# Canadian Overseas Petroleum Limited

## Consolidated Financial Statements

## As at and for the years ended December 31, 2019 and 2018

**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
May 12, 2020

*Signed "Aleksandra Owad"*
Aleksandra Owad
Chief Financial Officer
May 12, 2020

## 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 statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years 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, 2019 and 2018, and its consolidated financial performance and consolidated cash flows for the years 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 sufficient working capital, cash inflows or adequate financing to continue operations and the Company's continued successful operations are dependent on its ability to obtain additional financing. The Company currently does not have sufficient working capital and cash flows to cover forecasted administrative expenses for 2020. 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 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

May 12, 2020

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

| **As at** | **December 31, 2019** | December 31, 2018 |
|---|---|---|
| **Assets** | | |
| Current | | |
| Cash and cash equivalents *(note 4)* | **$ 75** | $ 1,856 |
| Accounts receivable | **20** | 79 |
| Prepaid expenses | **41** | 150 |
| Deposits | **44** | 44 |
| | **180** | 2,129 |
| Right-of-use assets *(note 6)* | **291** | - |
| Office equipment | **38** | 52 |
| Long-term receivable *(note 5)* | **239** | 238 |
| | **$ 748** | $ 2,419 |
| **Liabilities** | | |
| Current | | |
| Accounts payable and accrued liabilities *(note 8)* | **$ 1,424** | $ 336 |
| Current portion of lease liabilities *(note 7)* | **45** | - |
| | **1,469** | 336 |
| Lease liabilities (*note 7*) | **270** | - |
| | **1,739** | 336 |
| **Shareholders' (Deficit)/Equity** | | |
| Share capital *(note 9(a))* | **138,087** | 136,942 |
| Warrants *(note 9(b))* | **107** | 330 |
| Contributed capital reserve (*note 9(c))* | **50,394** | 50,394 |
| Deficit | **(187,430)** | (183,511) |
| Accumulated other comprehensive loss | **(2,149)** | (2,072) |
| | **(991)** | 2,083 |
| | **$ 748** | $ 2,419 |

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

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 | 2019 | 2018 |
|---|---|---|
| **Operations** | | |
| Pre-license costs | $ - | $ (489) |
| Administrative | (3,930) | (4,944) |
| Gain on derecognition of accounts payable | - | 744 |
| Depreciation | (37) | (20) |
| | (3,967) | (4,709) |
| **Finance income and costs** | | |
| Interest income | 2 | 11 |
| Interest expense - lease liabilities | (3) | - |
| Foreign exchange gain / (loss) | 50 | (175) |
| | 49 | (164) |
| Loss before investments in joint ventures | (3,918) | (4,873) |
| Loss on investment in joint venture *(note 5)* | (1) | (43) |
| Net loss | (3,919) | (4,916) |
| Loss /(gain) on translation of foreign subsidiaries | (77) | 166 |
| Comprehensive loss | $ (3,996) | $ (4,750) |
| Loss per share (basic and diluted) | $ (0.00) | $ (0.00) |
| Weighted average number of shares outstanding | 2,929,450,545 | 1,841,654,781 |

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 / (Deficit) |
|---|---|---|---|---|---|---|
| **Balance at January 1, 2018** | **$ 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 |
| Reclassification of Fair Value of Broker's Warrants | - | 330 | - | - | - | 330 |
| **Balance at December 31, 2018** | **$ 136,942** | **$ 330** | **$ 50,394** | **$ (183,511)** | **$ (2,072)** | **$ 2,083** |
| **Comprehensive loss for the year** | **-** | **-** | **-** | **(3,919)** | **(77)** | **(3,996)** |
| **Issued further to Offerings – net of issue cost** | **918** | **-** | **-** | **-** | **-** | **918** |
| **Fair value of Broker's warrants issued further to Offering** | **-** | **4** | **-** | **-** | **-** | **4** |
| **Fair value of Broker's warrants that expired unexercised** | **227** | **(227)** | **-** | **-** | **-** | **-** |
| **Balance at December 31, 2019** | **$ 138,087** | **$ 107** | **$ 50,394** | **$ (187,430)** | **$ (2,149)** | **$ (991)** |

[1] As at December 31, 2019 and December 31, 2018 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** | **2019** | 2018 |
|---|---|---|
| **Cash Used In Operating Activities** | | |
| Net loss | **$ (3,919)** | $ (4,916) |
| Interest income | **(2)** | (11) |
| Add (deduct) non-cash items: | | |
| Gain on derecognition of accounts payable | **-** | (744) |
| Depreciation | **37** | 20 |
| Interest expense - lease liabilities | **3** | - |
| Unrealized foreign exchange (gain) / loss | **(80)** | 266 |
| Loss on investment in joint venture *(note 5)* | **1** | 43 |
| | **(3,960)** | (5,342) |
| Net change in non-cash working capital *(note 15)* | **1,103** | (113) |
| | **(2,857)** | (5,455) |
| **Financing Activities** | | |
| Issuance of common shares, net of issue costs *(note 9)* | **922** | 3,395 |
| Interest expense - lease liabilities | **(3)** | - |
| Net change in non-cash working capital *(note 15)* | **149** | - |
| | **1,068** | 3,395 |
| **Investing Activities** | | |
| Additions to office equipment | **(3)** | (12) |
| Additions to Right-of-use assets | **(3)** | - |
| Additions to investment in joint venture *(note 5)* | **(1)** | (43) |
| Interest income | **2** | 11 |
| | **(5)** | (44) |
| **(Decrease) in cash and cash equivalents during the year** | **(1,794)** | (2,104) |
| Effect of foreign exchange on cash and cash equivalents held in foreign currencies | **13** | (100) |
| Cash and cash equivalents, beginning of year | **1,856** | 4,060 |
| **Cash and cash equivalents, end of year** | **$ 75** | $ 1,856 |

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, 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 consolidated financial statements ("financial statements") for the years ended December 31, 2019 and 2018 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 sufficient working capital, cash inflows and/or adequate financing to continue its 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 working capital and cash flows to cover forecasted administrative expenses for 2020. With no assurance that financing will be obtained in 2020, there is material uncertainty that casts significant 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 May 12, 2020.

## 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *Foreign Currency Translation (continued)*

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

### *Revenue Recognition*

The Company recognizes interest income as it is earned.

### *Pre-License Costs*

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

### *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*

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.

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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *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 the former multiple classifications and measurement models for financial assets and liabilities with a single model. 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.

Financial instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, financial instruments are measured, based on their classification, at fair value through profit and loss or at amortized cost.

Currently, the Company's financial instruments include cash and cash equivalents, current and long-term accounts receivable, accounts payable and accrued liabilities. The Company's financial instruments are classified as non-derivative instruments and are measure at amortized cost using the effective interest method less any impairment or expected credit loss.

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions that define the instrument. Financial assets are derecognized when the rights to receive cash flow from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of the ownership.

Financial assets and liabilities are offset and the net amount is reported in the consolidated balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

### *Deferred Income Tax*

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

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *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 and warrants – the amounts recorded in respect of stock options granted and share purchase warrants granted 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 – financial 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;
- 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;
- Incremental borrowing rate - the incremental borrowing rates are based on judgments including the Company's own credit risk, economic environment, term, currency and risks specific to the underlying assets. The carrying balance of the right-of-use assets, lease liabilities, and the resulting depreciation and amortization and finance expenses may differ due to changes in the market conditions and lease term.
- 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 3 Business Combinations*
Amendments to IFRS 3 Business Combinations ("IFRS 3 amendments") with a mandatory effective date of January 1, 2020 will be adopted by the Company in 2020. The amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. Specifically, these amendments:

- Clarify the minimum requirements for a business, whereby at minimum, an input and a substantive process that together significantly contribute to the ability to create output must be present;
- Remove the assessment of whether market participants are capable of replacing any missing elements so that the assessment is based on what has been acquired in its current state and condition, rather than on whether market participants are capable of replacing any missing elements, for example, by integrating the acquired activities and assets;
- Add guidance to help entities assess whether an acquired process is substantive, which requires more persuasive evidence when there are no outputs, because the existence of outputs provides some evidence that the acquired set of activities and assets is a business;
- Narrow the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities; and
- Introduce an optional fair value concentration test, that can be applied on a transaction-by-transaction basis, to permit a simplified assessment of whether an acquired set of activities and assets are not a business. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

## 4. CASH AND CASH EQUIVALENTS

| ($ 000's) | **December 31, 2019** | December 31, 2018 |
|---|---|---|
| Cash | **$ 44** | $ 1,768 |
| Credit card deposits | **31** | 88 |
| | **$ 75** | $ 1,856 |

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 $0.08 million as at December 31, 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 December 31, 2019, and December 31, 2018.

## 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, 2019, the Company had a receivable from its joint venture partner in respect of overpaid ShoreCan expenses of $0.2 million (2018 - $0.2 million). The balance is classified as a financial asset carried at amortized cost. The balance is classified as long term as it is not expected to be collected in the next 12 months. The balance is presented on an undiscounted basis as the joint venture agreements do not specify any repayment terms and there are no provisions in the agreements for the payment of interest on outstanding balances.

### *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 is planning to provide security for the performance bond, underwritten by a Nigerian Bank as required to be provided by Essar Nigeria, once additional financing has been completed.

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.

## 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.

During the year ended December 31, 2019 the Company and its subsidiaries charged ShoreCan management and technical services of $1.4 million (2018 - $1.8 million), including $0.5 million of costs that were allocated to exploration and evaluation assets (2018 – $0.5 million) and charged an interest expense of $0.6 million (2018- $0.5 million).

As at December 31, 2019, the Company had non-current receivables of $11.8 million due from ShoreCan under the terms of the Funding Agreement (December 31, 2018 - $9.8 million).

In 2019 and in prior years, the Company's share of ShoreCan's losses exceeded the Company's net investment of $1,000 for the year ended December 31, 2019 (December 31, 2018 - $43,000). Accordingly, under the equity method, the Company recognized loss on investment in ShoreCan of $1,000 for the year ended December 31, 2019 (2018 - $43,000).

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

| | **2019** | 2018 |
|---|---|---|
| **Carrying amount – Opening, January 1** | **$ -** | $ - |
| Increases in net investment in joint venture during the period | **1** | 43 |
| Loss recognized on investment in joint venture | **(1)** | (43) |
| **Carrying amount – Ending, December 31** | **$ -** | $ - |

## 6. RIGHT OF USE ASSETS

| ($ 000's) | **December 31, 2019** | December 31, 2018 |
|---|---|---|
| Cost, beginning of the period | **$ -** | - |
| Increase in right-of-use assets | **312** | - |
| **Cost, end of the period** | **312** | - |
| Accumulated depreciation, beginning of the period | **-** | - |
| Depreciation | **(21)** | - |
| **Accumulated depreciation, end of the period** | **(21)** | - |
| Net carrying amount, beginning of the period | **$ -** | - |
| **Net carrying amount, end of the period** | **$ 291** | - |

## 6. RIGHT OF USE ASSETS (CONTINUED)

As at December 31, 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.

## 7. LEASE OBLIGATIONS

The Company's office lease obligations for the period ended December 31, 2019 were as follows:

| ($ 000's) | December 31, 2019 |
|---|---|
| As at January 1, 2019 | $ - |
| Additions | 309 |
| Reduction in lease liability | (3) |
| Foreign exchange translation | 9 |
| **As at December 31, 2019** | 315 |
| Current portion | $ 45 |
| Long-term portion | $ 270 |

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 December 31, 2019. No payments of principal or interest were made during the year ended December 31, 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 year ended December 31, 2019, the Company expensed $260,000 in respect of previous office lease that was in place until August 31, 2019.

| ($ 000's) | December 31, 2019 |
|---|---|
| Less than 1 year | $ 56 |
| 1-5 years | 289 |
| **Total lease payments** | 345 |
| Amounts representing interest | (30) |
| **Present value of net lease payments** | 315 |
| Less: Current portion | $ 45 |
| Long-term portion | $ 270 |

## 8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| ($ 000's) | **December 31, 2019** | December 31, 2018 |
|---|---|---|
| Trade payables | **$ 551** | $ 139 |
| Unpaid salaries and directors' fees | **641** | - |
| Accrued liabilities | **223** | 190 |
| Other | **9** | 7 |
| **Total** | **$ 1,424** | $ 336 |

Subsequent to December 31, 2019, the total amount of outstanding 2019 Directors' fees of $441,000 was waived further to a Board resolution dated March 26, 2020.

## 9. 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, 2018** | **1,523,139,350** | **$ 133,650** |
| Issued pursuant to UK August Placing (i) | 895,523,000 | **3,891** |
| Issued pursuant to Private Placement (ii) | 41,310,913 | **180** |
| Issued as a payment of introduction fee (iii) | 26,779,200 | **107** |
| Share issue costs | - | **(886)** |
| **Balance, December 31, 2018** | **2,486,752,463** | **$ 136,942** |
| Issued pursuant to UK June Placing – First Tranche (iv) | 429,200,000 | **545** |
| Issued pursuant to UK June Placing – Second Tranche (iv) | 67,800,000 | **86** |
| Issued pursuant to UK September Placing (v) | 500,000,000 | **618** |
| Share issue costs | - | **(331)** |
| Fair value of warrants that expired unexercised (Note 9b) | - | **227** |
| **Balance, December 31, 2019** | **3,483,752,463** | **$ 138,087** |

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

**All amounts in United States dollars, except otherwise stated**

## 9. SHARE CAPITAL (CONTINUED)

### a) Authorized and Issued Common Shares (continued)

In connection with the UK August Placing, the Company also issued 53,731,380 warrants to its broker (the "Broker's Warrants") as compensation warrants. Each Broker's Warrant entitles the holder thereof to purchase one Common Share of the Company at an exercise price of GBP 0.00335 ($0.0043) per Common Share on or before August 30, 2020. The fair value of the Broker's Warrants estimated at $103,000 (using a Black-Scholes option pricing model) was recognized as equity and netted against proceeds from UK August Placing (as share issued 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:

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

(ii) On September 19, 2018 and September 20, 2018, the Company closed a Private Placement and issued in total 41,310,913 Common Shares at a price of GBP 0.00335 ($0.0043) to the Company's directors and employees for gross proceeds of approximately GBP 0.14 million ($0.18 million).

(iii) In addition, on September 19, 2018, the Company issued 26,779,200 Common Shares as a payment for an introduction fee related to the UK August Placing. Accordingly, the Company recognized GBP 0.1 million ($0.1 million), being the fair value of these shares as at the grant date, as an addition to share capital and an addition to share issue cost related to the UK August Placing.

(iv) 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).

**All amounts in United States dollars, except otherwise stated**

## 9. 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% |

**(v)** 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 0.04 million ($0.05 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% |

## 9. SHARE CAPITAL (CONTINUED)

### b) Warrants

A summary of the Company's share purchase warrants outstanding at December 31, 2019 is as follows:

| ($ 000's) | Number of Warrants | Weighted Average Exercise Price* | Fair Value of Warrants | Expiry Date |
|---|---|---|---|---|
| **Balance, January 1, 2018** | **174,032,188** | **$ 0.053** | **$ -** | |
| Reclassification of June and October 2017 Broker's Warrants (9a (i)) | **-** | **-** | **227** | (June 12, 2019 to October 16, 2019) |
| Issued August 2018 UK Placing Broker's Warrants (9a (i)) | **53,731,380** | **0.004** | **103** | August 30, 2020 |
| Expired 2016 Non-Brokered Warrants | **(14,605,000)** | **0.069** | **-** | April 28, 2018 |
| Expired 2016 Finder's Warrants | **(1,177,114)** | **0.051** | **-** | April 28, 2018 |
| Expired 2016 Broker's Warrants | **(99,016,868)** | **0.075** | **-** | May 3, 2018 |
| Expired 2016 Agents' Warrants | **(5,233,206)** | **0.055** | **-** | May 3, 2018 |
| **Balance, December 31, 2018** | **107,731,380** | **$ 0.006** | **$ 330** | (June 12, 2019 to August 30, 2020) |
| Issued June 2019 UK Placing Broker's Warrants (9 a (iv)) | **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 (9 a (v)) | **5,000,000** | **0.0018** | **2** | September 3, 2021 |
| Expired October 2017 Broker's Warrants | **(15,000,000)** | **0.0133** | **(48)** | October 16, 2019 |
| **Balance, December 31, 2019** | **63,701,380** | **$ 0.0040** | **$ 107** | (August 30, 2020 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

### 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.

During the year ended December 31, 2019, there were no changes to the Company's stock option plan, no new options were granted (2018 – nil), no stock options expired unexercised (2018 – 7,725,000), 110,000 stock options were forfeited (2018 – nil) and no stock options were exercised (2018 – nil).

As at December 31, 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 2.27 years.

## 9. SHARE CAPITAL (CONTINUED)

### c) Incentive Stock Options (continued)

| ($ 000's) | Number of Options | Weighted Avg. Exercise Price* | Contributed Capital Reserve |
|---|---|---|---|
| **Balance, January 1, 2018** | **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** |
| Forfeited | (110,000) | 0.04 | - |
| **Balance and exercisable December 31, 2019** | **107,405,000** | **$ 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

### d) Subsequent event

On April 29, 2020, the Company signed a placing agreement for up to £2,000,000 with Yorkville Advisors Global ("YA") and Riverfort Global Opportunities PCC ("RGO" and collectively, the "Investors") at a placing price of £0.0007 per share. The Company has also entered into an Equity Sharing Agreement with the Investors. The terms of both agreements can be summarised as follows:

***Facility of up to £2 million***
The placing consists of an upfront tranche of £725,000 in an equity placing along with an equity sharing agreement with an 8 month term (collectively, the "Facility"). The Facility is renewable, at COPL's option, at the end of the first 8 month term, and again 16 months following the initial tranche. Each subsequent tranche under the Facility will have a term of up to 8 months each and the gross amount of shares subscribed at each tranche will be calculated based on a maximum shareholding of up to 20% of COPL's issued share capital at the beginning of the next term. The 2nd and 3rd tranches will be structured on the same terms as the initial tranche and the share subscription will be priced based on COPL's LSE market price at the end of the prior term. Up to £300,000 will be advanced under the first tranche of the Facility based on equity raising thresholds.

The gross proceeds of the placing will be pledged by the Company pursuant to the Equity Sharing Agreement with the Investors. The Equity Sharing Agreement, details of which are set out below, entitles the Company to receive back those proceeds on a pro rata monthly basis over a period of 8 months at, subject to adjustment upwards or downwards each month depending on the Company's share price at the time.

***Subscription Price***
The initial tranche subscription price for Investors is £0.0007 per share.

***Benchmark Price***
The Benchmark Price for the initial tranche is £0.00084 per share (20% Premium to the Subscription Price) and for each subsequent tranche, the Benchmark Price will be a 20% premium to the applicable tranche subscription price.

## 9. SHARE CAPITAL (CONTINUED)

### d) Subsequent event (continued)

***Monthly Payments***
At the end of each calendar month the Investors shall pay to the Company the Monthly Base Settlement Amount, subject to adjustment as follows:

- If the Market Price is greater than the Benchmark Price, the Investors will pay the Company an additional amount equal to the Applicable Share Amount X (Market Price – Benchmark Price) x 50%
- If the Market Price is less than the Benchmark Price, then the Company will pay the Investors (by a reduction to the Monthly Base Settlement Amount) an amount equal to the Applicable Share Amount X (Benchmark Price – Market Price)

Where the “Market Price” shall be equal to the average of the 5 lowest daily VWAP of the Company’s ordinary shares for the applicable calendar month, “Monthly Base Settlement Amount” shall be determined by dividing the subscription amount for such tranche divided by number of monthly settlement periods for the tranche, and the “Applicable Share Amount” shall be determined by dividing the total placing shares for each tranche by the number of monthly settlement periods.

***Short Sale Restrictions***
There is an Investors covenant not to hold a net short position in Company’s shares over the term of facility.

***Max Shareholding***
The Investors will always hold less than 20% of COPL’s issue share capital.

***Facility Fee***
**5**% payable in COPL Shares. 1.5% Facility standby fee payable if COPL does not elect to proceed with the 2nd or 3rd eight (8) month tranches under the Facility.

***Closing***
Expected approximately 1 week after the publication of the Prospectus for all share issuances.

## 10. DEFERRED INCOME TAX

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

| ($ 000’s) | **December 31, 2019** | December 31, 2018 |
|---|---|---|
| Non-capital income tax losses | **$ 7,702** | $ 8,447 |
| Pre-trading expenses - UK | **302** | 636 |
| Capital losses | **654** | 731 |
| Share issue costs | **306** | 427 |
| Exploration and Evaluation assets - UK | **10,029** | 9,696 |
| Office equipment | **100** | 113 |
| | **19,093** | 20,050 |
| Unrecognized tax benefits | **(19,093)** | (20,050) |
| **Deferred income tax assets (liabilities)** | **$ -** | $ - |

## 10. DEFERRED INCOME TAX (CONTINUED)

The Company did not recognize a deferred tax asset as at December 31, 2019 or 2018, 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 $18.7 million as at December 31, 2019 (December 31, 2018 - $20.9 million).

Effective July 1, 2019, Alberta government reduced corporate tax rates from 12% to 8%. This tax decrease will be phased as follows: 11% effective July 1, 2019, 10% effective January 1, 2020, 9% effective January 1, 2021 and 8% effective January 1, 2022. Federal corporate income tax rate remained unchanged at 15% in Canada. Accordingly, the Company used a combined statutory rate of 26.5% for 2019 income tax calculation and a rate of 23% for deferred tax calculation of Canadian tax pools as the Company does not expect a material reversal of timing differences prior to 2022.

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

| ($ 000's) | | **2019** | | 2018 |
|---|---|---|---|---|
| Net loss before investment in joint venture | **$** | **(3,918)** | $ | (4,873) |
| Income tax rates | | **26.5%** | | 27.0% |
| Provision at statutory rates | | **(1,038)** | | (1,316) |
| Effect of tax rate changes (Alberta, Canada) | | **1,454** | | - |
| Change in unrecognized DTA and other | | **(416)** | | 1,316 |
| **Tax expense** | **$** | **-** | $ | - |

As at December 31, 2019, the Company had approximately $33.5 million (December 31, 2018 - $31.3 million) of non-capital losses, which can be applied against taxable income earned in Canada with the expiry dates between December 31, 2026 and December 31, 2039.

As at December 31, 2019, the Company also had capital losses of approximately $5.7 million (December, 31, 2018 - $5.4 million), which will carry forward indefinitely to reduce capital gains taxed in Canada.

## 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.

## 11. RELATED PARTY TRANSACTIONS (CONTINUED)

### b) Loan with Directors and Officers

There were no loans granted to or received from Directors and Officers during 2019 or 2018.

Effective 14 February 2020 (the "Issue Date"), the Company entered into a Promissory Note with Arthur Millholland, President and CEO of the Company, (the "Holder") for a principal amount of Canadian dollar $200,000, approximately US$151,000 as at the Issue Date (the "Note"). The Note is repayable by the Company six (6) months from the Issue Date ("Maturity") and bears interest in Canadian dollars at a rate of ten per cent (10%) per annum. No payments of interest or principal amount will be required by the Company prior to Maturity although the Company may elect to prepay a portion or all of the outstanding principal amount of the Note prior to that date. The Note is secured by the Company by way of a General Security Agreement over its present and after acquired personal property and is to be guaranteed by the Company's subsidiaries.

The Note was varied, in part, by the terms of the Equity Sharing Agreement (discussed above in note 9 (d) "Share Capital"), providing for, among other things (i) conversion of the loan into Common Shares, at the election of Mr. Millholland, at a price of 0.084 pence per Common Share and (ii) deferring of any repayment by the Company of the loan until December.

### c) Other transactions with Directors and Officers

As at December 31, 2019, the Company had following accounts payable due to its Directors and Officers:

- $441,000 due to Directors in respect of 2019 Directors' fees (December 31, 2018 - $nil). Subsequent to December 31, 2019, this total amount of outstanding Directors' fees was waived further to a Board resolution dated March 26, 2020;
- $151,000 due to Officers in respect of a portion of 2019 Officers' remuneration that was earned but not paid as at December 31, 2019 (December 31, 2018 - $nil);
- Accrued holiday pay of $90,000 due to Officers (December 31, 2018 - $50,000).

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

### d) 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, 2019** | December 31, 2018 |
|---|---|---|
| Short-term benefits - paid | **$ 724** | $ 1,421 |
| Short-term benefits – earned but unpaid* | **$ 592** | - |
| | **$ 1,316** | $ 1,421 |

* Short term benefits – earned but unpaid include $441,000 of 2019 Directors' fees that were waived subsequent to December 31, 2019, further to a Board resolution dated March 26, 2020.

Short-term benefits include annual salaries, health benefits and other taxable benefits for Officers, and directors' fees.

There were no stock options granted in 2019 and 2018.

## 11. RELATED PARTY TRANSACTIONS (CONTINUED)

### d) Remuneration of Directors and Other Key Management Personnel (continued)

The Company employed a family member of a member of key management during the year ended December 31, 2019, under normal commercial terms. Total salary and benefits paid to this individual were $74,000 (2018: $85,000). There were no stock options granted to this individual during 2019 and 2018. There were no accounts receivable due from, or accounts payable due to this individual as at December 31, 2019 or December 31, 2018.

### e) 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 Company's balances with the jointly controlled entity are disclosed in Note 5.

## 12. SUBSEQUENT EVENTS / COVID-19 PANDEMIC

The recent outbreak of a strain of coronavirus (commonly known as COVID-19) has negatively impacted global economic conditions, including the demand for oil and gas and the Company's stock price. If the coronavirus outbreak continues and results in a prolonged period of travel, commercial and other similar restrictions affecting the Company's personnel, contractors and suppliers, the Company could experience global supply disruptions. If such supply disruptions were to occur, the Company may not be able to develop alternate sourcing of personnel and equipment in a timely manner to perform its planned operations. A prolonged period of outbreak and depressed share price may also impede the ability of the Company to finance its operations through further debt and/or equity raisings. The impact of COVID-19 on the Company's joint venture partners may also impact the valuation and collectability of the long term receivable in subsequent periods.

## 13. 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.

## 13. 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:

| ($ 000's) | **December 31, 2019** | December 31, 2018 |
|---|---|---|
| Great British Pounds | **13** | 952 |
| Canadian Dollars | **71** | 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. 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, 2019, the Company holds $0.08 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.

## 14. 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.

## 14. CAPITAL MANAGEMENT (CONTINUED)

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, 2019.

## 15. NET CHANGE IN NON-CASH WORKING CAPITAL

| ($ 000's) | **December 31, 2019** | December 31, 2018 |
|---|---|---|
| (Increase) / decrease in accounts receivable | **$ 59** | $ (43) |
| (Increase) in long-term accounts receivable | **(1)** | (6) |
| Decrease / (increase) in prepaid expenses | **109** | 64 |
| (Decrease) / increase in operating accounts payable and accrued liabilities | **936** | (128) |
| **Net change in operating non-cash working capital** | **$ 1,103** | $ (113) |
| Increase in accounts payable and accrued liabilities due to share issue costs | **152** | - |
| Reduction in lease liability (note 6) | **(3)** | - |
| **Net change in financing non-cash working capital** | **$ 149** | $ - |