

Canadian Overseas Petroleum Limited
Unaudited Condensed Interim Consolidated
Financial Statements
As at June 30, 2017 and the for the three and six
month periods ended June 30, 2017 and 2016

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
August 10, 2017

Signed "Aleksandra Owad"

Aleksandra Owad
Chief Financial Officer
August 10, 2017

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

| As at | June 30, 2017 | December 31, 2016 |
|--|------------------|----------------------|
| Assets | | |
| Current | | |
| Cash and cash equivalents | \$ 3,873 | \$ 2,565 |
| Accounts receivable | 271 | 210 |
| Prepaid expenses | 93 | 179 |
| | 4,237 | 2,954 |
| Deposits and prepayments | 48 | 48 |
| Exploration and evaluation assets (note 4) | 15,609 | 15,407 |
| Office equipment | 68 | 71 |
| | \$ 19,962 | \$ 18,480 |
| Liabilities | | |
| Current | | |
| Accounts payable and accrued liabilities | \$ 1,254 | \$ 991 |
| | 1,254 | 991 |
| Derivative liability (note 5(a)) | 151 | 335 |
| | 1,405 | 1,326 |
| Shareholders' Equity | | |
| Share capital (note 5(a)) | 128,144 | 124,874 |
| Warrants (note 5(b)) | 2,612 | 2,612 |
| Contributed capital reserve (note 5(c)) | 50,111 | 50,111 |
| Deficit | (160,184) | (158,448) |
| Accumulated other comprehensive loss | (2,126) | (1,995) |
| | 18,557 | 17,154 |
| | \$ 19,962 | \$ 18,480 |

Nature of operations (note 1)

Going concern (note 2)

Commitments and contractual obligations (note 6)

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 June 30, 2017 | Three months ended June 30, 2016 | Six months ended June 30, 2017 | Six months ended June 30, 2016 |
|--|---|--|---|--------------------------------------|
| Operations | | | | |
| Administrative | \$ (1,096) | \$ (1,390) | \$ (2,226) | \$ (2,428) |
| Depreciation | (6) | (14) | (11) | (27) |
| Stock based compensation | - | (1,268) | - | (1,268) |
| | <u>(1,102)</u> | <u>(2,672)</u> | <u>(2,237)</u> | <u>(3,723)</u> |
| Finance income and costs | | | | |
| Interest income | 2 | 7 | 7 | 10 |
| Derivative gain / (loss) <i>(note 5(a))</i> | 103 | 395 | 370 | (259) |
| Foreign exchange gain / (loss) | 119 | (202) | 177 | (248) |
| | <u>224</u> | <u>200</u> | <u>554</u> | <u>(497)</u> |
| Loss before investments in joint ventures | (878) | (2,472) | (1,683) | (4,220) |
| Loss on investment in joint venture <i>(note 3)</i> | (52) | - | (53) | (2) |
| Net loss | <u>(930)</u> | <u>(2,472)</u> | <u>(1,736)</u> | <u>(4,222)</u> |
| (Loss) / gain on translation of foreign subsidiaries | <u>(93)</u> | <u>220</u> | <u>(131)</u> | <u>282</u> |
| Comprehensive loss | <u>\$ (1,023)</u> | <u>\$ (2,252)</u> | <u>\$ (1,867)</u> | <u>\$ (3,940)</u> |
| Loss per share (basic and diluted) | <u>\$ (0.00)</u> | <u>\$ (0.00)</u> | <u>\$ (0.00)</u> | <u>\$ (0.01)</u> |
| Weighted average number of shares outstanding | <u>746,897,592</u> | <u>562,579,617</u> | <u>682,376,919</u> | <u>522,459,407</u> |

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 Income/(Loss) ⁽¹⁾ | Total Equity |
|---|-------------------|-----------------|-----------------------------------|---------------------|---|------------------|
| Balance at January 1, 2016 | \$ 120,730 | \$ 2,612 | \$ 48,014 | \$ (151,687) | \$ (2,462) | \$ 17,207 |
| Issued common shares – net of issue cost and valuation of warrants classified as derivatives | 2,889 | - | - | - | - | 2,889 |
| Stock Options granted | - | - | 1,268 | - | - | 1,268 |
| Comprehensive (loss) / income for the period | - | - | - | (4,222) | 282 | (3,940) |
| Balance at June 30, 2016 | \$ 123,619 | \$ 2,612 | \$ 49,282 | \$ (155,909) | \$ (2,180) | \$ 17,424 |
| Balance at December 31, 2016 | \$ 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 | 3,270 | - | - | - | - | 3,270 |
| Comprehensive (loss) for the period | - | - | - | (1,736) | (131) | (1,867) |
| Balance at June 30, 2017 | \$ 128,144 | \$ 2,612 | \$ 50,111 | \$ (160,184) | \$ (2,126) | \$ 18,557 |

⁽¹⁾As at June 30, 2017 and 2016, the accumulated other comprehensive income 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 six months ended June 30 | 2017 | 2016 |
|---|-----------------|-----------------|
| Cash Used In Operating Activities | | |
| Loss | \$ (1,736) | \$ (4,222) |
| Interest income | (7) | (10) |
| Add (deduct) non-cash items: | | |
| Derivative (gain) / loss <i>(note 5(a))</i> | (370) | 259 |
| Depreciation | 11 | 27 |
| Stock based compensation | - | 1,268 |
| Unrealized foreign exchange (gain) / loss | (218) | 309 |
| Loss on investment in joint venture <i>(note 3)</i> | 53 | 2 |
| | <u>(2,267)</u> | <u>(2,367)</u> |
| Net change in non-cash working capital <i>(note 8)</i> | <u>217</u> | <u>(217)</u> |
| | <u>(2,050)</u> | <u>(2,584)</u> |
| Financing Activities | | |
| Issuance of common shares, net of issue costs | 3,446 | 5,864 |
| Net change in non-cash working capital <i>(note 8)</i> | 72 | 105 |
| | <u>3,518</u> | <u>5,969</u> |
| Investing Activities | | |
| Additions to office equipment | (8) | - |
| Additions to exploration and evaluation assets <i>(note 4)</i> | (202) | (104) |
| Additions to investment in joint venture <i>(note 3)</i> | (53) | (2) |
| Interest income | 7 | 10 |
| | <u>(256)</u> | <u>(96)</u> |
| Increase in cash and cash equivalents during the period | | |
| | 1,212 | 3,289 |
| Effect of foreign exchange on cash and cash equivalents held in foreign currencies | 96 | (81) |
| Cash and cash equivalents, beginning of period | <u>2,565</u> | <u>2,015</u> |
| Cash and cash equivalents, end of period | \$ 3,873 | \$ 5,223 |

See accompanying notes to the condensed consolidated financial statements.

Canadian Overseas Petroleum Limited
Notes to the Condensed Consolidated Financial Statements
For the three and six months ended June 30, 2017 and 2016

1. NATURE OF OPERATIONS

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

COPL and its subsidiaries are involved in the identification, acquisition, exploration and development of oil and natural gas offshore reserves. As at June 30, 2017, the Company has the following subsidiaries, all of which are wholly-owned directly or indirectly:

- COPL Technical Services Limited, which is involved in providing technical and administrative services to the COPL group of companies;
- Canadian Overseas Petroleum (UK) Limited (“COPL UK”), incorporated in the United Kingdom (“UK”) is providing technical and projects related services to the COPL group of companies;
- Canadian Overseas Petroleum (Bermuda Holdings) Limited, Canadian Overseas Petroleum (Bermuda) Limited (“COPL B”) and Canadian Overseas Petroleum (Namibia) Limited (currently dormant), which were incorporated to conduct operations in offshore Liberia and elsewhere in Africa.

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 sub-Saharan 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, 2016 and 2015, 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.

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 2017, 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 August 10, 2017.

Canadian Overseas Petroleum Limited
Notes to the Condensed Consolidated Financial Statements
For the three and six months ended June 30, 2017 and 2016

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.

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, 2017 contingent upon ShoreCan generating its own cashflows. Interest is charged monthly at an annual rate of 3.0% above 12 month USD LIBOR.

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. 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") for OPL 226, Essar Nigeria is required to seek Nigerian Government ministerial consent for the transaction. The respective application has been made and the parties to the transaction are awaiting its approval.

In January 2017, three ShoreCan's representatives were appointed Directors of Essar Nigeria, gaining a majority on Essar Nigeria board. ShoreCan has assessed that the transaction does not meet criteria of a business acquisition as Essar Nigeria is in exploration/development stage and as at June 30, 2017, ShoreCan has legal control over Essar Nigeria.

As at the date of filing of these interim financial statements, Shorecan has assessed that they do not have control under the control framework of IFRS 10, *Consolidated Financial Statements*. Accordingly, the below summarized statements of ShoreCan, do not include Essar Nigeria results for the six months ended June 30, 2017 and the \$0.25 million representing the cash consideration paid, is still recognized as a deposit in ShoreCan's books as at as at June 30, 2017.

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; the Phase-1 period was extended to November 30, 2017. Upon receiving final approval from the Nigerian Government, ShoreCan will finalize the recording of this investment based on the fair values of Essar Nigeria's assets and liabilities. As at December 31, 2015, as per Essar Nigeria's audited financial statements, Essar Nigeria had total assets of \$69.8 million and total liabilities of \$69.7 million, including a loan to its parent of \$64.7 million. The agreement with Essar Nigeria provides for the repayment of this loan from future production.

As at the date of filing this condensed consolidated 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
For the three and six months ended June 30, 2017 and 2016

3. INVESTMENT IN JOINT VENTURE (continued)

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

| (\$ 000's) | Three months ended June 30, 2017 | Three months ended June 30, 2016 | Six months ended June 30, 2017 | Six months ended June 30, 2016 |
|--------------------------------------|---|--|---|--------------------------------------|
| Revenues | \$ - | \$ - | \$ - | \$ - |
| Expenses | | | | |
| Pre-licence costs | - | (66) | - | (66) |
| General and administration | (600) | (1,096) | (1,234) | (2,161) |
| | (600) | (1,162) | (1,234) | (2,227) |
| Finance income | | | | |
| Foreign exchange gain | - | 9 | - | 10 |
| Interest expense | (141) | (68) | (274) | (125) |
| | (141) | (59) | (274) | (115) |
| Net Loss | (741) | (1,221) | (1,508) | (2,342) |
| Share of equity investment (percent) | 50% | 50% | 50% | 50% |
| Company's share of net loss | \$ (370) | \$ (610) | \$ (754) | \$ (1,171) |

Included in ShoreCan's expenses for the six months ended June 30, 2017, is \$0.5 million (2016 - \$1.1 million) of management and technical services and \$0.1 million (2016 - \$0.1 million) of interest expense charged by the Company and its subsidiaries.

Carrying value of investment in joint venture under equity accounting:

| Statement of financial position (\$ 000's) | June 30, 2017 | December 31, 2016 |
|---|--------------------------|----------------------|
| Assets | | |
| Non-current Assets | \$ 250 | \$ 252 |
| | \$ 250 | \$ 252 |
| Liabilities | | |
| Current liabilities | (300) | (271) |
| Non-current liabilities | (12,471) | (10,994) |
| | \$ (12,771) | \$ (11,265) |

Reconciliation of carrying amount of net investment in joint venture:

| | | |
|---|-------------|-------------|
| Carrying amount - Opening | \$ - | \$ - |
| Increases in net investment in joint venture during the period | 53 | 80 |
| Loss recognized on investment in joint venture | (53) | (80) |
| Carrying amount - Ending | \$ - | \$ - |

As at June 30, 2017, ShoreCan's non-current liabilities included \$6.2 million due to the Company under the terms of the Funding Agreement (December 31, 2016 - \$5.5 million).

Canadian Overseas Petroleum Limited
Notes to the Condensed Consolidated Financial Statements
For the three and six months ended June 30, 2017 and 2016

3. INVESTMENT IN JOINT VENTURE (continued)

For the six months ended June 30, 2017, the Company's share of ShoreCan's losses of \$0.8 million (six months ended June 30, 2016 - \$1.1 million) exceed the Company's Net Investment of \$53,000 for this period (\$2,000 for six months ended June 30, 2016). Accordingly, under the equity method, the Company recognized its share of ShoreCan's losses of \$53,000 for the six months ended June 30, 2017 (\$2,000 for six months ended June 30, 2016).

As at June 30, 2017, the Company's share in ShoreCan's accumulated losses is \$6.3 million (December 31, 2016 - \$5.5 million). Unrecognized accumulated losses on the investment as of June 30, 2017 are \$5.4 million including \$0.7 million of unrecognized losses for six months ended June 30, 2017.

4. EXPLORATION AND EVALUATION ASSETS

| (\$ 000's) | TOTAL |
|--------------------------------|------------------|
| As at January 1, 2016 | \$ 16,455 |
| Additions | 273 |
| Derecognition | (1,321) |
| As at December 31, 2016 | \$ 15,407 |
| Additions | 202 |
| As at June 30, 2017 | \$ 15,609 |

Liberia

The Company holds a 17% working interest in Block LB-13 offshore Liberia, with the remaining 83% being held by ExxonMobil Exploration and Production Liberia Limited, who is the operator under this license.

As at June 30, 2017, the Company's exploration and evaluation assets ("E&E") relate entirely to the Liberia project and consist 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. The Company performs further geological and geophysical analysis on the rest of block LB-13 in order to decide whether or not to proceed into the third exploration phase of the PSC at LB-13 as the second exploration phase expires on September 25, 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.

Canadian Overseas Petroleum Limited
Notes to the Condensed Consolidated Financial Statements
For the three and six months ended June 30, 2017 and 2016

5. SHARE CAPITAL (continued)

a) Authorized and Issued Common Shares (continued)

Issued

The issued share capital is as follows:

| | Number of Common Shares | Amount |
|---|----------------------------|-------------------|
| Balance, January 1, 2016 | 482,339,196 | \$ 120,730 |
| Issued pursuant to Non-Brokered Offering | 22,857,143 | 1,163 |
| Issued pursuant to Brokered Offering | 101,066,868 | 5,576 |
| Valuation of Warrants issued from the Offerings | - | (2,800) |
| Issued pursuant to exercise of Warrants | 10,876,143 | 694 |
| Valuation of Warrants exercised | - | 575 |
| Share issue costs | - | (1,064) |
| Balance, December 31, 2016 | 617,139,350 | \$ 124,874 |
| Issued pursuant UK Placement | 656,000,000 | 4,181 |
| Share issue costs | - | (911) |
| Balance, June 30, 2017 | 1,273,139,350 | \$ 128,144 |

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 Placing”). The Brokers were paid a cash commission of GBP \$0.2 million (\$0.25 million) representing approximately 6.0% of the gross proceeds of the UK Placing. Other expenses (mainly legal and stock exchanges fees) amounted to approximately GBP 0.4 million (\$0.5 million). The Company will use net proceeds from the UK Placing of approximately \$3.4 million to finance its administrative expenses.

In connection with the UK Placing, the Company also issued 39,000,000 warrants to its broker (the Broker’s Warrants”) as compensation warrants. Each Broker’s Warrant entitles the holder thereof to purchase one Common Share of the Company at an exercise price of GBP 0.005 (\$0.006) per Common Share on or before June 12, 2019.

The 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.

Canadian Overseas Petroleum Limited
Notes to the Condensed Consolidated Financial Statements
For the three and six months ended June 30, 2017 and 2016

5. SHARE CAPITAL (continued)

a) Authorized and Issued Common Shares (continued)

All warrants issued during 2015, 2016 and 2017 (the “Warrants”) have exercise price is in CAD or GBP; as the Company’s functional currency is USD, these Warrants are classified as a derivative financial instruments. The following assumptions were used for Black-Scholes option pricing model to estimate the fair value of Warrants outstanding as at June 30, 2017:

| | 2015 Offering Warrants | 2016 Non- Brokered Offering Warrants and Finder’s Warrants | 2016 Brokered Offering Warrants and Agent’s Warrants | 2017 Broker’s Warrants |
|-------------------------------|---------------------------|---|---|---------------------------|
| Risk-free interest rate | 0.56% | 0.28% | 0.89% | 0.36% |
| Weighted average life (years) | 0.02 | 0.83 | 0.84 | 1.95 |
| Expected volatility | 90% | 90% | 90% | 90% |
| Expected dividend yield | 0% | 0% | 0% | 0% |

b) Warrants

A summary of the Company’s share purchase warrants outstanding at June 30, 2017 is as follows:

| (\$ 000’s) | Number of Warrants | Weighted Average Exercise Price* | Fair Value of Warrants | Expiry Date |
|--------------------------------------|-----------------------|---|------------------------------|-----------------------------|
| Balance, January 1, 2016 | 136,280,968 | \$ 0.19 | \$ 2,612 | July 9 & August 21, 2017 |
| Issued Non-Brokered Warrants | 22,857,143 | 0.07 | - | April 28, 2018 |
| Issued Finder’s Warrants | 1,177,114 | 0.05 | - | April 28, 2018 |
| Issued Brokered Warrants | 101,066,868 | 0.07 | - | May 3, 2018 |
| Issued Agents’ Warrants | 5,233,206 | 0.06 | - | May 3, 2018 |
| Warrants exercised | (10,876,143) | 0.07 | - | |
| Expired 2014 Offering Agent Warrants | (888,889) | \$0.22 | - | |
| Balance, December 31, 2016 | 254,850,267 | \$ 0.14 | \$ 2,612 | |
| Issued UK Placement Broker Warrants | 39,000,000 | 0.006 | - | June 12, 2019 |
| Balance, June 30, 2017 | 293,850,267 | \$ 0.12 | \$ 2,612 | |

*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 quarter end, on July 9, 2017, 79,417,699 Warrants issued further to a 2015 public offering and 4,548,380 related broker’s Warrants expired unexercised.

Canadian Overseas Petroleum Limited
Notes to the Condensed Consolidated Financial Statements
For the three and six months ended June 30, 2017 and 2016

5. 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.

There were no changes to the Company's stock option plan, no stock options were granted, exercised or expired and 4,800,000 forfeited during the six months ended June 30, 2017. As at June 30, 2017, a total of 56,205,000 stock options to purchase Common Shares were outstanding, having a weighted average exercise price of \$0.11 per share and a remaining weighted average contractual life of 3.6 years.

| (\$ 000's) | Number of Options | Weighted Avg. Exercise Price* | Contributed Capital Reserve |
|--|----------------------|----------------------------------|--------------------------------|
| Balance, January 1, 2016 | 19,315,000 | \$ 0.46 | \$ 48,014 |
| Granted | 52,680,000 | 0.09 | 2,097 |
| Expired | (9,490,000) | 0.68 | - |
| Forfeited | (1,500,000) | 0.35 | - |
| Balance and exercisable December 31, 2016 | 61,005,000 | \$ 0.11 | \$ 50,111 |
| Forfeited | (4,800,000) | 0.10 | - |
| Balance and exercisable June 30, 2017 | 56,205,000 | \$ 0.11 | \$ 50,111 |

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

6. COMMITMENTS AND CONTRACTUAL OBLIGATIONS

As at June 30, 2017, the Company has the following commitments:

| (\$ 000's) | Total | Less than One Year | One to Three Years | Four to Five Years | After Five Years |
|--------------|-----------------|-----------------------|-----------------------|-----------------------|---------------------|
| Office lease | \$ 1,230 | 509 | 721 | - | - |

The Company is committed under operating lease agreements for the rental of office space in Calgary, Canada. The approximate total lease payments are \$1.2 million and are payable over the next two and half years.

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.

Canadian Overseas Petroleum Limited
Notes to the Condensed Consolidated Financial Statements
For the three and six months ended June 30, 2017 and 2016

7. FINANCIAL INSTRUMENTS (continued)

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 June 30, 2017, cash and cash equivalents, are valued using Level 1 inputs.

Level 2: fair value measurements are based on valuation models and techniques where the significant inputs are derived from quoted indices. Level 2 valuations are based on inputs including quoted forward prices, time value, volatility factors and broker quotes that can be observed or corroborated in the market for the entire duration of the derivative instrument. At June 30, 2017, the derivative liability is valued using Level 2 inputs.

Level 3: fair value measurements are based on unobservable information or where the observable data does not support a significant portion of the instrument's fair value. At June 30, 2017, the Company did not have any financial assets or liabilities valued using Level 3, and there were no transfers in and out of Level 3 during the three months ended June 30, 2017.

a) Fair values

As at June 30, 2017 and December 31, 2016, the fair values of all financial instruments not carried at fair value approximated their carrying values due to their short-term maturity.

b) Foreign exchange risk

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

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

| | June 30, 2017 | December 31, 2016 |
|----------------------|----------------------|-------------------|
| Great British Pounds | 2,420 | 27 |
| Canadian Dollars | 878 | 3,336 |

8. NET CHANGE IN NON-CASH WORKING CAPITAL

| (\$ 000's) | June 30, 2017 | June 30, 2016 |
|---|----------------------|---------------|
| (Increase) / decrease in accounts receivable | \$ (61) | \$ (63) |
| Decrease in prepaid expenses | 87 | 59 |
| Increase / (decrease) in operating accounts payable and accrued liabilities | 191 | (213) |
| Net change in operating non-cash working capital | \$ 217 | \$ (217) |
| Increase in accounts payable and accrued liabilities due to share issue costs | 72 | 105 |
| Net change in financing non-cash working capital | \$ 72 | \$ 105 |