CANADIAN OVERSEAS PETROLEUM LIMITED

ANNUAL AUDITED CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEARS ENDED
DECEMBER 31, 2021 AND 2020

MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The information provided in these consolidated financial statements is the responsibility of management. In the preparation of the statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgements and have been properly reflected in the accompanying consolidated financial statements.

Management maintains a system of internal controls to provide reasonable assurance that the Company's assets are safeguarded and to facilitate the preparation of relevant and timely information.

Ernst & Young LLP was appointed by the shareholders to serve as the Company's external auditors. They have examined the consolidated financial statements and provided their independent auditor's report. The audit committee has reviewed the consolidated financial statements with management and the auditors, and has reported to the Board of Directors. The Board of Directors has approved the consolidated financial statements as presented.

Signed "Arthur S. Millholland"
Arthur S. Millholland
President and Chief Executive Officer
March 31, 2022

Signed "Ryan Gaffney"
Ryan Gaffney
Chief Financial Officer
March 31, 2022

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Canadian Overseas Petroleum Ltd.

Report of the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Canadian Overseas Petroleum Ltd. and its subsidiaries (the Company), which comprise the consolidated statements of financial position as at December 31, 2021 and 2020, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects the consolidated financial position of the Company as at December 31, 2021 and 2020, and its consolidated financial performance and consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to Note 2 in the consolidated financial statements, which indicates that the Company's continued successful operations are dependent on the ability to obtain additional financing. As stated in Note 2 these events or conditions indicate that a material uncertainty exists that casts significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion & Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Robert Mitchell.

Ernst & Young LLP

Chartered Professional Accountants

Calgary, Canada
March 31, 2022

CANADIAN OVERSEAS PETROLEUM LIMITED
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(US$ thousands)

As at	Note	December 31, 2021	December 31, 2020
Assets			
Current:			
Cash and cash equivalents	6	**7,841**	1,401
Accounts receivable	8	**6,875**	40
Deferred share issue costs	17(l)	**-**	128
Other current assets	9	**674**	89
		15,390	1,658
Non-current:			
Prepaid purchase price	5(b)	**-**	5,000
Exploration and evaluation assets	10	**5,172**	-
Property and equipment, net	11	**78,006**	61
Right-of-use assets		**166**	229
Long-term deposits		**44**	44
		98,778	6,992
Liabilities			
Current:			
Accounts payable and accrued liabilities	12	**12,438**	1,066
Senior credit facility	14	**36,372**	-
Subscription receipts liability	17(g)	**-**	5,472
Short-term loans	13(b)	**-**	683
Derivative liabilities	15	**3,573**	91
Commodity derivative net liability	23(a)	**2,976**	-
Current portion of lease liabilities		**74**	59
		55,433	7,371
Non-current liabilities:			
Lease liabilities		**143**	216
Asset retirement obligations	16	**8,191**	-
		63,767	7,587
Shareholders' Equity (Deficit)			
Share capital	17	**190,705**	142,639
Warrants	18(a)	**1,173**	145
Contributed capital reserve	18(b)	**51,260**	51,260
Accumulated deficit		**(205,927)**	(192,391)
Accumulated other comprehensive loss		**(2,200)**	(2,248)
		35,011	(595)
		98,778	6,992

Going concern (note 2)
Commitments (note 27)
Subsequent events (note 28)

See accompanying notes to the consolidated financial statements

Approved on behalf of the Board of Directors:

Signed "Arthur S. Millholland"
Director

Signed "John F. Cowan"
Director

CANADIAN OVERSEAS PETROLEUM LIMITED
CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS
(US$ thousands, except share and per share amounts)

For the years ended December 31,	Note	2021	2020
Revenue			
Petroleum sales, net of royalties		**15,003**	-
Realized loss on commodity derivatives – crude oil		**(2,274)**	-
Unrealized loss on commodity derivatives – crude oil	23(a)	**(10,331)**	-
		2,398	-
Expenses			
Production taxes		**(1,900)**	-
Operating		**(4,279)**	-
Realized gain on commodity derivatives – butane		**2,816**	-
Unrealized gain on commodity derivatives – butane	23(a)	**7,355**	-
Depletion, depreciation and amortization		**(3,682)**	(70)
General and administrative		**(8,302)**	(2,719)
Share-based compensation		**-**	(973)
Acquisition costs	5(c)	**(2,159)**	(431)
Pre-license costs		**(300)**	(39)
Expected credit loss	23(b)	**(1)**	(385)
		(10,452)	(4,617)
Financing expenses			
Finance costs, net	19	**(6,898)**	(372)
Gain on derivative liabilities	20	**1,091**	87
Gain on extinguishment of loan	13(a)	**332**	13
Foreign exchange (loss) gain, net		**(6)**	74
		(5,481)	(198)
Loss before investment in joint venture		**(13,535)**	(4,815)
Loss on investment in joint venture	7	**(1)**	(146)
Loss after investment in joint venture		**(13,536)**	(4,961)
Income tax expense		**-**	-
Net loss		**(13,536)**	(4,961)
Gain (loss) on translation of foreign subsidiaries		**48**	(99)
Comprehensive loss		**(13,488)**	(5,060)
Loss per share – basic and diluted		**(0.09)**	(0.12)
Weighted average number of shares outstanding – basic and diluted		**145,594,913**	41,079,625

See accompanying notes to the consolidated financial statements

CANADIAN OVERSEAS PETROLEUM LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)

For the years ended December 31, 2021 and 2020

(US$ thousands)

	Note	Share Capital	Warrants	Contributed Capital Reserve	Deficit	Accumulated Other Comprehensive Loss (1)	Total Equity
Balance as at December 31, 2019		138,087	107	50,394	(187,430)	(2,149)	(991)
Issued further to placings, net of issue costs	17(b,c,e)	2,215	-	-	-	-	2,215
Issued further to YARF loan, debt exchange and payments for fees	17(b,d)	1,975	-	-	-	-	1,975
Issued further to exercise of broker's warrants	17(f)	255	-	-	-	-	255
Fair value of broker's warrants exercised	18(a)	107	(107)	-	-	-	-
Fair value of finder's warrants issued	18(a)	-	145	-	-	-	145
Stock options granted	18(b)	-	-	866	-	-	866
Net loss and comprehensive loss for the year		-	-	-	(4,961)	(99)	(5,060)
Balance as at December 31, 2020		142,639	145	51,260	(192,391)	(2,248)	(595)
Balance as at December 31, 2020		**142,639**	**145**	**51,260**	**(192,391)**	**(2,248)**	**(595)**
Issued further to placings, net of issue costs	17(g,h,k,l)	**32,803**	**-**	**-**	**-**	**-**	**32,803**
Issued further to CEO loan conversion	17(g)	**155**	**-**	**-**	**-**	**-**	**155**
Issued further to payment of purchase price of Atomic	5(b)	**4,000**	**-**	**-**	**-**	**-**	**4,000**
Issued as payment of Finder's and Broker's Fee	17(g,h,k)	**2,794**	**-**	**-**	**-**	**-**	**2,794**
Issued as payment of advisory services	17(i)	**202**	**-**	**-**	**-**	**-**	**202**
Issued further to exercise of Unit Warrants	17(g)	**5,479**	**-**	**-**	**-**	**-**	**5,479**
Fair value of Unit Warrants issued as derivative liability	17(g)	**(2,132)**	**-**	**-**	**-**	**-**	**(2,132)**
Fair value of Unit Warrants exercised	17(g)	**4,590**	**-**	**-**	**-**	**-**	**4,590**
Issued further to exercise of 2020 3rd Finder's Warrants	17(j)	**112**	**-**	**-**	**-**	**-**	**112**
Fair value of Finder's and Broker's Warrants issued	18(a)	**-**	**1,091**	**-**	**-**	**-**	**1,091**
Fair value of expired and exercised 2020 3rd Finder's Warrants	18(a)	**63**	**(63)**	**-**	**-**	**-**	**-**
Net loss and comprehensive loss for the year		**-**	**-**	**-**	**(13,536)**	**48**	**(13,488)**
Balance as at December 31, 2021		**190,705**	**1,173**	**51,260**	**(205,927)**	**(2,200)**	**35,011**

(1) As at December 31, 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 consolidated financial statements

CANADIAN OVERSEAS PETROLEUM LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(US$ thousands)

For the years ended December 31,	Note	2021	2020
Cash Flow From (Used In) Operating Activities:			
Net loss		**(13,536)**	(4,961)
Add (deduct) non-cash items:			
Gain on waived director's fees		**-**	(431)
Depletion, depreciation and amortization		**3,682**	70
Unrealized loss on commodity derivatives – crude oil	23(a)	**10,331**	-
Unrealized gain on commodity derivatives – butane	23(a)	**(7,355)**	-
Finance costs, net	19	**6,898**	372
Gain on extinguishment of loan	13(a)	**(332)**	(13)
Gain on derivative liabilities	20	**(1,091)**	(87)
Gain on office lease relief		**-**	(11)
Share-based compensation		**-**	973
Unrealized foreign exchange gain, net		**(50)**	(119)
Loss on investment in joint venture		**1**	146
		(1,452)	(4,061)
Net change in non-cash operating working capital	25	**(6,306)**	162
		(7,758)	(3,899)
Cash Flow From (Used In) Financing Activities:			
Issuance of share capital, net of issue costs		**37,095**	4,483
Gross proceeds from senior credit facility	14	**45,000**	-
Lender's & borrower's fees paid on senior credit facility		**(3,544)**	-
Interest paid on senior credit facility	19	**(4,643)**	-
Proceeds from CEO loan		**-**	153
Interest paid on CEO loan		**-**	(14)
(Repayment) proceeds of YARF loan	13(b)	**(683)**	633
Proceeds from subscriptions	17(g)	**-**	5,269
Financing expense		**-**	(172)
Payment of lease obligations, net of rent concessions		**(109)**	(48)
Net change in non-cash financing working capital	25	**(149)**	5
		72,967	10,309
Cash Flow From (Used In) Investing Activities			
Acquisitions	5(b)	**(45,079)**	(5,000)
Acquisitions cash acquired	5(b)	**9,160**	-
Property and equipment expenditures	11	**(19,003)**	(31)
Exploration and evaluation assets expenditures	10	**(3,285)**	-
Additions to investment in joint venture	7	**(1)**	(146)
Interest income		**10**	-
Net change in non-cash investing working capital	25	**(548)**	-
		(58,746)	(5,177)
Increase in cash and cash equivalents during the period		**6,463**	1,233
Effect of foreign exchange on cash and cash equivalents held in foreign currencies		**(23)**	93
Cash and cash equivalents, beginning of year		**1,401**	75
Cash and cash equivalents, end of year		**7,841**	1,401

See accompanying notes to the consolidated financial statements

1. NATURE OF OPERATIONS

Canadian Overseas Petroleum Limited ("**COPL**" or the "**Company**"), is a widely-held publicly traded company incorporated and domiciled in Canada. The Company's common shares with no par value (the "**Common Shares**") are listed on the London Stock Exchange (the "**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". The Company's registered office is Suite 400, 444 – 7th Avenue SW, Calgary, Alberta, Canada.

The Company 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 (the "**US**") and sub-Saharan Africa. As at December 31, 2021, the Company had eleven subsidiaries, all of which are wholly-owned directly or indirectly. The Company is pursuing opportunities in Nigeria with a joint venture partner (see note 7).

2. BASIS OF PREPARATION

Basis of Preparation and Compliance

The Company's consolidated financial statements for the years ended December 31, 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**").

The Company's Financial Statements have been prepared on an historical cost basis, except for certain financial assets and liabilities that have been measured at fair value.

These 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.

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-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.

These Financial Statements were authorized for issue by the Company's Board of Directors on March 31, 2022.

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 its senior credit facility as disclosed in note 14 for: (i) failure to meet a liquidity covenant due mainly to an uncollected joint interest receivable from a partner that is in receivership (see note 23b); and (ii) failure to notify the Lender of material events involving the joint interest partner in receivership. 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 senior credit facility 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.

3. 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. The joint venture investment is not subject to consolidation and uses the equity method of accounting.

Cash and Cash Equivalents

Cash and cash equivalents include cash held at banks, cash in trust, short-term deposits with an original maturity of three months or less, and credit card deposits.

Foreign Currency Translation

The Financial Statements are presented in US$, which is currently the Company's functional and reporting currency.

Transactions denominated in foreign currencies are translated at the exchange rate prevailing on the transaction date. At each period end, monetary assets and liabilities denominated in a foreign currency are translated at the exchange rate prevailing at the period end date. All differences are recognized in net earnings. Non-monetary assets, liabilities and transactions denominated in a foreign currency and measured at historical cost are translated at the exchange rate in effect at the transaction date. Non-monetary items measured at fair value are translated using the exchange rates at the date when the fair value was determined.

For the purpose of consolidation, assets and liabilities of foreign subsidiaries are translated from their functional currency to US$ using the exchange rate prevailing at the period end date. The statements of net income (loss) and comprehensive income (loss) and cash flows are translated using the average exchange rates for the period. Foreign exchange differences resulting from such transactions are recorded in shareholders' equity (deficit) as accumulated other comprehensive loss.

Revenue recognition

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. Petroleum sales revenue recognized is net of royalties as the Company is acting as an agent and represents the net revenue attributable to the Company and its joint operation partners.

The Company receives payment for its produced oil from the purchaser generally within one month. 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.

Business Combinations

Business combinations are accounted for using the acquisition method. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the acquisition date. The excess of the cost of the acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of the acquisition is less than the fair value of the net assets acquired, the difference is recognized immediately in earnings. Transaction costs associated with a business combination are expensed as incurred.

Oil Inventory

Crude oil produced but not sold as at the balance sheet date is recognized as oil inventory in other current assets. The Company values its oil inventory using the lower of cost and net realizable value method.

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.

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 income (loss) using the effective interest method.

Interest income is recognized as earned.

Pre-License Costs

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

Exploration and evaluation assets

The Company accounts for exploration and evaluation ("**E&E**") 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, which are expensed as pre-license costs as incurred and recognized in net income (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. E&E assets may have sales from petroleum products associated with production from test wells, and resulting revenue is recognized in net income (loss).

Upon determination of proved plus probable reserves and a full evaluation of the development plan in the exploration area has been completed, E&E assets attributable to those costs are first tested for impairment at the cash-generating unit ("**CGU**") level, and then reclassified from E&E assets to property 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 net income (loss).

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

Property and equipment

Property and equipment ("**P&E**") assets consists of developed and producing ("**D&P**") assets, administrative assets, equipment inventory and other assets.

D&P assets are measured at cost less accumulated depletion, depreciation, amortization and impairment. D&P 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 D&P 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 asset retirement obligations, 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 P&E assets 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 net income (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 net income (loss).

Gains and losses on the disposal of P&E assets, including oil and gas interests, are determined by comparing the proceeds from disposal with the carrying value of the P&E assets.

(iv) Depletion, depreciation and amortization

The net carrying value of D&P 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 National Instrument 51-101 – *Standards of Disclosure for Oil and Gas Activities* ("**NI 51-101**") of the Canadian Securities Administrators.

For administrative and other assets, depreciation is recognized in net income (loss) on a straight-line basis over the estimated useful lives of each asset 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 and equipment

The Company's P&E assets are 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 net income (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 the impairment of P&E assets is recognized in net income (loss).

Exploration and evaluation assets

E&E assets are assessed for impairment at the CGU 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 net income (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 E&E asset is calculated and compared against the carrying amount. A reversal of impairment of E&E assets is recognized in net income (loss).

Provisions

The asset retirement obligation ("**ARO**") includes present obligations where the Company will be required to dismantle, decommission and perform site restoration activities. The ARO 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 finance 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 and related asset. Actual costs incurred upon settlement of the ARO 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.

Derivative financial instruments

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 and 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 income (loss) as unrealized gains (losses) on risk management contracts. Fair values of financial instruments are based on quotes or valuations provided by independent third parties. Any realized gains or losses on risk management contracts are recognized in net income (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 (see note 23). Commodity derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Joint Arrangements

Certain of the Company's activities are conducted through joint arrangements in which two or more parties have joint control. A joint arrangement is classified as either a joint operation or a joint venture, depending on the rights and obligations of the parties to the arrangement.

Joint operations arise when the Company has a direct ownership interest in jointly controlled assets and obligations for liabilities. The Financial Statements include the Company's proportionate share of the assets, liabilities, revenues, expenses, and cash flows of this type of arrangement.

Joint ventures arise when the Company has rights to the net assets of the arrangement. For these arrangements the Company uses the equity method of accounting and recognizes the initial and subsequent investments at cost, adjusted for the Company's share of the joint venture's income or loss, less dividends received thereafter. The transactions between the Company and the joint venture are assessed for recognition in accordance with IFRS.

Under the equity method, losses from the joint venture are applied against the carrying amount of the investment and any loans to the joint venture that are considered part of the net investment. When the Company's share of losses in a joint venture exceeds the Company's interest, the Company discontinues recognizing its share of future losses. The Company does not recognize further losses unless a legal or constructive obligation exists. If the joint venture subsequently reports profits, the entity resumes recognizing its share of those profits only after its share of the profits equals the share of losses not recognized. Revenue is only recorded when collection is reasonably assured.

Investments in joint ventures are tested for impairment whenever objective evidence indicates that the carrying amount of the investment many not be recoverable under the equity method of accounting. The impairment amount is measured as the difference between the carrying amount of the investment and the higher of its fair value less costs of disposal and its value in use. Impairment losses are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Share-Based Compensation

The Company issues equity-settled stock options to its employees, directors and consultants and follows the fair value method of accounting. A Black-Scholes option-pricing model is used to determine the fair value of the award at the time the options are granted. The related expense is charged to the consolidated statement of net income (loss) and comprehensive income (loss) with a corresponding increase in equity as contributed capital reserve over the vesting term. Consideration received on the exercise of an option is credited to share capital, along with the related share-based compensation previously recognized in the contributed capital reserve.

Leases

Leases are recognized as right-of-use ("**ROU**") assets and a corresponding lease liability at the date on which the leased asset is available for use by the Company. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments. The leases have been measured at the present value of the lease payments, discounted using the Company's incremental borrowing rates at the date on which the leased asset is available for use.

Per Share Data

Basic net income (loss) per share is calculated using the weighted average number of shares outstanding during the year. The treasury stock method is used to calculate diluted earnings per share. This method assumes that only in-the-money stock options and warrants are exercised and that any proceeds would be used to purchase Common Shares at the average market price during the year.

Deferred Income Tax

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

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

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

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

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.

Significant accounting judgements and estimates

Critical judgements in applying accounting policies

The following are critical judgements that have the most significant effect on the amounts recognized in the Financial Statements.

The determination of the CGUs is subject to management judgement. The recoverability of the Company's D&P and E&E assets are assessed at the CGU level. A CGU is the lowest level at which there are identifiable cash inflows that are largely independent of the cash inflows of other CGUs. The classification of assets into CGUs requires significant judgement and interpretation. Management considers factors such as integration among assets, shared infrastructure, common sales points, geographical proximity, petroleum type and how management makes decisions about the Company's operations.

Management applies judgement 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. The key estimates applied in determining an acceptable range of recoverable amounts normally includes information on future commodity prices, expected production volumes, quantity of reserves, future development and operating costs, discount rates, and income taxes.

E&E assets 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 judgements 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 judgement is made that the underlying reserves are not viable, the E&E costs will be impaired and charged to net income (loss).

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, a corresponding adjustment is made to the D&P or E&E asset balance. The risk-free discount rate is based on the 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.

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 Financial Statements.

In a business combination, management makes estimates of the fair value of assets acquired and liabilities assumed which includes assessing the value of oil and gas properties based upon an estimation of recoverable quantities of proved and probable reserves being acquired.

Share-based compensation expense, warrants and derivative liabilities involves the Company's estimation of 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.

The Company's oil and natural gas reserves are evaluated and reported on by independent petroleum engineers and are determined in accordance with Canadian practices and specifically in accordance 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 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 of D&P assets.

If 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.

After application of the equity method, the net investment in the 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 rates are based on judgements 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 are estimated based on the terms of the related contracts and management's best knowledge at the time of issuing the Financial Statements. The actual results ultimately may differ from those estimates as future confirming events occur.

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

The fair value of derivative financial instruments is dependent upon forward commodity prices and the volatility of those prices.

The fair value assigned to the host contract of the senior credit facility and the embedded derivative and warrants associated with this debt are based on the Company's estimate, calculated using assumptions including forward interest 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 year ended December 31, 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

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.

5. BUSINESS COMBINATION

(a) Summary of the acquisition

On December 16, 2020, COPL announced that it had agreed to acquire 100% of the membership interests in Atomic Oil & Gas LLC ("**Atomic**") and 100% of the shares in Southwestern Production Corp. ("**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 vendor 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. 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. 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 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. 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**"). Pipeco LLC ("**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. 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 P&E balances on the consolidated statement of financial position (see note 16).

(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 Common Shares (collectively, the "**Atomic Purchase Price**"). On March 16, 2021, the Company issued 8,188,733 Common Shares post Share Consolidation to the vendor representing the fixed $4.0 million of the purchase price consideration that was payable in Common Shares determined using the weighted average closing price of the 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 17g), and external debt of $45.0 million (see note 14). 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 vendor, and withheld $5.0 million of the Atomic Purchase Price pending the finalization of certain adjustments as agreed between the vendor and the Company. Subsequently, on April 14, 2021, the Company released $5.0 million to the vendor.

All amounts in US$ thousands, except otherwise stated

The following purchase price allocation 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.

	US$
Purchase consideration:	
Cash	50,079
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 10)	1,665
P&E assets (note 11)	55,659
Right-of-use assets	41
ARO (note 16)	(977)
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 a bargain purchase gain. Best estimates were determined based on available information at the time of preparation of these Financial Statements. The Company continued 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.

The fair value assigned in the preliminary purchase price allocation to accounts receivable was $1.5 million, including joint interest receivables from partners of $1.1 million and revenue receivables of $0.4 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.

Atomic and Pipeco were treated as limited liability companies, and SWP as an S corporation, which are all treated as partnerships 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 applied 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.

All amounts in US$ thousands, except otherwise stated

(c) Acquisition costs

Acquisition costs directly attributable to the Atomic Group Acquisition are expensed as incurred. In aggregate, the Company incurred $2.6 million in acquisition costs of which approximately $0.4 million was recognized prior to January 1, 2021 and $2.2 million during the year ended December 31, 2021. These acquisition costs exclude share issuance costs that are netted against share capital in the consolidated statement of financial position.

(d) Revenue and operating income

Results of the Atomic Group Acquisition are included in the Financial Statements as at December 31, 2021 and for the period from the Closing to December 31, 2021. Had the acquisition closed on January 1, 2021, estimated revenues would have been $17.2 million and petroleum sales, net of royalties less production taxes and operating expenses would have been $9.0 million for the twelve months ended December 31, 2021.

6. CASH AND CASH EQUIVALENTS

	December 31, 2021	December 31, 2020
Cash	**6,389**	1,381
Escrow accounts	**1,397**	-
Credit card deposits	**55**	20
Balance, end of the year	**7,841**	1,401

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

Escrow amounts of $1.4 million as at December 31, 2021 relate to cash held in escrow accounts with respect to a portion of production taxes and some royalty payments due, pursuant to US legal requirements.

The fair value of cash and cash equivalents was $7.8 million as at December 31, 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 December 31, 2021 and December 31, 2020.

7. INVESTMENT IN JOINT VENTURE

The Company currently holds a 50% interest in a jointly controlled entity, Shoreline Canoverseas Petroleum Development Corporation Limited ("**ShoreCan**"), focusing on the acquisition of upstream oil and gas exploration, development and producing assets in sub-Saharan Africa. The determination of ShoreCan as a joint venture was based on ShoreCan's structure through a separate legal entity whereby neither the legal form nor the contractual arrangement give the owners rights to the assets and obligations for the liabilities within the normal course of business, nor does it give the rights to the economic benefits of the assets or responsibility for settling liabilities associated with the arrangement.

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

On August 4, 2020, COPL announced that ShoreCan had executed definitive agreements with Essar Exploration and Production Limited, Mauritius ("**Essar Mauritius**"), the company that owns 20% of Essar Nigeria shares to enter into agreements with each other concerning, among other things, their respective obligations under the Essar Nigeria 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.

From time to time the Company or its joint venture partner pay for ShoreCan's general and administrative expenses on behalf of the other partner. As at December 31, 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 in the Company's consolidated statement of net loss for the year ended December 31, 2021 ($0.4 million for the year ended December 31, 2020).

During the year ended December 31, 2021, COPL and its subsidiaries 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). As at December 31, 2021, the Company had non-current receivables of $14.3 million due from ShoreCan under the terms of the funding agreement (December 31, 2020 - $13.3 million). In accordance with the equity method of accounting for the ShoreCan joint venture the charges for management and technical services and interest expense were 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 this period ($146,000 for the year ended December 31, 2020). Accordingly, under the equity method, the Company recognized loss on investment in ShoreCan of $1,000 for the year ended December 31, 2021 ($146,000 for year ended December 31, 2020). As the Company's share of ShoreCan's net liabilities exceeds the Company's net interest in ShoreCan as at December 31, 2021, under the equity method, the Company discontinued recognizing its share of future losses and the carrying amount of the investment in the jointly controlled entity was $NIL as at December 31, 2021 ($NIL as at December 31, 2020).

As at the date of filing these Financial Statements, COPL has not provided any guarantee in respect of obligations, commitments and/or losses of either ShoreCan or Essar Nigeria.

All amounts in US$ thousands, except otherwise stated

8. ACCOUNTS RECEIVABLE

	December 31, 2021	December 31, 2020
Revenue receivable	**432**	-
Joint interest receivable	**5,821**	-
Realized commodity contracts receivable	**49**	-
Share issuance receivable	**500**	-
Other receivables	**73**	40
Balance, end of the year	**6,875**	40

The share issuance receivable of $0.5 million represent a portion of proceeds from the December 2021 Brokered Placing (discussed in details in note 17k), that was transferred to the Company on January 12, 2022.

9. OTHER CURRENT ASSETS

	December 31, 2021	December 31, 2020
Prepaid expenses	**579**	89
Oil inventory	**82**	-
Short-term deposits	**13**	-
Balance, end of the year	**674**	89

10. EXPLORATION AND EVALUATION ASSETS

	December 31, 2021	December 31, 2020
Balance, beginning of the year	**-**	-
Acquisition (note 5)	**1,665**	-
Additions	**3,285**	-
ARO	**222**	-
Balance, end of the year	**5,172**	-

E&E assets acquired of $1.7 million relate to the undeveloped land 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 and ARO assets of $3.5 million relate to a successful discovery well drilled and completed in 2021 in the BFDU unitized exploration area. As the discovery well has potentially opened a new oil field development project and will be a critical source of knowledge to evaluate and plan the operational approach for the future drill program, the costs of the discovery well remain in E&E assets as at December 31, 2021.

Impairment

There are no indicators of impairment as at December 31, 2021.

All amounts in US$ thousands, except otherwise stated

11. PROPERTY AND EQUIPMENT

	D&P Assets	Administrative Assets	Total
Cost, beginning of the year	-	313	313
Acquisition (note 5)	55,609	50	55,659
Additions	18,730	273	19,003
Disposals	-	(2)	(2)
Change in asset retirement obligation	6,863	-	6,863
Cost, end of the year	**81,202**	**634**	**81,836**
Accumulated depletion, depreciation, and amortization, beginning of the year	-	(252)	(252)
Depletion, depreciation and amortization	(3,526)	(54)	(3,580)
Disposals	-	2	2
Accumulated depletion, depreciation, amortization, end of the year	**(3,526)**	**(304)**	**(3,830)**
Net carrying amount, beginning of the year	-	61	61
Net carrying amount, end of the year	**77,676**	**330**	**78,006**

D&P assets relate primarily to two oil producing units that were included in the Atomic Group Acquisition (see note 5) in Wyoming, US and a gas pipeline that services the BFU for the purpose of miscible flood injections. At December 31, 2021, estimated future development costs of $272.4 million (December 31, 2020 – $NIL) associated with the development of the Company's proved and probable reserves were added to the Company's net book value in the depletion and depreciation calculation.

Impairment

There are no indicators of impairment as at December 31, 2021.

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2021	December 31, 2020
Trade payables and accrued liabilities	**6,019**	1,065
Revenue related payable	**3,313**	-
Production taxes payable	**3,105**	-
Other	**1**	1
Balance, end of the year	**12,438**	1,066

13. SHORT-TERM LOANS

(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.

All amounts in US$ thousands, except otherwise stated

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.

(b) *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.

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 $91,000 as at December 31, 2020 and $8,000 as at December 31, 2021.

Accordingly, the Company recognized a gain on the derivative liability of $78,000 (December 31, 2020 - $85,000) and a related foreign exchange gain of $5,000 (December 31, 2020 – loss of $15,000) in its statement of net loss.

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:

	December 31, 2021	December 31, 2020
Risk-free interest rate	**0.17%**	(0.18%)
Weighted average life (years)	**0.50**	1.50
Expected volatility	**90%**	90%
Expected dividend yield	**-**	-
COPL's share price*	**$0.22**	$0.32

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

14. 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 (collectively, the "**Senior Credit Facility**" or the "**SCF**"). 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 (see note 5).

The Senior Credit Facility agreement is subject to an interest rate at the London Interbank Offered Rate ("**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 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 also includes mandatory prepayments of the outstanding principal amount for assets sales greater than $0.15 million per transaction or

All amounts in US$ thousands, except otherwise stated

$0.25 million in aggregate over the term of the Senior Credit Facility, insurance proceeds greater than $0.15 million, issuance of indebtedness, extraordinary receipts and equity issuances.

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 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 Senior Credit Facility 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 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 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 Senior Credit Facility including associated derivative liabilities as at December 31, 2021:

	Senior Credit Facility	**Derivative Liabilities (note 15)**	**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 (note 19)	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 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. 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 (see note 20).

(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 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 (see note 20).

(c) Aggregate financing costs associated with the Senior Credit Facility of $3.4 million were 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 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 (see note 19)**.**

As at December 31, 2021, the Borrower is in default on the Senior Credit Facility 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 Energy LLC ("**Cuda**") that is in receivership as disclosed in note 23(b); and
- failure to notify the Lender of material events involving Cuda.

Due to these defaults, the Company has classified the Senior Credit Facility 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 Senior Credit Facility 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 loan amount 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.

All amounts in US$ thousands, except otherwise stated

15. DERIVATIVE LIABILITIES

	December 31, 2021	December 31, 2020
YARF Warrants (note 13b)	**8**	91
Lender Warrants (note 14a)	**2,250**	-
LIBOR floor (note 14b)	**1,315**	-
Current derivative liabilities	**3,573**	91

The resulting impact on net income (loss) for the year ended December 31, 2021 from the remeasurement of these derivative liabilities at the reporting period end is disclosed in note 20.

Given the Senior Credit Facility has been classified as a current liability as disclosed in note 14, the Lender Warrants have also been classified as a current liability due to the Lender Warrants being aligned with that of the Senior Credit Facility.

16. ASSET RETIREMENT OBLIGATIONS

	December 31, 2021	December 31, 2020
Balance, beginning of the year	**-**	**-**
Obligations acquired (note 5)	**977**	**-**
Obligations incurred	**214**	**-**
Revaluation of obligations acquired	**6,027**	**-**
Change in estimates	**844**	**-**
Accretion	**129**	**-**
Balance, end of the year	**8,191**	**-**

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 and inflation adjusted value of total ARO 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.

All amounts in US$ thousands, except otherwise stated

17. 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.

Share Consolidation:

In accordance with the Share Consolidation, all Common Shares and per-share amounts disclosed herein reflect the post-Share Consolidation shares unless otherwise specified (see note 2).

Issued

The issued share capital is as follows:

	Number of Common Shares	Amount
Balance, January 1, 2020	34,837,460	138,087
Issued pursuant to UK July 2, 2020 Placing (b)	4,000,000	1,497
Issued as payment in respect of YARF loan (b)	385,000	144
Issued as payment of finder's fee (b)	160,000	60
Issued pursuant to UK July 23, 2020 placing (c)	4,333,333	1,655
Issued pursuant to debt exchange (d)	4,369,175	1,771
Issued pursuant to exercise of 2019 broker's warrants (f)	99,700	19
Fair value of 2019 broker's warrants exercised	-	4
Issued pursuant to exercise of 2018 broker's warrants (f)	537,313	236
Fair value of 2018 broker's warrants exercised	-	103
2020 Share issue costs (e)	-	(937)
Balance, December 31, 2020	48,721,981	142,639
Issued pursuant to January 2021 Non-brokered Placing (g)	44,425,000	12,072
Issued pursuant to CEO loan conversion (g)	575,000	155
Fair value of Unit Warrants presented as derivative liability (g)	-	(2,132)
Issued as payment of 2nd Finder's Fee (g)	2,850,417	1,347
Issued pursuant to March 2021 Brokered Placing (h)	41,715,625	18,652
Issued as payment of March 2021 Broker's Fee (h)	2,034,375	966
Issued pursuant to exercise of Unit Warrants (g)	15,300,000	5,479
Fair value of Unit Warrants exercised (g)	-	4,590
Issued as payment of purchase price of Atomic (note 5)	8,188,733	4,000
Issued as payment of advisory services (i)	250,000	202
Issued pursuant to exercise of 2020 3rd Finder's Warrants (j)	208,333	112
Fair value of expired and exercised 2020 3rd Finder's Warrants (j)	-	63
Issued pursuant to December 2021 Brokered Placing (k)	28,435,000	7,531
Issued as payment of December 2021 Broker's Fee (k)	1,815,000	481
2021 Share issue costs (l)	-	(5,452)
Balance, December 31, 2021	**194,519,464**	**190,705**

All amounts in US$ thousands, except otherwise stated

(b) UK July 2, 2020 Placing

On July 2, 2020 (the "**Placing Date**"), further to a UK Prospectus, the Company closed a non-brokered placing in the UK of 4,000,000 Common Shares at a placing price of £0.30 ($0.37) per Common Share, for gross proceeds of £1.2 million ($1.5 million) (the "**UK July 2, 2020 Placing**").

The Company paid in cash a finder's fee of £70,000 ($87,300) and other fees of £3,500 ($4,400). In addition, on July 15, 2020, the Company issued 160,000 Common Shares in lieu of a cash payment of a second finder's fee of £48,000 ($60,000) at a deemed price of £0.30 ($0.38) per Common Share, in respect of the UK July 2, 2020 Placing.

In connection with the UK July 2, 2020 Placing, as a compensation to the finders, the Company also issued:

- 250,000 Common Share purchase warrants (the "**1st Finder's Warrants**") on July 2, 2020, exercisable within 24 months from the Placing Date, at an exercise price of £0.39 ($0.49) per Common Share; and
- 160,000 Common Share purchase warrants (the "**2nd Finder's Warrants**") on July 24, 2020, exercisable within 24 months from the Placing Date, at an exercise price of £0.39 ($0.50) per Common Share.

The fair value estimated at approximately $40,000 for 1st Finder's Warrants and $42,000 for 2nd Finder's Warrants using a Black-Scholes option pricing model was recognized as equity and netted against proceeds from the UK July 2, 2020 Placing as share issue costs.

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

	July 2, 2020	July 24, 2020
Risk-free interest rate	(0.092%)	(0.079%)
Weighted average life (years)	2.0	2.0
Expected volatility	90%	90%
Expected dividend yield	-	-
COPL's share price*	$0.39	$0.54

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

Also on July 2, 2020, further to the YARF Loan Agreement and in accordance with the UK prospectus, the Company issued to the YARF Lenders a total of 385,000 Common Shares in lieu of cash payments of £115,500 ($144,000) at a deemed price of £0.30 ($0.37) per Common Share, in respect of the repayment of a portion of the first drawdown of the YARF Loan of £36,000 ($45,000) for 120,000 Common Shares and interest on the YARF Loan of £79,500 ($99,000) for 265,000 Common Shares.

In addition, the Company issued, as compensation to the YARF Lenders, a total of 1,000,000 YARF Warrants exercisable within 24 months from the Placing Date, at an exercise price of £0.39 ($0.49) per share (the YARF Loan and YARF Warrants are discussed in note 13b).

(c) UK July 23, 2020 Placing

On July 23, 2020, the Company closed another non-brokered placing in the UK of 4,333,333 Common Shares at a placing price of £0.30 ($0.38) per Common Share, for gross proceeds of £1.3 million ($1.7 million) (the "**UK July 23, 2020 Placing**"). The Company paid in cash a finder's fee of £91,000 ($116,000).

In connection with the UK July 23, 2020 Placing, on July 24, 2020, the Company issued, as compensation to the finder, 325,000 Common Share purchase warrants (the "**3rd Finder's Warrants**") exercisable within 12 months from July 24, 2020, at an exercise price of £0.39 ($0.50) per share.

The fair value estimated at approximately $63,000 for 3rd Finder's Warrants using a Black-Scholes option pricing model was recognized as equity and netted against proceeds from the UK July 23, 2020 Placing as share issue 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 the 3rd Finder's Warrants at the date of issue:

	July 24, 2020
Risk-free interest rate	0.024%
Weighted average life (years)	1.0
Expected volatility	90%
Expected dividend yield	-
COPL's share price*	$0.54

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

The net proceeds from the UK July 2, 2020 Placing and the UK July 23, 2020 Placing were used for the Company's ongoing general and administrative costs and for payment of outstanding creditors that were not subject to the debt exchange arrangements.

(d) Debt exchange

During third quarter of 2020 and further to debt exchange arrangements stipulated in the UK Prospectus closed on July 2, 2020, the Company issued to certain vendors and employees in total 4,369,175 Common Shares in lieu of cash payments of approximately £1.3 million ($1.8 million) at a deemed price of £0.30 ($0.37) per Common Share (as stipulated in the UK Prospectus and pursuant to individual agreements), in respect of outstanding balances due to these vendors and employees.

The fair value of Common Shares issued to vendors is determined by reference to the value of the services received at the date the services were rendered. The fair value of Common Shares issued to employees is determined using the closing market price of the Common Shares on the day of the issue. In case the Company's share price exceeded the deemed price of £0.30 ($0.37) as at the date of share issue, the difference between fair value of Common Shares issued to the employees and the value of the outstanding balance due to these employees is recognized as share-based compensation expense, together with a corresponding increase in share capital.

Debt exchange shares were issued as follows:

- On July 15, 2020, the Company issued 2,106,668 Common Shares to its vendors, in lieu of cash payments of approximately £0.63 million ($0.8 million) and 418,455 Common Shares to its employees, in lieu of cash payments of approximately £0.13 million ($0.16 million). In addition, the related share-based compensation expense of $24,000 has been recognized in the statement of net loss for year ended December 31, 2020 and as an addition to share capital.
- On August 4, 2020, the Company issued 611,250 Common Shares to its vendors, in lieu of cash payments of approximately £0.18 million ($0.24 million) and 325,832 Common Shares to its employees, in lieu of cash payments of approximately £0.1 million ($0.13 million). In addition, the related share-based compensation expense of $83,000 was recognized in the statement of net loss for the year ended December 31, 2020 and as an addition to share capital.
- On September 18, 2020, the Company issued to its employees a total of 600,573 Common Shares in lieu of cash payments of approximately £0.18 million ($0.23 million). No share-based compensation expense was recognized as the Company's share price as at the date of issue was below the deemed conversion price of £0.30.
- On September 29, 2020, the Company issued to its vendors a total of 306,397 Common Shares in lieu of cash payments of approximately £0.92 million ($0.12 million).

(e) 2020 share issue costs

The Company incurred approximately $0.94 million of total costs in connection with the UK Prospectus, the July 2, 2020 UK Placing, the July 23, 2020 UK Placing and the debt exchange arrangements. In addition to finder's fees and the fair value of Finder's Warrants issued to finders (as disclosed in 17b and 17c), these share issue costs also include LSE and transfer agent fees of approximately $0.09 million, legal fees of $0.41 million and consent related fees of approximately $0.02 million.

(f) Warrants exercised in 2020

On July 8, 2020, further to an exercise of 2019 broker's warrants, the Company issued 99,700 Common Shares at an exercise price of £0.15 ($0.19) per share for proceeds of approximately £15,000 ($19,000).

On August 17, 2020, further to an exercise of 2018 broker's warrants, the Company issued 537,313 Common Shares at an exercise price of £0.335 ($0.43) per share for proceeds of approximately £0.18 million ($0.24 million).

(g) January 2021 Non-brokered Placing

During the first quarter of 2021, further to a non-brokered placing that closed in the UK (the "**January 2021 Non-brokered Placing**"), the Company issued a total of 44,425,000 units at a price of £0.20 ($0.27) per unit for gross proceeds of £8.9 million ($12.1 million). Each unit consisted of one Common Share and one half of one Common Share purchase warrant (the "**Unit Warrants**"). Each Unit Warrant entitled the holder thereof to purchase one Common Share at an exercise price of £0.26 ($0.35) per share on or before January 8, 2022.

The 44,425,000 Common Shares related to the January 2021 Non-brokered Placing were issued between January 8, 2021 and March 12, 2021.

In addition, on January 11, 2021, 575,000 units with a value of £0.12 million ($0.16 million) at a deemed price of £0.20 ($0.27) per unit were issued to the Company's CEO further to the extinguishment of a CEO loan agreed to be on same terms as the January 2021 Non-brokered Placing, further to a placing agreement signed with the CEO on December 23, 2020 (see note 22b).

The fair value of the 22,500,000 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 the 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 15,300,000 Unit Warrants that were exercised, as discussed below was revalued as at December 31, 2021 and a related derivative loss of $2.6 million was recognized (see note 20).

In connection with the January 2021 Non-brokered Placing, the Company paid and issued:
- to a first finder a cash finder's fee of £35,000 ($47,500) and issued 187,500 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 2,850,417 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 January 2021 Non-brokered Placing. In addition, the Company issued 3,054,018 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 entitled the holder thereof to purchase one Common Share at an exercise price of £0.26 ($0.35) 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 January 2021 Non-brokered Placing as share issue costs.

Proceeds from the January 2021 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 ($5.5 million) were recognized as a subscription receipts liability in current liabilities as at December 31, 2020.

The net proceeds from the January 2021 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	December 31, 2021
Risk-free interest rate	(0.036%)	0.189%
Weighted average life (years)	0.75	0.02
Expected volatility	90%	90%
Expected dividend yield	-	-
COPL's share price*	$0.33	$0.22

*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 15,300,000 Common Shares between March 9, 2021 and 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 share price*	$0.48	$1.19	$0.80	$0.80

	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 share price*	$0.81	$0.40	$0.52	$0.50

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

(h) March 2021 Brokered Placing

On March 11, 2021, further to a brokered placing that closed in the UK (the "**March 2021 Brokered Placing**"), the Company issued a total of 41,715,625 Common Shares at a price of £0.32 ($0.45) per share for gross proceeds of £13.3 million ($18.7 million).

In connection with the March 2021 Brokered Placing, the Company issued 2,034,375 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 March 2021 Brokered Placing. The Company recognized £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 March 2021 Brokered Placing.

The Company also issued 2,625,000 Common Share purchase warrants (the "**March 2021 Broker's Warrants**") to the broker as additional compensation. Each March 2021 Broker's Warrant entitles the holder thereof to purchase one Common Share of the Company at an exercise price of £0.32 ($0.44) per Common Share on or before March 8, 2023.

All amounts in US$ thousands, except otherwise stated

The fair value of the March 2021 Broker's Warrants estimated at $0.6 million, was recognized in equity as warrants and netted against proceeds from the March 2021 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 March 2021 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 share price*	$0.53

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

The Company is using the net proceeds from the March 2021 Brokered Placing to finance operating and capital expenditures of the Atomic Group and to cover the Company's ongoing general and administrative costs.

(i) Shares issued as payment for services

On June 30, 2021, the Company issued 250,000 Common Shares as a payment for financial advisory services, with a fair value of $0.2 million.

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

On July 23, 2021, further to an exercise of a portion of the 2020 3rd Finder's Warrants, the Company issued 208,333 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 116,667, 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.

(k) December 2021 Brokered Placing

On December 3, 2021, further to a brokered placing that closed in the UK (the "**December 2021 Brokered Placing**"), the Company issued a total of 28,435,000 Common Shares at a price of £0.20 ($0.26) per share for gross proceeds of £5.7 million ($7.5 million).

In connection with the December 2021 Brokered Placing, the Company issued 1,815,000 Common Shares as a payment of a broker's fee, representing commission of approximately 6% in respect of the Brokered Placing. The Company recognized £0.4 million ($0.5 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 December 2021 Brokered Placing.

The Company also issued 1,815,000 Common Share purchase warrants (the "**December 2021 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 £0.24 ($0.32) per Common Share on or before December 3, 2022.

All amounts in US$ thousands, except otherwise stated

The fair value of the December 2021 Broker's Warrants estimated at $0.1 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:

	December 3, 2021
Risk-free interest rate	0.292%
Weighted average life (years)	1.00
Expected volatility	90%
Expected dividend yield	-
COPL's share price*	$0.26

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

The Company is using the net proceeds from the December 2021 Brokered Placing to finance operating and capital expenditures of the Atomic Group and to cover the Company's ongoing general and administrative costs.

Proceeds of $0.5 million from the December 2021 Brokered Placing were received in January 2022, and were recognized as a receivable in current assets as at December 31, 2021 (see note 8).

(l) Share issue cost

The Company incurred approximately $5.5 million of total costs in connection with the January 2021 Non-brokered Placing, March 2021 Brokered Placing and December 2021 Brokered Placing, 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 the fair value of warrants issued to finders and the broker (as disclosed in notes 17g, 17h and 17k). Share issue costs also include legal, LSE, transfer agent, and consulting fees of approximately $1.6 million.

All amounts in US$ thousands, except otherwise stated

18. SHARE-BASED COMPENSATION

(a) Warrants

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-Share Consolidation exercise price per whole Common Shares by 100 upon the Share Consolidation.

The number and weighted average exercise price of the warrants have been retrospectively restated for all periods to reflect the Share Consolidation effected on October 1, 2021 (see note 2).

A summary of the Company's post-Share Consolidation Common Share purchase warrants outstanding at December 31, 2021 is as follows:

	Number of Warrants	Weighted Average Exercise Price (US$)*	Amount	Expiry Date
Balance, January 1, 2020	637,013	0.40	107	(Aug 30/20 to Sep 3/21)
Issued July 2020 UK placing – 1st Finder's Warrants (note 17b)	250,000	0.49	40	Jul 2/22
Issued July 2020 UK placing – YARF Warrants (note 13b)	1,000,000	0.49	-	Jul 2/22
Issued July 2020 UK placing – 2nd Finder's Warrants (note 17b)	160,000	0.50	42	Jul 2/22
Issued July 2020 UK placing – 3rd Finder's Warrants (note 17c)	325,000	0.50	63	Jul 24/21
Exercised 2019 broker's warrants (note 17f)	(99,700)	0.19	(4)	Jun 4/21 & Sep 3/21
Exercised 2018 broker's warrants (note 17f)	(537,313)	0.43	(103)	Aug 30/20
Balance, December 31, 2020	1,735,000	0.49	145	(Jul 24/21 to Jul 2/22)
Issued January 2021 – Unit Warrants (note 17g)	22,500,000	0.35	-	Jan 8/22
Issued January 2021 – 1st Finder's Warrants (note 17g)	187,500	0.35	18	Jan 8/22
Issued January 2021 – 2nd Finder's Warrants (note 17g)	3,054,018	0.35	289	Jan 8/22
Issued March 2021 – March 2021 Broker's Warrants (note 17h)	2,625,000	0.44	647	Mar 8/23
Issued December 2021 – December 2021 Broker's Warrants (note 17k)	1,815,000	0.32	137	Dec 3/22
Exercised Unit Warrants (note 17g)	(15,300,000)	0.35	-	Jan 8/22
Exercised 2020 UK placing – 3rd Finder's Warrants (note 17j)	(208,333)	0.50	(40)	Jul 24/21
Expired 2020 UK placing – 3rd Finder's Warrants (note 17j)	(116,667)	0.50	(23)	Jul 24/21
Balance, December 31, 2021	**16,291,518**	**0.38**	**1,173**	(Jan 8/21 to Mar 8/23)

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

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 have expired.

All amounts in US$ thousands, except otherwise stated

(b) Incentive Stock Options

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-Share Consolidation exercise price per whole Common Shares by 100 upon the Share Consolidation.

Number of stock options and weighted average exercise price have been retrospectively restated for all periods to reflect the Share Consolidation effected on October 1, 2021 (see note 2).

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.

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 $1.0 million has been recognized in the statement of net loss for year ended December 31, 2020 and as addition to the contributed capital reserve.

The fair value of each option granted was estimated on the date of grant using a Black-Scholes option pricing model with the following assumptions:

	September 14, 2020
Risk-free interest rate	(0.139%)
Weighted average life (years)	3.0
Expected volatility	90%
Expected dividend yield	-
COPL's share price*	$0.45

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

There were no changes to the Company's stock option plan, as no stock options were granted, exercised, and/or forfeited and 474,400 stock options expired during the year ended December 31, 2021.

As at December 31, 2021, a total of 4,015,739 stock options to purchase Common Shares were outstanding, having a weighted average exercise price of $0.56 per Common Share and a remaining weighted average contractual life of 3.3 years.

	Number of Options	**Weighted Avg. Exercise Price (US$)***	**Contributed Capital Reserve Amount**
Balance, January 1, 2020	1,074,050	4.47	50,394
Granted	3,416,089	0.45	866
Balance and exercisable, December 31, 2020	4,490,139	1.41	51,260
Expired	(474,400)	8.64	-
Balance and exercisable, December 31, 2021	**4,015,739**	**0.56**	**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 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.

All amounts in US$ thousands, except otherwise stated

19. FINANCE COSTS

	December 31, 2021	December 31, 2020
Interest expense on SCF (note 14)	**4,643**	-
Interest expense on CEO loan	**-**	13
Interest on lease liabilities	**9**	10
Interest income	**(152)**	-
Financing costs	**860**	333
Accretion of SCF (note 14)	**1,409**	-
Accretion of CEO loan	**-**	16
Accretion of ARO (note 16)	**129**	-
Finance costs, net	**6,898**	372

20. GAIN (LOSS) ON DERIVATIVE LIABILITIES

	December 31, 2021	December 31, 2020
Lender Warrants revaluation (note 14a)	**2,650**	-
LIBOR floor revaluation (note 14b)	**937**	-
Unit warrants revaluation (note 17g)	**(2,574)**	-
YARF warrants revaluation (note 13b)	**78**	85
CEO loan conversion revaluation	**-**	2
Gain on derivative liabilities	**1,091**	87

21. DEFERRED INCOME TAX

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

	December 31, 2021	December 31, 2020
Net loss before investment in joint venture	**(13,535)**	(4,815)
Income tax rates	**23.0%**	24.0%
Provision at statutory rates	**(3,113)**	(1,156)
Foreign and domestic tax rate differential	**675**	692
Non-deductible items	**558**	234
Non-deductible portion of capital items	**216**	-
Effect of tax rate changes	**-**	6
Change in unrecognized deferred tax asset	**1,827**	690
Other	**(163)**	(466)
Income tax expense	**-**	-

The Company has an unrecognized deferred tax asset of $23.1 million as at December 31, 2021 (December 31, 2020 - $19.8 million) as a result of the uncertainty future cash flows will be sufficient to realize the deferred tax asset.

All amounts in US$ thousands, except otherwise stated

22. RELATED PARTY TRANSACTIONS

(a) Related parties

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

(b) 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 the January 2021 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 (see note 17g). 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, 2021.

(c) 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.

(d) Remuneration of directors and other key management personnel

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

	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 million 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 vested 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.

(e) 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).

f) 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 financial statements of ShoreCan, including, but not limited to management fees, technical services and interest-bearing loans.

23. 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 income (loss). Under this classification, the Company included the YARF Warrants (see note 13b), the Unit Warrants (see note 17g), the Lender Warrants (see note 14a) and the commodity derivatives (see note 23a).
- 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 receivable, the Senior Credit Facility (see note 14) 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 the statement of net income (loss) and comprehensive income (loss).

Fair value

As at December 31, 2021, the carrying values of cash and cash equivalents, accounts receivable, 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 December 31, 2021.

The Company's financial instruments recorded at fair value require disclosure about how the fair value was determined based on significant levels of inputs described in the following hierarchy:

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Assessment of the significance of a particular input to the fair value measurement requires judgement and may affect the placement within the fair value hierarchy level.

All amounts in US$ thousands, except otherwise stated

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.

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) 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 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 Mont Belvieu butane futures 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 level 2 current commodity derivative liability of $3.0 million as at December 31, 2021. Given the Senior Credit Facility has been classified as a current liability as disclosed in note 14, 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. The $10.3 million unrealized loss on crude oil derivative contracts for the year ended December 31, 2021 and the $7.4 million unrealized gain on butane derivative contracts for the year ended December 31, 2021 were recognized in net 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.

(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 receivable are with the purchaser of the Company's oil and the joint interest owners in the Atomic Group assets and are subject to normal industry credit risks. As at December 31, 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. The Company's revenue receivable of $0.4 million as at December 31, 2021, was owing from one company and the share issuance receivable of $0.5 million were collected in January 2022. Of the Company's joint interest receivables from partners as at December 31, 2021, approximately 98% was owing from two partners. While the Company has been regularly collecting from one partner, the second partner Cuda which represents about 79% of the balance has been placed into receivership. The Company filed a claim in the Eighth Judicial District Court in the State of Wyoming and is considered to have first lien priority over all other creditors of Cuda according to Wyoming state statute. As such, the Company considers all of its accounts receivable as at December 31, 2021 to be collectable.

No amounts classified as current accounts receivable are considered uncollectible and as such no allowance for doubtful accounts has been recorded in the Financial Statements. As at December 31, 2021, the Company holds $7.8 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:

	December 31, 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 2.0% 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.

(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)	**December 31, 2021**	December 31, 2020
GBP	**1,125**	50
Canadian dollars	**281**	188

All amounts in US$ thousands, except otherwise stated

(e) Liquidity risk

Liquidity risk is the risk the Company will encounter difficulties in meeting its short-term debt obligations. The Company's approach to managing liquidity risk is to ensure as far as possible, that it will have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking harm to the Company's reputation. The Company prepares an annual budget, which outlines the planned operating, investing and financing activities and is regularly monitored against actual costs and revised as considered necessary.

The timing of cash outflows relating to financial liabilities on an undiscounted basis as at December 31, 2021 are outlined in the table below:

	2022	2023-2024	2025-2027	Thereafter
Accounts payables and accrued liabilities	12,438	-	-	-
Senior Credit Facility (note 14)	45,000	-	-	-
Lender's Warrants (note 14a)	2,250	-	-	-
Lease liabilities	81	147	-	-
	59,769	147	-	-

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 senior credit facility dated March 16, 2021. Given the Senior Credit Facility has been classified as a current liability as disclosed in note 14, the Lender Warrants have also been classified as a current liability due to the Lender Warrants being aligned with that of the Senior Credit Facility.

24. CAPITAL MANAGEMENT

The Company's objectives when managing capital are:

- to fund its development and exploration programs;
- to maintain balance sheet 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 (deficit) includes share capital, warrants, contributed capital reserve and accumulated 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, repaying its existing debt, selling and/or acquiring assets, and controlling the capital expenditure program.

The Company is currently exploring various options that, if successful, will enable the Company to have access to sufficient funds to strategic its business strategy, generate operating cash flows and be able to settle liabilities as and when they fall due. These include but are not limited to raising funds, the completion of a material transaction or an alternative transaction that improves the cash and working capital position of the Company. There is no assurance that the Company will be successful in sufficiently financing the Company's ongoing business activities.

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 14). Commencing from March 2022, these financial covenants will have an impact on the Company's overall capital requirements and management of capital requirements.

All amounts in US$ thousands, except otherwise stated

25. NET CHANGE IN NON-CASH WORKING CAPITAL

	December 31, 2021	December 31, 2020
Accounts receivable	**(4,466)**	(20)
Prepaid expenses	**(570)**	(48)
Long-term accounts receivable	**-**	(146)
Allowance for doubtful accounts	**-**	385
Waived 2019 Director's fees	**-**	431
Accounts payable and accrued liabilities related to operations	**(1,270)**	(440)
Net change in non-cash operating working capital	**(6,306)**	162
Prepaid expenses	**(15)**	-
Accounts payable and accrued liabilities related to financing	**(134)**	133
Deferred share issue costs	**-**	(128)
Net change in non-cash financing working capital	**(149)**	5
Accounts payable and accrued liabilities related to investing	**(548)**	-
Net change in non-cash investing working capital	**(548)**	-

The net change in non-cash working capital excludes the accounts receivable, prepaid expenses and accounts payable and accrued liabilities obtained in the Atomic Group Acquisition.

All amounts in US$ thousands, except otherwise stated

26. SEGMENTED REPORTING

The Company's reportable segments are determined based on the following operations and geographic locations:

- USA Operations – includes the exploration for, development of, and production of oil and natural gas and other related activities within the US.
- Corporate & Other – includes all other activities that occur in Canada, the UK, Bermuda and sub-Saharan Africa.

	USA Operations		Corporate & Other		Consolidated	
For the years ended December 31	**2021**	2020	**2021**	2020	**2021**	2020
Revenue						
Petroleum sales, net of royalties	**15,003**	-	**-**	-	**15,003**	-
Realized loss on commodity derivatives – crude oil	**(2,274)**	-	**-**	-	**(2,274)**	-
Unrealized loss on commodity derivatives – crude oil	**(10,331)**	-	**-**	-	**(10,331)**	-
	2,398	-	**-**	-	**2,398**	-
Expenses						
Production taxes	**(1,900)**	-	**-**	-	**(1,900)**	-
Operating	**(4,279)**	-	**-**	-	**(4,279)**	-
Realized gain on commodity derivatives – butane	**2,816**	-	**-**	-	**2,816**	-
Unrealized gain on commodity derivatives – butane	**7,355**	-	**-**	-	**7,355**	-
Depletion, depreciation and amortization	**(3,592)**	-	**(90)**	(70)	**(3,682)**	(70)
General and administrative	**(1,508)**	-	**(6,794)**	(2,719)	**(8,302)**	(2,719)
Share-based compensation	**-**	-	**-**	(973)	**-**	(973)
Acquisition costs	**-**	-	**(2,159)**	(431)	**(2,159)**	(431)
Pre-license costs	**-**	-	**(300)**	(39)	**(300)**	(39)
Expected credit loss	**-**	-	**(1)**	(385)	**(1)**	(385)
	(1,108)	-	**(9,344)**	(4,617)	**(10,452)**	(4,617)
Financing expenses						
Finance costs, net	**(6,690)**	-	**(208)**	(372)	**(6,898)**	(372)
Gain (loss) on derivative liabilities	**3,587**	-	**(2,496)**	87	**1,091**	87
Gain on extinguishment of loan	**332**	-	**-**	13	**332**	13
Foreign exchange gain (loss), net	**5**	-	**(11)**	74	**(6)**	74
	(2,766)	-	**(2,715)**	(198)	**(5,481)**	(198)
Loss before investment in joint venture	**(1,476)**	-	**(12,059)**	(4,815)	**(13,535)**	(4,815)
Loss on investment in joint venture	**-**	-	**(1)**	(146)	**(1)**	(146)
Loss after investment in joint venture	**(1,476)**	-	**(12,060)**	(4,961)	**(13,536)**	(4,961)
Income tax expense	-	-	-	-	-	-
Net loss	**(1,476)**	-	**(12,060)**	(4,961)	**(13,536)**	(4,961)
Gain (loss) on translation of foreign subsidiaries	**-**	-	**48**	(99)	**48**	(99)
Comprehensive loss	**(1,476)**	-	**(12,012)**	(5,060)	**(13,488)**	(5,060)

	USA Operations		Corporate & Other		Consolidated	
As at December 31	**2021**	2020	**2021**	2020	**2021**	2020
Exploration and evaluation assets	**5,172**	-	**-**	-	**5,172**	-
Property and equipment, net	**77,855**	-	**151**	61	**78,006**	61
Total assets	**95,640**	-	**3,138**	6,992	**98,778**	6,992
Acquisitions	**45,079**	-	**-**	-	**45,079**	-
Property and equipment expenditures	**18,883**	-	**120**	31	**19,003**	31
Exploration and evaluation assets expenditures	**3,285**	-	**-**	-	**3,285**	-

27. COMMITMENTS

The Company is committed to buy field grade butane for its miscible flood in the BFU. The term of the agreement was for six months commencing on October 1, 2021 to March 31, 2022. The Company's remaining commitment resulting from this agreement subsequent to December 31, 2021 is $1.9 million.

In addition, as at December 31, 2021, the Company had an obligation to pay a bond of $0.1 million required by local regulators to operate in the State of Wyoming. The Company made a respective deposit in January 2022.

28. SUBSEQUENT EVENTS

Incentive stock options

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.

Tallgrass commitment

On May 18, 2021, the Company entered into a Natural Gas Liquids Purchase Agreement ("**Tallgrass Agreement**") with Tallgrass Midstream, LLC ("**Tallgrass**") whereby the Company will purchase all production of mixed natural gas liquids, consisting primarily of propane and butane, from the Tallgrass Douglas plant stabilizer (the "**Stabilizer**") and facilities at a price equal to the Conway In Well OPIS monthly average by product less $0.10, with title to the liquids passing at the Douglas Plant truck rack meter. Further to this agreement, the Company reimbursed $1.5 million gross ($0.9 million net) to Tallgrass for costs to construct the facilities, which became operational in October 2021. The term of the Tallgrass Agreement is for five years commencing with the in-service date of the facilities. As at December 31, 2021, there were no definitive minimum contracted volumes denoted within the Tallgrass Agreement.

Subsequent to year-end 2021, in anticipation that all of the production from the Stabilizer may not be required for the Company's 2022 miscible flood injections program, the Company signed an amendment to the Tallgrass Agreement (the "**Tallgrass Amendment**") on February 28, 2022. The Tallgrass Amendment includes a provision that in the event the Company purchases less than all production during any month of the term of the Tallgrass Agreement, the Company shall pay to Tallgrass an additional payment in an amount equal to (a) the number of gallons not taken during such month, multiplied by (b) the difference between (i) the price the Company would have paid to Tallgrass for such product and (ii) the price Tallgrass received from selling the gallons not taken into the local pipeline.

As a result, the Company estimated as at December 31, 2021, the minimum commitment pursuant to the Tallgrass Amendment to be as follows:

- $1.8 million for 2022; and
- $7.8 million from 2023 to September 2026.