CANADIAN OVERSEAS PETROLEUM LIMITED

THIRD QUARTER

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE THREE AND NINE MONTHS ENDED
SEPTEMBER 30, 2021 AND 2020
(UNAUDITED)

Management's Responsibility for Condensed Interim 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 unaudited condensed interim 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 condensed interim consolidated financial statements as presented.

Signed "Arthur S. Millholland"
Arthur S. Millholland
President and Chief Executive Officer
November 12, 2021

Signed "Ryan Gaffney"
Ryan Gaffney
Chief Financial Officer
November 12, 2021

Canadian Overseas Petroleum Limited

Condensed Interim Consolidated Statements of Financial Position (unaudited)

(US$ thousands)

As at	**September 30, 2021**	December 31, 2020
Assets		
Current		
Cash and cash equivalents *(note 6)*	**11,497**	1,401
Accounts receivable *(note 8)*	**4,362**	40
Deferred share issue costs	**28**	128
Commodity derivative net assets *(note 19a)*	**1,459**	-
Prepaid expenses	**291**	89
	17,637	1,658
Non-current		
Prepaid purchase price	**-**	5,000
Exploration and evaluation assets *(note 9)*	**2,672**	-
Property, plant and equipment, net *(note 10)*	**66,068**	61
Right-of-use assets	**182**	229
Long-term deposits	**44**	44
	86,603	6,992
Liabilities		
Current		
Accounts payable and accrued liabilities *(note 11)*	**10,212**	1,066
Subscription receipts liability *(note 16a(i))*	**-**	5,472
Short-term loans (*note 12)*	**-**	683
Derivative liabilities *(note 14)*	**957**	91
Current portion of lease liabilities	**66**	59
	11,235	7,371
Non-current liabilities		
Senior credit facility *(note 13)*	**35,908**	-
Derivative liabilities *(note 14)*	**5,634**	-
Commodity derivative net liability *(note 19a)*	**1,275**	-
Lease liabilities	**166**	216
Asset retirement obligations *(note 15)*	**3,138**	-
	57,356	7,587
Shareholders' Equity (Deficit)		
Share capital *(note 16a)*	**183,548**	142,639
Warrants (*note 16b)*	**1,037**	145
Contributed capital reserve (*note 16c)*	**51,260**	51,260
Deficit	**(204,416)**	(192,391)
Accumulated other comprehensive loss	**(2,182)**	(2,248)
	29,247	(595)
	86,603	6,992

Commitment (*note 22*)
Subsequent event *(note 23)*

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

Canadian Overseas Petroleum Limited

Condensed Interim Consolidated Statements of Comprehensive Income (Loss) (unaudited)

(US$ thousands, except share and per share amounts)

	Three months ended September 30, 2021	Three months ended September 30, 2020	**Nine months ended September 30, 2021**	Nine months ended September 30, 2020
Revenue				
Petroleum sales, net of royalties	**5,242**	-	**9,174**	-
Realized loss on commodity derivatives – crude	**(648)**	-	**(909)**	-
Unrealized loss on commodity derivatives – crude *(note 19a)*	**(2,456)**	-	**(9,639)**	-
	2,138	-	**(1,374)**	-
Expenses				
Production taxes	**(655)**	-	**(1,156)**	-
Operating	**(2,364)**	-	**(3,343)**	-
Depletion, depreciation and amortization	**(1,291)**	(17)	**(2,430)**	(52)
Realized gain on commodity derivatives – butane	**1,074**	-	**1,173**	-
Unrealized gain on commodity derivatives – butane *(note 19a)*	**3,718**	-	**9,823**	-
Acquisition costs *(note 5c)*	**(33)**	-	**(2,145)**	-
Pre-license costs	**(100)**	(36)	**(300)**	(36)
General and administrative	**(2,453)**	(832)	**(5,818)**	(1,711)
Stock based compensation	**-**	(973)	**-**	(973)
	(2,104)	(1,858)	**(4,196)**	(2,772)
Other expenses				
Finance costs, net *(note 17)*	**(1,868)**	(167)	**(4,788)**	(356)
Gain (loss) on derivative liabilities *(note 18)*	**8,937**	19	**(1,931)**	(28)
Gain on extinguishment of loan *(note 12a)*	**332**	-	**332**	13
Foreign exchange gain (loss), net	**33**	81	**(67)**	(2)
	7,434	(67)	**(6,454)**	(373)
Income (loss) before investments in joint ventures	**7,468**	(1,925)	**(12,024)**	(3,145)
Loss on investment in joint venture	**-**	(143)	**(1)**	(143)
Income (loss) after investments in joint ventures	**7,468**	(2,068)	**(12,025)**	(3,288)
Income tax expense	-	-	-	-
Net income (loss)	**7,468**	(2,068)	**(12,025)**	(3,288)
Gain (loss) on translation of foreign subsidiaries	**99**	(104)	**66**	57
Comprehensive income (loss) for the period	**7,567**	(2,172)	**(11,959)**	(3,231)
Earnings (loss) per share - post-consolidation - basic	**0.05**	(0.05)	**(0.09)**	(0.09)
Earnings (loss) per share - post-consolidation - diluted	**0.05**	(0.05)	**(0.09)**	(0.09)
Weighted average number of shares outstanding – post-consolidation - basic	**159,108,028**	45,785,704	**136,393,897**	38,513,556
Weighted average number of shares outstanding – post-consolidation - diluted	**165,680,638**	45,785,704	**136,393,897**	38,513,556

See accompanying notes to the unaudited condensed interim consolidated financial statements

Canadian Overseas Petroleum Limited

Condensed Interim Consolidated Statements of Changes in Equity (Deficit) (unaudited)

For the nine months ended September 30, 2021 and 2020

(US$ thousands)

	Share Capital	**Warrants**	**Contributed Capital Reserve**	**Deficit**	**Accumulated Other Comprehensive Loss (1)**	**Total Equity**
Balance at December 31, 2019	138,087	107	50,394	(187,430)	(2,149)	(991)
Issued further to placings, net of issue costs *(note 16a)*	2,218	-	-	-	-	2,218
Issued further to YARF loan, debt exchange and payments for fees *(note 16a)*	1,975	-	-	-	-	1,975
Issued further to exercise of broker's warrants *(note 16a)*	255	-	-	-	-	255
Fair value of broker's warrants exercised *(note 16b)*	107	(107)	-	-	-	-
Fair value of finder's warrants issued *(note 16b)*	-	145	-	-	-	145
Stock options granted *(note 16c)*	-	-	866	-	-	866
Comprehensive loss for the Period	-	-	-	(3,288)	57	(3,231)
Balance at September 30, 2020	142,642	145	51,260	(190,718)	(2,092)	1,237
Balance at December 31, 2020	**142,639**	**145**	**51,260**	**(192,391)**	**(2,248)**	**(595)**
Issued further to placings, net of issue costs *(note 16a)*	**26,127**	**-**	**-**	**-**	**-**	**26,127**
Issued further to CEO loan conversion *(note 16a(i))*	**155**	**-**	**-**	**-**	**-**	**155**
Issued further to payment of purchase price of Atomic *(note 5)*	**4,000**	**-**	**-**	**-**	**-**	**4,000**
Issued as payment of Finder's and Broker's Fee *(note 16a)*	**2,313**	**-**	**-**	**-**	**-**	**2,313**
Issued as payment of advisory services *(note 16a(iii))*	**202**	**-**	**-**	**-**	**-**	**202**
Issued further to exercise of Unit Warrants *(note 16a(i))*	**5,479**	**-**	**-**	**-**	**-**	**5,479**
Fair value of Unit Warrants issued presented as derivative liability *(note 16a(i))*	**(2,132)**	**-**	**-**	**-**	**-**	**(2,132)**
Fair value of Unit Warrants exercised *(note 16a(i))*	**4,590**	**-**	**-**	**-**	**-**	**4,590**
Issued further to exercise of 2020 3rd Finder's Warrants *(note 16a(iv))*	**112**	**-**	**-**	**-**	**-**	**112**
Fair value of Finder's and Broker's Warrants issued *(note 16b)*	**-**	**955**	**-**	**-**	**-**	**955**
Fair value of expired and exercised 2020 3rd Finder's warrants *(note 16b)*	**63**	**(63)**	**-**	**-**	**-**	**-**
Comprehensive loss for the period	**-**	**-**	**-**	**(12,025)**	**66**	**(11,959)**
Balance at September 30, 2021	**183,548**	**1,037**	**51,260**	**(204,416)**	**(2,182)**	**29,247**

(1) As at September 30, 2021 and 2020, the accumulated other comprehensive loss balance consists of unrealized foreign exchange on the translation of foreign subsidiaries.

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

Canadian Overseas Petroleum Limited

Condensed Interim Consolidated Statements of Cash Flows (unaudited)

(US$ thousands)

	Three months ended September 30, 2021	Three months ended September 30, 2020	**Nine months ended September 30, 2021**	Nine months ended September 30, 2020
Cash From (Used In) Operating Activities				
Net income (loss)	**7,468**	(2,068)	**(12,025)**	(3,288)
Add (deduct) non-cash items:				
Gain on waived 2019 director's fees	**-**	-	**-**	(431)
Depletion, depreciation and amortization	**1,291**	17	**2,430**	52
Unrealized loss on commodity derivatives – crude *(note 19a)*	**2,456**	-	**9,639**	**-**
Unrealized gain on commodity derivatives – butane *(note 19a)*	**(3,718)**	-	**(9,823)**	**-**
Finance costs, net *(note 17)*	**1,868**	167	**4,788**	356
Gain on extinguishment of loan (note 12a)	**(332)**	-	**(332)**	(13)
(Gain) loss on derivative liabilities *(note 18)*	**(8,937)**	(19)	**1,931**	28
Stock based compensation	**-**	973	**-**	973
Unrealized foreign exchange (gain) loss, net	**(24)**	(129)	**(10)**	17
Loss on investment in joint venture	**-**	143	**1**	143
	72	(916)	**(3,401)**	(2,163)
Net change in non-cash operating working capital *(note 21)*	**(3,432)**	(1,864)	**(7,149)**	(821)
	(3,360)	(2,780)	**(10,550)**	(2,984)
Cash From (Used In) Financing Activities				
Issuance of share capital, net of issue costs	**2,672**	4,486	**29,801**	4,486
Gross proceeds from senior credit facility *(note 13)*	**-**	-	**45,000**	**-**
Lender's & borrower's fees paid on senior credit facility	**(15)**	-	**(3,460)**	**-**
Interest paid on credit facility *(note 17)*	**(1,438)**	-	**(3,094)**	
Proceeds from CEO loan	**-**	-	**-**	153
(Repayment) proceeds of YARF loan *(note 12b)*	**-**	374	**(683)**	463
Payment of lease obligations, net of rent concessions	**(28)**	(12)	**(90)**	(33)
Net change in non-cash financing working capital *(note 21)*	**242**	175	**137**	151
	1,433	5,023	**67,611**	5,220
Cash From (Used In) Investing Activities				
Atomic Group Acquisition cash consideration paid *(note 5)*	**-**	-	**(45,079)**	**-**
Atomic Group Acquisition cash acquired *(note 5)*	**-**	-	**9,160**	**-**
Additions to plant, property and equipment *(note 10)*	**(5,159)**	(4)	**(10,608)**	(3)
Additions to exploration and evaluation assets *(note 9)*	**(745)**	-	**(962)**	-
Additions to investment in joint venture *(note 7)*	**-**	(143)	**(1)**	(143)
Interest income	**1**	-	**2**	-
Net change in non-cash investing working capital *(note 21)*	**3,847**	-	**580**	-
	(2,056)	(147)	**(46,908)**	(146)
Increase (decrease) in cash and cash equivalents during the period	**(3,983)**	2,096	**10,153**	2,090
Effect of foreign exchange on cash and cash equivalents held in foreign currencies	**(72)**	46	**(57)**	41
Cash and cash equivalents, beginning of year	**15,552**	64	**1,401**	75
Cash and cash equivalents, end of period	**11,497**	2,206	**11,497**	2,206

See accompanying notes to the unaudited condensed interim 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 with no par value (the "**Common Shares**") are traded on the London Stock Exchange (the "**LSE**") in the UK under the symbol "COPL" and on the Canadian Securities Exchange (the "**CSE**") in Canada under the symbol "XOP". The Company moved its listing from the TSX Venture Exchange to the CSE on October 31, 2018. The Company's registered office is Suite 400, 444 – 7th Avenue SW, Calgary, Alberta, Canada.

COPL and its subsidiaries are involved in the identification, acquisition, exploration and development of oil and natural gas reserves and holding interests in petroleum assets. As at September 30, 2021, the Company had 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**") which provides technical and project 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 which was incorporated on December 15, 2017 for the purpose of an anticipated operation in Ontario, Canada.
- COPL America Holding Inc and COPL America Inc. ("**COPL America**"), incorporated on February 23, 2021 for the purpose of holding oil and gas operations in the United States of America ("**US**");
- Atomic Oil & Gas LLC ("**Atomic**") – an oil and gas company with producing assets in Wyoming, US, acquired on March 16, 2021.
- PipeCo LLC ("**PipeCo**") – owns the gas pipeline and infrastructure that service one of the petroleum assets in which Atomic has a working interest.
- Southwestern Production Corp. ("**SWP**") – an operator of oil and gas assets of Atomic and Pipeco; acquired in March 16, 2021.

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 ShoreCan joint venture.

2. BASIS OF PREPARATION

Basis of Preparation and Compliance

The Company's unaudited condensed interim consolidated financial statements as at and for the three and nine months ended September 30, 2021 and 2020 ("**Financial Statements**") have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**") applicable to the preparation of interim financial statements including IAS 34 "*Interim financial reporting*". Certain information and disclosures normally included in the notes of the annual consolidated financial statements have been condensed or have been disclosed on an annual basis only.

The Company's Financial Statements should be read in conjunction with the Company's annual audited consolidated financial statements as at and for the years ended December 31, 2020 and 2019, which outline the Company's significant accounting policies in note 3 thereto, which have been applied consistently in these Financial Statements. The new accounting policies and updates to significant accounting policies applied in preparation of these Financial Statements as a result of a business combination in March 2021 (see note 5) as well as updates to the Company's critical accounting judgments and key sources of estimation uncertainty are set out in note 3 of the Financial Statements. Certain prior period amounts have been reclassified throughout the Financial Statements to conform with current period presentation.

These Financial Statements are presented in US dollars ("**US$**"), which is both the functional and presentation currency. All financial information presented in tables has been rounded to the nearest thousand US$ unless otherwise noted.

These Financial Statements were authorized for issue by the Company's Board of Directors on November 12, 2021.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The 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.

Revenue

Revenue associated with the sale of crude oil is measured based on the consideration specified in contracts with customers. Revenue from contracts with customers is recognized when or as the Company satisfies a performance obligation by transferring a promised good or service to a customer. A good or service is transferred when the customer obtains control of that good or service. The transfer of control of oil usually coincides with title passing to the customer and the customer taking physical possession. The Company principally satisfies its performance obligations at that point in time. Oil sales revenue recognized is net of royalties as the Company is acting as an agent and represents the net revenue attributable to the Company.

The Company receives payment for its produced oil from the purchaser generally within two months. The Company does not have any contracts where the period between the transfer of control of the commodity to the customer and payment by the customer exceeds one year. As a result, the Company does not adjust its revenue transactions for the time value of money or to reflect a significant financing component in connection with contracts with customers. Items such as royalties are netted against revenue. These items are netted to reflect the deduction for other parties' proportionate share of the revenue for which the Company is acting as an agent in collecting and disbursing proceeds on behalf of the royalty owners.

Finance costs, net

Net financing costs include interest expense on borrowings, interest on lease liabilities, financing costs, accretion of interest on the senior credit facility and accretion of the discount on asset retirement obligations ("**ARO**").

Borrowing costs incurred for the acquisition, construction or production of qualifying assets, are capitalized to the cost of those assets during the substantial period of time (greater than one year) to get the underlying assets ready for their intended use, until such time as these assets are substantially ready for their intended use. The capitalization rate, used to determine the amount of borrowing costs to be capitalized, is dependent on whether general borrowings (weighted average interest rate) or specific borrowings (specified rate) were used during the period. All other borrowing costs are charged to net earnings (loss) using the effective interest method.

Interest income is recognized as earned.

Exploration and evaluation assets ("E&E")

The Company accounts for exploration and evaluation costs in accordance with IFRS 6 "*Exploration for and Evaluation of Mineral Resources*". E&E costs related to each prospect are initially capitalized within E&E assets. Such E&E assets may include costs of acquiring leases, technical services and studies, seismic acquisition, exploratory drilling and testing, directly attributable overhead and administrative expenses, including remuneration of operation personnel and supervisory management and the projected costs of retiring the assets, if any, but do not include general prospecting or evaluation costs incurred prior to having obtained the legal rights to explore an area of mutual interest ("pre-license costs"), which are expensed as incurred and recognized in the net earnings (loss). E&E assets are subject to ongoing management review to confirm the intent to establish technical feasibility and commercial viability of a discovery. This assessment includes many changing factors, including project economics, expected capital expenditures and production costs, access to infrastructure, obtaining and the timing of receiving required regulatory approvals, and potential infrastructure expansions.

E&E assets remain capitalized until technical feasibility and commercial viability of extracting oil and gas is determinable. The technical feasibility and commercial viability of exploration assets are dependent upon the assignment of a sufficient amount of economically recoverable reserves relative to the estimated potential resources available, available infrastructure to support commercial development, as well as obtaining necessary internal and external approvals. At least annually, a review of each prospect is carried out to ascertain whether proved or probable reserves have been discovered. Exploration assets may have sales from petroleum products associated with production from test wells, and resulting revenue is recognized in net earnings (loss).

Upon determination of proved plus probable reserves, E&E assets attributable to those reserves are first tested for impairment at the cash-generating unit ("**CGU**") level, and then reclassified from E&E assets to property, plant and equipment. E&E costs related to prospects for which no proved or probable reserves exist, and lease expiries, are expensed. If a decision is made by management not to continue an E&E project, the E&E asset is derecognized, and all associated costs are charged to the net earnings (loss).

E&E assets are not subject to depreciation and depletion.

Property, plant and equipment ("PP&E")

PP&E consists of development and production oil assets ("**Petroleum Assets**"), office equipment and equipment inventory.

Petroleum Assets are measured at cost less accumulated depletion, depreciation and amortization, and accumulated impairment. Petroleum Assets are grouped into CGUs for impairment testing.

Expenditures for the construction, installation or completion of infrastructure facilities such as processing facilities, pipelines and the drilling of development wells, including unsuccessful development or delineation wells, are capitalized within Petroleum Assets, as long as the facts and circumstances indicate that it is technically feasible and economically viable to extract identified reserves.

(i) Initial costs

The initial cost of an asset is comprised of the purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of ARO, and capitalized borrowing costs for qualifying assets. The purchase price or constructed cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Capitalized oil and gas interests represent costs incurred to develop proved or probable reserves, or to enhance production from such reserves that extends their useful lives, and are accumulated on a field or geotechnical basis, unless such expenses are deemed operational in nature and are expensed as incurred.

Other items of property, plant and equipment are carried at cost less accumulated depreciation and net of accumulated impairment.

(ii) Subsequent costs

Costs incurred subsequent to the determination of technical feasibility and commercial viability are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. The carrying amount of a replaced asset is de-recognized when replaced, if material. The costs of day-to-day servicing are charged to earnings (loss) during the period in which they are incurred.

(iii) Asset exchanges and disposals

Exchanges of assets are measured at fair value unless the exchange transaction lacks commercial substance or the fair value of neither the asset received, nor the asset given up is reliably measurable. The cost of the acquired asset is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. Where fair value is not used, the cost of the acquired asset is measured at the carrying value of the asset given up. The gain or loss on de-recognition of the asset given up is recognized in the net earnings (loss).

Gains and losses on disposal of property, plant and equipment, including oil and gas interests, are determined by comparing the proceeds from disposal with the carrying value of property, plant and equipment.

(iv) Depletion, depreciation and amortization

The net carrying value of Petroleum Assets is depleted by CGU using the units-of-production method based on the ratio of production to the related proved plus probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to bring any related non-producing or undeveloped reserves into production, which may include the costs of drilling and completing wells. These estimates are reviewed at least annually by independent reserve engineers in conjunction with their evaluation of the Company's proved and probable reserves. Changes in estimates used in prior periods, such as proved plus probable reserves, that affect the unit-of-production calculations are dealt with on a prospective basis. Major development projects are not depleted, depreciated or amortized until production commences. Proved plus probable reserves are determined by independent engineers in accordance with NI 51-101.

For plant, drilling equipment, field rental equipment and other assets, depreciation is recognized in net earnings (loss) on a straight-line basis over the estimated useful lives of each item of property, plant and equipment. The depreciation of administrative assets is calculated on a straight-line basis over estimated useful lives that range from 3 to 5 years. The depreciation methods, useful lives and residual values are reviewed at each reporting date.

Impairment of non-financial assets

Property, plant and equipment

The Company's property, plant and equipment is grouped into CGUs for the purpose of assessing impairment. A CGU is a grouping of assets that generate cash inflows independently of other assets held by the Company. CGUs are reviewed at each reporting date for indicators of potential impairment and, in the case of previously impaired CGUs, reversal of impairment. If such indicators exist, an impairment test is performed by comparing the CGU's carrying value to its recoverable amount, defined as the greater of a CGU's fair value less costs of disposal and its value in use. Any excess of carrying value over the recoverable amount is recognized in the net earnings (loss) as an impairment charge. If there is an indicator that a previously recognized impairment charge may no longer exist or may have decreased, the recoverable amount of the relevant CGU is calculated and compared against the carrying amount. An impairment charge is reversed to the extent that the asset's recoverable amount does not exceed the carrying amount that would have been determined, net of accumulated depreciation, depletion and amortization, if no impairment charge had been recognized. A reversal of impairment of property, plant and equipment is recognized in net earnings (loss).

E&E assets

E&E assets are assessed for impairment at the operating segment level and are reviewed at each reporting date for indicators of potential impairment, or in the case of previously impaired E&E assets, reversal of impairment. An impairment charge on E&E assets is recognized if the carrying value of the E&E assets exceeds the recoverable amount. Impairment of E&E assets is recognized in the net earnings (loss) as an E&E impairment charge. If there is an indicator that a previously recognized impairment charge may no longer exist or may have decreased, the recoverable amount of the relevant E&E asset is calculated and compared against the carrying amount. A reversal of impairment of E&E assets is recognized in net earnings (loss).

Provisions

The ARO liability includes present obligations where the Company will be required to dismantle, decommission and perform site restoration activities. The ARO liability is measured at the present value of management's best estimate of expenditures required to settle the present obligation using a relevant risk-free rate at each reporting date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows or discount rate underlying the obligation. The provision is accreted over time through charges to net financing costs. Changes in the future cash flow estimates resulting from revisions to the estimated timing, amount of undiscounted cash flows or the discount rate are recognized as changes in the ARO liability and related asset. Actual costs incurred upon settlement of the ARO liability are charged against the provision to the extent the provision was established.

A provision is recorded for the estimated cost of site restoration and capitalized in the relevant asset category. The capitalized amount is depleted, depreciated and amortized on the units-of-production method based on proved plus probable reserves.

Offsetting of financial instruments

Financial assets and financial liabilities are offset, and the net amount reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Risk Management Contracts

The Company is exposed to commodity price risks resulting from fluctuations in commodity prices in the normal course of its business. The Company may use a variety of instruments to manage this risk. The Company has elected to not apply hedge accounting. Therefore, the Company accounts for such instruments using the fair value method by initially recording an asset or liability and recognizing changes in the fair value of the instruments in net earnings (loss) as unrealized gains or losses on risk management contracts. Fair values of financial instruments are based on third party quotes or valuations provided by independent third parties. Any realized gains or losses on risk management contracts are recognized in net earnings (loss) in the period they occur. The Company's risk management contracts have been assessed on the fair value hierarchy and are all considered Level 2. Commodity derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Segment reporting

Operating segments have been determined based on the nature of the Company's activities and the geographic locations in which the Company operates, and are consistent with the level of information regularly provided to and reviewed by the Company's chief decision makers. As at September 30, 2021 and the three and nine months then ended, the Company had only one operating segment in the US and all net oil sales revenue is from light crude oil.

Significant accounting judgments and estimates

Critical judgments in applying accounting policies

Critical judgments that have the most significant effect on the amounts recognized in the consolidated financial statements include the following:

ARO – Inherent in the calculation of ARO are numerous assumptions and judgements including the ultimate settlement amounts, inflation factors, risk-free discount rates, timing of settlement and changes in the legal and regulatory environments. To the extent future revisions to these assumptions impact the measurement of the existing ARO liability, a corresponding adjustment is made to the Petroleum Asset balance. The risk-free discount rate is based on the US long-term bond yield. The ARO carrying value and accretion expense from period-to-period may differ due to changes in laws and regulations, technology, the expected timing of expenditures, and market conditions affecting the discount rate applied.

Determination of the CGU – The Company's Petroleum Assets are grouped into CGUs based on the ability of these assets to generate separately identifiable independent cash inflows. The classification of assets into CGUs requires significant judgement and interpretation. Management considers factors such as integration among assets, shared infrastructure, common sales points, geography and how management makes decisions about the Company's operations.

Assessment of impairments or reversal of previous impairments – Management applies judgment in assessing the existence of indicators of impairment or impairment reversal at a CGU level quarterly or when an indication of impairment exists based on various internal and external factors.

E&E – Exploration and evaluation costs are initially capitalized with the intent to establish commercially viable reserves. E&E assets include undeveloped land and costs related to exploratory wells. The Company is required to make estimates and judgments about future events and circumstances regarding the future economic viability of extracting the underlying resources. Changes to project economics, resource quantities, expected production techniques, unsuccessful drilling, expired mineral leases, production costs and required capital expenditures are important factors when making this determination. To the extent a judgment is made that the underlying reserves are not viable, the E&E costs will be impaired and charged to net earnings (loss).

Key sources of estimation uncertainty

The following are key estimates and the assumptions made by management affecting the measurement of balances and transactions in the consolidated financial statements:

Business combinations – Management makes estimates of the fair value of assets acquired and liabilities assumed which includes assessing the value of the oil and gas properties based upon an estimation of recoverable quantities of proved and probable reserves being acquired.

Stock-based compensation, warrants and derivative liability – 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 expected 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.

Reserves estimation – The Company's oil reserves are evaluated and reported on by independent petroleum engineers and are determined in accordance with Canadian practices and specifically in accordance with National Instrument 51-101, Standards of Disclosure for Oil and Gas Activities ("**NI 51-101**"), and the Canadian Oil and Gas Evaluation Handbook. The estimation of reserves is a subjective process. Forecasts are based on engineering data, projected future rates of production, commodity prices and the timing of future expenditures, all of which are subject to numerous uncertainties and various interpretations. The Company expects that its estimates of reserves will change to reflect updated information.

Reserve estimates can be revised upward or downward based on actual reservoir performance, the results from capital expenditure programs, revisions to previous estimates, new discoveries and acquisitions and dispositions during the year. By their nature, these estimates are subject to measurement uncertainty, and the impact on the consolidated financial statements from changes in such estimates in future periods could be material. Changes in reserve estimates can affect the impairment of assets, including the reversal of previously recorded impairments, the estimation of ARO, the economic feasibility of E&E assets and the amounts recognized for depletion and depreciation of Petroleum Assets.

Impairment of assets – when indicators of impairment exist, the carrying value of each CGU is compared to its recoverable amount which is defined as the higher of its fair value less cost of disposal ("**FVLCD**") or its value in use ("**VIU**"). The VIU is estimated as the present value of the future cash flows expected to arise from the continuing use of the CGU or an asset. The FVLCD is the amount that would be realized from the disposition of the asset or CGU in an arm's length transaction between knowledgeable and willing parties.

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 – 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.

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.

Allowance for expected credit loss ("**ECL**") - amount of ECL is sensitive to changes in circumstances and of forecast economic conditions and may not be indicative of actual credit losses.

Risk Management contracts – estimate of fair value is dependent upon forward commodity prices and the volatility of those prices.

Senior Credit Facility – the amounts assigned to the host contract and the embedded derivative (LIBOR floor) and the warrants associated with this debt are based on the Company's estimation of their fair value, calculated using assumptions including the LIBOR forward curves. By nature, these estimates and assumptions are subject to uncertainty, and the actual fair value of the derivative liabilities may differ.

New and amended accounting standards adopted

Interest Rate Benchmark Reform

On January 1, 2021, the Company adopted Interest Rate Benchmark Reform ("**IBOR**") - Phase 2 issued by the IASB which required amendments to IFRS 9 "*Financial Instruments*", IAS 39 "*Financial Instruments: Recognition and Measurement*", IFRS 7 "*Financial Instruments: Disclosures*", and IFRS 16 "*Leases*". The IBOR Phase 2 Amendments primarily relate to the modification of financial instruments, allowing for a practical expedient for modifications required by the reform. The practical expedient for modifications is accounted for by updating the effective interest rate without modification of the financial instrument and is subject to satisfying all qualifying criteria. There was not a material impact to the Company's Financial Statements.

Business Combinations

On January 1, 2021, the Company adopted the amendments to IFRS 3 "*Business Combinations*" that clarified the definition of a business and included an election to use a concentration test. The concentration test provides for a simplified assessment of an acquisition transaction that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets. If an election to use the concentration test is not made, or the test failed, then the assessment focuses on the existence of a substantive process. An asset acquisition does not result in the recognition of goodwill, which can only be recognized as a result of acquiring a business. See note 5 for the business combination completed during the nine months ended September 30, 2021. The concentration test was not elected.

Leases

On January 1, 2021, the Company adopted the amendments to IFRS 16 "*Leases*" that provides relief to lessees from applying IFRS 16 to lease modification accounting for rent concessions received as a direct consequence of the COVID-19 pandemic. There was no material impact on the Company's Financial Statements.

4. RECENT DEVELOPMENTS AND IMPACT ON ESTIMATION UNCERTAINTY

On March 11, 2020, the World Health Organization declared a global pandemic following the emergence and rapid spread of a novel strain of the coronavirus (commonly known as "**COVID-19**"). The outbreak and subsequent measures intended to limit the pandemic contributed to significant declines and volatility in global financial markets. The pandemic negatively impacted global commercial activity, including the demand for oil and gas.

The full extent of the impact of COVID-19 on the Company's operations and future financial performance is currently unknown. It will depend on future developments that are uncertain and unpredictable, including the duration and spread of COVID-19, its continued impact on capital and financial markets on a macro-scale, any new information that may emerge concerning the severity of the virus and world-wide coverage and effectiveness of vaccination. The Company is taking measures to mitigate the broader public health risks associated with COVID-19 for its business and employees, including ensuring employees self-isolate and/or work from home where possible, in line with the recommendations of relevant health authorities. However, due to the outbreak, there may be short-term impacts on the Company's supply chain and planned work programs in Nigeria. Similarly, government-imposed travel restrictions may impair the ability of certain of the Company's employees, advisers and contractors to deliver their services to the Company, conduct physical inspections, or undertake planned operations. In addition, the volatility and disruption of financial markets associated with the outbreak may adversely impact the Company's ability to obtain financing.

The COVID-19 outbreak presents uncertainty and risk with respect to the Company, its performance, and estimates and assumptions used by management in the preparation of its financial results. This situation may continue for the time being and there can be no assurance that it will not cause a material adverse effect on the Company's planned operations.

5. BUSINESS COMBINATION - ATOMIC GROUP ACQUISITION

(a) Summary of the acquisition

On December 16, 2020, COPL announced that it had agreed to acquire 100% of the membership interests in Atomic and 100% of the shares in SWP (entities collectively, the "**Atomic Group**") (together the "**Atomic Group Acquisition**") for aggregate consideration of $54.0 million. The effective date of the transaction was December 1, 2020 as defined in the Stock and Membership Interest Purchase Agreement between the seller and the Company (the "**Atomic SPA**"). The opportunity to undertake this acquisition became available to the Company as a result of the COVID-19 environment and the drop in oil prices during 2020. This strategic acquisition represents a step change in the capacity and revenue generating opportunities available to the Company.

On March 16, 2021 (the "**Closing**"), the Company closed the Atomic Group Acquisition. For accounting purposes, the acquisition date is March 16, 2021, when the Company assumed control. In accordance with the Atomic SPA, certain assets and corresponding liabilities were excluded from the acquisition.

The Atomic Group was a closely-held private oil and gas company with assets located in the Powder River Basin in the State of Wyoming, US where it holds operated interests in approximately 47,992 gross contiguous acres of leasehold interests. There are two oil production units within the lease block: the Barron Flats Shannon Miscible Flood Unit (58.0% working interest "**WI**") (the "**BFU**") and the Cole Creek Unit (66.7% WI) (the "**CCU**"), as well as one unitized exploration area, the Barron Flats Deep Federal Unit (55.6% WI). PipeCo is a wholly-owned subsidiary of Atomic that holds a 100% interest in a gas pipeline and infrastructure that services the Barron Flats area. SWP is the operator of all above mentioned oil and gas assets.

The Atomic Group Acquisition was accounted for in accordance with IFRS 3, "*Business Combinations*" using the acquisition method whereby the identifiable assets and liabilities assumed are recognized and measured at their fair value at the date of the acquisition, with the exception of income taxes, lease liabilities and right-of-use assets. The ARO associated with the acquired assets is subsequently remeasured at the end of the reporting period using a risk-free discount rate, with any changes recognized in the ARO and associated PP&E balances on the consolidated statement of financial position (see note 15).

(b) Purchase price allocation

In accordance with the Atomic SPA, the $54.0 million purchase price is comprised of $50.0 million in cash and $4.0 million settled through the issuance of COPL Common Shares (collectively, the "**Atomic Purchase Price**"). On March 16, 2021, the Company issued 818,873,319 Common Shares to the seller representing the fixed $4.0 million of the purchase price consideration that was payable in COPL's Common Shares determined using the weighted average closing price of COPL's Common Shares on the LSE in the five (5) business days preceding the business day prior to the Closing as prescribed in the Atomic SPA. The Company financed the Atomic Purchase Price partially using the net proceeds from a non-brokered placing (see note 16), and external debt of $45.0 million (see note 13). Further to the Atomic SPA, the Company made a non-refundable deposit payment of $1.0 million on December 15, 2020, which was due upon signing the Atomic SPA and a refundable deposit of $4.0 million on December 31, 2020. Accordingly, $5.0 million was recognized as a prepaid purchase price in the Company's consolidated statement of financial position as at December 31, 2020. Subsequent to December 31, 2020, the remaining $4.0 million refundable deposit was paid. At Closing, the Company settled the Atomic Group's external debt of $26.1 million, paid $10.0 million in cash to the seller, and withheld $5.0 million of the Atomic Purchase Price pending the finalization of certain adjustments as agreed between the seller and the Company. Subsequently, on April 14, 2021, the Company released $5.0 million to the seller.

All amounts in US$ thousands, except otherwise stated

As of the date of approval of these Financial Statements, the net debt and working capital adjustments to the Atomic Purchase Price as outlined in accordance with the Atomic SPA have not been finalized and a final settlement has not been reached with the seller. Accordingly, the Atomic Purchase Price has not been finalized.

The following preliminary purchase price allocation, subject to final settlement of the net debt and working capital adjustments that impacts the final purchase consideration, is based on management's best estimate of the fair value assigned to the assets acquired and the liabilities assumed. The increase in the cash portion of the Atomic Purchase Price to $50.1 million resulted from the previous debt facility settled on the Closing being adjusted to include interest and additional financing cost of $0.1 million incurred since December 31, 2020. Upon finalizing the Atomic Purchase Price, adjustments may be required to the following allocation to the fair value of the net assets acquired.

	March 16, 2021
Purchase Consideration:	
Cash	50,079
COPL Common Shares	4,000
Total consideration	**54,079**
Identifiable net assets:	
Cash	9,160
Working capital, net (excluding cash)	(11,469)
E&E assets *(note 9)*	1,665
PP&E *(note 10)*	54,716
Right-of-use assets	41
ARO *(note 15)*	(34)
Total identifiable net assets	**54,079**
Goodwill/Bargain purchase gain	-

The assignment of fair value to the underlying net assets acquired is limited to the total consideration and does not result in recognition of either goodwill or negative goodwill (bargain purchase gain). Best estimates were determined based on available information at the time of preparation of these Financial Statements. The Company is continuing its review to determine the identification of intangible assets, assumption of liabilities, identification of contingent liabilities and working capital adjustments during the allowable measurement period, which shall not exceed one year from the Closing. Considering the nature of the assets acquired, the majority of the fair value is assigned to the petroleum assets.

As at March 16, 2021, the fair value assigned in the preliminary purchase price allocation to accounts receivables was $2.2 million, including joint interest receivables from partners of $1.1 million and revenue receivables of $1.1 million. These receivables do not have a significant financing component, as these balances are usually collected within 60 days. As at March 16, 2021, the gross contractual amounts were deemed equal to the fair value assigned and based on management's best estimate the cash flows associated with these receivables were deemed collectible.

All amounts in US$ thousands, except otherwise stated

Atomic and PipeCo were treated as limited liability companies, and SWP as an S corporation, which all are treated as a partnership for US federal, state, and local income tax purposes. Accordingly, members and owners are taxed on their allocable share of taxable income or loss in accordance with the operating agreement. Beginning January 1, 2018, new rules apply to Internal Revenue Service ("**IRS**") audits of partnerships. Under these rules, adjustments resulting from an IRS audit may be assessed at the partnership level on behalf of its members. Accordingly, no income taxes were payable by these entities. No deferred tax implications were recognized in the preliminary purchase price allocation as for tax purposes the Atomic Group Acquisition is deemed to be an asset acquisition, as a Section 338 (h)(10) election of the Internal Revenue Code was filed with the IRS.

(c) Acquisition costs

Acquisition costs directly attributable to the Atomic Group Acquisition are expensed as incurred. In aggregate, the Company incurred $2.5 million in acquisition costs of which approximately $0.4 million was recognized prior to January 1, 2021 and $2.1 million during the nine months ended September 30, 2021. These acquisition costs exclude share issuance costs that are netted against share capital in the consolidated statement of financial position.

(d) Revenue and net loss

Results of the Atomic Group Acquisition are included in the Financial Statements as at September 30, 2021 and for the period from the Closing to September 30, 2021. The acquired business contributed net oil sales of $9.2 million and $1.9 million of net income from the date of acquisition to September 30, 2021.

6. CASH AND CASH EQUIVALENTS

	September 30, 2021	December 31, 2020
Cash	**9,551**	1,381
Escrow accounts	**1,891**	-
Credit card deposits	**55**	20
	11,497	1,401

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

Escrow amounts of $1.9 million as at September 30, 2021 relate to cash held in escrow accounts with respect to a portion of production taxes and some royalty payments due, further to US legal requirements.

The fair value of cash and cash equivalents was $11.5 million as at September 30, 2021 (December 31, 2020 - $1.4 million). The Company deposits its cash with reputable Canadian, US and Bermudian banks. The Company did not have any overdraft facilities in place as at September 30, 2021 and December 31, 2020.

All amounts in US$ thousands, except otherwise stated

7. 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. 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.

On September 13, 2016, COPL announced that ShoreCan had completed the acquisition of 80% of the share capital of Essar Exploration and Production Limited (Nigeria) ("**Essar Nigeria**"). Essar Nigeria's sole asset is a 100% interest and operatorship of an oil prospecting license, located about 50 km offshore in the central area of the Niger Delta ("**OPL 226**").

As at September 30, 2021, the Company had a receivable from its joint venture partner in respect of ShoreCan expenses of $0.4 million paid by the Company on the behalf of its joint venture partner. Since December 31, 2020, the Company has recognized a full allowance for the accounts receivable from its joint venture partner. Accordingly, an expected credit loss of $1,000 was recognized as part of general and administrative cost in the Company's consolidated statement of loss and comprehensive loss for the nine months ended September 30, 2021 ($NIL for nine months ended September 30, 2020 and $0.4 million for the year ended December 31, 2020).

In 2018, ShoreCan and Essar Exploration and Production Limited, Mauritius ("**Essar Mauritius**"), the company that owns 20% of Essar Nigeria shares, were in disagreement about whether the other party was in compliance with its obligations under the Essar Nigeria shareholders agreement (the "**Shareholders Agreement**").

On August 4, 2020, the Company announced that ShoreCan had executed definitive agreements with Essar Mauritius to resolve their disputes. ShoreCan and Essar Mauritius entered into a Sale and Purchase Agreement (the "**Essar SPA Agreement**"), and other agreements, with each other concerning, among other things, their respective obligations under the Shareholders Agreement. On February 1, 2021, the Company announced, that ShoreCan and Essar Mauritius had agreed to extend the completion date of the definitive agreements to April 30, 2021. The signing of the definitive agreement has been extended to November 30, 2021.

8. ACCOUNTS RECEIVABLE

	September 30, 2021	December 31, 2020
Revenue receivable	**1,270**	-
Joint interest billings receivable	**2,800**	-
Receivable due to realized commodity contracts	**253**	-
Other accounts receivable	**39**	40
Total	**4,362**	40

All amounts in US$ thousands, except otherwise stated

9. EXPLORATION AND EVALUATION ASSETS

	September 30, 2021	December 31, 2020
Balance, beginning of the year	**-**	-
Acquisition *(note 5)*	**1,665**	-
Additions	**962**	-
ARO	**45**	
Balance, end of the period	**2,672**	-

E&E assets relate to the undeveloped area in Barron Flats Deep Federal Unit in which Atomic holds a 55.6% WI, acquired as part of the Atomic Group Acquisition (see note 5) that will require further exploration work and is pending a determination of proven or probable reserves. E&E additions relate mainly to an exploration well drilled in August 2021.

10. PROPERTY, PLANT AND EQUIPMENT

	Petroleum Assets	**Administrative Assets**	**Total**
Cost, beginning of the year	**-**	**313**	**313**
Acquisition *(note 5)*	**54,666**	**50**	**54,716**
Additions	**10,362**	**246**	**10,608**
Disposals	**-**	**(2)**	**(2)**
Change in asset retirement obligation	**3,025**	**-**	**3,025**
Cost, end of the period	**68,053**	**607**	**68,660**
Accumulated depletion, depreciation, amortization and impairment, beginning of the year	**-**	**(252)**	**(252)**
Depletion, depreciation and amortization	**(2,304)**	**(38)**	**(2,342)**
Disposals	**-**	**2**	**2**
Accumulated depletion, depreciation, amortization and impairment, end of the period	**(2,304)**	**(288)**	**(2,592)**
Net carrying amount, beginning of the year	**-**	**61**	**61**
Net carrying amount, end of the period	**65,749**	**319**	**66,068**

Petroleum assets relate to two oil producing units that were included in the Atomic Group Acquisition (see note 5): the **BFU** and the CCU in the State of Wyoming and a gas pipeline that services the BFU for the purpose of miscible flood injections.

All amounts in US$ thousands, except otherwise stated

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2021	December 31, 2020
Trade payables and accrued liabilities	**4,851**	1,065
Revenue related payable	**2,360**	-
Production taxes payable	**3,001**	-
Other	**-**	1
Total	**10,212**	1,066

12. SHORT-TERM LOAN

(a) *Paycheck Protection Program Note*

Further to the Atomic Group Acquisition, the Company assumed a loan entered into by SWP. On April 14, 2020, SWP had entered into an unsecured promissory note in the amount of $0.3 million under the Paycheck Protection Program (the "**PPP Note**"). The Paycheck Protection Program was established under the Coronavirus Aid, Relief, and Economic Security Act (the "**CARES Act**") and is administered by the US Small Business Administration (the "**SBA**"). The annual interest rate on the PPP Note is 0.98%. Monthly principal and interest payments were deferred for a period of nine months after the date of the loan. If the loan is not forgiven, equal monthly payments of principal and interest commence one month after the deferral period and until the maturity on April 13, 2022.

Under the terms of the CARES Act, PPP Note recipients could apply for and be granted forgiveness for all or a portion of the loan granted under the PPP Note. Under terms of the CARES Act, these funds were to be used for payroll and utility payments.

On April 26, 2021 SWP applied for forgiveness of the PPP Note and on July 1, 2021 the SBA approved the application. Accordingly, the Company recognized a gain on extinguishment of this loan of $0.3 million for the three and nine months ended September 30, 2021.

(b) *YARF Loan*

On June 15, 2020, the Company entered into a loan agreement with YA II PN, Ltd ("**YA**") and Riverfort Global Opportunities PCC ("**RF**" and, together with YA, the "**YARF Lenders**" or "**YARF**") for an unsecured facility (the "**YARF Loan Agreement**") of £0.6 million ($0.8 million) (the "**YARF Loan**"). Each drawdown was repayable in cash six months from its respective drawdown date.

The total balance of the YARF Loan of £0.5 million ($0.7 million) outstanding as at December 31, 2020 was repaid in accordance with the YARF Loan Agreement, which was £0.1 million ($0.2 million) on January 5, 2021 and £0.4 million ($0.5 million) on February 5, 2021.

Further to the Loan Agreement, on July 2, 2020, the Company issued, as additional compensation to the YARF Lenders, a total of 100,000,000 Common Share purchase warrants (the "**YARF Warrants**") exercisable within 24 months, at an exercise price of £0.0039 ($0.0049) per YARF Warrant. These YARF Warrants are still outstanding as at September 30, 2021.

The exercise price of the YARF Warrants is in British pound sterling ("**GBP**"), and the Company's functional currency is in US$. As there is variability in these exchange rates, the YARF Warrants are classified as a derivative financial instrument and subsequently revalued on each balance sheet date. The fair value of YARF Warrants was estimated using a Black-Scholes option pricing model at $0.09 million as at December 31, 2020 and $0.1 million as at September 30, 2021.

All amounts in US$ thousands, except otherwise stated

Accordingly, the Company recognized a loss on derivative liability of $16,000 and a related foreign exchange gain of $6,000 in its statement of comprehensive loss for the nine months ended September 30, 2021.

The following assumptions were used for the Black-Scholes option pricing model to estimate the fair value of the YARF Warrants at the dates of valuation:

	September 30, 2021	December 31, 2020
Risk-free interest rate	0.24%	(0.18%)
Weighted average life (years)	0.75	1.50
Expected volatility	90%	90%
Expected dividend yield	-	-
COPL's stock price*	$0.0043	$0.0032

*Closing price on the LSE, translated into US$ as at the date of valuation.

13. SENIOR CREDIT FACILITY

The Atomic Group Acquisition was funded in part with debt through a loan agreement dated March 16, 2021 between a US based Global Investment Firm (the "**Lender**") and COPL America (the "**Borrower**") repayable within a 4 year term (collectively, the "**Senior Credit Facility**" or the "**SCF**"). To fund the Atomic Group Acquisition, the Company drew an initial principal loan amount of $45.0 million. The amount funded to COPL America of approximately $43.2 million, net of financing costs and transaction costs was used to settle Atomic's previously outstanding external debt of $26.1 million, a $10.0 million payment to the seller, the $5.0 million of the Atomic Purchase Price initially withheld and paid subsequent to Closing, and the remainder for funding ongoing operations of COPL America (see note 5).

The Senior Credit Facility agreement is subject to an interest rate of LIBOR (with a floor of 2%) plus 10.5% per annum with such interest to be paid monthly in arrears. From the first anniversary of the Senior Credit Facility the outstanding loan principal will be repaid monthly by COPL America’s cash resources in excess of $2.5 million, and COPL America may prepay amounts outstanding subject to prepayment premiums from the first anniversary of the loan. The Senior Credit Facility includes the following covenants: spending on capital expenditures subject to lender approval, and the maintenance of certain financial ratios for asset coverage (1.5:1.0), a leverage ratio (range of 2.5:1 and 3.0:1) and liquidity (45 day minimum average balance of unrestricted cash must be at least $2.5 million). Financial ratio covenants are applicable for the periods commencing after the first anniversary of the SCF. The Senior Credit Facility did not require security or guarantees provided by the Company or its wider group outside of the US and all financial ratios are calculated with reference to only COPL America and its US subsidiaries. The Senior Credit Facility has an accordion feature whereby the Borrower may draw upon up to a further $20.0 million for future development, at the sole discretion of the Lender. As at September 30, 2021, the accordion feature was undrawn.

Under a separate warrant agreement dated March 16, 2021, the Lender was granted five (5) warrants representing 5% of the Common Shares of COPL America for an exercise price of $0.01 per warrant (the "**Lender Warrants**"). These Lender Warrants are not exercisable until the Senior Credit Facility is paid or at maturity. On maturity, the Lender would be entitled to redeem such Lender Warrants for an amount of cash equal to the greater of 5% of the Company's market capitalization or 5% of the net asset value of COPL America at such time. These Lender Warrants were issued as a requirement of the Lender for providing the Senior Credit Facility and are part of the cost of debt and factored into overall determination of the effective interest rate for the facility. As the Lender Warrants are a puttable financial instrument at the option of the Lender, the Company cannot avoid issuing cash to the Lender and they are classified as derivative liabilities recognized at fair value upon issuance and measured at each reporting period end with changes in fair value recognized in net earnings (loss).

All amounts in US$ thousands, except otherwise stated

The following table provides a summary of the Senior Credit Facility including associated derivative liabilities as at September 30, 2021:

	Senior Credit Facility	**Derivative Liabilities (note 14)**	**Total**
Principal amount	**45,000**	-	**45,000**
Lender's closing and legal costs (c)	**(1,870)**	-	**(1,870)**
Borrower's closing and legal costs (c)	**(1,560)**	-	**(1,560)**
Initial valuation of Lender Warrants (a)	**(4,900)**	**4,900**	**-**
Initial valuation of LIBOR floor (b)	**(2,252)**	**2,252**	**-**
Financing costs expensed upon initial valuation (c)	**545**	**-**	**545**
Lender Warrants revalued as at September 30, 2021 (a)	**-**	**(1,130)**	**(1,130)**
LIBOR floor revaluation as at September 30, 2021 (b)	**-**	**(388)**	**(388)**
Accretion *(note 17)*	**945**	**-**	**945**
Total	**35,908**	**5,634**	**41,542**

As at March 16, 2021, the fair value of the Senior Credit Facility of $45.0 million was assigned as follows: $35.0 million, net of financing costs of $2.8 million to the SCF, $4.9 million to the Lender Warrants and $2.3 million to the LIBOR floor.

(a) As at March 16, 2021, the fair value assigned to the Lender Warrants of $4.9 million was determined using 5% of COPL's market capitalization on a fully diluted basis, which was greater than 5% of the net asset value of COPL America. During the period from date of issuance to September 30, 2021, no Lender Warrants could be exercised. As at September 30, 2021, the Lender Warrants were revalued at $3.8 million using 5% of COPL's market capitalization on a fully diluted basis. The resulting change in fair value of $1.1 million was recognized in the net earnings (loss) for the nine months ended September 30, 2021 (see note 18).

(b) The LIBOR floor was assessed to be an embedded derivative. As at March 16, 2021, the LIBOR floor was in-the-money, and the forward curve for 1-month LIBOR over the term of the SCF indicates that it will remain in the money for the duration of the Senior Credit Facility. Therefore, the LIBOR floor is not closely related to the host debt contract of $45.0 million, and is recognized as a derivative liability that is revalued at each reporting period end with resulting changes in fair value recognized in net earnings (loss). As at September 30, 2021, the LIBOR floor was revalued at $1.9 million and the resulting change in fair value of $0.4 million was recognized in the net earnings (loss) for the nine months ended September 30, 2021 (see note 18).

(c) Aggregate financing costs associated with the Senior Credit Facility of $3.4 million was allocated to the three components of the Senior Credit Facility based on the relative fair value of each component. The costs associated with the loan portion of $35.0 million form part of the amortized costs of the loan used to determine the effective interest rate of 20.9%. The proportionate financing costs of $0.5 million associated with the derivative liabilities of the LIBOR floor with a fair value of $2.3 million and the Lender Warrants with a fair value of $4.9 million, respectively were expensed on the inception date of the debt.

During the three and nine months ended September 30, 2021, the Company paid interest on this loan in the amount of $1.4 million and $3.1 million, respectively.

All amounts in US$ thousands, except otherwise stated

14. DERIVATIVE LIABILITIES

	September 30, 2021	December 31, 2020
Derivative liability – Unit Warrants *(note 16a(i))*	**855**	-
Derivative liability – YARF Warrants *(note 12b)*	**102**	91
Current derivative liabilities	**957**	91
Derivative liability – Lender Warrants *(note 13a)*	**3,770**	-
Derivative liability –LIBOR floor *(note 13b)*	**1,864**	-
Non-current derivative liabilities	**5,634**	**-**

The resulting impact on net earnings (loss) for the three and nine months ended September 30, 2021 from the remeasurement of these derivative liabilities at the reporting period end is disclosed in note 18.

15. ASSET RETIREMENT OBLIGATIONS

	September 30, 2021
Balance, beginning of the year	**-**
Obligation acquired (*note* 5)	**34**
Change in discount rate	**3,025**
Additions	**45**
Accretion	**34**
Balance, end of the period	**3,138**

The Company's ARO relates to net ownership interests in oil and gas assets, including well sites and processing facilities that were acquired in the Atomic Group Acquisition (see note 5). The Company estimates the undiscounted value of its total ARO to be $8.0 million as at September 30, 2021. The majority of these obligations are anticipated to be incurred 25 to 50 years in the future. As at September 30, 2021, the ARO was calculated using a discount factor of 2.02% being the risk-free rate based on the US long-term bonds and an inflation rate of 2.5% per annum.

All amounts in US$ thousands, except otherwise stated

16. SHARE CAPITAL

a) Authorized and Issued Common Shares

Authorized
An unlimited number of common voting shares without nominal or par value and an unlimited number of preferred shares, issuable in series.

Issued
The issued share capital is as follows:

	Number of Common Shares	Amount
Balance, January 1, 2020	3,483,752,463	138,087
Issued pursuant to UK July 2, 2020 placing	400,000,000	1,497
Issued as payment in respect of YARF loan	38,500,000	144
Issued as payment of finder's fee	16,000,000	60
Issued pursuant to UK July 23, 2020 placing	433,333,334	1,655
Issued pursuant to debt exchange	436,917,545	1,771
Issued pursuant to exercise of 2019 broker's warrants	9,970,000	19
Fair value of 2019 broker's warrants exercised	-	4
Issued pursuant to exercise of 2018 broker's warrants	53,731,380	236
Fair value of 2018 broker's warrants exercised	-	103
Share issue costs	-	(937)
Balance, December 31, 2020	4,872,204,722	142,639
Issued pursuant to Non-brokered Placing (i)	4,442,500,000	12,072
Issued pursuant to CEO loan conversion (i)	57,500,000	155
Fair value of Unit Warrants presented as derivative liability (i)	-	(2,132)
Issued as payment of 2nd Finder's Fee (i)	285,041,750	1,347
Issued pursuant to Brokered Placing (ii)	4,171,562,500	18,652
Issued as payment of Broker's Fee (ii)	203,437,500	966
Issued pursuant to exercise of Unit Warrants (i)	1,530,000,000	5,479
Fair value of Unit Warrants exercised (i)	-	4,590
Issued as payment of purchase price of Atomic (*note* 5)	818,873,319	4,000
Issued as payment of advisory services (iii)	25,000,000	202
Issued pursuant to exercise of 2020 3rd Finder's Warrants (iv)	20,833,333	112
Fair value of expired and exercised 2020 3rd Finder's Warrants (iv)	-	63
Share issue costs (v)	-	(4,597)
Balance, September 30, 2021	**16,426,953,124**	**183,548**
Balance, October 1, 2021 – post-consolidation (vi)	**164,269,464**	**183,548**

(i) Non-brokered Placing

During first quarter of 2021, further to a non-brokered placing that closed in the UK (the "**Non-brokered Placing**"), the Company issued a total of 4,442,500,000 units at a price of £0.002 ($0.0027) per unit for gross proceeds of £8.9 million ($12.1 million). Each unit consists of one Common Share and one half of one Common Share purchase warrants (the "**Unit Warrants**"). Each Unit Warrant entitles the holder thereof to purchase one Common Share at an exercise price of £0.0026 ($0.0035) per share on or before January 8, 2022.

The 4,442,500,000 Common Shares related to the Non-brokered Placing were issued as follows:

- 1,050,000,000 on January 8, 2021;
- 2,062,500,000 on January 11, 2021;
- 325,000,000 on January 12, 2021;
- 188,586,000 on January 14, 2021;
- 575,000,000 on January 26, 2021;
- 23,589,000 on February 17, 2021;
- 8,300,000 on February 26, 2021;
- 75,000,000 on March 9, 2021; and
- 134,525,000 on March 12, 2021.

In addition, on January 11, 2021, 57,500,000 units with a value of £0.1 million ($0.16 million) at a deemed price £0.002 per unit were issued to the Company's CEO further to the extinguishment of the CEO loan agreed to be on same terms as the Non-brokered Placing, further to a placing agreement signed with the CEO on December 23, 2020.

The fair value of the 2,250,000,000 Unit Warrants was estimated at $2.1 million, using a Black-Scholes option pricing model with assumptions as noted in a table below and was netted against proceeds from share capital and a derivative liability of $2.1 million was recognized as at January 8, 2021, which was the legal issue date of the Unit Warrants. The exercise price of the Unit Warrants is denominated in GBP, and the Company's functional currency is US$. Accordingly, due to variability in these exchange rates, the Unit Warrants are classified as a derivative financial instrument.

The derivative liability of the Unit Warrants outstanding, net of 1,530,000,000 Unit Warrants that were exercised, as discussed below was revalued as at September 30, 2021 and a related derivative loss of $3.4 million (see note 18) was recognized for the nine months ended September 30, 2021. The derivative liability in respect of the Unit Warrants outstanding as at September 30, 2021 was estimated at $0.9 million (see note 14), using a Black-Scholes option pricing model with the assumptions as noted in the table below.

In connection with the Non-brokered Placing, the Company paid and issued:

- to a first finder - a cash finder's fee of £35,000 ($47,500) and issued 18,750,000 Common Share purchase warrants (the "**1st Finder's Warrants**") as additional compensation to the finder; and
- to a second finder – on March 9, 2021 the Company issued 285,041,750 Common Shares as a payment for a finder's fee, representing a 7% commission in respect of placings arranged by the second finder. Accordingly, the Company recognized £1.0 million ($1.3 million), being the fair value of these shares as at the issue date, as an addition to the share capital and an addition to share issue costs related to the Non-brokered Placing. In addition, the Company issued 305,401,875 Common Share purchase warrants (the "**2nd Finder's Warrants**") as additional compensation for the finder.

Each 1st Finder's Warrants and 2nd Finder's Warrants entitle the holder thereof to purchase one Common Share at an exercise price of £0.0026 ($0.0035) per Common Share on or before January 8, 2022. The fair value of the finder's warrants, estimated using a Black-Scholes option pricing model with assumptions as noted in a table below were $18,000 for the 1st Finder's Warrants and $0.3 million for the 2nd Finder's Warrants and were recognized in equity as warrants and netted against proceeds from the Non-brokered Placing as share issue costs.

Proceeds from the Non-brokered Placing that were received in December 2020, in advance of the actual issue of respective units in January 2021 in the amount of £3.9 million ($5.3 million) were recognized as a subscription receipts liability in current liabilities as at December 31, 2020.

The net proceeds from the Non-brokered Placing were used to make the initial, partial payments of the Atomic Purchase Price (see note 5) as well as to cover the Company's ongoing general and administrative costs.

All amounts in US$ thousands, except otherwise stated

The following assumptions were used for the Black-Scholes option pricing model to estimate the fair value of Unit Warrants, the 1st Finder's Warrants and the 2nd Finder's Warrants at the valuation dates:

	January 8, 2021	September 30, 2021
Risk-free interest rate	(0.036%)	0.077%
Weighted average life (years)	0.75	0.27
Expected volatility	90%	90%
Expected dividend yield	-	-
COPL's stock price*	$0.0033	$0.0043

*Closing price on the LSE or the CSE, translated into US$ as at the date of valuation.

Further to an exercise of Unit Warrants, the Company received $5.5 million and issued 1,530,000,000 Common Shares as follows:

- 12,500,000 on March 9, 2021;
- 25,000,000 on March 23, 2021;
- 62,500,000 on March 31, 2021;
- 2,500,000 on April 12, 2021;
- 525,000,000 on July 2, 2021;
- 100,000,000 on July 29, 2021;
- 217,500,000 on August 23, 2021; and
- 585,000,000 on August 25, 2021.

The fair value of the exercised Unit Warrants estimated at $4.6 million in total was recognized as an addition to the share capital and respective decrease in the derivative liability. The following assumptions were used for the Black-Scholes option pricing model to estimate the fair value of Unit Warrants exercised:

	March 9, 2021	March 23, 2021	March 31, 2021	April 12, 2021
Risk-free interest rate	0.065%	0.054%	0.053%	0.077%
Weighted average life (years)	0.58	0.55	0.52	0.49
Expected volatility	90%	90%	90%	90%
Expected dividend yield	-	-	-	-
COPL's stock price*	$0.0048	$0.0119	$0.0080	$0.0080

	July 2, 2021	July 29, 2021	August 23, 2021	August 25, 2021
Risk-free interest rate	0.085%	0.057%	0.042%	0.026%
Weighted average life (years)	0.52	0.45	0.38	0.47
Expected volatility	90%	90%	90%	90%
Expected dividend yield	-	-	-	-
COPL's stock price*	$0.0081	$0.0040	$0.0052	$0.0050

* Closing price on the LSE or the CSE, translated into US$ as at the date of valuation.

(ii) Brokered Placing

On March 11, 2021, further to a brokered placing that closed in the UK (the "**Brokered Placing**"), the Company issued a total of 4,171,562,500 Common Shares at a price of £0.0032 ($0.0045) per share for gross proceeds of £13.3 million ($18.7 million).

In connection with the Brokered Placing, on March 11, 2021 the Company issued 203,437,500 Common Shares as a partial payment of a broker's fee and paid in cash a remaining broker's fee of £0.2 million ($0.3 million), representing commission of approximately 6% in respect of the Brokered Placing. The Company recognized

All amounts in US$ thousands, except otherwise stated

£0.7 million ($1.0 million), being the fair value of these broker's shares as at the issue date, as an addition to the share capital and an addition to share issue costs related to the Brokered Placing.

The Company also issued 262,500,000 Common Share purchase warrants (the "**Broker's Warrants**") to the broker as additional compensation. Each Broker's Warrant entitles the holder thereof to purchase one Common Share of the Company at an exercise price of £0.0032 ($0.0044) per Common Share on or before March 8, 2023.

The fair value of the Broker's Warrants estimated at $0.6 million, was recognized in equity as warrants and netted against proceeds from the Brokered Placing as share issue costs. The following assumptions were used for the Black-Scholes option pricing model to estimate the fair value of the Broker's Warrants at the valuation date:

	March 8, 2021
Risk-free interest rate	0.018%
Weighted average life (years)	1.50
Expected volatility	90%
Expected dividend yield	-
COPL's stock price*	$0.0053

*Closing price on LSE, translated into US$ as at the date of valuation.

The Company is using the net proceeds from the Brokered Placing to finance operating and capital expenditures of the Atomic Group and to cover the Company's ongoing general and administrative costs.

(iii) Shares issued as payment for services

On June 30, 2021, the Company issued 25,000,000 Common Shares as a payment for financial advisory services, with a fair value of $0.2 million.

(iv) Shares issued further to an exercise of 2020 3rd Finder's warrants

On July 23, 2021, further to an exercise of a portion of 2020 3rd finder's warrants, the Company issued 20,833,333 Common Shares for proceeds of £0.08 million ($0.11 million). On July 24, 2021, the remaining balance of 2020 3rd finder's warrants in the amount of 11,666,667, expired unexercised. The fair value of exercised and expired 2020 3rd finder's warrants of $0.1 million, initially recorded as warrants, was reversed and recognized as an addition to share capital.

(v) Share issue cost

The Company incurred approximately $4.6 million of total costs in connection with the Non-brokered and Brokered Placings, including $0.1 million incurred in 2020 and recognized as deferred share issue costs as at December 31, 2020. In addition to finder's and broker's fees paid in cash, share issue costs also include the fair value of finder's and broker's fees paid in Common Shares and warrants issued to finders and the broker (as disclosed in (i) and (ii) above). Share issue costs also include legal, LSE, transfer agent, and consulting fees of approximately $1.0 million.

(vi) Shares consolidation on October 1, 2021

At the annual and special meeting of the shareholders of the Company held on June 29, 2021 (the "**Meeting**"), shareholders of the Company passed a special resolution approving the consolidation of all of the issued and outstanding Common Shares on the basis of every one hundred (100) pre-consolidation Common Shares being consolidated into one (1) post-consolidation Common Share (the "**Consolidation**").

All amounts in US$ thousands, except otherwise stated

In accordance with the authority granted by shareholders at the Meeting, the board of directors of the Company decided to proceed with the Consolidation. The effective date of the Consolidation is October 1, 2021. No fractional Common Shares were issued pursuant to the Consolidation and any fractions resulting from the Consolidation were rounded down to the nearest whole number of post-consolidation Common Shares.

The Consolidation resulted in 16,426,953,124 pre-consolidation Common Shares issued and outstanding on September 30, 2021 being consolidated into 164,269,464 post-consolidation Common Shares on October 1, 2021.

b) Warrants

A summary of the Company's Common Share purchase warrants outstanding at September 30, 2021 is as follows:

	Number of Warrants	**Weighted Average Exercise Price (US$)***	**Amount**	**Expiry Date**
Balance, January 1, 2020	63,701,380	0.0040	107	(August 30, 2020 to September 3, 2021)
Issued July 2020 UK placing – 1st finder's warrants	25,000,000	0.0049	40	July 2, 2022
Issued July 2020 UK placing – YARF warrants	100,000,000	0.0049	-	July 2, 2022
Issued July 2020 UK placing – 2nd finder's warrants	16,000,000	0.0050	42	July 2, 2022
Issued July 2020 UK placing – 3rd finder's warrants	32,500,000	0.0050	63	July 24, 2021
Exercised 2019 broker's warrants	(9,970,000)	0.0019	(4)	June 4 & Sept. 3, 2021
Exercised 2018 broker's warrants	(53,731,380)	0.0043	(103)	August 30, 2020
Balance, December 31, 2020	173,500,000	0.0049	145	(July 24, 2021 to July 2, 2022)
Issued January 2021 – Unit Warrants *(note 16a (i))*	2,250,000,000	0.0035	-	January 8, 2022
Issued January 2021 – 1st Finder's Warrants *(note 16a (i))*	18,750,000	0.0035	18	January 8, 2022
Issued January 2021 – 2nd Finder's Warrants *(note 16a (i))*	305,401,875	0.0035	289	January 8, 2022
Issued March 2021 – Broker's Warrants *(note 16a (ii))*	262,500,000	0.0044	648	March 8, 2023
Exercised Unit Warrants *(note 16a (i))*	(1,530,000,000)	0.0035	-	January 8, 2022
Exercised 2020 UK placing – 3rd finder's warrants	(20,833,333)	0.0050	(40)	July 24, 2021
Expired 2020 UK placing – 3rd finder's warrants	(11,666,667)	0.0050	(23)	July 24, 2021
Balance, September 30, 2021	**1,447,651,875**	**0.0038**	**1,037**	(January 8, 2021 to March 8, 2023)
Balance, October 1, 2021 – post consolidation	**14,476,518**	**0.38**	**1,037**	

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

All amounts in US$ thousands, except otherwise stated

On October 1, 2021 the Company proceeded with the Consolidation and no fractional Common Shares were issued pursuant to the Consolidation and any fractions resulting from the Consolidation were rounded down to the nearest whole number of Common Shares.

Pursuant to the terms of the Warrant Instruments, if the Company consolidates the outstanding number of Common Shares into a lesser number of Common Shares, the warrant exercise price, the number of warrants and the number of shares to be received on the exercise of the warrants shall be adjusted accordingly. The exercise price will be adjusted to the amount determined by multiplying the pre-consolidation exercise price per whole Common Shares by 100 upon the Consolidation.

The Consolidation resulted in 1,447,651,875 pre-consolidation Common Share purchase warrants issued and outstanding on September 30, 2021 being consolidated into 14,476,518 post-consolidation Common Share purchase warrants on October 1, 2021.

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 and no stock options were granted, exercised, and/or forfeited and 40,740,000 stock options expired during the nine months ended September 30, 2021.

As at September 30, 2021, a total of 408,274,235 stock options to purchase Common Shares were outstanding, having a weighted average exercise price of $0.0077 per Common Share and a remaining weighted average contractual life of 3.5 years.

	Number of Options	**Weighted Avg. Exercise Price (US$)***	**Contributed Capital Reserve Amount**
Balance, January 1, 2020	107,405,000	0.0447	50,394
Granted	341,609,235	0.0045	866
Balance and exercisable, December 31, 2020	449,014,235	0.0141	51,260
Expired	(40,740,000)	**0.0786**	**-**
Balance and exercisable, September 30, 2021	**408,274,235**	**0.0077**	**51,260**
Balance, October 1, 2021 – post-consolidation	**4,082,739**	**0.77**	**51,260**

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

On October 1, 2021, the Company proceeded with the Consolidation and no fractional Common Shares were issued pursuant to the Consolidation and any fractions resulting from the Consolidation were rounded down to the nearest whole number of Common Shares.

Pursuant to the Company's stock option plan, if the Company consolidates the outstanding number of Common Shares into a lesser number of Common Shares, the stock option exercise price, the number of stock options and the number of shares to be received on the exercise of the stock options shall be adjusted accordingly. The exercise price will be adjusted to the amount determined by multiplying the pre-consolidation exercise price per whole Common Shares by 100 upon the Consolidation.

The Consolidation resulted 408,274,235 pre-consolidation stock options issued and outstanding on September 30, 2021 being consolidated into 4,082,739 post-consolidation stock options on October 1, 2021.

All amounts in US$ thousands, except otherwise stated

17. FINANCE COSTS

	For the three months ended September 30, 2021	For the three months ended September 30, 2020	**For the nine months ended September 30, 2021**	For the nine months ended September 30, 2020
Interest expense – SCF *(note 13)*	**1,438**	-	**3,094**	-
Interest expense – CEO loan	**-**	3	**-**	9
Interest on lease liabilities	**2**	3	**7**	8
Interest income	**(44)**	-	**(69)**	-
Financing costs	**15**	154	**575**	331
Other financing costs	**-**	-	**202**	-
Accretion of SCF *(note 13)*	**441**	-	**945**	-
Accretion of CEO loan	**-**	7	**-**	8
Accretion on AROs *(note 15)*	**16**	-	**34**	-
Finance costs, net	**1,868**	167	**4,788**	356

18. GAIN (LOSS) ON DERIVATIVE LIABILITIES

	For the three months ended September 30, 2021	For the three months ended September 30, 2020	**For the nine months ended September 30, 2021**	For the nine months ended September 30, 2020
Lender Warrants revalued as at September 30, 2021 *(note 13a)*	**3,610**	-	**1,130**	-
LIBOR floor revalued as at September 30, 2021 *(note 13c)*	**151**	-	**388**	-
Unit warrants revalued as at September 30, 2021 *(note 16a (i))*	**4,899**	-	**(3,433)**	-
YARF warrants revalued as at September 30, 2021 *(note 12)*	**277**	19	**(16)**	(28)
Gain (loss) on derivative liabilities	**8,937**	19	**(1,931)**	(28)

19. 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 net earnings (loss). Under this classification, the Company included the YARF Warrants (see note 12b), the Unit Warrants (see note 16a(i)), the Lender Warrants (see note 13) and the commodity derivatives (see note 19(a)).
- 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 and cash equivalents, accounts receivables, the Senior Credit Facility and accounts payable and accrued liabilities.
- Fair value through other comprehensive income: Financial instruments designated as fair value through other comprehensive income are initially recognized at fair value, net of directly attributable transaction costs, and are subsequently measured at fair value with changes in fair value recognized in other comprehensive income, net of tax. The Company does not have any financial instruments under this classification.

Impairment of financial assets

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

Fair value

As at September 30, 2021, the carrying values of cash and cash equivalents, accounts receivables, and accounts payable and accrued liabilities, approximate their fair values due to the short-term nature of these financial instruments. The carrying values of the Senior Credit Facility at amortized cost approximates fair value as at September 30, 2021, given a short period has lapsed since initially valued on the date of inception of the SCF on March 16, 2021.

Market risk

Market risk is the risk that the fair value of future cash flows of financial assets or liabilities will fluctuate due to movements in market prices and is comprised of the following:

(a) Commodity Price Risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result in changes in commodity prices. Commodity prices for oil and gas are impacted by world economic events that dictate the levels of supply and demand. As a means of mitigating exposure to commodity price risk volatility, the Company may enter into various derivative agreements. The Company's policy is to not use derivative financial instruments for speculative purposes.

All amounts in US$ thousands, except otherwise stated

Effective March 15, 2021, in anticipation of the Closing of the Atomic Group Acquisition and satisfying conditions attached to the Senior Credit Facility, the Company entered into a master risk management agreement with a third-party institution. These risk management contracts are not entered into for trading nor speculative purposes.

Commodity	Fixed price SWAP	Total notional volumes	Term	Average price (US$)	Fair Value
Crude oil	WTI Futures	86,728 barrels	October 1, 2021 to December 31, 2021	$61.28	**(1,122)**
Crude oil	WTI Futures	384,187 barrels	January 1, 2022 to December 31, 2022	$56.58	**(4,773)**
Crude oil	WTI Futures	416,772 barrels	January 1, 2023 to February 29, 2024	$52.87	**(3,744)**
			Commodity derivative liability		**(9,639)**
Butane	Normal Butane (NC4)	3,152,182 gallons	October 1, 2021 to December 31, 2021	$0.930	**1,986**
Butane	Normal Butane (NC4)	11,110,302 gallons	January 1, 2022 to December 31, 2022	$0.768	**5,199**
Butane	Normal Butane (NC4)	9,921,552 gallons	January 1, 2023 to February 29, 2024	$0.670	**2,638**
			Commodity derivative asset		**9,823**
			Net derivative asset		**184**
Short-term portion - commodity derivative assets					**1,459**
Long-term portion - commodity derivative liability					**(1,275)**

(1) WTI refers to West Texas Intermediate, a grade of light sweet crude oil used as benchmark pricing in the US.
(2) The floating price of the crude oil contracts for each contract month is equal to the arithmetic average of the NYMEX Light Sweet Crude Oil Futures first nearby contract settlement price for each business day that it is determined during the contract month.
(3) The floating price of the butane contracts for each contract month is equal to the arithmetic average of the OPIS Mt. Belvieu Butane (non-LDH) for each business day during the contract month.

The resulting fair value of these contracts has been recognized in the consolidated statement of financial position as a current commodity derivative asset of $1.5 million and a long-term commodity derivative liability of $1.3 million as at September 30, 2021. The $2.5 million and $9.6 million unrealized loss on crude oil derivative contracts respectively for the three and nine months ended September 30, 2021 and the $3.7 million and 9.8 million unrealized gain on butane derivative contracts respectively for the three and nine months ended September 30, 2021 were recognized in the net earnings (loss). The maximum credit exposure of these derivative assets is the carrying value. Management mitigates this risk by entering into transactions with long-standing, reputable counterparties and partners.

All amounts in US$ thousands, except otherwise stated

(b) Credit risk

Credit risk is the risk that the counterparty to a financial asset will default, resulting in the Company incurring a financial loss. A substantial portion of the Company's accounts receivables are with the purchaser of the Company’s oil and the joint interest owners in the Wyoming assets and are subject to normal industry credit risks. As at September 30, 2021, the Company's cash was held at four financial institutions with high third-party credit ratings.

The maximum credit risk exposure associated with accounts receivable is the total carrying value. The Company monitors these balances to limit the risk associated with collection. All of the Company's revenue receivable as at September 30, 2021, was owing from one company. Of the Company's joint interest receivable from partners as at September 30, 2021, approximately 96% was owing from two partners in the producing units. All of the Company's receivable due to realized commodity contracts as at September 30, 2021, was owning from one company. The Company considers all of its accounts receivable as at September 30, 2021 to be collectable.

The Company's other accounts receivable include mainly recoverable GST and VAT. The Company believes there is no unusual exposure associated with these receivables.

No amounts classified as current accounts receivable are considered to be past due and no allowance for doubtful accounts has been recorded in the Financial Statements. As at September 30, 2021, the Company holds $11.5 million of cash and cash equivalents with, Canadian, US and Bermudian chartered banks (December 31, 2020 - $1.4 million).

Long-term receivables

The Company's long-term accounts receivable solely include amounts due from its partner in the ShoreCan joint venture. Further to a recoverability assessment (see note 7), the Company recognized a full allowance for expected credit loss as follows:

	September 30, 2021	December 31, 2020
Long-term receivable	**386**	385
Allowance for expected credit loss	**(386)**	(385)
	-	-

(c) Interest rate risk

The Company's policy is to keep its cash, whenever possible, in interest bearing accounts with its financial institutions. The Company periodically monitors the interest rates offered and is satisfied with the credit ratings of its banks.

The Company's Senior Credit Facility provides for an interest rate of LIBOR (with a floor of 2%) plus 10.5% per annum. Currently, management does not believe there is a material interest rate risk associated with this facility as the LIBOR forward curve for next four years is below the floor of 2%; accordingly, the facility is perceived as bearing a fixed interest rate of 12.5% until its maturity in March 2025.

(d) 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 include amounts denominated in the following foreign currencies:

('000s)	**September 30, 2021**	December 31, 2020
GBP	**2,186**	50
Canadian dollars	**402**	188

(e) Liquidity risk

Liquidity risk is the risk the Company will encounter difficulties in meeting its short-term debt obligations. The Company manages its liquidity risk through funds flow and debt management.

The timing of cash outflows relating to financial liabilities on an undiscounted basis as at September 30, 2021 are outlined in the table below:

	< 1 year	**1-2 years**	**2-5 years**	**> 5 years**
Accounts payables and accrued liabilities	10,212	-	-	-
Lease obligation	77	88	81	-
Lender's Warrants *(note 13)*	-	-	3,770	-
Senior Credit Facility *(note 13)*	-	-	45,000	-
	10,289	88	48,851	-

All amounts in US$ thousands, except otherwise stated

20. CAPITAL MANAGEMENT

The Company's objectives when managing capital are:

- to fund its development and exploration programs;
- to maintain statement of financial position strength and optimal capital structure, while executing on the Company's strategic objectives; and
- to provide an appropriate return to shareholders relative to the risk of the Company's underlying assets.

In the management of capital, the Company includes shareholders' equity and interest-bearing debt (defined as long-term loans, short-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's capital structure depends on the Company's expected business growth, ability to access financing from equity and debt capital markets and any changes to the business and commodity price environment in which the Company operates. The Company may adjust its capital structure by issuing new equity and/or new debt, drawing down and/or repaying its existing debt, selling and/or acquiring assets, and controlling the capital expenditure program.

Although, currently the Company is not subject to any external capital requirements, the Company's US operation is subject to financial covenants imposed by the Senior Credit Facility (see note 13). Commencing from March 2022, these financial covenants (including leverage ratio in a range of 2.5:1 to 3.0:1) will have an impact on the Company's overall capital requirements and management of capital requirements.

21. NET CHANGE IN NON-CASH WORKING CAPITAL

	Three months ended September 30, 2021	Three months ended September 30, 2020	**Nine months ended September 30, 2021**	Nine months ended September 30, 2020
Accounts receivable	**16**	(22)	**(643)**	(8)
Prepaid expenses	**(179)**	(65)	**(187)**	(41)
Long-term accounts receivable	**-**	(143)	**-**	(143)
Operating accounts payable and accrued liabilities	**(3,269)**	(1,634)	**(6,319)**	(629)
Net change in non-cash operating working capital	**(3,432)**	(1,864)	**(7,149)**	(821)
Prepaid expenses	**-**	-	**(15)**	-
Accounts payable and accrued liabilities related to financing	**(17)**	(80)	**180**	202
Deferred share issue costs	**259**	(3)	**(28)**	(46)
Lease liability	**-**	258	**-**	(5)
Net change in non-cash financing working capital	**242**	175	**137**	151
Accounts receivable related to investing	**(137)**	-	**(1,383)**	-
Accounts payable and accrued liabilities related to investing	**3,984**	-	**1,963**	-
Net change in non-cash investing working capital	**3,847**	-	**580**	-

22. COMMITMENT

Effective October 1, 2021, the Company entered into a butane purchase agreement with NGL Supply Co. Ltd. ("**NGL Supply**"), whereby the Company will buy field grade butane ("**Product**") in a quantity ranging from 9,000 to 12,000 gallons/day for its miscible flood in the BFU. The contract price is OPIS Conway 70% NC4 and 30% IC4 month average plus US$0.12/gallon. The term of the agreement is for six months commencing on October 1, 2021 to March 31, 2022. If the Company does not purchase the minimum commitment volumes of the agreement it must pay the contracted price, plus any storage, transportation or other costs reasonably incurred by NGL Supply in reselling the product, less the market price at which NGL Supply would be able to sell or otherwise dispose of the product.

23. SUBSEQUENT EVENT

At the annual and special meeting of the shareholders of the Company held on June 29, 2021, shareholders of the Company passed a special resolution approving the consolidation of all of the issued and outstanding Common Shares on the basis of every one hundred (100) pre-consolidation Common Shares being consolidated into one (1) post-consolidation Common Share. In accordance with the authority granted by shareholders at the Meeting, the board of directors of the Company proceeded with the Consolidation with an effective date of October 1, 2021. No fractional Common Shares were issued pursuant to the Consolidation and any fractions resulting from the Consolidation were rounded down to the nearest whole number of post-consolidation Common Shares.