CANADIAN OVERSEAS PETROLEUM LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS
AS AT AND FOR THE YEAR ENDED
DECEMBER 31, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("**MD&A**") for Canadian Overseas Petroleum Limited, and its wholly owned subsidiaries ("**COPL**" or the "**Company**") dated March 31, 2022 is with respect to the three and twelve months ended December 31, 2021 (the "**Reporting Periods**") as compared to the three and twelve months ended December 31, 2020 (the "**Comparable Prior Periods**"). This MD&A has been prepared by management and approved by the Company's Audit Committee and Board of Directors (the "**Board**") and should be read in conjunction with the Company's audited consolidated financial statements (the "**Financial Statements**") and related notes as at and for the years ended December 31, 2021 and 2020 which have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") and the the Annual Information Form dated March 31, 2022 (the "**AIF**"), which are available on the Company's website at www.canoverseas.com and on SEDAR at www.sedar.com.

All amounts are presented in US dollars ("**US$**"), and have been rounded to the nearest thousand US$ unless otherwise noted.

ABOUT THE COMPANY

COPL is a publicly traded oil and gas company with its common shares with no par value (the "**Common Shares**") listed on the London Stock Exchange ("**LSE**") in the United Kingdom (the "**UK**") under the symbol "COPL" and on the Canadian Securities Exchange (the "**CSE**") in Canada under the symbol "XOP".

COPL and its subsidiaries are involved in the identification, acquisition, exploration, development and production of oil and natural gas reserves and hold interests in petroleum assets focused in the United States of America ("**US**") and sub-Saharan Africa. In February 2021, COPL America Holding Inc. and COPL America Inc. were incorporated for the purpose of acquiring oil and gas operations in the US and closing the acquisition of Atomic Oil & Gas LLC ("**Atomic**"), Southwestern Production Corp. ("**SWP**") and Pipeco LLC ("**Pipeco**") (together, the "**Atomic Group**") that was completed on March 16, 2021 (further discussed in *"Overview and Overall Performance – Business Combination"* section).

The Company formed a joint venture, along with an unrelated company, Shoreline Energy International Limited ("**Shoreline**") in an effort to diversify and balance its asset portfolio. Both partners hold a 50% interest in the jointly controlled company, Shoreline Canoverseas Petroleum Development Corporation Limited ("**ShoreCan**"), which was incorporated in Bermuda on October 24, 2014. ShoreCan is focused on acquiring upstream oil and gas exploration, development and producing assets in sub-Saharan Africa.

Senior management, strategic corporate, geological, geophysical, engineering, accounting and administrative functions are performed in the Company's head office in Calgary, Alberta while some senior management, financial, technical and project related functions are also provided in the UK. The US operating, accounting and administrative functions for the Atomic Group are performed in the office in Denver, Colorado.

On October 1, 2021, the Company completed 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 "**Share Consolidation**"). Fractional interests were rounded down to the nearest whole number of Common Shares. Outstanding stock options and outstanding warrants were similarly adjusted by the Share Consolidation ratio. The Share Consolidation resulted in 16,426,953,124 pre-Share Consolidation Common Shares issued and outstanding on September 30, 2021 being consolidated into 164,269,464 post-consolidation Common Shares on October 1, 2021.

In accordance with the Share Consolidation, all Common Shares and per-share amounts disclosed herein reflect the post-Share Consolidation shares unless otherwise specified.

FORWARD-LOOKING INFORMATION AND STATEMENTS

This MD&A contains forward-looking information and statements relating to future events or future performance. In some cases, forward-looking information and statements can be identified by terminology such as "may", "will", "should", "expect", "project", "plan", "anticipate", "potential", "intend", "believe", "estimate", "proposed" and similar expressions. These statements represent management's expectations or beliefs concerning, among other things, future operating results and various components thereof or the economic performance of COPL. The projections, estimates and beliefs contained in such forward-looking information and statements necessarily involve known and unknown risks and uncertainties, including the business risks discussed in the AIF dated March 31, 2022, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or results expressed or implied by such forward-looking information and statements. Operating conditions can have a significant effect on the timing of events. Accordingly, readers are cautioned that events or circumstances could cause results to differ materially from those predicted.

Forward-looking information and statements included or incorporated by reference in this document include statements with respect to:

- the Company's current strategy to establish and grow an oil and gas business, including the recently acquired business in the US (see *"Overview and Overall Performance"* and *"Outlook"* sections);
- the Company's ability to raise capital and obtain the additional financing for capital projects (see *"Overview and Overall Performance"*, *"Outlook"* and *"Contractual Obligations and Commitments"* sections); and
- the Company's assumptions in respect of determination of fair value assigned to net assets acquired (see *"Business Combination"*) and the valuation of derivatives and warrants (see *"Results of Operations"* and *"Capital Resources and Liquidity"* sections).

The Company's AIF for the year ended December 31, 2021 and the Company's public disclosure documents on www.sedar.com describe major risks, material assumptions and other factors related to forward-looking information and statements that could influence actual results and are incorporated herein by reference. These risks, assumptions and other factors have been provided for readers to gain a more complete perspective on COPL's future operations. However, readers should be cautioned that the list of factors is not exhaustive and that this information may not be appropriate for other purposes. Forward-looking information and statements included or incorporated by reference in this MD&A are valid only as at the date of this MD&A, and the Company does not intend to update or revise these forward-looking information and statements except as required by applicable securities laws. The forward-looking information and statements contained in this MD&A are expressly qualified by this cautionary statement.

ABBREVIATIONS

Crude Oil and Natural Gas Liquids

bbls	barrels
bbls/d	barrels per day
boe	barrels of oil equivalent
boe/d	barrels of oil equivalent per day
NGLs	natural gas liquids

Natural Gas

mcf	thousand cubic feet
mcf/d	thousand cubic feet per day
Mmcf/d	million cubic feet per day

Other

WTI	West Texas Intermediate crude oil, a benchmark oil price determined at Cushing, Oklahoma
OPIS	Oil price information service is a benchmark price determined at Mont Belvieu, East Texas

OVERVIEW AND OVERALL PERFORMANCE

In the first quarter of 2021, management focused on the acquisition of the Atomic Group with producing properties in Wyoming, US and obtaining financing to complete the acquisition. During the remaining nine months commencing on April 1, 2021, management focused on increasing oil production from the Wyoming assets. In August 2021, the Company commenced the drilling of a successful discovery well which is potentially opening a new oil field development project close to the Company's existing oil production facilities and the Company continues to identify, evaluate and pursue exploration and development opportunities with these assets. Management is also reviewing other value enhancing asset acquisitions in and around Wyoming, US.

The Company continues to be focused on opportunities that its seasoned technical team has strength in evaluating and developing, including progressing its ShoreCan joint venture and reviewing additional opportunities available to the Company.

Business Combination

On December 16, 2020, COPL announced that it had agreed to acquire 100% of the Atomic Group ("**Atomic Group Acquisition**") for aggregate consideration of $54.0 million with an effective date of December 1, 2020. 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. The Atomic Group Acquisition established COPL as an oil producing company with revenue generation and growth opportunities in the US.

On March 16, 2021 (the "**Closing**"), the Company closed the Atomic Group Acquisition with certain assets and corresponding liabilities being excluded from the acquisition.

The Atomic Group was a privately owned company with assets located in the Powder River Basin, Wyoming, US where it held operated interests in approximately 47,992 gross contiguous acres of leasehold interests in the Converse and Natrona Counties in Wyoming, US. 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) the (the "**BFDU**").

The $54.0 million purchase price was comprised of $50.0 million in cash and $4.0 million settled through the issuance of 8,188,733 Common Shares post Share Consolidation (collectively, the "**Atomic Purchase Price**"). The Company financed the Atomic Purchase Price partially using the net proceeds from a non-brokered placing and external debt of $45.0 million from a US based global investment firm repayable within a four-year term (collectively, the "**Senior Credit Facility**" or the "**SCF**").

US Operations

The Company's newly acquired Wyoming oil production operations performed above expectations during the year:

- oil production increased from approximately 1,248 bbls/d (gross) at April 1, 2021, to an exit production rate of approximately 1,810 bbls/d (gross) at December 31, 2021;
- gas injection at BFU of approximately 60% natural gas and 40% butane/propane during the fourth quarter of 2021 was at an average rate of 7,158 mcf/d;
- a recompletion program at the CCU continued with the successful recompletion of three of twelve marginal producing oil wells; and
- the Company drilled an exploratory well at BFDU to potentially expand the BFU and open a new deeper field development.

As at December 31, 2021, the Company is currently producing oil at a rate of 1,777 bbls/d (gross) in the BFU, and the Company expects that production will continue to increase as higher crude oil production response on the west side of the field is being observed and as enhanced surface production facilities are installed on newly flowing wells in the eastern area to handle increased oil production volumes and accompanying higher flowing pressures.

In the past year, much has been learned about the BFU miscible flood project. The increased gas/liquids injection rates resulted in increased oil production indicating a positive response to the miscible flood. One significant issue that has been highlighted is the limitation of the existing surface facilities and field gathering systems when trying to operate under a higher-pressure environment. This environment has been created as a result of the higher gas injection rates causing most of the wells in the field to respond positively to the increasing reservoir pressures. The current oil battery treating equipment, pumping units, compression capacity, and lower pressure gas gathering lines are restricting the operator's ability to optimize the field production rates and take advantage of the oil production response to the gas and liquids injection.

Key capital items addressing the noted restrictions being proposed for 2022 and beyond are as follows:

- a gas plant start-up, which will capture liquids from the gas stream to offset purchases;
- a third compressor installation, which will increase gas injection compression capacity to 12 Mmcf/d and would include liquids compression;
- a phase 1 gathering system upgrade which will address much of the low-pressure gas gathering line restrictions in the center of the field, with future phases to branch out to outlying wells; and
- a phase 1 surface facility upgrade regarding the central procession facility ("**CPF**") which will address well battery limitations and oil gathering lines mirroring the gas gathering lines upgraded in Phase 1.

The Company commenced a recompletion program at the CCU targeting low productivity wells in the Frontier formation. Three low productivity wells were recompleted at Cole Creek in July 2021 by re-fracing the Frontier sand reservoirs. Nine additional wells have been identified for reworking with the first of these re-fraced at the end of August 2021. At the end of December 2021, the total CCU production was 103 bbls/d (gross).

The results of the reworking campaign will be utilized to evaluate and design a future horizontal well depletion strategy for the Frontier reservoir at Cole Creek as a precursor to a possible miscible flood enhanced recovery scheme similar to the operating BFU miscible flood.

The Company concluded drilling and completion operations at the Fed 14-30 well location, a 9,212 foot exploration well with the primary objective to extend the BFU to the southwest and to evaluate oil potential of the Frontier and Dakota formations in the BFDU. Intersection of the Shannon reservoir at this location expanded and increased the oil reserves attributed to the BFU. In addition, the BFU 14-30 location is offsetting an abandoned well one mile to the west, drilled in 1952, which had well developed apparent oil-bearing Frontier and Dakota sands. The Frontier and Dakota formations are the primary objective in the exploration portion of this well, potentially opening a new oil field development project close to the Company's existing oil production facilities.

As at June 30, 2021, SWP had a receivable of $1.9 million from a non-operating working interest partner in the BFU, Cuda Energy LLC ("**Cuda**"). In July 2021 SWP filed a claim (the "**Claim**") in the Eighth Judicial District Court, State of Wyoming as plaintiff against Cuda, Bridging Finance, Inc. ("**Bridging**", and Tallinn Capital Energy L.P. ("**Tallinn**") as defendants. SWP's Claim seeks the following heads of relief: a judicial foreclosure order against the defendants of the SWP liens on Cuda's interest in the BFU, which includes Cuda Oil and Gas Inc., Bridging and Tallinn; an award of damages for breach of contract by Cuda; a quantum meruit or unjust enrichment judgment against Cuda; damages for a breach of promissory estoppel against Cuda; and a declaratory judgment as to the lien priority against Bridging and Tallinn to affirm SWP's first lien priority on Cuda's security against the BFU. Cuda received a copy of the court stamped Claim by email on July 27, 2021 and subsequently accepted service of the Claim on August 12, 2021. Subsequent to filing that Claim, SWP received a payment of $1.9 million from a legal advisor's trust account on behalf of Cuda to settle certain outstanding amounts. As that payment did not meet the full amount due, further expenses have been incurred on Cuda's account such that as at December 31, 2021, Cuda's current operating arrears owed to SWP is $3.2 million as reflected on Cuda's joint interest billings from July 2021 to December 2021, net of its petroleum sales. It should be noted that unless payments are received on time, the Claim against Cuda will be subsequently amended to reflect Cuda's ongoing cumulative arrears, and any further resulting damages. The Company intends to take all action available to recover sums due to its affiliates.

African Portfolio

In October 2014, COPL formed a joint venture company with Shoreline called ShoreCan. Both partners hold a 50% interest in the jointly controlled company, which is focused on acquiring upstream oil and gas exploration, development and producing assets in Africa. ShoreCan is a special purpose vehicle registered in Bermuda. The following country and project overview fall under the realm of ShoreCan's dealings.

Nigeria

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**").

On October 2, 2018, the Nigerian National Petroleum Corporation ("**NNPC**") granted a conditional approval of an extension of 24 months for the Phase-1 exploration period until September 30, 2020. The extension was subject to certain conditions, including submission of a performance bond of $7.0 million that is required further to the Production Sharing Contract ("**PSC**"), to cover the Phase-1 exploration period work program at OPL 226.

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**"). The Essar Mauritius allegations, which it first made in August 2018, centre on the assertion that ShoreCan had not commenced funding of the $80.0 million agreed cumulative funding in Essar Nigeria while ShoreCan categorically denied this with factual evidence of substantial expenditure to date.

Essar Mauritius filed a claim on March 27, 2020 in the High Court of Justice of England and Wales. Essar Mauritius sought in its claim to terminate the shareholders agreement and the share purchase agreement dated August 17, 2015 and the resulting transfer of its shares in Essar Nigeria to ShoreCan.

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. ShoreCan and Essar Mauritius have agreed to extend the completion date of the definitive agreements on various occasions, most recently to December 31, 2021.

The agreements between ShoreCan and Essar Mauritius can be summarized as follows:

- An agreement which settles the claim filed by Essar Mauritius against ShoreCan in the High Court of Justice of England and Wales where each party has agreed to bear their own costs and end the legal proceedings;
- A share transfer agreement in which ShoreCan will return 70% of the shares in Essar Nigeria to Essar Mauritius;
- An amended Shareholders Agreement, the highlights of which include:
    - Essar Mauritius to carry ShoreCan for a 10% carried interest (capped at US$5.0 million net) on all costs relating to the drilling of the first well to be drilled under the terms of the license;
    - ShoreCan to have an option to increase its shareholding in Essar Nigeria from 10% to 30% by paying 20% of historic expenditures of Essar Nigeria at cost through the drilling of the first well with the option being exercisable within 90 days from the completion of the first well; and
    - The Essar Nigeria board of directors and management team to be restructured commensurate with its amended share structure to reflect the increased shareholding of Essar Mauritius.
- A loan agreement with Essar Nigeria whereby Essar Nigeria recognizes historic expenditures by ShoreCan on behalf of Essar Nigeria as a shareholder loan thus allowing ShoreCan to recover these expenditures from future production revenue.

To date, no notice of termination has been received by Essar Nigeria, which under the terms of the OPL 226 production sharing contract would need to be issued sixty days before the September 30, 2020 expiry date. The two previous extensions to the oil prospecting license at OPL 226 were also received by the Essar Nigeria following the previous expiration dates.

OUTLOOK

The Company's strategy is to increase oil production at its Wyoming assets, through increased gas injection at the BFU and through drilling and development at the BFU, CCU and BFDU. Recompletions of existing cased wells at the CCU are expected to increase oil production from this property. The Company also intends to grow its international oil and gas business in sub-Saharan Africa and elsewhere in the world by farming into, and/or acquiring interests in, exploration, unappraised and/or undeveloped assets, as well as in producing assets using the expertise and experience of its senior management team.

The Company's short-term operations will focus on:

- continuing and increasing production of its Wyoming assets;
- further developing the facilities to handle gas injection and increased production capacity at the BFU;
- recompleting up to 12 existing cased wells in the CCU to increase oil production;
- drilling new wells in the BFU, CCU and BFDU pools;
- drilling of horizontal proven undeveloped locations in both the Dakota and Frontier sands that were mapped by the third-party reserve engineers at Cole Creek;
- progressing the OPL 226 project in Nigeria; and
- evaluating new opportunities available in the US, Africa and elsewhere in the world.

COVID-19 PANDEMIC

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 including the emergence of mutated strains and variants 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 vaccinations. 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. 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 and to visit in country offices. 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 and ability to raise sufficient financing.

RUSSIAN/UKRAINIAN CONFLICT

In February 2022, Russian military forces invaded Ukraine. In response, Ukrainian military personnel and civilians are actively resisting the invasion. Many countries throughout the world have provided aid to the Ukraine in the form of financial aid and in some cases military equipment and weapons to assist in their resistance to the Russian invasion. The North Atlantic Treaty Organization ("**NATO**") has also mobilized forces to NATO member countries that are close to the conflict as deterrence to further Russian aggression in the region. The outcome of the conflict is uncertain and is likely to have wide-ranging consequences on the peace and stability of the region and the world economy. In addition, certain countries including Canada and the United States, have imposed strict financial and trade sanctions against Russia, which may have far reaching effects on the global economy. As part of the sanctions package, the German government paused the certification process for the 1,200 km Nord Stream 2 natural gas pipeline that was built to carry natural gas from Russia to Germany. Russia is a major exporter of oil and natural gas. Disruption of supplies of oil and natural gas from Russia could cause a significant worldwide supply shortage of oil and natural gas and have a significant impact on worldwide prices of oil and natural gas. A lack of supply and high prices of oil and natural gas could have a significant adverse impact on the world economy. The long-term impacts of the conflict and the sanctions imposed on Russia remain uncertain.

OPERATIONAL AND FINANCIAL SUMMARY

The following table sets forth a summary of the Company's fourth quarter results for 2021 and 2020 and annual results for the three most recently completed financial years. The Company's operations include production of oil in Wyoming, US for the 291 day period from March 16, 2021 to December 31, 2021.

	Three months ended December		Twelve months ended December 31,		
US$ thousands, except volumes, share and per share amounts	**2021**	2020	**2021**	2020	2019
OPERATIONS					
Average daily production					
Crude oil (bbls/d)	**1,094**	-	**972**	-	-
Natural gas (mcf/d) (1)	**2,211**	-	**1,589**	-	-
Total (boe/d)	**1,463**	-	**1,237**	-	-
Netback ($/bbl)					
Realized sales price	**73.91**	-	**67.69**	-	-
Realized loss on crude oil financial instrument	**(13.56)**	-	**(8.04)**	-	-
Royalties	**(16.01)**	-	**(14.66)**	-	-
Production taxes	**(7.39)**	-	**(6.72)**	-	-
Operating expenses	**(9.30)**	-	**(15.13)**	-	-
Realized gain on butane financial instrument	**16.32**	-	**9.96**	-	-
Operating netback (2)	**43.97**	-	**33.10**	-	-
FINANCIAL					
Petroleum sales, net of royalties	**5,829**	-	**15,003**	-	-
Realized loss on crude oil commodity derivative	**(1,365)**	-	**(2,274)**	-	-
Unrealized loss on crude oil commodity derivative	**(692)**	-	**(10,331)**	-	-
Production taxes	**(744)**	-	**(1,900)**	-	-
Operating expenses	**(936)**	-	**(4,279)**	-	-
Realized gain on butane commodity derivative	**1,643**	-	**2,816**	-	-
Unrealized gain (loss) on butane commodity derivative	**(2,468)**	-	**7,355**	-	-
Operating income (2)	**1,267**	-	**6,390**	-	-
Depletion, depreciation and amortization	**(1,252)**	(18)	**(3,682)**	(70)	(37)
General and administrative	**(2,484)**	(1,008)	**(8,302)**	(2,719)	(3,930)
Acquisition costs	**(14)**	(431)	**(2,159)**	(431)	-
Finance costs	**(2,110)**	(16)	**(6,898)**	(372)	(1)
Gain on derivative liabilities	**3,022**	115	**1,091**	87	-
Gain on extinguishment of loan	**-**	-	**332**	13	-
Other	**60**	(315)	**(308)**	(1,469)	49
Net loss	**(1,511)**	(1,673)	**(13,536)**	(4,961)	(3,919)
Net loss per share - basic and diluted	**(0.01)**	(0.03)	**(0.09)**	(0.12)	(0.13)
Weighted average Common Shares (000s) - basic & diluted	**173,805**	48,722	**145,595**	41,080	29,295
End of period Common Shares (000s)	**194,519**	48,722	**194,519**	48,722	34,838
Capital expenditures	**10,718**	5,031	**67,368**	5,177	7
Cash and cash equivalents			**7,841**	1,401	75
Current assets			**15,390**	1,658	180
Total assets			**98,778**	6,992	748
Senior credit facility			**36,372**	-	-
Derivative liabilities related to indebtedness			**3,573**	91	-
Shareholders' equity (deficit)			**35,011**	(595)	(991)

Notes:

(1) All of the Company's natural gas production is reinjected for the miscible flood recovery program in the BFU and NGL production is not measured separately and as such these volumes have not been included in the netback calculations.

(2) Operating netback and operating income do not have standardized meanings prescribed by generally accepted accounting principles ("**Non-IFRS Measurements**") and are financial measures used by management to analyze operating performance, which are not standardized measures recognized pursuant to IFRS. These measures are commonly used in the oil and gas industry and are considered informative by management, shareholders, and analysts. These measures may differ from that used by other companies and accordingly may not be comparable to such measures as reported by other oil and gas producing companies.

RESULTS OF OPERATIONS

Revenue, net of royalties

US$ thousands, except volumes and per bbl	Three months ended December 31, 2021	2020	Twelve months ended December 31, 2021	2020
Average daily crude oil production (bbls/d)	**1,094**	-	**972**	-
Petroleum sales, net of royalties	**5,829**	-	**15,003**	-
Realized sales price, before royalties (US$/bbl)	**73.91**	-	**67.69**	-
Realized sales price, after royalties (US$/bbl)	**57.90**	-	**53.03**	-
WTI (US$/bbl)	**77.19**	-	**70.38**	-

Petroleum sales, net of royalties totalled $5.8 million and $15.0 million for the three and twelve month Reporting Periods. The twelve month Reporting Period represents a 291 day period from the Closing of the Atomic Group Acquisition.

The Company's revenue relates to oil production in Wyoming, US that is currently sold under SWP's contracts with one purchaser, and is based on the monthly average of WTI for light sweet crude oil as quoted on New York Mercantile Exchange (*"***NYMEX***"*) less negotiated differentials including transportation costs. SWP is an agent for certain non-operating joint interest owners and royalty owners, and receives and distributes revenue on their behalf. The net earnings (loss) only reflects the Company's portion of revenue net of royalties.

Oil production for the three and twelve month Reporting Periods averaged 1,094 bbls/d and 972 bbls/d net to the Company respectively at an average realized price of $73.91/bbl and $67.69/bbl. The average realized price the Company receives for its crude oil production depends on several factors, including the average benchmark prices for crude oil, transportation and product quality differentials.

Royalties are paid to the state of Wyoming and other land and mineral rights owners. The effective royalty rate, which is calculated by dividing the royalties into gross sales in the period was 21.7% for both the three and twelve month Reporting Periods.

Risk Management

The Company engages in risk management activities by utilizing various financial instruments to fix commodity prices to reduce volatility in its financial results and to protect its anticipated capital expenditure program. The Company's risk management program is approved by the Board.

Commodity derivatives

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. The Company has in place the following commodity risk management contracts in respect of crude oil production and butane used for the miscible flood injection program.

Commodity	Fixed price SWAP	Total notional volumes	Term	Average price (US$)	Fair Value
Crude oil	WTI Futures	384,187 barrels	Jan 1/22 to Dec 31/22	$56.58	**(5,664)**
Crude oil	WTI Futures	416,772 barrels	Jan 1/23 to Feb 29/24	$52.87	**(4,667)**
				Commodity derivative liability	**(10,331)**
Butane	Normal (NC4)	11,110,302 gallons	Jan 1/22 to Dec 31/22	$0.768	**4,722**
Butane	Normal (NC4)	9,921,552 gallons	Jan 1/23 to Feb 29/24	$0.670	**2,633**
				Commodity derivative asset	**7,355**
				Net derivative liability	**(2,976)**
Short-term portion - commodity derivative liability					**(2,976)**
Long-term portion - commodity derivative liability					**-**

(1) The floating price of the crude oil contracts for each contract month is equal to the arithmetic average of the NYMEX WTI light sweet crude oil futures first nearby contract settlement price for each business day during the contract month.

(2) The floating price of the butane contracts for each contract month is equal to the arithmetic average of the OPIS Mont Belvieu butane futures for each business day during the contract month.

Given the Senior Credit Facility has been classified as a current liability (see *"Capital Resources and Liquidity - Indebtedness"* section) the commodity derivatives beyond 2022 have also been classified as a current liability due to the commodity derivative agreements being aligned with that of the Senior Credit Facility.

There were no commodity derivative contracts entered into subsequent to December 31, 2021.

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company's Senior Credit Facility provides for an interest rate at the London Interbank Offered Rate ("**LIBOR**"), with a floor of 2.0% 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 2022 is below the floor of 2.0% and it varies between 2.1% and 2.6% for the remaining periods until maturity of the facility in March 2025. There were no interest derivative contracts as at December 31, 2021 or entered into subsequent to December 31, 2021 to manage interest rate risk.

Realized and unrealized gain (loss) on commodity derivatives

US$ thousands, except per bbl	Three months ended December 31, 2021	2020	Twelve months ended December 31, 2021	2020
Realized loss on crude oil commodity derivative	**(1,365)**	-	**(2,274)**	-
Realized gain on butane commodity derivative	**1,643**	-	**2,816**	-
	278	-	**542**	-
Realized loss on crude oil commodity derivative - per bbl	**(13.56)**	-	**(8.04)**	-
Realized gain on butane commodity derivative - per bbl	**16.32**	-	**9.96**	-
	2.76	-	**1.92**	-
Unrealized loss on crude oil commodity derivative	**(692)**	-	**(10,331)**	-
Unrealized gain (loss) on butane commodity derivative	**(2,468)**	-	**7,355**	-
	(3,160)	-	**(2,976)**	-
Unrealized loss on crude oil commodity derivative - per bbl	**(6.88)**	-	**(36.52)**	-
Unrealized gain (loss) on butane commodity derivative - per bbl	**(24.52)**	-	**26.00**	-
	(31.40)	-	**(10.52)**	-

For the three and twelve month Reporting Periods, the Company recorded a realized loss on crude oil commodity derivatives of $1.4 million ($13.56/bbl) and $2.3 million ($8.04/bbl) respectively for its crude oil production and a realized gain on butane commodity derivatives of $1.6 million ($16.32/bbl) and $2.8 million ($9.96/bbl) respectively related to its butane injections for the miscible flood in the BFU.

For the three and twelve month Reporting Periods, the Company recorded an unrealized loss on crude oil commodity derivatives of $0.7 million ($6.88/bbl) and $10.3 million ($36.52/bbl) respectively and an unrealized loss on butane commodity derivatives of $2.5 million ($24.52/bbl) and an unrealized gain of $7.4 million ($26.00/bbl) respectively

There were no risk management commodity contracts in 2020.

Production taxes and operating expenses

US$ thousands, except per bbl	Three months ended December 31, 2021	2020	Twelve months ended December 31, 2021	2020
Production taxes	**744**	-	**1,900**	-
Operating expenses	**936**	-	**4,279**	-
	1,680	-	**6,179**	-
Production taxes per bbl	**7.39**	-	**6.72**	-
Operating expenses per bbl	**9.30**	-	**15.13**	-
	16.69	-	**21.85**	-

The production taxes are comprised mainly of severance tax and ad valorem tax imposed in Wyoming, US and are directly related to crude oil sales and are generally assessed as a percentage of net revenues. From time to time, there are adjustments to the statutory rates for these taxes based upon certain credits that are determined based upon activity levels and relative commodity prices. For the three and twelve month Reporting Periods the production taxes amounted to $0.7 million and $1.9 million respectively or $7.39/bbl and $6.72/bbl.

Operating expenses related to the oil production in Wyoming for the three and twelve month Reporting Periods amounted to $0.9 million and $4.3 million respectively or $9.30/bbl and $15.13/bbl. The per unit operating costs for the twelve month Reporting Period included well workover costs of $2.2 million or $7.81/bbl.

Depletion, depreciation and amortization ("DD&A") expense

US$ thousands, except per bbl	Three months ended December 31, 2021	2020	Twelve months ended December 31, 2021	2020
DD&A	**1,252**	18	**3,682**	70
DD&A per bbl	**12.44**	-	**13.02**	-

DD&A for the three and twelve month Reporting Periods was $1.3 million ($12.44/bbl) and $3.7 million ($13.02/bbl) respectively. DD&A for the twelve months relates primarily to depletion of $3.5 million ($NIL in 2020 and 2019) that relates to the Atomic Group petroleum assets acquired on March 16, 2021. Depletion is calculated based on unit of production, estimates of proved and probable reserves, and future development costs to bring those reserves into production.

General and administrative ("G&A") expenses

US$ thousands	Three months ended December 31, 2021	2020	Twelve months ended December 31, 2021	2020
G&A	**2,484**	1,008	**8,302**	2,719

G&A expenses amounted to $2.5 million and $8.3 million respectively for the three and twelve month Reporting Periods as compared to $1.0 million and $2.7 million in the Comparative Prior Periods. The net increase in G&A expenses of $5.6 million for the year ended December 31, 2021, compared to 2020 resulted mainly from:

- $1.5 million represented expenses of the newly acquired Atomic Group including the employee and office expenditures in Denver, Colorado on March 16, 2021;
- $1.4 million related to increases in payroll and related costs due to a management bonus paid in 2021, increase in employment and salaries in 2021 due to employees working full-time, compared to reduced working hours in 2020 and due to higher director's fees, compared to reduced fees in 2020;
- $0.8 million of the increase was for consulting and advisory services as a result of a higher level of activities as compared to the corresponding period of 2020, due to the Atomic Group Acquisition;
- $1.5 million increase in professional fees, stock exchange related costs, office expenses, travel costs and corporate development costs due to a higher level of activities in 2021 as compared to 2020; and
- G&A expenses for the year ended December 31, 2020 are presented net of a $0.4 million gain on external directors fees for 2019 that were waived in March 2020, which did not occur in 2021.

Acquisition Costs

Costs directly attributable to the Atomic Group Acquisition such as legal, advisory and professional services are expensed as incurred and amounted to $2.2 million for the year ended December 31, 2021 and $0.4 million for the year ended December 31, 2020.

Share-Based Compensation Expense

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 Common Shares. Exercise prices for stock options granted are determined by the closing market price on the day before the date of grant.

On September 14, 2020, the Company granted to its directors, officers and employees 3,416,089 stock options to acquire the Company's Common Shares at an exercise price of £0.35 ($0.45) per share. The options vested immediately and expire five years from the date of grant. The related share-based compensation expense of $0.9 million has been recognized as an addition to the contributed capital reserve in the Comparative Prior Period. The fair value of each stock option granted was estimated on the date of grant using a Black-Scholes option pricing model.

Additional stock-based compensation expense in the amount of $0.1 million was recorded in the statement of comprehensive loss for the year ended December 31, 2020 in respect of debt exchange arrangement with employees.

As at December 31, 2021, the total outstanding stock options to purchase Common Shares are as follows:

	Number of Options	Weighted Avg. Exercise Price (US$)*
Balance, January 1, 2020	1,074,050	4.47
Granted	3,416,089	0.45
Balance and exercisable, December 31, 2020	4,490,139	1.41
Expired	(474,400)	8.64
Balance and exercisable, December 31, 2021	**4,015,739**	**0.56**

There were no stock options granted during 2021. On January 29, 2022, the Company granted 15,430,000 stock options to its directors, officers and employees. In addition, 309,095 stock options that were exercisable as at December 31, 2021, were forfeited on March 2, 2022.

Finance costs

Finance costs amounted to $2.1 million and $6.9 million respectively for the three and twelve month Reporting Periods, as compared to $16,000 and $0.4 million in the Comparable Prior Periods. The following table provides details of finance costs.

	Three months ended December 31,		**Twelve months ended December 31,**	
US$ thousands	**2021**	2020	**2021**	2020
Interest expense on senior credit facility	**1,549**	-	**4,643**	-
Financing costs for senior credit facility	**83**	-	**658**	-
Financing costs for YARF loan	**-**	2	**-**	333
Interest expense on CEO loan	**-**	4	**-**	13
Interest on lease liabilities	**2**	2	**9**	10
Interest income	**(83)**	-	**(152)**	-
Other financing costs	**-**	-	**202**	-
Accretion of senior credit facility	**464**	-	**1,409**	-
Accretion of CEO loan	**-**	8	**-**	16
Accretion of asset retirement obligations	**95**	-	**129**	-
Financing costs, net	**2,110**	16	**6,898**	372

The costs incurred in 2021 relate primarily to the Atomic Group Acquisition and ongoing US operations. The Senior Credit Facility, the YARF loan and the CEO loan are further discussed in *"Capital Resources and Liquidity" and "Transactions with Related Parties"* sections.

Gain (loss) on derivative liabilities

For the three and twelve month Reporting Periods, the Company recorded a gain of $3.0 million and $1.1 million as compared to a gain of $0.1 million in the Comparable Prior Periods, that related to the remeasurement of the fair value of derivative liabilities as follows:

US$ thousands	Three months ended December 31, 2021	2020	Twelve months ended December 31, 2021	2020
Lender warrants on senior credit facility	**1,520**	-	**2,650**	-
LIBOR interest rate floor on senior credit facility	**549**	-	**937**	-
Unit warrants on share issuance	**859**	-	**(2,574)**	-
YARF warrants	**94**	113	**78**	85
CEO loan conversion	**-**	2	**-**	2
Gain on derivative liabilities	**3,022**	115	**1,091**	87

Gain on extinguishment of loan

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**"). 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. 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 year ended December 31, 2021.

The gain of $13,000 recognized for the year ended December 31, 2020 related to the extinguishment of CEO loan.

Loss on Investment in Joint Venture

The Company currently holds a 50% interest in a jointly controlled entity, ShoreCan. For the year ended December 31, 2021, the Company charged ShoreCan management and technical services of $0.6 million (2020 - $0.9 million) and charged an interest expense of $0.4 million (2020 - $0.5 million), which were included in ShoreCan's general and administrative expenses and interest expenses for the same period. This amount of revenue was reversed from the Company's revenue and investment in joint venture.

For the year ended December 31, 2021, the Company's share of ShoreCan's losses exceeded the Company's net investment of $1,000 for 2021 ($0.15 million for 2020). Accordingly, under the equity method, the Company recognized a loss on the investment in ShoreCan of $1,000 for the year ended December 31, 2021 as compared to $0.15 million for the year ended December 31, 2020.

CAPITAL EXPENDITURES

Capital expenditures

The following table sets forth a summary of the Company's capital expenditures incurred during the Reporting Periods and the Comparable Prior Periods:

US$ thousands	Three months ended December 31, 2021	2020	Twelve months ended December 31, 2021	2020
Acquisitions	**-**	5,000	**45,079**	5,000
Miscible flood injection	**7,745**	-	**16,366**	-
Exploration well	**2,323**	-	**3,285**	-
Recompletions	**280**	-	**1,112**	-
Facilities	**-**	-	**871**	-
Other	**370**	31	**655**	177
Capital expenditures	**10,718**	5,031	**67,368**	5,177

In the twelve month Reporting Period, the Company closed the Atomic Group Acquisition for $50.0 million cash and the issuance of $4.0 million in Common Shares, drilled and completed one successful discovery well in the BFDU for $3.3 million which has identified several follow-up drill locations in the area and three recompletions in the CCU for $1.1 million. The three recompletions in the CCU were fracture treatments that resulted in modest, but stable production gains in each well.

All natural gas production in the BFU is reinjected into the BFU Shannon reservoir as part of the miscible flood program, however to maximum the effectiveness of the miscible flood the Company acquires additional natural gas and NGLs volumes from third parties to inject through eight injector wells. Due to high natural gas and NGL prices in 2021, the Company spent $16.4 million on injections. The miscible flood has significantly increased the pressure in the reservoir and has resulted in increased oil production. Additionally, the Company spent $0.9 million on an overhead stabilizer tower to the existing truck rack at a third party owned and operated plant to facilitate delivery of the NGLs to the Company to meet the requirements of the miscible flood.

Assets Retirement Obligations ("ARO")

As at December 31, 2021 the Company has recognized an ARO of $8.2 million for the future abandonment and reclamation of its net ownership interests in oil and gas assets, including well sites and processing facilities that were acquired in the Atomic Group Acquisition. The estimated ARO includes cost assumptions to abandon wells or reclaim the property, the time frame in which such costs will be incurred as well as annual inflation factors used to calculate the undiscounted total future liability estimated to be $15.7 million as at December 31, 2021. The majority of these obligations are anticipated to be incurred 25 to 50 years in the future. As at December 31, 2021, the ARO was calculated using a discount factor of 1.94% being the risk-free rate based on the US long-term bonds and an inflation rate of 2.0% per annum. Abandonment spending estimates are derived from both third-party cost indications and operational knowledge of the properties.

CAPITAL RESOURCES AND LIQUIDITY

Cash and cash equivalents

The increase in cash and cash equivalents of $6.4 million from $1.4 million to $7.8 million during 2021 represents cash provided by financing activities of $73.0 million net of cash used in operating activities of $7.8 million and cash used in investing activities of $58.7 million. As at December 31, 2021, the cash and cash equivalent balance included $1.4 million held in escrow in respect of certain production taxes and royalty payments pursuant to US legal requirements.

Working Capital

The Company had a working capital deficiency of $40.0 million as at December 31, 2021, as compared to a working capital deficiency of $5.7 million at December 31, 2020. The increase in the working capital deficiency is due mainly to the SCF, derivative liabilities, and commodity derivative liability being reclassified to current liabilities due to the defaults as December 31, 2021. (see *"Capital Resources and Liquidity - Indebtedness"*). At December 31, 2021, the major components of the Company's current assets were cash and cash equivalents (51%) and accounts receivable (45%) primarily comprised of receivables from joint interest partners in the Wyoming assets. Of the joint interest receivables, Cuda represents $3.2 million as reflected on Cuda's joint interest billings from July 2021 to December 2021 net of its petroleum sales which are considered first lien priority on Cuda's security against the BFU as further discussed in *"Overview and Overall Performance – US Operations"*. The Company intends to take all action available to recover sums owed by Cuda.

Current liabilities largely consist of trade payables and accrued liabilities (48%) and revenue and production taxes payable (52%) related to the Company's operations. The Company will manage its working capital using its cash flow from operating activities and funds from equity or debt issuances, if any. The Company invests its excess cash in a short-term interest-bearing account with its financial institutions.

Indebtedness

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 Inc. (the "**Borrower**" or "**COPL America**") a 100% owned subsidiary of the Company repayable within a four-year term. To fund the Atomic Group Acquisition, the Borrower drew an initial principal loan amount of $45.0 million. The amount funded to COPL America of approximately $43.2 million, net of financing and transaction costs was used to settle Atomic's previously outstanding external debt of $26.1 million, a $10.0 million payment to the vendor, $5.0 million of the Atomic Purchase Price initially withheld and paid subsequent to Closing, and the remainder for funding ongoing US operations.

The SCF agreement is subject to an interest rate of LIBOR, with a floor of 2.0% plus 10.5% per annum with such interest to be paid monthly in arrears. From the first anniversary of the SCF 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 SCF also includes mandatory prepayments of the outstanding principal amount for assets sales greater than $0.15 million per transaction or $0.25 million in aggregate over the term of the SCF, insurance proceeds greater than $0.15 million, issuance of indebtedness, extraordinary receipts and equity issuances.

The SCF 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 SCF did not require security or guarantees to be 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 SCF has an accordion feature whereby the Borrower may draw upon up to a maximum of $20.0 million for future development, at the sole discretion of the Lender. As at December 31, 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**"). The Lender Warrants may be exercised, in whole or in part at any time and from time to time from and after March 16, 2021 until the later of: (i) the 60th day following the date on which the Senior Credit Facility is paid in full and (ii) Match 16, 2025. Upon exercise, the Lender would be entitled to redeem such Lender Warrants for an amount 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. The Lender Warrants were issued as a requirement of the Lender for providing the SCF 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 or Common Shares 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 income (loss).

The following table provides a summary of the SCF including associated derivative liabilities as at December 31, 2021:

	Senior Credit Facility	**Derivative Liabilities**	**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 December 31, 2021 (a)	-	(2,650)	(2,650)
LIBOR floor revaluation as at December 31, 2021 (b)	-	(937)	(937)
Accretion	1,409	-	1,409
Balance, end of the year	**36,372**	**3,565**	**39,937**

As at March 16, 2021, the fair value of the SCF 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. As at December 31, 2021, the Lender Warrants were revalued at $2.3 million using 5% of COPL's market capitalization on a fully diluted basis. The resulting change in fair value of $2.6 million was recognized in net income (loss) for the year ended December 31, 2021.

(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 SCF. 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 income (loss). As at December 31, 2021, the LIBOR floor was revalued at $1.3 million and the resulting change in fair value of $0.9 million was recognized in net income (loss) for the year ended December 31, 2021.

(c) Aggregate financing costs associated with the SCF of $3.4 million were allocated to the three components of the SCF 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 initial valuation of the derivative liabilities of the LIBOR floor and the Lender Warrants were expensed on the inception date of the debt.

During the year ended December 31, 2021, COPL America paid interest on this loan in the amount of $4.6 million.

As at December 31, 2021, the Borrower is in default on the SCF with respect to the following:

- failure to meet a liquidity covenant at as November 30, 2021 and February 28, 2022 due mainly to an uncollected joint interest receivable from **Cuda** that is in receivership (see *"Overview and Overall Performance"* sections); and
- failure to notify the Lender of material events involving Cuda.

Due to these defaults, the Company has classified the SCF as a current liability.

Subsequent to December 31, 2021, the Borrower received a waiver from the Lender with respect to the above-noted defaults subject to the following conditions**:**

- the Borrower shall provide an approved plan of development ("**APOD**") acceptable to the Lender by April 15, 2022 that relates to spending from March 31, 2022 to June 30, 2022 and by June 30, 2022 that relates to spending from March 31, 2022 to December 31, 2022;
- the Borrower shall pay at the earliest of: (i) the date the SCF is paid in full; (ii) the occurrence of an event of

default other than specified above; or (iii) June 30, 2022 a fee equal to 1.5% of the $45.0 million principal amount of the SCF plus $0.5 million; and

- the Borrower shall issue to the Lenders new Lender Warrants that in aggregate are exercisable for 6% of the common shares in the Borrower in cancellation of the existing Warrants that in aggregate are exercisable for 5% of the common shares in the Borrower.

Due to the waiver the Company has become subject to the terms of the original senior credit facility dated March 16, 2021.

YARF Loan

On June 15, 2020, the Company entered into a loan agreement with Yorkville Advisors 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 1,000,000 Common Share purchase warrants (the "**YARF Warrants**") exercisable within 24 months, at an exercise price of £0.39 ($0.49) per YARF Warrant. These YARF Warrants were still outstanding as at December 31, 2021.

Shareholders' Equity (Deficit)

The shareholders' equity increased from a $0.6 million deficit as at December 31, 2020 to $35.0 million equity as at December 31, 2021. This increase of $35.6 million resulted primarily from the following:

- Common Shares issued pursuant to a non-brokered placing for gross proceeds of £8.9 million ($12.1 million), a brokered placing in March 2021 in the UK for gross proceeds of £13.3 million ($18.7 million) and a brokered placing in the UK in December 2021 for gross proceeds £5.7 million ($7.5 million) for aggregate net proceeds of $32.8 million;
- Common Shares issued as partial payment of the Atomic Purchase Price of $4.0 million;
- Common Shares issued on the exercise of unit warrants of $5.5 million;
- increase in warrants in the amount of $1.0 million, representing the fair value of finders and brokers warrants issued; and
- increase in deficit as a result of a comprehensive loss of $13.5 million incurred for the year ended December 31, 2021.

Share Consolidation

In accordance with the Share Consolidation as discussed in *"About the Company*", all Common Shares and per-share amounts disclosed herein reflect the post-Share Consolidation shares unless otherwise specified.

Securities outstanding as at December 31, 2021

As at December 31, 2021, the Company had the following issued and outstanding securities:

- 194,519,464 issued and outstanding Common Shares;
- 16,291,518 Common Share purchase warrants issued and outstanding to purchase Common Shares with a weighted average exercise price of $0.38 per share and a remaining contractual life 8 days to 14 months; and
- 4,015,739 stock options issued and outstanding to purchase Common Shares with a weighted average exercise price of $0.56 per Common Share and a remaining contractual life of approximately eleven months to 3 years and nine months.

Subsequent to December 31, 2021, an unexercised portion of 2021 unit warrants of 7,200,000, 2021 1st finder's warrants of 187,500 and 2nd finder's warrants of 3,054,018 from previous equity placings have expired.

On January 29, 2022 the Company granted 15,430,000 stock options to its directors, officers and employees. In addition, 309,095 stock options that were exercisable as at December 31, 2021, forfeited on March 2, 2022.

As at the date of this MD&A, the Company has 194,519,464 Common Shares issued and outstanding.

Going Concern

The Financial Statements are prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. Currently, the Company does not have adequate financing to develop its operations and the Company is pursuing exploration projects and contracts that will require substantial additional financing before they are able to generate positive operating cash flows. Furthermore, as at December 31, 2021 the Company was in default on the SCF (see *"Capital Resources and Liquidity – Indebtedness"* sections) for: (i) failure to meet a liquidity covenant due mainly to an uncollected joint interest receivable from Cuda; and (ii) failure to notify the Lender of material events involving Cuda. Subsequent to December 31, 2021, the Company received a waiver from its Lender with respect to the defaults and accordingly has become subject to the terms of the original SCF dated March 16, 2021. There is no assurance that the Company will be able to obtain adequate financing in the future or that such financing will be obtained on terms acceptable to the Company. The Company currently does not have sufficient working capital and cash flows to cover forecasted operating and capital expenditures for the next 12 months. With no assurance that additional financing will be obtained there is material uncertainty that casts significant doubt on the Company's ability to continue as a going concern. The Financial Statements do not give effect to adjustments that would be necessary to the carrying values and classifications of assets and liabilities should the Company be unable to continue as a going concern.

Contractual Obligations and Commitments

The Company enters into various contractual obligations and commitments in the normal course of operations. The following table lists the Company's estimated material contractual obligations and commitments at December 31, 2021:

	2022	2023-2024	2025-2027	Thereafter
Accounts payable and accrued liabilities	12,438	-	-	-
Senior Credit Facility (1)	45,000	-	-	-
Lender Warrants (1)	2,250	-	-	-
NGL purchase agreements (2)	1,766	4,165	3,640	-
Lease liabilities (3)	81	147	-	-
	61,535	**4,312**	**3,640**	**-**

(1) Due to the defaults (see *"Capital Resources and Liquidity - Indebtedness"* section), the Company has classified the SCF as a current liability. Given the SCF has been classified as a current liability the Lender Warrants have also been classified as a current liability due to the Lender Warrants being aligned with that of the SCF.

(2) Includes commitments to purchase mixed natural gas liquids, consisting primarily of propane and butane for the miscible flood recovery program in the BFU.

(3) Includes a commitment to lease obligations relate to its office in Calgary, Alberta Canada, which expires on August 31, 2024.

(4) Contractual obligations and commitments that are not material to the Company are excluded from the above table. The Company's ARO are excluded from the table as these obligations arose from a regulatory requirement rather than from a contractual arrangement. The Company estimates the total undiscounted and inflation adjusted cash flow to settle its ARO on its wells and facilities at December 31, 2021 to be approximately $15.7 million and are estimated to be incurred 25 to 50 years in the future. The estimate for determining the undiscounted ARO requires significant assumptions on both the cost and timing of the abandonment and therefore the actual obligation may differ materially.

ShoreCan's Commitments

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 Africa. ShoreCan had committed to invest up to a maximum of $80.0 million into Essar Nigeria in the form of an interest-free shareholder loan.

As at the date of filing this MD&A, COPL has not provided any guarantee in respect of obligations, commitments and/or losses of either ShoreCan or Essar Nigeria.

As discussed in *"Overview and Overall Performance – African Portfolio"*, 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 the Essar SPA Agreement, and other agreements, with each other concerning, among other things, their respective obligations under the Shareholders Agreement. ShoreCan and Essar Mauritius have agreed to extend the completion date of the definitive agreements on various occasions, most recently to December 31, 2021.

The agreements between ShoreCan and Essar Mauritius can be summarized as follows:

- An agreement which settles the claim filed by Essar Mauritius against ShoreCan in the High Court of Justice of England and Wales where each party has agreed to bear their own costs and end the legal proceedings;
- A share transfer agreement in which ShoreCan will return 70% of the shares in Essar Nigeria to Essar Mauritius;
- An amended shareholders agreement, the highlights of which include:
  - Essar Mauritius to carry ShoreCan for a 10% carried interest (capped at US$5.0 million net) on all costs relating to the drilling of the first well to be drilled under the terms of the license;
  - ShoreCan will have an option to increase its shareholding in Essar Nigeria from 10% to 30% by paying 20% of historic expenditures of Essar Nigeria at cost through the drilling of the first well and the option is exercisable within 90 days from the completion of the first well; and
  - The Essar Nigeria board of directors and management team to be restructured commensurate with its amended share structure to reflect the increased shareholding of Essar Mauritius.
- A loan agreement with Essar Nigeria whereby Essar Nigeria recognizes historic expenditures by ShoreCan on behalf of Essar Nigeria as a shareholder loan thus allowing ShoreCan to recover these expenditures from future production revenue.

Essar Nigeria & Agamore Farm-In

In 2010, Essar Nigeria entered into a Farm-In Agreement (the "**Farm-In Agreement**") with Agamore Energy Limited ("**Agamore**"), a private Nigerian company. Under the terms of the Farm-In Agreement, Agamore was to receive a 37% participating interest in OPL 226 in return for the provision of certain services. Approval was sought from the Nigerian authorities for the transfer of the 37% interest to Agamore but it was declined on two occasions, given that: (i) Agamore did not provide the services to Essar Nigeria; and (ii) Essar Nigeria formed the view that Agamore was in material breach of the Farm-In Agreement. In March 2017, by way of written resolution, the directors of Essar Nigeria resolved to give to Agamore a formal notice of termination of the Farm-In Agreement.

On May 7, 2018, Essar Nigeria received information that, notwithstanding that the Farm-In Agreement provided for disputes to be pursued by way of arbitration held in London, Agamore had brought an action in the Nigerian courts against Essar Nigeria, ShoreCan (including two of ShoreCan's directors), the NNPC and Nigerian Department of Petroleum Resources ("**DPR**"). In the summons filed, Agamore sought various declaratory orders and injunctions but did not seek any financial quantum of damages other than for costs incurred in relation to the litigation. Accordingly, the potential claim cannot be quantified. Essar Nigeria, ShoreCan and the Company consider the action to be without merit.

The claim was initially heard on June 5, 2018 where Agamore failed to appear. The claim was continued on June 29, 2018 where Agamore appeared but the case was again extended to September 5, 2018 as the judge noted a technical failure on the part of Agamore to serve the action properly on one or more of the defendants. The NNPC and DPR have requested ShoreCan's lawyers represent them to seek dismissal of the action. On September 25, 2018, the case was again called in court with an objection to ShoreCan's lawyers representing the NNPC and DPR and also with a motion to enjoin COPL and a third ShoreCan director of Essar Nigeria to the action. The case was continued to December 17, 2018 for the hearing of the motions including those recently enrolled. On March 7, 2019, the Court heard an application filed by Agamore's lawyers to disqualify the barrister from representing the fourth and fifth defendants. Counsel for ShoreCan responded claiming the motion had no evidential basis. The Court refused such disqualification during the hearing held on April 17, 2019.

The defendant's objection to jurisdiction was adjourned to May 23, 2019. On May 23, 2019, COPL was informed by local counsel that the plaintiff had appealed to the Nigerian Court of Appeal the decision to refuse the disqualification order. The Nigerian High Court has adjourned the case in the meantime, as the Court of Appeal has superior jurisdiction. COPL has since been informed that the appeal on the disqualification order has been dismissed. The substantive matter remains unadjudicated and no hearing has been set. With all defendants including the Nigerian governmental agencies considering the action to be ill-founded, Essar Nigeria remains confident that the action will be dismissed in due course.

SUMMARY OF QUARTERLY RESULTS

The following table provides a summary of quarterly information:

US$ thousands, except volumes, share and per share amour	Q421	Q321	Q221	Q121 (1)	Q420	Q320	Q220	Q120
OPERATIONS								
Average daily production								
Crude oil (bbls/d)	**1,094**	1,071	796	291	-	-	-	-
Natural gas (mcf/d)	**-**	-	-	-	-	-	-	-
Total (boe/d)	**1,094**	1,071	796	291	-	-	-	-
Netback ($/bbl)								
Realized sales price	**73.91**	67.22	62.82	58.76	-	-	-	-
Realized loss on crude oil financial instrument	**(13.56)**	(6.58)	(3.61)	-	-	-	-	-
Royalties	**(16.01)**	(14.03)	(13.94)	(12.34)	-	-	-	-
Production taxes	**(7.39)**	(6.65)	(6.06)	(5.51)	-	-	-	-
Operating expenses	**(9.30)**	(24.00)	(9.97)	(12.79)	-	-	-	-
Realized gain on butane financial instrument	**16.32**	10.89	1.37	-	-	-	-	-
Operating netback (2)	**43.97**	26.85	30.61	28.12	-	-	-	-
FINANCIAL								
Petroleum sales, net of royalties	**5,829**	5,242	3,435	497	-	-	-	-
Realized loss on crude oil commodity derivative	**(1,365)**	(648)	(261)	-	-	-	-	-
Unrealized gain (loss) on crude oil commodity derivative	**(692)**	(2,456)	(9,437)	2,254	-	-	-	-
Production taxes	**(744)**	(655)	(439)	(62)	-	-	-	-
Operating expenses	**(936)**	(2,364)	(872)	(107)	-	-	-	-
Realized gain on butane commodity derivative	**1,643**	1,074	99	-	-	-	-	-
Unrealized gain (loss) on butane commodity derivative	**(2,468)**	3,718	7,165	(1,060)	-	-	-	-
Operating income	**1,267**	3,911	(310)	1,522	-	-	-	-
Depletion, depreciation and amortization	**(1,252)**	(1,291)	(975)	(164)	(18)	(17)	(17)	(18)
General and administrative	**(2,484)**	(2,453)	(1,942)	(1,423)	(1,008)	(832)	(627)	(252)
Share-based compensation	**-**	-	-	-	-	(973)	-	-
Acquisition costs	**(14)**	(33)	(255)	(1,857)	(431)	-	-	-
Finance costs	**(2,110)**	(1,868)	(2,047)	(873)	(16)	(167)	(184)	(5)
Gain (loss) on derivative liabilities	**3,022**	8,937	(155)	(10,713)	115	19	(47)	-
Gain on extinguishment of loan	**-**	332	-	-	-	-	13	-
Other	**60**	(67)	(43)	(258)	(315)	(98)	(57)	(26)
Net loss	**(1,511)**	7,468	(5,727)	(13,766)	(1,673)	(2,068)	(919)	(301)
Net loss per share - basic and diluted	**(0.01)**	0.05	(0.04)	(0.14)	(0.03)	(0.05)	(0.03)	(0.01)
Weighted average Common Shares (000s) - basic	**173,805**	159,108	149,536	99,887	48,722	45,786	34,838	34,838
End of period Common Shares (000s)	**194,519**	164,269	149,786	149,511	48,722	48,722	34,838	34,838
Capital expenditures	**10,718**	5,904	10,419	40,327	5,031	146	(1)	1
Cash and cash equivalents	**7,841**	11,497	15,552	28,996	1,401	2,206	64	45
Current assets	**15,390**	17,637	20,341	32,617	1,658	2,363	435	107
Total assets	**98,778**	86,603	84,281	92,580	6,992	3,068	966	657
Senior credit facility	**36,372**	35,908	35,466	35,052	-	-	-	-
Derivative liabilities related to indebtedness	**3,573**	6,591	19,775	19,608	91	192	50	-
Shareholders' equity (deficit)	**35,011**	29,247	13,062	18,571	(595)	1,237	(2,050)	(1,141)

Notes:

(1) The March 31, 2021 three month period includes 16 days of operations from the Atomic Group Acquisition which closed on March 16, 2021.

(2) Operating netback and operating income are Non-IFRS measurements and are financial measures used by management to analyze operating performance, which are not standardized measures recognized pursuant to IFRS. These measures are commonly used in the oil and gas industry and are considered informative by management, shareholders, and analysts. These measures may differ from that used by other companies and accordingly may not be comparable to such measures as reported by other oil and gas producing companies.

The significant change in the Company's quarterly net results in the four quarters of 2021 relates primarily to the Atomic Group Acquisition (see *"Overview and Overall Performance"* section).

OFF BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements that would result in a material change to its financial position and performance during the Reporting Periods and Comparable Prior Periods.

TRANSACTIONS WITH RELATED PARTIES

Related parties include subsidiaries, joint arrangements, key management personnel, the directors, immediate family members of key management personnel and directors, and entities which are, directly or indirectly, controlled by, jointly controlled by or significantly influenced by key management personnel, directors or their close family members.

Loan with CEO

Effective February 14, 2020, the Company entered into a promissory note ("**Note**") with Arthur Millholland, President and CEO of the Company, for a principal amount of CAD$200,000, approximately US$153,000 as at the issue date, and subsequently varied by the YARF Loan Agreement.

In December 2020, a conversion of the Note was agreed, via a non-brokered placing for 575,000 units at a deemed £0.20 ($0.27) per unit and value of £115,000 (CAD$200,000) representing a repayment of principal amount of CEO Loan. The interest accrued on the CEO Loan up to December 31, 2020 in the amount of $14,000 (CAD $17,600) was paid in cash on December 31, 2020. The 575,000 Common Shares were issued to the CEO on January 11, 2020.

Other transactions with directors and officers

As at December 31, 2021, the Company had the following balances due to/from its officers:

- accounts receivable of $8,000 in respect of travel advances; and
- accounts payable of $9,000 in respect of travel expenses.

Remuneration of directors and other key management personnel

The key management personnel of the Company are comprised of executives of the Company and members of its board of directors.

	December 31, 2021	December 31, 2020
Salaries and benefits	**1,832**	916
	1,832	916

Salaries and benefits include annual salaries, bonuses, health benefits and other taxable benefits for officers and directors' fees.

External directors' fees for the first and second quarter of 2020 were waived, further to board of director resolutions dated March 26, 2020 and September 14, 2020.

There were no stock options granted to the Company's directors and officers in 2021. In 2020, the Company granted to its directors and officers 2,943,500 stock options to acquire the Company's Common Shares at an exercise price of £0.35 ($0.45) per share. The options vest immediately and expire five years from the date of grant.

On January 29, 2022 the Company granted 10,980,000 stock options to its directors and key management personnel.

Other Related Party Transactions

The Company employs a family member of a member of key management under normal commercial terms. Total salary and benefits paid to this individual for the year ended December 31, 2021 amounted to $134,000 (2020 - $69,000).

During the year ended 2021, a family member of a member of key management provided consulting services under normal commercial terms. Total consulting fees paid to this individual for the year ended December 31, 2021 amounted to $1,200 (2020 - $1,700).

Transactions with Joint Venture

In the normal course of operations, the Company enters into transactions on market terms with its joint venture ShoreCan, which have been measured at exchange value and are recognized in the consolidated financial statements of ShoreCan, including, but not limited to management fees, technical services and interest-bearing loans.

ACCOUNTING PRONOUNCEMENTS AND SIGNIFICANT ACCOUTING JUDGEMENTS AND ESTIMATES

The preparation of the Financial Statements in accordance with IFRS requires the Company to make estimates, assumptions and judgements in applying the Company's accounting policies and practices, which may have a significant impact on the financial results reported by the Company. Actual results could differ from estimated amounts, and those differences may be material. Refer to the Financial Statements which are available on the Company's website at www.canoverseas.com and on SEDAR at www.sedar.com for a comprehensive discussion of the Company's critical accounting judgements and estimates and new and amended accounting standards.

RISK FACTORS

Refer to the AIF dated March 31, 2022, which is available on the Company's website at www.canoverseas.com and on SEDAR at www.sedar.com for a comprehensive discussion of the Company's risk factors.

DISCLOSURE CONTROLS AND PROCEDURES

The Company's Chief Executive Officer and Chief Financial Officer (the "**Certifying Officers**") have designed disclosure controls and procedures ("**DC&P**"), as defined in National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings* ("**NI 52-109**"), or caused it to be designed under their supervision, to provide reasonable assurance that material information relating to the Company is made known to them by others, particularly during the period in which the annual filings are being prepared, and information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. Management of COPL, including the Certifying Officers evaluate the effectiveness of the Company's DC&P annually.

While the Certifying Officers believe that the Corporation's DC&P provide a reasonable level of assurance and are effective, they do not expect that the DC&P will prevent all errors and fraud. A control system, no matter how well conceived, maintained and operated, can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Certifying Officers are responsible for establishing and maintaining internal control over financial reporting ("**ICFR**") as defined in NI 52-109. They have designed ICFR, or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The control framework used by the Company's officers was the Committee of Sponsoring Organizations of the Treadway Commission Framework in Internal Control – Integrated Framework (2013) to evaluate the design and effectiveness of the ICFR.

On March 16, 2021, the Company closed the Atomic Group Acquisition. As permitted by and in accordance with, NI 52-109, management has elected an exemption of DC&P and ICFR to exclude the controls, policies and procedures in respect of the Atomic Group acquired. Such scope limitation is primarily due to the time required for management to assess the DC&P and ICFR relating to the Atomic Group in a manner consistent with its overall financial reporting and operations as a reporting issuer.

Considering the exemption, no material changes in the Company's ICFR were identified during the year ended December 31, 2021, that have materially affected, or are reasonably likely to materially affect the Company's ICFR. Management will continue to periodically evaluate the Company's DC&P and ICFR and will make any modifications from time to time as deemed necessary.

It should be noted that an internal control system, no matter how well designed, have inherent limitations. Therefore, those control systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. In reaching a reasonable level of assurance, management necessarily is required to apply its judgment in evaluating the cost/benefit relationship of possible controls and procedures.

DIRECTORS

Arthur S. Millholland – President and Chief Executive Officer
Harald Ludwig
Massimo Carello
Nigel Little
John Cowan

OFFICERS

Arthur S. Millholland, P.Geol. – President and Chief Executive Officer
Ryan Gaffney – Chief Financial Officer
Rod Christensen, P.Geol. – Vice President, Exploration and Exploitation
Richard Mays, LL.B. (Hons), LL.M., Ph.D. – Vice President, Business Development and General Counsel
Faralee A. Chanin, LL.B., M.B.A. – Corporate Secretary