

**Canadian Overseas Petroleum Limited**  
**Unaudited Condensed Interim Consolidated**  
**Financial Statements**  
**As at September 30, 2019 and for the three and nine**  
**month periods ended September 30, 2019 and 2018**

## **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 has reported to the Board of Directors. The Board of Directors has approved the unaudited consolidated interim financial statements as presented.

Signed "Arthur S. Millholland"

Arthur S. Millholland  
President and Chief Executive Officer  
November 13, 2019

Signed "Aleksandra Owad"

Aleksandra Owad  
Chief Financial Officer  
November 13, 2019

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

As at	September 30, 2019	December 31, 2018
<b>Assets</b>		
Current		
Cash and cash equivalents <i>(note 4)</i>	\$ 484	\$ 1,856
Accounts receivable	21	79
Prepaid expenses	93	150
Deposits	44	44
	642	2,129
Right-of-use assets <i>(note 5)</i>	304	-
Office equipment	41	52
Long-term receivable <i>(note 3)</i>	239	238
	\$ 1,226	\$ 2,419
<b>Liabilities</b>		
Current		
Accounts payable and accrued liabilities	\$ 1,054	\$ 336
Current portion of lease liabilities <i>(note 6)</i>	33	-
	1,087	336
Long-term liabilities		
Lease liabilities <i>(note 6)</i>	278	-
<b>Shareholders' (Deficit)/Equity</b>		
Share capital <i>(note 7(a))</i>	138,032	136,942
Warrants <i>(note 7(b))</i>	155	330
Contributed capital reserve <i>(note 7(c))</i>	50,394	50,394
Deficit	(186,737)	(183,511)
Accumulated other comprehensive loss	(1,983)	(2,072)
	(139)	2,083
	\$ 1,226	\$ 2,419

**Nature of operations *(note 1)***  
**Going concern *(note 2)***

See accompanying notes to the unaudited condensed interim consolidated financial statements.

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

	<b>Three months ended September 30, 2019</b>	Three months ended September 30, 2018 Restated	<b>Nine months ended September 30, 2019</b>	Nine months ended September 30, 2018 Restated
<b>Operations</b>				
Pre-license costs	\$ -	\$ (130)	\$ -	\$ (451)
Administrative	(921)	(1,272)	(3,133)	(3,723)
Depreciation	(10)	(5)	(20)	(15)
	<u>(931)</u>	<u>(1,407)</u>	<u>(3,153)</u>	<u>(4,189)</u>
<b>Finance income and costs</b>				
Interest income	-	3	2	9
Foreign exchange (loss)/gain	(78)	14	(74)	(84)
	<u>(78)</u>	<u>17</u>	<u>(72)</u>	<u>(75)</u>
Loss before investments in joint ventures	(1,009)	(1,390)	(3,225)	(4,264)
Loss on investment in joint venture ( <i>note 3</i> )	-	-	(1)	(13)
Net loss	<u>(1,009)</u>	<u>(1,390)</u>	<u>(3,226)</u>	<u>(4,277)</u>
Gain on translation of foreign subsidiaries	<u>73</u>	<u>30</u>	<u>89</u>	<u>108</u>
Comprehensive loss	<u>\$ (936)</u>	<u>\$ (1,360)</u>	<u>\$ (3,137)</u>	<u>\$ (4,169)</u>
Loss per share (basic and diluted)	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>
Weighted average number of shares outstanding	<u>3,125,056,811</u>	<u>1,823,201,589</u>	<u>2,742,652,829</u>	<u>1,624,259,226</u>

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	Share Capital	Warrants	Contributed Capital Reserve	Deficit	Accumulated Other Comprehensive Loss <sup>(1)</sup>	Total Equity
<b>Balance at December 31, 2017</b>	<b>\$ 133,650</b>	<b>\$ -</b>	<b>\$ 50,394</b>	<b>\$ (178,595)</b>	<b>\$ (2,238)</b>	<b>\$ 3,211</b>
Issued common shares – net of issue cost	3,298	-	-	-	-	3,298
Comprehensive loss for the period	-	-	-	(4,277)	108	(4,169)
Reclassification of Fair Value of Broker’s Warrants ( <i>note 2</i> )	-	330	-	-	-	330
<b>Balance at September 30, 2018, restated</b>	<b>\$ 136,948</b>	<b>\$ 330</b>	<b>\$ 50,394</b>	<b>\$ (182,872)</b>	<b>\$ (2,130)</b>	<b>\$ 2,670</b>
<b>Balance at December 31, 2018</b>	<b>\$ 136,942</b>	<b>\$ 330</b>	<b>\$ 50,394</b>	<b>\$ (183,511)</b>	<b>\$ (2,072)</b>	<b>\$ 2,083</b>
<b>Issued further to Offerings, net of issue cost</b>	<b>911</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>911</b>
<b>Fair value of Broker’s warrants issued further to Offering</b>	<b>-</b>	<b>4</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4</b>
<b>Fair value of Broker’s warrants that expired unexercised</b>	<b>179</b>	<b>(179)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Comprehensive loss for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(3,226)</b>	<b>89</b>	<b>(3,137)</b>
<b>Balance at September 30, 2019</b>	<b>\$ 138,032</b>	<b>\$ 155</b>	<b>\$ 50,394</b>	<b>\$ (186,737)</b>	<b>\$ (1,983)</b>	<b>\$ (139)</b>

<sup>(1)</sup>As at September 30, 2019 and 2018, the accumulated other comprehensive loss balance consists of unrealized foreign exchange on translation of foreign subsidiaries.

See accompanying notes to the unaudited condensed interim consolidated financial statements.

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

<b>For the nine months ended September 30</b>	<b>2019</b>	2018 Restated
<b>Cash Used In Operating Activities</b>		
Net loss	\$ (3,226)	\$ (4,277)
Interest income	(2)	(9)
Add (deduct) non-cash items:		
Depreciation	20	15
Unrealized foreign exchange loss	85	152
Loss on investment in joint venture <i>(note 3)</i>	1	13
	<u>(3,122)</u>	<u>(4,106)</u>
Net change in non-cash working capital <i>(note 9)</i>	<u>652</u>	<u>(124)</u>
	<u>(2,470)</u>	<u>(4,230)</u>
<b>Cash Provided by Financing Activities</b>		
Issuance of common shares, net of issue costs	915	3,401
Net change in non-cash working capital <i>(note 9)</i>	179	211
	<u>1,094</u>	<u>3,612</u>
<b>Cash Used in Investing Activities</b>		
Additions to office equipment	(4)	(4)
Additions to investment in joint venture <i>(note 3)</i>	(1)	(13)
Interest income	2	9
	<u>(3)</u>	<u>(8)</u>
<b>Decrease in cash and cash equivalents during the period</b>		
	<b>(1,379)</b>	<b>(626)</b>
Effect of foreign exchange on cash and cash equivalents held in foreign currencies	7	(44)
Cash and cash equivalents, beginning of period	<u>1,856</u>	<u>4,060</u>
<b>Cash and cash equivalents, end of period</b>	<u><b>\$ 484</b></u>	<u><b>\$ 3,390</b></u>

See accompanying notes to the unaudited condensed interim consolidated financial statements.

**Canadian Overseas Petroleum Limited**  
**Notes to the Unaudited Condensed Interim Consolidated Financial Statements**  
**As at September 30, 2019 and for the three and nine months ended September 30, 2019 and 2018**

**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 September 30, 2019, 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 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, 2018 and 2017, which outline the Company’s significant accounting policies in Note 3 thereto, which have been applied consistently in these financial statements, with the exception of the adoption of IFRS 16 – “Leases” as described below, as well as the Company’s critical accounting judgments and key sources of estimation uncertainty which are also set out in Note 3 thereto.

The financial statements were authorized for issue by the Company’s Board of Directors on November 13, 2019.

***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.

**Canadian Overseas Petroleum Limited**  
**Notes to the Unaudited Condensed Interim Consolidated Financial Statements**  
**As at September 30, 2019 and for the three and nine months ended September 30, 2019 and 2018**

**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.

*Restated Quarterly Comparatives*

In connection with UK share placings, the Company issues Broker's Warrants (the "Warrants"). The value of the Warrants is determined using Black Scholes and in years prior to 2018 was recorded as a derivative liability. In the fourth quarter of 2018, the Company reclassified (effective January 1, 2018) 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 2017 amounts have not been restated as the amounts are not material. Under the previous classification, the derivative liability was revalued each reporting period through the income statement as a derivative gain or loss. The change in accounting treatment results in an impact to the Statement of Comprehensive Loss to account for the derivative gain (a portion of which was attributable to foreign exchange).

The impact of the Warrants reclassification on 2018 quarterly statements of loss is as follows:

<b>Three months ended (\$ 000's)</b>	March 31, 2018 Reported	<b>March 31, 2018 Restated</b>	June 30, 2018 Reported	<b>June 30, 2018 Restated</b>	September 30, 2018 Reported	<b>September 30, 2018 Restated</b>
Pre-license costs	\$ 321	<b>\$ 321</b>	\$ -	<b>\$ -</b>	\$ 130	<b>\$ 130</b>
Administrative expenses	1,254	<b>1,254</b>	1,197	<b>1,197</b>	1,272	<b>1,272</b>
Depreciation	5	<b>5</b>	5	<b>5</b>	5	<b>5</b>
Interest income	-	-	(6)	<b>(6)</b>	(3)	<b>(3)</b>
Derivative gain	(94)	-	(34)	-	(130)	-
Foreign exchange loss / (gain)	(42)	<b>(51)</b>	139	<b>149</b>	(14)	<b>(14)</b>
Loss on investment in joint venture	-	-	13	<b>13</b>	-	-
<b>Net loss</b>	<b>1,444</b>	<b>1,529</b>	<b>1,314</b>	<b>1,358</b>	<b>1,260</b>	<b>1,390</b>



**Canadian Overseas Petroleum Limited**  
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**2. BASIS OF PREPARATION AND GOING CONCERN (continued)**

*Restated Quarterly Comparatives (continued)*

The impact of the Warrants reclassification on financial position as at 2018 quarter-ends is as follows:

As at (\$ 000's)	March 31, 2018 Reported	March 31, 2018 Restated	June 30, 2018 Reported	June 30, 2018 Restated	September 30, 2018 Reported	September 30, 2018 Restated
Total Assets	\$ 3,642	\$ <b>3,642</b>	\$ 2,223	\$ <b>2,223</b>	\$ 3,970	\$ <b>3,970</b>
Current liabilities	1,838	<b>1,838</b>	1,594	<b>1,594</b>	1,300	<b>1,300</b>
Derivative liability	142	-	98	-	71	-
Shareholders' Equity:						
Share capital	133,650	<b>133,650</b>	133,650	<b>133,650</b>	136,948	<b>136,948</b>
Warrants	-	<b>227</b>	-	<b>227</b>	-	<b>330</b>
Contributed capital reserve	50,394	<b>50,394</b>	50,394	<b>50,394</b>	50,394	<b>50,394</b>
Deficit	(180,039)	<b>(180,124)</b>	(181,353)	<b>(181,482)</b>	(182,613)	<b>(182,872)</b>
Accumulated other comprehensive loss	(2,343)	<b>(2,343)</b>	(2,160)	<b>(2,160)</b>	(2,130)	<b>(2,130)</b>
Total liabilities and equity	3,642	<b>3,642</b>	2,223	<b>2,223</b>	3,970	<b>3,970</b>

*Adoption of IFRS 16 – “Leases”*

On January 1, 2019, the Company adopted IFRS 16 “Leases”, which replaced 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 the lessor, the accounting remains essentially unchanged.

The Company has elected to adopt IFRS 16 using the modified retrospective approach on transition. Comparative information has not been restated and is reported under IAS 17. No leases met the criteria for recognition under IFRS 16 at January 1, 2019. The Company 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.

Leases are recognized as right-of-use (“ROU”) assets and a corresponding lease liability at the date on which the leased asset is available for use by the Company. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments. The leases have been measured at the present value of the lease payments, discounted using the Company’s incremental borrowing rates at the date on which the leased asset is available for use. The incremental borrowing rate as at September 1, 2019 for the Company’s office lease in Calgary, Canada was estimated at 3.63%.

Lease payments are allocated between the liability and finance costs. The finance cost is charged to net earnings over the lease term. The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in the future lease payments arising from a change in an index or rate, if there is a change in the amount expected to be payable under a residual value guarantee or if there is a change in the assessment of whether the Company will exercise a purchase, extension or termination option that is within the control of the Company. When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the asset or is recorded in the consolidated statements of comprehensive loss if the carrying amount of the asset has been reduced to zero.

**2. BASIS OF PREPARATION AND GOING CONCERN (continued)**

*Adoption of IFRS 16 – “Leases” (continued)*

The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability, and is depreciated, on a straight-line basis, over the lease term. The asset may be adjusted for certain remeasurements of the lease liability and impairment losses.

In applying IFRS 16, the Company has applied the practical expedient identified in the standard in which short-term leases and leases of low-value assets are not recognized on the balance sheet and lease payments are instead recognized in the statement of comprehensive loss as incurred.

**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, 2020 contingent upon ShoreCan generating its own cashflows. Interest is charged monthly at an annual rate of 3.0% above 12 month USD LIBOR.

From time to time the Company or its joint venture partner pay for ShoreCan’s general and administrative expenses on behalf of the other partner. As at September 30, 2019, 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. ShoreCan will provide security for the performance bond underwritten by a Nigerian Bank as required to be provided by Essar Nigeria.

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.

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

*Nigeria (continued)*

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.

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.

During the nine months ended September 30, 2019, the Company and its subsidiaries charged ShoreCan management and technical services of \$1.3 million (2018 - \$1.1 million), including \$0.4 million of costs that were allocated to exploration and evaluation assets (2018 - \$0.06 million) and charged an interest expense of \$0.4 million (2018- \$0.3 million).

For the nine months ended September 30, 2019, the Company's share of ShoreCan's losses of \$1.6 million (nine months ended September 30, 2018 - \$1.4 million) exceed the Company's Net Investment of \$1,000 for this period (\$13,000 for nine months ended September 30, 2018). Accordingly, under the equity method, the Company recognized \$1,000 as its share of ShoreCan's losses for the nine months ended September 30, 2019 (\$13,000 for nine months ended September 30, 2018).

**Reconciliation of carrying amount of net investment in joint venture:**

	<u>2019</u>	<u>2018</u>
<b>Carrying amount – Opening, January 1</b>	<b>\$ -</b>	<b>\$ -</b>
Increases in net investment in joint venture		
during the period	<b>1</b>	<b>13</b>
Loss recognized on investment in joint venture	<b>(1)</b>	<b>(13)</b>
<b>Carrying amount – Ending, September 30</b>	<b>\$ -</b>	<b>\$ -</b>

As at September 30, 2019, the Company's share of ShoreCan's accumulated losses is \$10.6 million (December 31, 2018 - \$9.0 million). Unrecognized accumulated losses on the investment as of September 30, 2019 are \$9.7 million including \$1.6 million of unrecognized losses for the nine months ended September 30, 2019.

**Canadian Overseas Petroleum Limited**  
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**4. CASH AND CASH EQUIVALENTS**

(\$ 000's)	<b>September 30, 2019</b>	December 31, 2018
Cash	\$ 431	\$ 1,768
Credit card deposits	53	88
	<b>\$ 484</b>	<b>\$ 1,856</b>

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

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 \$0.5 million as at September 30, 2019 (\$1.9 million as at December 31, 2018). The Company deposits its cash with reputable Canadian and Bermuda banks. The Company did not have any overdraft facilities in place as at September 30, 2019, and December 31, 2018.

**5. RIGHT OF USE ASSETS**

(\$ 000's)	<b>September 30, 2019</b>	December 31, 2018
Cost, beginning of the period	\$ -	-
Increase in right-of-use assets	309	-
<b>Cost, end of the period</b>	<b>309</b>	-
Accumulated depreciation, beginning of the period	-	-
Depreciation	(5)	-
<b>Accumulated depreciation, end of the period</b>	<b>(5)</b>	-
Net carrying amount, beginning of the period	\$ -	-
<b>Net carrying amount, end of the period</b>	<b>\$ 304</b>	-

As at September 30, 2019, the Company recorded \$0.3 million of right-of-use assets in respect of the office lease that was renewed effective September 1, 2019 (December 31, 2018 - \$ nil). The Company depreciates its right-of-use assets on a straight-line basis over the term of the lease contract of five years.

**Canadian Overseas Petroleum Limited**  
**Notes to the Unaudited Condensed Interim Consolidated Financial Statements**  
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**6. LEASE OBLIGATIONS**

The Company's office lease obligations for the period ended September 30, 2019 were as follows:

(\$ 000's)	<b>September 30, 2019</b>
As at January 1, 2019	\$ -
Additions	<b>309</b>
Reduction in lease liability	<b>(1)</b>
Foreign exchange translation	<b>3</b>
<b>As at September 30, 2019</b>	<b>311</b>
Current portion	\$ <b>33</b>
Long-term portion	\$ <b>278</b>

The Company's lease obligations relate to its office in Calgary, Canada. The lease obligations have been measured at the present value of the lease payments, discounted using the Company's incremental borrowing rate of 3.63% as at September 30, 2019. No payments of principal or interest were made in the three and nine month periods ended September 30, 2019 related to the above lease.

The Company's previous office leases met the definition of a lease, but were not recognized as lease liabilities as they were exempt under the short-term lease practical expedient. For the three and nine months periods ended September 30, 2019, the Company expensed \$63,000 and \$241,000, respectively.

(\$ 000's)	<b>September 30, 2019</b>
Less than 1 year	\$ <b>43</b>
1-5 years	<b>300</b>
<b>Total lease payments</b>	<b>343</b>
Amounts representing interest	<b>(32)</b>
<b>Present value of net lease payments</b>	<b>311</b>
Less: Current portion	\$ <b>33</b>
Long-term portion	\$ <b>278</b>

**Canadian Overseas Petroleum Limited**  
**Notes to the Unaudited Condensed Interim Consolidated Financial Statements**  
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**7. 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)
<b>Balance, January 1, 2018</b>	<b>1,523,139,350</b>	<b>\$ 133,650</b>
Issued pursuant to UK August Placement	895,523,000	3,891
Issued pursuant to Private Placement	41,310,913	180
Issued as a payment of introduction fee	26,779,200	107
Share issue costs	-	(886)
<b>Balance, December 31, 2018</b>	<b>2,486,752,463</b>	<b>\$ 136,942</b>
Issued pursuant to UK June Placing -First Tranche(i)	<b>429,200,000</b>	<b>545</b>
Issued pursuant to UK June Placing -Second Tranche(i)	<b>67,800,000</b>	<b>86</b>
Issued pursuant to UK September Placing (ii)	<b>500,000,000</b>	<b>618</b>
Share issue costs	-	(338)
Fair value of warrants that expired unexercised (Note 7b)	-	179
<b>Balance, September 30, 2019</b>	<b>3,483,752,463</b>	<b>\$ 138,032</b>

- (i) On June 5, 2019, the Company closed a first tranche of a placing in the UK of 429,200,000 Common Shares at a price of GBP 0.001 (\$0.0013) for gross proceeds of GBP 0.4 million (\$0.5 million) (the “UK June Placing – First Tranche”). On June 24, 2019, the Company closed a second tranche of the same placing of 67,800,000 Common Shares at a price of GBP 0.001 (\$0.0013) for gross proceeds of GBP 0.07 million (\$0.09 million) (the “UK June Placing – Second Tranche”). The broker was paid a cash commission of GBP 0.03 million (\$0.04 million) representing 6.0% of the gross proceeds of the UK June Placing. Other expenses (mainly legal, stock exchange and regulatory fees) amounted to approximately GBP 0.2 million (\$0.2 million). The Company used net proceeds from the UK June Placing of approximately \$0.4 million to finance its administrative expenses.

In connection with the UK June Placing, the Company also issued 4,970,000 warrants to its broker (the “June 2019 Broker’s Warrants”) as compensation warrants. Each June 2019 Broker’s Warrant entitles the holder thereof to purchase one Common Share of the Company at an exercise price of GBP 0.0015 (\$0.0019) per Common Share on or before June 4, 2021. The fair value of the June 2019 Broker’s Warrants estimated at \$2,000 (using a Black-Scholes option pricing model) was recognized as equity and netted against proceeds from UK June Placing (as share issue costs).

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**7. 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:

	June 5, 2019
Risk-free interest rate	0.58%
Weighted average life (years)	2.0
Expected volatility	90%
Expected dividend yield	0%

- (ii) On September 4, 2019, the Company closed another placing in the UK of 500,000,000 Common Shares at a price of GBP 0.001 (\$0.0012) for gross proceeds of GBP 0.5 million (\$0.6 million) (the "UK September Placing"). The broker was paid a cash commission of GBP 0.03 million (\$0.04 million) representing 6.0% of the gross proceeds of the UK September Placing. Other expenses (mainly legal and stock exchange fees) amounted to approximately GBP 0.05 million (\$0.06 million). The Company is using net proceeds from the UK September Placing of approximately \$0.5 million to finance its administrative expenses.

In connection with the UK September Placing, the Company also issued 5,000,000 warrants to its broker (the "September 2019 Broker's Warrants") as compensation warrants. Each September 2019 Broker's Warrant entitles the holder thereof to purchase one Common Share of the Company at an exercise price of GBP 0.0015 (\$0.0018) per Common Share on or before September 3, 2021. The fair value of the September 2019 Broker's Warrants estimated at \$2,000 (using a Black-Scholes option pricing model) was recognized as equity and netted against proceeds from UK September Placing (as share issue costs).

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:

	September 4, 2019
Risk-free interest rate	0.36%
Weighted average life (years)	2.0
Expected volatility	90%
Expected dividend yield	0%

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**7. SHARE CAPITAL (continued)**

**b) Warrants**

A summary of the Company's share purchase warrants outstanding at September 30, 2019 is as follows:

(\$ 000's)	Number of Warrants	Weighted Average Exercise Price*	Fair Value of Warrants	Expiry Date
<b>Balance, January 1, 2018</b>	<b>174,032,188</b>	<b>\$ 0.0530</b>	<b>\$ -</b>	
Reclassification of June and October 2017 Broker's Warrants	-	-	227	(June 12, 2019 to October 16, 2019)
Issued August 2018 UK Placing Broker's Warrants	53,731,380	0.0043	103	August 30, 2020
Expired 2016 Non-Brokered Warrants	(14,605,000)	0.0693	-	
Expired 2016 Finder's Warrants	(1,177,114)	0.0510	-	
Expired 2016 Broker's Warrants	(99,016,868)	0.0749	-	
Expired 2016 Agents' Warrants	(5,233,206)	0.0552	-	
<b>Balance, December 31, 2018</b>	<b>107,731,380</b>	<b>\$ 0.0063</b>	<b>\$ 330</b>	(June 12, 2019 to August 30, 2020)
Issued June 2019 UK Placing Broker's Warrants	4,970,000	0.0019	2	June 4, 2021
Expired June 2017 Broker's Warrants	(39,000,000)	0.0064	(179)	June 12, 2019
Issued September 2019 UK Placing Broker's Warrants	5,000,000	0.0018	2	September 3, 2021
<b>Balance, September 30, 2019</b>	<b>78,701,380</b>	<b>\$ 0.0057</b>	<b>\$ 155</b>	(October 16, 2019 to September 3, 2021)

\*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 October 16, 2019, 15,000,000 of 2017 Broker's Warrants expired unexercised.



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**7. 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 and/or expired and 110,000 stock options were forfeited during the nine months ended September 30, 2019. As at September 30, 2019, a total of 107,405,000 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 2.5 years.

(\$ 000's)	Number of Options	Weighted Avg. Exercise Price*	Contributed Capital Reserve
<b>Balance, January 1, 2018</b>	<b>115,240,000</b>	<b>\$ 0.06</b>	<b>\$ 50,394</b>
Expired	(7,725,000)	0.23	-
<b>Balance and exercisable December 31, 2018</b>	<b>107,515,000</b>	<b>\$ 0.04</b>	<b>\$ 50,394</b>
Forfeited	(110,000)	0.04	-
<b>Balance and exercisable September 30, 2019</b>	<b>107,405,000</b>	<b>\$ 0.04</b>	<b>\$ 50,394</b>

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

**8. 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.

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**8. FINANCIAL INSTRUMENTS (continued)**

*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:

	<b>September 30, 2019</b>	December 31, 2018
Great British Pounds	<b>134</b>	952
Canadian Dollars	<b>381</b>	867

**(b) Credit risk**

The Company's accounts receivable and long-term receivable include mainly amounts due from its partner in ShoreCan as well as accounts receivable in respect of travel advances provided to the Company's employees. 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 September 30, 2019, the Company holds \$0.5 million of cash and cash equivalents with Canadian and Bermuda chartered banks (December 31, 2018 - \$1.9 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.

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**9. NET CHANGE IN NON-CASH WORKING CAPITAL**

(\$ 000's)	September 30, 2019	September 30, 2018
Decrease (increase) in accounts receivable	\$ 58	\$ (17)
(Increase) in long-term accounts receivable	(1)	(13)
Decrease in prepaid expenses	57	25
Increase/ (decrease) in operating accounts payable and accrued liabilities	538	(119)
<b>Net change in operating non-cash working capital</b>	<b>\$ 652</b>	<b>\$ (124)</b>
Increase in accounts payable and accrued liabilities due to share issue costs	180	211
Reduction in lease liability (note 6)	(1)	-
<b>Net change in financing non-cash working capital</b>	<b>\$ 179</b>	<b>\$ 211</b>