

Canadian Overseas Petroleum Limited
Unaudited Condensed Interim Consolidated
Financial Statements
As at September 30, 2018 and for the three and nine
month periods ended September 30, 2018 and 2017

Management's Responsibility for Consolidated Financial Statements

The information provided in these unaudited condensed interim 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.

The audit committee has reviewed the unaudited condensed interim consolidated financial statements with management and the auditors, and has reported to the Board of Directors. The Board of Directors has approved the unaudited consolidated interim financial statements as presented.

Signed "Arthur S. Millholland"

Arthur S. Millholland
President and Chief Executive Officer
November 8, 2018

Signed "Aleksandra Owad"

Aleksandra Owad
Chief Financial Officer
November 8, 2018

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

As at	September 30, 2018	December 31, 2017
Assets		
Current		
Cash and cash equivalents <i>(note 4)</i>	\$ 3,390	\$ 4,060
Accounts receivable	53	36
Prepaid expenses	189	214
	3,632	4,310
Deposits and prepayments	45	44
Office equipment	48	60
Long-term receivable	245	232
	\$ 3,970	\$ 4,646
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 1,300	\$ 1,208
	1,300	1,208
Derivative liability <i>(note 5(b))</i>	71	227
	1,371	1,435
Shareholders' Equity		
Share capital <i>(note 5(a))</i>	136,948	133,650
Contributed capital reserve <i>(note 5(c))</i>	50,394	50,394
Deficit	(182,613)	(178,595)
Accumulated other comprehensive loss	(2,130)	(2,238)
	2,599	3,211
	\$ 3,970	\$ 4,646
Nature of operations <i>(note 1)</i>		
Going concern <i>(note 2)</i>		
Commitments and contractual obligations <i>(note 6)</i>		

See accompanying notes to the condensed consolidated financial statements.

Canadian Overseas Petroleum Limited
Condensed Consolidated Statements of Comprehensive Loss (unaudited)
(in thousands of United States dollars, except per share amounts)

	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Operations				
Pre-license costs	\$ (130)	\$ -	\$ (451)	\$ -
Administrative	(1,272)	(1,236)	(3,723)	(3,462)
Derecognition of exploration and evaluation assets	-	(15,642)	-	(15,642)
Depreciation	(5)	(5)	(15)	(16)
	(1,407)	(16,883)	(4,189)	(19,120)
Finance income and costs				
Interest income	3	1	9	8
Derivative gain / (loss) (note 5(b))	130	(485)	258	(115)
Foreign exchange gain / (loss)	14	119	(83)	296
	147	(365)	184	189
Loss before investments in joint ventures	(1,260)	(17,248)	(4,005)	(18,931)
Loss on investment in joint venture (note 3)	-	(6)	(13)	(59)
Net loss	(1,260)	(17,254)	(4,018)	(18,990)
Gain / (loss) on translation of foreign subsidiaries	30	(175)	108	(213)
Comprehensive loss	\$ (1,230)	\$ (17,429)	\$ (3,910)	\$ (19,203)
Loss per share (basic and diluted)	\$ (0.00)	\$ (0.01)	\$ (0.00)	\$ (0.02)
Weighted average number of shares outstanding	1,823,201,589	1,273,139,350	1,624,259,226	881,461,694

See accompanying notes to the condensed consolidated financial statements.

Canadian Overseas Petroleum Limited
Condensed Consolidated Statements of Changes in Equity (unaudited)
(in thousands of United States dollars)

	Share Capital	Warrants	Contributed Capital Reserve	Deficit	Accumulated Other Comprehensive Loss ⁽¹⁾	Total Equity
Balance at January 1, 2017	\$ 124,874	\$ 2,612	\$ 50,111	\$ (158,448)	\$ (1,995)	\$ 17,154
Issued common shares – net of issue cost and valuation of warrants classified as derivatives	3,248	-	-	-	-	3,248
Fair value of warrants that expired unexercised	2,612	(2,612)	-	-	-	-
Comprehensive loss for the period	-	-	-	(18,990)	(213)	(19,203)
Balance at September 30, 2017	\$ 130,734	\$ -	\$ 50,111	\$ (177,438)	\$ (2,208)	\$ 1,199
Balance at December 31, 2017	\$ 133,650	\$ -	\$ 50,394	\$ (178,595)	\$ (2,238)	\$ 3,211
Issued common shares – net of issue cost and valuation of warrants classified as derivatives (note 5(a))	3,298	-	-	-	-	3,298
Comprehensive (loss)/gain for the period	-	-	-	(4,018)	108	(3,910)
Balance at September 30, 2018	\$ 136,948	\$ -	\$ 50,394	\$ (182,613)	\$ (2,130)	\$ 2,599

⁽¹⁾As at September 30, 2018 and 2017, the accumulated other comprehensive loss balance consists of unrealized foreign exchange on translation of foreign subsidiaries.

See accompanying notes to the condensed consolidated financial statements.

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

For the nine months ended September 30	2018	2017
Cash Used In Operating Activities		
Loss	\$ (4,018)	\$ (18,990)
Interest income	(9)	(8)
Add (deduct) non-cash items:		
Derivative (gain) / loss (note 5(b))	(258)	115
Depreciation	15	16
Derecognition of exploration and evaluation assets	-	15,642
Unrealized foreign exchange loss / (gain)	152	(363)
Loss on investment in joint venture (note 3)	13	59
	<u>(4,105)</u>	<u>(3,529)</u>
Net change in non-cash working capital (note 8)	(125)	323
	<u>(4,230)</u>	<u>(3,206)</u>
Financing Activities		
Issuance of common shares, net of issue costs (note 5 (a))	3,401	3,424
Net change in non-cash working capital (note 8)	211	8
	<u>3,612</u>	<u>3,432</u>
Investing Activities		
Additions to office equipment	(4)	(11)
Additions to exploration and evaluation assets	-	(235)
Additions to investment in joint venture (note 3)	(13)	(59)
Interest income	9	8
Net change in non-cash working capital (note 8)	-	(215)
	<u>(8)</u>	<u>(512)</u>
(Decrease)/increase in cash and cash equivalents during the period	(626)	(286)
Effect of foreign exchange on cash and cash equivalents held in foreign currencies	(44)	164
Cash and cash equivalents, beginning of period	4,060	2,565
Cash and cash equivalents, end of period	\$ 3,390	\$ 2,443

See accompanying notes to the condensed consolidated financial statements.

Canadian Overseas Petroleum Limited
Notes to the Condensed Consolidated Financial Statements
As at September 30, 2018 and for the three and nine months ended September 30, 2018 and 2017

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 London Stock Exchange in the UK and Canadian Securities Exchange (“the CSE”) in Canada under the symbol “COPL”; the Company moved its listing from TSX Venture Exchange to the CSE on October 31, 2018. 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 September 30, 2018, 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 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 unaudited condensed interim consolidated financial statements (“financial statements”) have been prepared in accordance with International Accounting Standard (“IAS”) 34, “Interim Financial Reporting” following acceptable accounting policies under International Financial Reporting Standards (“IFRS”) and are reported in thousands of United States dollars (“\$”). The Company’s financial statements should be read in conjunction with the Company’s audited annual consolidated financial statements as at and for the years ended December 31, 2017 and 2016, which outline the Company’s significant accounting policies in Note 3 thereto, which have been applied consistently in these financial statements, as well as the Company’s critical accounting judgments and key sources of estimation uncertainty which are also set out in Note 3 thereto.

Changes in Accounting Policies Implemented During the Nine Months Ended September 30, 2018

The September 2018 condensed interim consolidated financial statements follow the same accounting principles and methods of application as those disclosed in Note 3 to the 2017 audited consolidated financial statements, except as described below.

IFRS 9, “Financial Instruments” (“IFRS 9”)

On January 1, 2018, the Company implemented final amendments to IFRS 9 which provide guidance on the recognition and measurement, impairment and derecognition of financial instruments. The implementation of amendments to IFRS 9 resulted in no material changes in the measurement and carrying value of the Company’s financial instruments.

2. BASIS OF PREPARATION AND GOING CONCERN (continued)

Changes in Accounting Policies Implemented During the Nine Months Ended September 30, 2018 (continued)

IFRS 15, “Revenues from Contracts with Customers” (IFRS 15”)

On January 1, 2018, the Company implemented amendments to IFRS 15 which clarify 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 implementation of amendments to IFRS 15 had no impact to the Company’s condensed interim consolidated financial statements.

IFRS 2, “Share-based Payment” (“IFRS 2”)

On January 1, 2018, the Company implemented amendments to IFRS 2 which clarify 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 implementation of amendments to IFRS 2 had no impact to the Company’s condensed interim consolidated financial statements.

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 Company’s 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 November 8, 2018.

3. 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 sub-Saharan 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.

Canadian Overseas Petroleum Limited
Notes to the Condensed Consolidated Financial Statements
As at September 30, 2018 and for the three and nine months ended September 30, 2018 and 2017

3. INVESTMENT IN JOINT VENTURE (continued)

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 cashflows. 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 September 30, 2018 the Company had a receivable from its joint venture partner in respect of overpaid ShoreCan expenses of \$0.2 million that is recorded as a long term receivable.

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. On October 2, 2018, NNPC granted a conditional approval of a twenty four months extension of the Phase-1 exploration period until October 1, 2020. The extension is subject to certain conditions, including submission of a Performance Bond of \$7 million that is required further to the PSC, to cover the Phase-1 exploration period work program at OPL 226.

In 2017, three ShoreCan representatives were appointed Directors of Essar Nigeria, gaining a majority on the 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 September 30, 2018 and results for the three and nine months periods ended September 30, 2018.

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.

Canadian Overseas Petroleum Limited
Notes to the Condensed Consolidated Financial Statements
As at September 30, 2018 and for the three and nine months ended September 30, 2018 and 2017

3. INVESTMENT IN JOINT VENTURE (continued)

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

(\$ 000's)	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Revenues	\$ -	\$ -	\$ -	\$ -
Expenses				
General and administration	(922)	(1,016)	(2,414)	(2,250)
	(922)	(1,016)	(2,414)	(2,250)
Finance income				
Foreign exchange gain	(1)	-	2	-
Interest expense	(252)	(151)	(695)	(425)
	(253)	(151)	(693)	(425)
Loss	(1,175)	(1,167)	(3,107)	(2,675)
Non-controlling interest	88	-	206	-
Net Loss	(1,087)	(1,167)	(2,901)	(2,675)
Share of equity investment (percent)	50%	50%	50%	50%
Company's share of net loss	\$ (544)	\$ (583)	\$ (1,451)	\$ (1,337)

During the nine months ended September 30, 2018, the Company and its subsidiaries charged ShoreCan management and technical services of \$1.1 million (2017 - \$1.1 million) and charged an interest expense of \$0.3 million (2017 - \$0.2 million).

Canadian Overseas Petroleum Limited
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3. INVESTMENT IN JOINT VENTURE (continued)

Carrying value of investment in joint venture under equity accounting:

Statement of financial position (\$ 000's)	September 30, 2018	December 31, 2017
Assets		
Current		
Cash and cash equivalents	\$ 1	\$ 1
Accounts Receivable & prepaid expenses	3	3
	<u>4</u>	<u>4</u>
Exploration and evaluation assets	8,943	8,887
Office equipment	1	1
	<u>\$ 8,948</u>	<u>\$ 8,892</u>
Liabilities		
Current		
Accounts payable and accrued liabilities	2,506	2,239
Long Term loan to NCI	6,168	6,171
ShoreCan Partners' loan	17,968	15,069
	<u>\$ 26,642</u>	<u>\$ 23,479</u>
Equity		
Non-controlling interest	(673)	(467)
Deficit	(17,021)	(14,120)
	<u>\$ (17,694)</u>	<u>\$ (14,587)</u>

Reconciliation of carrying amount of net investment in joint venture:

(\$ 000's)	September 30, 2018	December 31, 2017
Carrying amount - Opening	<u>\$ -</u>	<u>\$ -</u>
Increases in net investment in joint venture		
during the period	13	76
Loss recognized on investment in joint venture	(13)	(76)
Carrying amount - Ending	<u>\$ -</u>	<u>\$ -</u>

As at September 30, 2018, ShoreCan's non-current liabilities included \$9.0 million due to the Company under the terms of the Funding Agreement (December 31, 2017 - \$7.5 million).

For the nine months ended September 30, 2018, the Company's share of ShoreCan's losses of \$1.4 million (nine months ended September 30, 2017 - \$1.3 million) exceed the Company's Net Investment of \$13,000 for this period (\$59,000 for nine months ended September 30, 2017). Accordingly, under the equity method, the Company recognized its share of ShoreCan's losses of \$13,000 for the nine months ended September 30, 2018 (\$59,000 for nine months ended September 30, 2017).

As at September 30, 2018, the Company's share in ShoreCan's accumulated losses is \$8.5 million (December 31, 2017 - \$7.1 million). Unrecognized accumulated losses on the investment as of September 30, 2018 are \$7.6 million including \$1.4 million of unrecognized losses for the nine months ended September 30, 2018.

Canadian Overseas Petroleum Limited
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4. CASH AND CASH EQUIVALENTS

(\$ 000's)	September 30, 2018	December 31, 2017
Cash	\$ 3,297	\$ 1,891
Cash in trust	-	2,073
Credit card deposits	93	96
	\$ 3,390	\$ 4,060

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

Cash in trust of \$2.1 million as at December 31, 2017 related to a deposit of CAD \$2.6 million held in trust with the Company's lawyers in respect of a potential transaction. There were no restrictions on this cash and the deposit was returned to COPL on April 6, 2018.

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 \$3.4 million as at September 30, 2018 (\$4.1 million as at December 31, 2017). The Company deposits its cash with reputable Canadian and Bermuda banks. The Company did not have any overdraft facilities in place as at September 30, 2018, and December 31, 2017.

5. 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
Balance, January 1, 2017	617,139,350	\$ 124,874
Issued pursuant to UK June Placement	656,000,000	4,181
Issued pursuant to UK October Placement	250,000,000	3,318
Fair value of warrants that expired unexercised	-	2,612
Share issue costs	-	(1,335)
Balance, December 31, 2017	1,523,139,350	\$ 133,650
Issued pursuant to UK August Placing (i)	895,523,000	3,891
Issued pursuant to Private Placement (ii)	41,310,913	180
Issued as a payment of introduction fee (iii)	26,779,200	107
Share issue costs	-	(880)
Balance, September 30, 2018	2,486,752,463	\$ 136,948

- (i) On August 31, 2018, further to a UK prospectus, the Company closed a placing of 895,523,000 Common Shares at a price of GBP 0.00335 (\$0.0043) for gross proceeds of GBP 3.0 million (\$3.9 million) (the "UK August Placing"). The broker was paid a cash commission of GBP 0.2 million (\$0.2 million) representing approximately 6.0% of the gross proceeds of the UK August Placing. Other expenses (mainly legal and finders' fees) amounted to approximately GBP 0.3 million (\$0.5 million). The Company will use net proceeds from the UK August Placing of approximately \$3.2 million mainly to finance its administrative expenses.

Canadian Overseas Petroleum Limited
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5. SHARE CAPITAL (continued)

a) Authorized and Issued Common Shares (continued)

In connection with the UK August Placing, the Company also issued 53,731,380 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 0.00335 (\$0.0043) per Common Share on or before August 30, 2020. The fair value of the Broker’s Warrants estimated at \$103,000 (using a Black-Scholes option pricing model) was netted against proceeds from share capital (as share issue costs) and a derivative liability of \$103,000 was recognized as at August 31, 2018. 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, Broker’s Warrants are classified as a derivative financial instrument.

The following assumptions were used for Black-Scholes option pricing model to estimate the fair value of the Broker’s Warrants at the date of issue:

	August 31, 2018
Risk-free interest rate	0.727%
Weighted average life (years)	2.0
Expected volatility	90%
Expected dividend yield	0%

- (ii) On September 19, 2018 and September 20, 2018, the Company closed a Private Placement and issued in total 41,310,913 Common Shares at a price of GBP 0.00335 (\$0.0043) to Company’s directors and employees for gross proceeds of approximately GBP 0.14 million (\$0.18 million).
- (iii) In addition, on September 19, 2018, the Company issued 26,779,200 Common Shares as a payment for an introduction fee related to the UK August Placing. Accordingly, the Company recognized GBP 0.1 million (\$0.1 million), being the fair value of these shares as at the grant date, as an addition to equity and share issue cost related to the UK August Placing.

Canadian Overseas Petroleum Limited
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5. SHARE CAPITAL (continued)

b) Warrants

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

(\$ 000's)	Number of Warrants	Weighted Average Exercise Price*	Fair Value of Warrants	Expiry Date
Balance, January 1, 2017	254,850,267	\$ 0.14	\$ 2,612	
Issued June 2017 Broker's Warrants	39,000,000	0.006	-	June 12, 2019
Issued October 2017 Broker's Warrants	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	\$ -	
Issued August 2018 UK Placing Broker Warrants	53,731,380	0.004	-	August 30, 2020
Expired 2016 Non-Brokered Warrants	(14,605,000)	0.069	-	
Expired 2016 Finder's Warrants	(1,177,114)	0.051	-	
Expired 2016 Broker's Warrants	(99,016,868)	0.075	-	
Expired 2016 Agents' Warrants	(5,233,206)	0.055	-	
Balance, September 30, 2018	107,731,380	\$ 0.008	\$ -	(June 12, 2019 to August 30, 2020)

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

All Warrants issued in 2018 and 2017 have an exercise price denominated in GBP; as the Company's functional currency is USD, these Warrants are classified as a derivative financial instruments.

As at September 30, 2018, the derivative liability in respect of the Brokers' Warrants issued in 2018 and 2017 was revalued and a derivative gain of \$130,000 and \$258,000 was recognized for the three and nine months periods ended September 30, 2018; the derivative loss of \$485,000 and \$115,000 was recognized in respect of the Warrants issued in 2017 and 2016 for the three and nine months ended September 30, 2017.

The following assumptions were used for Black-Scholes option pricing model to estimate the fair value of 2018 and 2017 Brokers' Warrants outstanding as at:

	September 30, 2018	December 31, 2017
Risk-free interest rate	0.805% - 0.824%	0.446%
Weighted average life (years)	0.7 - 1.92	1.45 - 1.80
Expected volatility	77%	90%
Expected dividend yield	0%	0%

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5. SHARE CAPITAL (continued)

c) Incentive Stock Options (continued)

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.

There were no changes to the Company's stock option plan and no stock options were granted, exercised, expired and/or forfeited during the nine months ended September 30, 2018. As at September 30, 2018, 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 3.3 years.

(\$ 000's)	Number of Options	Weighted Avg. Exercise Price*	Contributed Capital Reserve
Balance, January 1, 2017	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
Balance and exercisable September 30, 2018	115,240,000	\$ 0.06	\$ 50,394

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

6. COMMITMENTS AND CONTRACTUAL OBLIGATIONS

As at September 30, 2018, 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	\$ 552	510	42	-	-

The Company is committed under operating lease agreement for the rental of office space in Calgary, Canada. The approximate total lease payments are \$0.6 million and are payable over the next thirteen months.

7. 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 September 30, 2018, cash and cash equivalents are valued using Level 1 inputs.

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7. FINANCIAL INSTRUMENTS (continued)

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 September 30, 2018, 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 September 30, 2018, 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 nine months ended September 30, 2018.

a) Fair values

As at September 30, 2018 and December 31, 2017, 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:

(\$ 000's)	September 30, 2018	December 31, 2017
Great British Pounds	2,287	1,287
Canadian Dollars	469	2,821

8. NET CHANGE IN NON-CASH WORKING CAPITAL

(\$ 000's)	September 30, 2018	September 30, 2017
(Increase) / decrease in accounts receivable	\$ (17)	\$ 150
(Increase) in long-term accounts receivable	(13)	-
Decrease in prepaid expenses	25	91
(Increase) / decrease in long-term deposit	(1)	4
(Decrease) / increase in operating accounts payable and accrued liabilities	(119)	78
Net change in operating non-cash working capital	\$ (125)	\$ 323
Increase in accounts payable and accrued liabilities due to share issue costs	211	8
Net change in financing non-cash working capital	\$ 211	\$ 8
(Increase) in accounts receivable due to investment in joint venture	-	(215)
Net change in investing non-cash working capital	\$ -	\$ (215)