Canadian Overseas Petroleum Limited

Consolidated Financial Statements

As at and for the years ended December 31, 2018 and 2017

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.

Ernst & Young 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 28, 2019

Signed "Aleksandra Owad"
Aleksandra Owad
Chief Financial Officer
March 28, 2019

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Canadian Overseas Petroleum Ltd.

Opinion

We have audited the consolidated financial statements of Canadian Overseas Petroleum Ltd. and its subsidiaries (the Company), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of loss and comprehensive loss, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects the consolidated financial position of the Company as at December 31, 2018, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to Note 2 in the consolidated financial statements, which indicates that the Company does not have material cash inflows or adequate financing to develop profitable operations and the Company's continued successful operations are dependent on its ability to obtain additional financing. The Company currently does not have sufficient cash flows to cover forecasted administrative expenses for 2019. As stated in Note 2, these events or conditions indicate that a material uncertainty exists that casts significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other matter

The financial statements of the Company for the year ended December 31, 2017, were audited by another auditor who expressed an unmodified opinion on those statements on March 22, 2018.

Other information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- Form 2A Annual Listing Statement

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion & Analysis and the Form 2A Annual Listing Statement prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Janet Huang.

Ernst + Young LLP

Chartered Professional Accountants
Calgary, Canada
March 28, 2019

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

As at	**December 31, 2018**	December 31, 2017
Assets		
Current		
Cash and cash equivalents *(note 4)*	**$ 1,856**	$ 4,060
Accounts receivable	**79**	36
Prepaid expenses	**150**	214
Deposits	**44**	-
	2,129	4,310
Deposits	**-**	44
Office equipment	**52**	60
Long-term receivable	**238**	232
	$ 2,419	$ 4,646
Liabilities		
Current		
Accounts payable and accrued liabilities *(note 7)*	**$ 336**	$ 1,208
	336	1,208
Derivative liability (*note 8(a)*)	**-**	227
	336	1,435
Shareholders' Equity		
Share capital *(note 8(a))*	**136,942**	133,650
Warrants *(note 8(b))*	**330**	-
Contributed capital reserve (*note 8(c))*	**50,394**	50,394
Deficit	**(183,511)**	(178,595)
Accumulated other comprehensive loss	**(2,072)**	(2,238)
	2,083	3,211
	$ 2,419	$ 4,646

Nature of operations *(note 1)*
Going concern *(note 2)*
Commitments and contractual obligations *(note 9)*

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	**2018**	2017
Operations		
Pre-license costs	**$ (489)**	$ (372)
Administrative	**(4,944)**	(4,591)
Derecognition of exploration and evaluation assets *(note 6)*	**-**	(15,642)
Gain on derecognition of accounts payable *(note 7)*	**744**	-
Depreciation	**(20)**	(22)
Stock-based compensation	**-**	(283)
	(4,709)	(20,910)
Finance income and costs		
Interest income	**11**	9
Derivative gain *(note 8)*	**-**	436
Foreign exchange (loss) / gain	**(175)**	394
	(164)	839
Loss before investments in joint ventures	**(4,873)**	(20,071)
Loss on investment in joint venture *(note 5)*	**(43)**	(76)
Net loss	**(4,916)**	(20,147)
Gain /(loss) on translation of foreign subsidiaries	**166**	(243)
Comprehensive loss	**$ (4,750)**	$ (20,390)
Loss per share (basic and diluted)	**$ (0.00)**	$ (0.02)
Weighted average number of shares outstanding	**1,841,654,781**	1,032,240,720

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, 2017	**$ 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**
Comprehensive loss for the year	**-**	**-**	**-**	**(4,916)**	**166**	**(4,750)**
Issued further to Offerings – net of issue cost	**3,292**	**-**	**-**	**-**	**-**	**3,292**
Fair Value of Broker's Warrants issued further to Offering	**-**	**330**	**-**	**-**	**-**	**330**
Balance at December 31, 2018	**$ 136,942**	**$ 330**	**$ 50,394**	**$ (183,511)**	**$ (2,072)**	**$ 2,083**

[1] As at December 31, 2018 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	2018	2017
Cash Used In Operating Activities		
Net loss	**$ (4,916)**	$ (20,147)
Interest income	**(11)**	(9)
Add (deduct) non-cash items:		
Derecognition of exploration and evaluation assets	**-**	15,642
Gain on derecognition of accounts payable *(note 7)*	**(744)**	-
Derivative gain *(note 8)*	**-**	(436)
Depreciation	**20**	22
Stock-based compensation *(note 8 (c))*	**-**	283
Unrealized foreign exchange loss / (gain)	**266**	(432)
Loss on investment in joint venture *(note 5)*	**43**	76
	(5,342)	(5,001)
Net change in non-cash working capital *(note 14)*	**(113)**	128
	(5,455)	(4,873)
Financing Activities		
Issuance of common shares, net of issue costs *(note 8)*	**3,395**	6,469
	3,395	6,469
Investing Activities		
Additions to office equipment	**(12)**	(11)
Additions to exploration and evaluation assets *(note 6)*	**-**	(235)
Cash provided to investment in joint venture *(note 5)*	**(43)**	(76)
Interest income	**11**	9
	(44)	(313)
(Decrease)/Increase in cash and cash equivalents during the year	**(2,104)**	1,283
Effect of foreign exchange on cash and cash equivalents held in foreign currencies	**(100)**	212
Cash and cash equivalents, beginning of year	**4,060**	2,565
Cash and cash equivalents, end of year	**$ 1,856**	$ 4,060

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 London Stock Exchange in the UK under the symbol "COPL" and Canadian Securities Exchange (the "CSE") in Canada under the symbol "XOP"; 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 December 31, 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 Africa.
- Canadian Overseas Petroleum (Ontario) Limited ("COPL Ontario") which was incorporated on December 15, 2017 for the purpose of an anticipated operation in Ontario, Canada; however, the acquisition project was not successful.

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, 2018 and 2017 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

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.

2. BASIS OF PREPARATION AND GOING CONCERN (CONTINUED)

Going Concern (continued)

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. The Company currently does not have sufficient cash flows to cover forecasted administrative expenses for 2019. With no assurance that financing will be obtained in 2019, there is material uncertainty that casts 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 March 28, 2019.

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 of five years.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 joint venture 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.

Investments in 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Leases

Rent payable for assets under an 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

Effective January 1, 2018, the Company adopted IFRS 9, which replaced IAS 39 Financial Instruments: Recognition and Measurement (“IAS 39”). The adoption of IFRS 9 did not result in any adjustments to the measurement of financial instruments, and no adjustment to retained earnings was required.

The adoption of IFRS 9 resulted in changes to the classification of some of the Company’s financial assets but did not change the classification of the Company’s financial liabilities. There was no difference in the measurement of these instruments under IFRS 9 due to the short-term and liquid nature of the financial assets.

The following table sets forth the change in classification categories for the Company’s financial assets and liabilities as a result of the implementation of IFRS 9.

Financial Instrument	**Measurement Category**	
	IAS 39	**IFRS 9**
Cash	Held-for-trading (FVTPL)	Amortized cost
Accounts receivable	Loans and receivables (amortized cost)	Amortized cost
Restricted cash	Held-for-trading (FVTPL)	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities (amortized cost)	Amortized cost

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Income Tax (continued)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Significant accounting judgments and estimates (continued)

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.

Future Accounting Standards

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. Under IFRS 16, lessees must recognize a lease liability and a right-of-use asset for virtually all lease contracts. An optional exemption to recognize certain short-term leases and leases of low value can be applied by lessees. Leases to explore for or use oil or natural gas are specifically excluded from the scope of IFRS 16. For lessor, the accounting remains essentially unchanged. 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 will adopt IFRS 16 on January 1, 2019 and has used the following practical expedient as permitted by the standard:

- Exemption for short-term leases that have a remaining lease term of less than 12 months as at January 1, 2019 and low value leases.

The adoption of IFRS 16 is not expected to have a material impact on the Company's consolidated financial statements.

4. CASH AND CASH EQUIVALENTS

($ 000's)	**December 31, 2018**	December 31, 2017
Cash	**$ 1,768**	$ 1,891
Cash in trust	**-**	2,073
Credit card deposits	**88**	96
	$ 1,856	$ 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 $1.9 million as at December 31, 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 December 31, 2018, and December 31, 2017.

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 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.

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 December 31, 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. 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. The Company is looking at providing security such that Essar Nigeria may post the requisite performance bond.

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.

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 unaudited consolidated statements of ShoreCan as at December 31, 2018 and results for the year ended December 31, 2018.

5. INVESTMENT IN JOINT VENTURE (CONTINUED)

Nigeria (continued)

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.

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

For the years ended December 31 ($ 000's)	**2018** **(unaudited)**	2017
Revenues	**$ -**	$ -
Expenses		
Pre-license costs	**(3)**	-
Derecognition of evaluation and exploration assets	**-**	-
General and administration	**(3,539)**	(3,066)
	(3,542)	(3,066)
Finance expense		
Foreign exchange gain	**6**	15
Interest expense	**(983)**	(586)
	(977)	(571)
Loss	**(4,519)**	(3,637)
Non-controlling interest	**540**	530
Net Loss	**(3,979)**	(3,107)
Share of equity investment (percent)	**50%**	50%
Company's share of net loss	**$ (1,990)**	$ (1,554)

During the year ended December 31, 2018 the Company and its subsidiaries charged ShoreCan management and technical services of $1.8 million (2017 - $1.7 million), including $0.5 million of costs that were allocated to exploration and evaluation assets (2017 – $0.5 million) and charged an interest expense of $0.5 million (2017- $0.3 million).

5. INVESTMENT IN JOINT VENTURE (CONTINUED)

Statement of financial position

($ 000's)	**December 31, 2018 (unaudited)**	December 31, 2017
Assets		
Current		
Cash and cash equivalents	**$ 1**	$ 1
Accounts Receivable & prepaid expenses	**4**	3
	5	4
Exploration and evaluation assets	**9,431**	8,887
Office equipment	**-**	1
	$ 9,436	$ 8,892
Liabilities		
Current		
Accounts payable and accrued liabilities	**2,729**	2,239
Long Term loan to NCI	**6,171**	6,171
ShoreCan Partners' loan	**19,642**	15,069
	$ 28,542	$ 23,479
Equity		
Non-controlling interest	**(1,007)**	(467)
Deficit	**(18,099)**	(14,120)
	$ (19,106)	$ (14,587)

Reconciliation of carrying amount of net investment in joint venture:

Carrying amount - Opening	**$ -**	$ -
Increases in net investment in joint venture during the period	**43**	76
Loss recognized on investment in joint venture	**(43)**	(76)
Carrying amount - Ending	**$ -**	$ -

As at December 31, 2018, ShoreCan's non-current liabilities included $9.8 million due to the Company under the terms of the Funding Agreement (December 31, 2017 - $7.5 million).

In 2018, the Company's share of ShoreCan's losses of $2.0 million (in 2017 - $1.6 million) exceeded the Company's net investment of $43,000 for the year ended December 31, 2018 (December 31, 2017 - $76,000). Accordingly, under the equity method, the Company recognized loss on investment in ShoreCan's of $43,000 for the year ended December 31, 2018 (2017 - $76,000).

As at December 31, 2018, the Company's share in ShoreCan's accumulated losses is $9.0 million (December 31, 2017 - $7.1 million). Unrecognized accumulated losses on the investment as of December 31, 2018 are $8.1 million (December 31, 2017 - $6.2 million) including $2.0 million of unrecognized losses for year ended December 31, 2018 (for year ended December 31, 2017 – $1.5 million).

6. EXPLORATION AND EVALUATION ASSETS

($ 000's)	**TOTAL**
As at January 1, 2017	**$ 15,407**
Additions	235
Derecognition	(15,642)
As at December 31, 2017 and December 31, 2018	**$ -**

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"), which 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, 2018**	December 31, 2017
Trade payables	**$ 139**	$ 966
Accrued liabilities	**190**	231
Other	**7**	11
Total	**$ 336**	$ 1,208

Trade payables as at December 31, 2017 included an amount of $0.7 million of joint venture payable related to a former 2011/2012 exploration project in UK. During the year ended December 31, 2018, the Company recorded a gain on derecognition of this account payable of $ 0.7 million, as this amount, originally in dispute, was never challenged by the joint venture partner, and the six years statute barred time frame, applicable in the UK, expired in 2018.

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, 2017	**617,139,350**	**$ 124,874**
Issued pursuant to UK June Placement (i)	656,000,000	4,181
Issued pursuant to UK October Placement (ii)	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 (iii)	895,523,000	**3,891**
Issued pursuant to Private Placement (iv)	41,310,913	**180**
Issued as a payment of introduction fee (v)	26,779,200	**107**
Share issue costs	-	**(886)**
Balance, December 31, 2018	**2,486,752,463**	**$ 136,942**

i) 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 used net proceeds from the UK Placing of approximately $3.4 million to finance its administrative expenses.

In connection with the UK June Placing in 2017, 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 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.

The following assumptions were used for Black-Scholes option pricing model to estimate the fair value of the June 2017 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%

All amounts in United States dollars, except otherwise stated

8. SHARE CAPITAL (CONTINUED)

a) Authorized and Issued Common Shares (continued)

ii) 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 used 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 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.

The following assumptions were used for Black-Scholes option pricing model to estimate the fair value of the October 2017 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%

In connection with UK share placings, the Company issues Broker's Warrants. The value of the Warrants is determined using Black Scholes and in prior years was recorded as a derivative liability. In 2018, the Company has reclassified the derivative liability related to the Warrants to equity as the Warrants were issued in exchange for services and should be accounted for under IFRS 2. The prior year amounts have not been restated, as the amounts were not material.

(iii) 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 uses net proceeds from the UK August Placing of approximately $3.2 million mainly to finance its administrative expenses.

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 recognized as equity and netted against proceeds from UK August Placing (as share issued costs).

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 Broker's Warrants at the date of issue:

	August 31, 2018
Risk-free interest rate	0.73%
Weighted average life (years)	2.0
Expected volatility	90%
Expected dividend yield	0%

(iv) 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 the Company's directors and employees for gross proceeds of approximately GBP 0.14 million ($0.18 million).

(v) 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 share capital and an addition to share issue cost related to the UK August Placing.

b) Warrants

A summary of the Company's share purchase warrants outstanding at December 31, 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 (8a (i))	**39,000,000**	**0.006**	**-**	June 12, 2019
Issued October 2017 Broker's Warrants (8a (ii))	**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's Warrants	**(4,548,380)**	**0.070**	**-**	
Balance, December 31, 2017	**174,032,188**	**$ 0.053**	**$ -**	
Reclassification of June and October 2017 Broker's Warrants (8a (ii))	**-**	**-**	**227**	
Issued August 2018 UK Placing Broker's Warrants (8 a (iii))	**53,731,380**	**0.004**	**103**	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, December 31, 2018	**107,731,380**	**$ 0.006**	**$ 330**	(June 12, 2019 to August 30, 2020)

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

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 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:

	November 27, 2017
Risk-free interest rate	1.57%
Weighted average life (years)	4.0
Expected volatility	90%
Expected dividend yield	0%

During the year ended December 31, 2018, no new options were granted, 7,725,000 stock options expired unexercised (2017 – nil), no stock options were forfeited (2017 – 5,800,000) and no stock options were exercised (2017 – nil).

As at December 31, 2018, a total of 107,515,000 stock options to purchase Common Shares were outstanding, having a weighted average exercise price of $0.04 per share and a remaining weighted average contractual life of 3.27 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**
Expired	(7,725,000)	0.23	-
Balance and exercisable December 31, 2018	**107,515,000**	**$ 0.04**	**$ 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

Subsequent to year ended December 31, 2018, 110,000 stock options were forfeited in January 2019.

9. COMMITMENTS AND CONTRACTUAL OBLICATIONS

As at December 31, 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	**$ 403**	403	-	-	-

The Company is committed under operating lease agreements for the rental of office space in Calgary, Canada. The approximate total lease payments are $0.4 million and are payable over the next ten months.

10. DEFERRED INCOME TAX

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

($ 000's)	**December 31, 2018**	December 31, 2017
Non-capital income tax losses	**$ 8,447**	$ 8,539
Pre-trading expenses – UK	**636**	1,307
Capital losses	**731**	795
Share issue costs	**427**	576
Exploration and Evaluation assets	**9,696**	10,668
Office equipment	**113**	42
	20,050	21,927
Unrecognized tax benefits	**(20,050)**	(21,927)
Deferred income tax assets (liabilities)	**$ -**	$ -

The Company did not recognize a deferred tax asset as at December 31, 2018 or 2017, 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 $20.9 million as at December 31, 2018 (December 31, 2017 - $22.8 million).

10. DEFERRED INCOME TAX (CONTINUED)

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

($ 000's)		**2018**		2017
Net loss before investment in joint venture	**$**	**(4,873)**	$	(20,071)
Income tax rates		**27.0%**		27.0%
Provision at statutory rates		**(1,316)**		(5,419)
Tax rate differential (UK and Bermuda)		**1,877**		5,720
Non-deductible items:				
Stock-based compensation		**-**		75
Gain on derivatives		**-**		(124)
Non-taxable foreign exchange (gain)/ loss		**(641)**		499
Depreciation in excess of capital allowance		**5**		6
Other		**(243)**		31
Share issue costs		**(277)**		(308)
Effect of tax rates changes (UK)		**-**		(2,676)
Effect of foreign exchange		**1,453**		1,669
Change in tax pools		**(858)**		527
Deferred income tax provision (recovery)	**$**	**-**	$	-

As at December 31, 2018, the Company had approximately $31.3 million (December 31, 2017 - $31.6 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, 2038.

As at December 31, 2018, the Company also had capital losses of approximately $5.4 million (December, 31, 2017 - $5.9 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, 2018 of approximately $1.0 million or GBP 0.8 million (2017 - $2.7 million or GBP 2.0 million), that will expire in 2019.

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, 2018, accounts due from related parties amounted to $19,000, which represented travel advances (December 31, 2017 - $8,000) and accounts payable to related parties amounted to $2,000 and represented travel expenses (December 31, 2017 - $1,000).

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, 2018**	December 31, 2017
Short-term benefits	**$ 1,421**	$ 1,443
	$ 1,421	$ 1,443

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

There were no stock options granted in 2018. In 2017, out of 60 million stock options granted, 49.7 million were granted 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, 2018, under normal commercial terms. Total salary and benefits paid to this individual were $85,000 (2017: $84,000). There were no stock options granted to this individual during 2018 (2017: 2,000,000). There were no accounts receivable due from, or accounts payable due to this individual as at December 31, 2018 or December 31, 2017.

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 measures financial assets and financial liabilities at fair value on initial recognition, which is typically the transaction price unless a financial instrument contains a significant financing component. Measurement in subsequent periods depends on the financial instrument's classification, as described below.

- Fair value through profit or loss: Financial instruments designated at fair value through profit or loss are initially recognized and subsequently measured at fair value with changes in those fair values immediately charged to the statements of comprehensive income. The Company does not have any financial instruments under this classification.
- Amortized cost: Financial instruments designated as amortized cost are initially recognized at fair value, net of directly attributable transaction costs, and are subsequently measured at amortized cost using the effective interest method. Financial instruments under this classification include cash, accounts receivable, accounts payable and accrued liabilities.
- Fair value through other comprehensive income: Financial instruments designated as fair value through other comprehensive income are initially recognized at fair value, net of directly attributable transaction costs, and are subsequently measured at fair value with changes in fair value recognized in other comprehensive income, net of tax. The Company does not have any financial instruments under this classification.

Impairment of financial assets

The Company recognizes loss allowances for expected credit losses on its financial assets measured at amortized cost. Expected credit losses exist if one or more loss events occur after initial recognition of the financial asset which has an impact on the estimated future cash flows of the financial asset and that impact can be reliably measured. The Company uses a combination of historical and forward-looking information to determine the appropriate expected credit loss. The carrying amount of the asset is reduced through the use of an allowance account, and the loss is recognized in general and administrative expenses.

a) 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)	**December 31, 2018**	December 31, 2017
Great British Pounds	**952**	1,287
Canadian Dollars	**867**	2,821

(b) Credit risk

The Company's accounts receivable include mainly amounts due from its partner in ShoreCan as well as the amounts due from the governments (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, 2018, the Company holds $1.9 million of cash and cash equivalents with Canadian and Bermuda chartered banks (December 31, 2017 - $4.1 million).

(c) 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 an early stage international junior oil and gas entity with no current revenues and as such, the most likely viable option for additional funding until operations commence will be through the issuance of new equity.

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, 2018.

14. NET CHANGE IN NON-CASH WORKING CAPITAL

($ 000's)	**December 31, 2018**	December 31, 2017
(Increase) / decrease in accounts receivable	**$ (43)**	$ 174
(Increase) in long-term accounts receivable	**(6)**	(232)
Decrease / (increase) in prepaid expenses	**64**	(35)
Decrease in deposits	**-**	4
(Decrease) / increase in operating accounts payable and accrued liabilities *	**(128)**	217
Net change in operating non-cash working capital	**$ (113)**	$ 128

*2018 change does not include $0.7 million of accounts payable derecognized in 2018 in respect of a former 2011/2012 exploration project in UK (Note 7).