable to related parties (December 31, 2016 - $1,000) for outstanding travel expenses.

c) Remuneration of Directors and Other Key Management Personnel

The key management personnel of the Company are comprised of executives of the Company and members of its board of directors. The remuneration accrued to directors and key management personnel are as follows:

($ 000's)	**December 31, 2017**	December 31, 2016
Short-term benefits	**$ 1,443**	$ 1,849
	$ 1,443	$ 1,849

Short-term benefits include annual salaries, directors' fees, health benefits, and other tax benefits.

In addition, of the 60.0 million stock options issued in 2017 (52.7 million in 2016), 49.7 million (43.0 million in 2016) were issued to directors and key management personnel.

The stock options vest immediately and expire five years from the date of grant.

The Company employed a family member of a member of key management during the year ended December 31, 2017, under normal commercial terms. Total salary and benefits paid to this individual were $84,000 (2016: $18,700). There were 2,000,000 stock options granted to this individual during 2017 (2016: 500,000) to acquire the Company's common shares at an exercise price of CAD 0.015 (approximately $0.012). There are no accounts receivable due from, or accounts payable due to this individual as at December 31, 2017 or December 31, 2016.

All amounts in United States dollars, except otherwise stated

11. RELATED PARTY TRANSACTIONS (continued)

d) Transactions with Jointly Controlled Entity

In the normal course of operations, the Company enters into transactions on market terms with its jointly controlled entity ShoreCan, which have been measured at exchange value and are recognized in the consolidated financial statements, including, but not limited to: management fees, technical services and interest-bearing loans. The balances included in the jointly controlled entity are disclosed in Note 5.

12. FINANCIAL INSTRUMENTS

The Company has classified its cash and cash equivalents, deposits and derivative liability as financial assets and liabilities at fair value through profit and loss and has measured them at fair value. Accounts receivable are classified as loans and receivables; accounts payable and accrued liabilities are classified as other liabilities; these items are measured at amortized cost.

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments depending on the observability of the inputs employed in the measurement:

Level 1: fair value measurements are based on unadjusted quoted prices in active markets for identical assets or liabilities. An active market for an asset or liability is considered to be a market where transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis. At December 31, 2017, cash and cash equivalents, are valued using Level 1 inputs.

Level 2: fair value measurements are based on valuation models and techniques where the significant inputs are derived from quoted indices. Level 2 valuations are based on inputs including quoted forward prices, time value, volatility factors and broker quotes that can be observed or corroborated in the market for the entire duration of the derivative instrument. At December 31, 2017, the derivative liability is valued using Level 2 inputs.

Level 3: fair value measurements are based on unobservable information or where the observable data does not support a significant portion of the instrument's fair value. At December 31, 2017 the Company did not have any financial assets or liabilities valued using Level 3, and there were no transfers in and out of Level 3 during the year.

a) Fair values

As at December 31, 2017 and December 31, 2016, the fair values of all financial instruments not carried at fair value approximated their carrying values due to their short-term maturity.

b) Foreign exchange risk

To mitigate a portion of its exposure and to the extent it is feasible, the Company keeps its funds in currencies applicable to its known short-term obligations.

Cash and cash equivalents includes amounts denominated in the following foreign currencies:

	December 31, 2017	December 31, 2016
Great British Pounds	**1,287**	27
Canadian Dollars	**2,821**	3,336

12. FINANCIAL INSTRUMENTS (continued)

(c) Credit risk

The Company's accounts receivable include mainly amounts due from its partner in ShoreCan as well as the amounts due from the government (Goods and Services Tax in Canada and Value Added Tax in UK) and due from its employees in respect of travel advances. The Company believes there is no unusual exposure associated with these receivables. No amounts are considered to be past due and no allowance for doubtful accounts has been recorded in the accounts. As at December 31, 2017, the Company holds $4.1 million of cash and cash equivalents with Canadian and Bermuda chartered banks and in trust with the Company's lawyers (December 31, 2016 - $2.6 million). Management has assessed the associated credit risk as relatively low.

(d) Interest rate risk

The Company's policy is to keep its cash, whenever possible, in interest bearing accounts with its banking institutions. The Company periodically monitors the interest rates offered and is satisfied with the credit ratings of its banks.

13. CAPITAL MANAGEMENT

The Company's objectives when managing capital are:

- to safeguard the Company's ability to continue as a going concern;
- to maintain statement of financial position strength and optimal capital structure, while ensuring the Company's strategic objectives are met; and
- to provide an appropriate return to shareholders relative to the risk of the Company's underlying assets.

In the management of capital, the Company includes shareholders' equity and interest bearing debt defined as long-term loans and current portion of long-term loans, if any. Shareholders' equity includes share capital, warrants, contributed capital reserve and deficit.

The Company maintains and adjusts its capital structure based on changes in economic conditions and the Company's planned requirements. The Company may adjust its capital structure by issuing new equity and/or debt, selling and/or acquiring assets, and controlling the capital expenditure program.

The Company is not subject to any external capital requirements. There were no changes in the Company's capital management policies during the year ended December 31, 2017.

All amounts in United States dollars, except otherwise stated

14. NET CHANGE IN NON-CASH WORKING CAPITAL

	December 31, 2017	December 31, 2016
Decrease / (increase) in accounts receivable	**$ 174**	$ (61)
(Increase) in long-term accounts receivable	**(232)**	-
(Increase) / decrease in prepaid expenses	**(35)**	40
Decrease in deposits and prepayments	**4**	3
Increase / (decrease) in operating accounts payable and accrued liabilities	**217**	(433)
Net change in operating non-cash working capital	**$ 128**	$ (451)