CANADIAN OVERSEAS PETROLEUM LIMITED

SECOND QUARTER

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE THREE AND SIX MONTHS ENDED
JUNE 30, 2022 AND 2021
(UNAUDITED)

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

As at	Note	**June 30, 2022**	December 31, 2021
Assets			
Current:			
Cash and cash equivalents	4	**11,520**	7,841
Accounts receivable	6	**5,140**	6,875
Other current assets	7	**759**	674
		17,419	15,390
Non-current:			
Exploration and evaluation assets	8	**5,345**	5,172
Property and equipment, net	9	**77,516**	78,006
Right-of-use assets, net		**135**	166
Long-term deposits		**180**	44
		100,595	98,778
Liabilities			
Current:			
Accounts payable and accrued liabilities	10	**13,150**	12,438
Senior credit facility	11	**-**	36,372
Derivative liabilities	12	**319**	3,573
Commodity derivative net liability	19(a)	**7,870**	2,976
Current portion of lease liabilities		**79**	74
		21,418	55,433
Non-current liabilities:			
Senior credit facility	11	**34,478**	-
Derivative liabilities	12	**3,260**	-
Commodity derivative net liability	19(a)	**3,034**	-
Lease liabilities		**99**	143
Asset retirement obligations	13	**5,542**	8,191
		67,831	63,767
Shareholders' Equity			
Share capital	14	**201,537**	190,705
Warrants	15(a)	**1,092**	1,173
Contributed capital reserve	15(b)	**54,713**	51,260
Accumulated deficit		**(222,703)**	(205,927)
Accumulated other comprehensive loss		**(1,875)**	(2,200)
		32,764	35,011
		100,595	98,778

Going concern (note 2)
Commitments (note 22)
Subsequent events (note 23)

See accompanying notes to the unaudited condensed interim 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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS

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

	Note	Three months ended June 30, 2022	Three months ended June 30, 2021	Six months ended June 30, 2022	Six months ended June 30, 2021
Revenue					
Petroleum sales, net of royalties		**7,087**	3,435	**14,160**	3,932
Realized loss on commodity derivatives – crude oil		**(4,709)**	(261)	**(8,177)**	(261)
Unrealized gain (loss) on commodity derivatives – crude oil	19(a)	**667**	(9,437)	**(8,943)**	(7,183)
		3,045	(6,263)	**(2,960)**	(3,512)
Expenses					
Production taxes		**(898)**	(439)	**(1,791)**	(501)
Operating		**(1,318)**	(872)	**(2,634)**	(979)
Realized gain on commodity derivatives – butane		**2,072**	99	**4,649**	99
Unrealized (loss) gain on commodity derivatives – butane	19(a)	**(3,081)**	7,165	**1,015**	6,105
Depletion, depreciation and amortization		**(1,064)**	(975)	**(2,318)**	(1,139)
General and administrative	17	**(2,342)**	(1,942)	**(4,404)**	(3,365)
Share-based compensation	15(b)	**(124)**	-	**(3,453)**	-
Acquisition costs		**(52)**	(255)	**(52)**	(2,112)
Pre-license costs		**-**	(50)	**(87)**	(200)
		(6,807)	2,731	**(9,075)**	(2,092)
Financing expenses					
Finance costs, net	16	**(2,100)**	(2,047)	**(6,147)**	(2,920)
Gain (loss) on derivative liabilities	18	**3,698**	(155)	**2,108**	(10,868)
Foreign exchange (loss) gain, net		**(600)**	7	**(701)**	(100)
		998	(2,195)	**(4,740)**	(13,888)
Loss before investment in joint venture		**(2,764)**	(5,727)	**(16,775)**	(19,492)
Loss on investment in joint venture	5	**-**	-	**(1)**	(1)
Loss after investment in joint venture		**(2,764)**	(5,727)	**(16,776)**	(19,493)
Income tax expense		**-**	-	**-**	-
Net loss		**(2,764)**	(5,727)	**(16,776)**	(19,493)
Gain (loss) on translation of foreign subsidiaries		**244**	(4)	**325**	(33)
Comprehensive loss		**(2,520)**	(5,731)	**(16,451)**	(19,526)
Net loss per share – basic and diluted		**(0.01)**	(0.04)	**(0.08)**	(0.16)
Weighted average shares outstanding – basic and diluted		**232,927,156**	149,535,923	**213,829,409**	124,848,593

See accompanying notes to the unaudited condensed interim consolidated financial statements

CANADIAN OVERSEAS PETROLEUM LIMITED

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Unaudited (US$ thousands)

	Note	Share Capital	Warrants	Contributed Capital Reserve	Deficit	Accumulated Other Comprehensive Loss[1]	Total Shareholders' Equity
Balance as at December 31, 2020		142,639	145	51,260	(192,391)	(2,248)	(595)
Issued further to placings, net of issue costs		26,794	-	-	-	-	26,794
Issued further to CEO loan conversion		155	-	-	-	-	155
Issued further to business combination	3	4,000	-	-	-	-	4,000
Issued as payment of finders' and brokers' fees		2,313	-	-	-	-	2,313
Issued as payment of advisory fees		202	-	-	-	-	202
Issued further to exercise of unit warrants		368	-	-	-	-	368
Fair value of unit warrants issued as derivative liability		(2,132)	-	-	-	-	(2,132)
Fair value of unit warrants exercised		528	-	-	-	-	528
Fair value of finders' and brokers' warrants issued		-	955	-	-	-	955
Net loss and comprehensive loss for the period		-	-	-	(19,493)	(33)	(19,526)
Balance as at June 30, 2021		174,867	1,100	51,260	(211,884)	(2,281)	13,062
Balance as at December 31, 2021		**190,705**	**1,173**	**51,260**	**(205,927)**	**(2,200)**	**35,011**
Expiry of finders' warrants	14(b)	**307**	**(307)**	**-**	**-**	**-**	**-**
Share-based compensation	15(b)	**-**	**-**	**3,453**	**-**	**-**	**3,453**
Issued further to placing, net of issue costs	14(c)	**11,794**	**-**	**-**	**-**	**-**	**11,794**
Fair value of unit warrants issued as derivative liability	14(c)	**(1,269)**	**-**	**-**	**-**	**-**	**(1,269)**
Fair value of brokers' warrants issued	14(c)	**-**	**226**	**-**	**-**	**-**	**226**
Net loss and comprehensive loss for the period		**-**	**-**	**-**	**(16,776)**	**325**	**(16,451)**
Balance as at June 30, 2022		**201,537**	**1,092**	**54,713**	**(222,703)**	**(1,875)**	**32,764**

(1) As at June 30, 2022 and 2021, the accumulated other comprehensive loss balance consists of unrealized foreign exchange on the translation of foreign subsidiaries.

See accompanying notes to the unaudited condensed interim consolidated financial statements

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

	Note	Three months ended June 30, 2022	2021	Six months ended June 30, 2022	2021
Cash Flow From (Used In) Operating Activities:					
Net loss		**(2,764)**	(5,727)	**(16,776)**	(19,493)
Add (deduct) non-cash items:					
Depletion, depreciation and amortization		**1,064**	975	**2,318**	1,139
Unrealized (gain) loss on commodity derivatives – crude oil	19(a)	**(667)**	9,437	**8,943**	7,183
Unrealized loss (gain) on commodity derivatives – butane	19(a)	**3,081**	(7,165)	**(1,015)**	(6,105)
Finance costs, net	16	**2,100**	2,047	**6,147**	2,920
(Gain) loss on derivative liabilities	18	**(3,698)**	155	**(2,108)**	10,868
Share-based compensation	15(b)	**124**	-	**3,453**	-
Unrealized foreign exchange loss (gain), net		**494**	(18)	**601**	10
		(266)	(296)	**1,563**	(3,478)
Net change in non-cash operating working capital	21	**1,897**	300	**4,015**	(3,717)
		1,631	4	**5,578**	(7,195)
Cash Flow From (Used In) Financing Activities:					
Issuance of share capital, net of issue costs	14(c)	**12,019**	9	**12,019**	25,245
Issuance of share capital for warrants exercised		**-**	1,889	**-**	1,889
(Repayment of) gross proceeds from senior credit facility	11	**(2,883)**	-	**(2,883)**	45,000
Lender's & borrower's fees paid on senior credit facility		**(1,475)**	(15)	**(1,506)**	(3,445)
Interest paid on senior credit facility	16	**(1,422)**	(1,422)	**(2,976)**	(1,656)
Repayment of loan		**-**	-	**-**	(683)
Financing expense		**(8)**	-	**(13)**	-
Payment of lease obligations, net of rent concessions		**(20)**	(47)	**(38)**	(62)
Net change in non-cash financing working capital	21	**(1,665)**	(287)	**(316)**	(105)
		4,546	127	**4,287**	66,183
Cash Flow From (Used In) Investing Activities:					
Acquisitions	3(b)	**-**	(5,000)	**-**	(45,079)
Acquisitions cash acquired	3(b)	**-**	-	**-**	9,160
Property and equipment expenditures	9	**(1,681)**	(5,202)	**(4,420)**	(5,449)
Exploration and evaluation asset expenditures	8	**(9)**	(217)	**(274)**	(217)
Additions to investment in joint venture	5	**-**	-	**(1)**	(1)
Interest		**6**	1	**6**	1
Net change in non-cash investing working capital	21	**496**	(3,192)	**(1,144)**	(3,267)
		(1,188)	(13,610)	**(5,833)**	(44,852)
Change in cash and cash equivalents during the period		**4,989**	(13,479)	**4,032**	14,136
Effect of foreign exchange held in foreign currencies		**(327)**	35	**(353)**	15
Cash and cash equivalents, beginning of year		**6,858**	28,996	**7,841**	1,401
Cash and cash equivalents, end of period		**11,520**	15,552	**11,520**	15,552

See accompanying notes to the unaudited condensed interim consolidated financial statements

1. NATURE OF OPERATIONS

Canadian Overseas Petroleum Limited ("**COPL**" or the "**Company**"), is a widely held, publicly traded company incorporated and domiciled in Canada. The Company's common shares with no par value (the "**Common Shares**") are 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 June 30, 2022, the Company had ten subsidiaries, all of which are wholly owned directly or indirectly. The Company is pursuing opportunities in Nigeria with a joint venture partner (see note 5).

2. BASIS OF PREPARATION

Basis of Preparation and Compliance

These unaudited condensed interim consolidated financial statements (the "**Financial Statements**") present the Company's financial results of operations and financial position pursuant to International Financial Reporting Standards ("**IFRS**") as at and for the three and six months ended June 30, 2022 and 2021. The Financial Statements have been prepared in accordance with International Accounting Standard ("**IAS**") 34 "*Interim Financial Reporting"*, as issued by the International Accounting Standards Board ("**IASB**").

The Financial Statements have been prepared following the same IFRS accounting policies and methods of computation as disclosed in the annual audited consolidated financial statements for the year ended December 31, 2021. Certain information and disclosures normally required to be included in the notes to the annual audited consolidated financial statements have been condensed, omitted or have been disclosed on an annual basis only. Accordingly, the Financial Statements should be read in conjunction with the annual audited consolidated financial statements and the notes thereto for the year ended December 31, 2021.

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

These Financial Statements were authorized for issue by the Company's Board of Directors on August 15, 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. The Company is pursuing exploration and development projects and contracts that will require additional financing before they are able to generate positive operating cash flows. As indicated in notes 14 and 23, the Company closed financings comprising of a brokered placing in April 2022 and convertible bonds issued in July 2022, however, there is no guarantee the funds will be sufficient and there is no assurance that the Company will be able to raise the additional funds necessary to finance the Company's significant exploration and development opportunities on terms acceptable to the Company. Therefore the Company may not be able to meet its current forecasted operating and capital expenditure obligations 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.

Current Environment and Estimation Uncertainty

Management makes judgements and assumptions about the future in deriving estimates used in preparation of these Financial Statements in accordance with IFRS. Sources of estimation uncertainty include estimates used to determine economically recoverable oil and natural gas reserves, the fair value of assets acquired and liabilities assumed in a business combination, the recoverable amount of long-lived assets or cash-generating units, the fair value of share-based compensation, warrants and financial derivatives, the provision for asset retirement obligations and the fair value assigned to the host contract of the senior credit facility and the embedded derivatives and warrants associated with this debt.

During 2022, the global economy showed strong signs of recovery from the impacts of the COVID-19 pandemic. Benchmark oil and natural gas prices have increased significantly due to the easing of COVID-19 restrictions, the recent conflict between Russia and Ukraine raising global concern over oil and natural gas supply and other negative economic factors including supply constraints and labour shortages, which have increased inflationary pressures on governments, businesses and communities. The COVID-19 pandemic, recent global conflicts and other negative economic factors remain evolving situations that have had, and may continue to have, a significant impact on the Company's business, results of operations, financial condition and the environment in which it operates. Management cannot reasonably estimate the length or severity of these global events, or the extent to which the disruption will impact the Company long-term.

Future Changes in Accounting Policies

Amendments to IAS 1 – "Presentation of Financial Statements"

The amendments clarify how to classify debt and other liabilities as current or non-current. The amendments to IAS 1 apply to annual reporting periods beginning on or after January 1, 2023. The Company is currently assessing the impact of these amendments.

IFRS Interpretation Committee Agenda Decision - Cash with Restriction on Use Arising from a Contract with a Third Party (IAS 7 Statement of Cash Flow)

In April 2022, the IFRS Interpretation Committee ("**IFRS IC**") concluded that restrictions on the use of cash held in escrow accounts arising from a contract with a third party may change the nature of the cash in a way that it would no longer meet the definition of cash in IAS 7 *"Statement of Cash Flow"*. If the entity cannot access the cash held in escrow, the entity should not include the escrowed funds as a component of "cash and cash equivalents" in the statements of financial position and the statements of cash flows. The Company is currently assessing the impact of this IFRS IC agenda decision.

3. BUSINESS COMBINATION

(a) Summary of the Acquisition

On March 16, 2021, COPL closed the acquisition of 100% of Atomic Oil & Gas LLC ("**Atomic**"), Southwestern Production Corp. ("**SWP**") and Pipeco LLC ("**Pipeco**") (entities collectively, the "**Atomic Group**") (together the "**Atomic Group Acquisition**") for aggregate consideration of $54.1 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 Atomic Group Acquisition established COPL as an oil producing company with revenue generation and growth opportunities in the US.

The Atomic Group's assets are located in the Powder River Basin, Wyoming, US, which includes two oil production units within its land position: 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 "**BFDU**"). Pipeco holds a 100% interest in a gas pipeline and infrastructure that services the Barron Flats area. The Atomic Group 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 asset retirement obligations ("**ARO**") associated with the acquired assets were subsequently remeasured at the end of the reporting period using a risk-free discount rate, with the revaluation changes recognized in ARO and associated property and equipment balances in the Financial Statements (see note 13).

Unaudited (all amounts in US$ thousands, except otherwise stated)

(b) Purchase price allocation

In accordance with the Atomic SPA, the $54.1 million purchase price consisted of $50.1 million in cash and $4.0 million settled through the issuance of 8,188,733 Common Shares (collectively, the "**Atomic Purchase Price**").

The following purchase price allocation was based on management's best estimate of the fair value assigned to the assets acquired and the liabilities assumed as at March 16, 2021.

	Amount
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 8)	1,665
P&E assets (note 9)	55,659
Right-of-use assets	41
ARO (note 13)	(977)
Total identifiable net assets	**54,079**
Goodwill (bargain purchase gain)	-

(c) Acquisition costs

Acquisition costs directly attributable to the Atomic Group Acquisition were expensed as incurred. In aggregate, the Company incurred $2.6 million in acquisition costs. These acquisition costs exclude share issuance costs that are netted against share capital in the Financial Statements.

4. CASH AND CASH EQUIVALENTS

	June 30, 2022	December 31, 2021
Cash	**10,450**	6,389
Escrow accounts	**1,015**	1,397
Credit card deposits	**55**	55
Balance, end of the period	**11,520**	7,841

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

Escrow amounts of $1.0 million as at June 30, 2022 relate to cash held in escrow accounts with respect to certain production taxes and royalty payments, pursuant to US legal requirements.

The fair value of cash and cash equivalents was $11.5 million as at June 30, 2022 (December 31, 2021 - $7.8 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 June 30, 2022 and December 31, 2021.

Unaudited (all amounts in US$ thousands, except otherwise stated)

5. 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. 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 June 30, 2022, 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 net loss for the six months ended June 30, 2022 ($1,000 for the six months ended June 30, 2021).

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

6. ACCOUNTS RECEIVABLE

	June 30, 2022	December 31, 2021
Revenue receivable	**1,355**	432
Joint interest receivable	**3,371**	5,821
Realized commodity contracts receivable	**-**	49
Share issuance receivable	**-**	500
Other receivables	**414**	73
Balance, end of the period	**5,140**	6,875

The joint interest receivable of $3.4 million includes $1.8 million from Cuda Energy LLC ("**Cuda**"), a joint interest partner in the Atomic Group's assets, which has been placed into receivership. As disclosed in note 23, on July 26, 2022, the Company closed the acquisition of all Cuda's interests in the Atomic Group assets for cash consideration of $19.15 million plus the assumption of Cuda's operating arrears owed to SWP of $1.8 million.

7. OTHER CURRENT ASSETS

	June 30, 2022	December 31, 2021
Prepaid expenses	**496**	579
Oil inventory	**99**	82
Deferred share issue costs	**47**	-
Deferred financing costs	**107**	-
Short-term deposits	**10**	13
Balance, end of the period	**759**	674

8. EXPLORATION AND EVALUATION ASSETS

	June 30, 2022	December 31, 2021
Balance, beginning of the year	**5,172**	-
Acquisition (note 3b)	**-**	1,665
Additions	**274**	3,285
Change in ARO	**(101)**	222
Balance, end of the period	**5,345**	5,172

Unaudited (all amounts in US$ thousands, except otherwise stated)

Exploration and evaluation ("**E&E**") assets acquired in 2021 for $1.7 million relate to the undeveloped land acquired as part of the Atomic Group Acquisition that will require future exploration activities and is pending a determination of proven or probable reserves.

E&E additions and the change in ARO assets of $0.2 million (December 31, 2021 - $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 identified a significant new oil field development project and will be a critical source of knowledge and information to evaluate and plan the operational approach of the future drill program, the costs of the discovery well remain in E&E assets as at June 30, 2022.

Impairment

There are no indicators of impairment as at June 30, 2022.

9. PROPERTY AND EQUIPMENT

	Developed & Producing Assets	Administrative Assets	Total
Cost:			
Balance, January 1, 2021	-	313	313
Acquisition	55,609	50	55,659
Additions	18,730	273	19,003
Disposals	-	(2)	(2)
Change in ARO	6,863	-	6,863
Balance, December 31, 2021	81,202	634	81,836
Additions	4,346	74	4,420
Change in ARO	(2,623)	-	(2,623)
Balance, June 30, 2022	**82,925**	**708**	**83,633**
Accumulated depletion and depreciation:			
Balance, January 1, 2021	-	(252)	(252)
Depletion and depreciation	(3,526)	(54)	(3,580)
Disposals	-	2	2
Balance, December 31, 2021	(3,526)	(304)	(3,830)
Depletion and depreciation	(2,247)	(40)	(2,287)
Balance, June 30, 2022	**(5,773)**	**(344)**	**(6,117)**
Net carrying amount, December 31, 2021	77,676	330	78,006
Net carrying amount, June 30, 2022	**77,152**	**364**	**77,516**

Developed and producing ("**D&P**") assets relate primarily to two oil producing units that were included in the Atomic Group Acquisition and a gas pipeline that services the BFU for the purpose of the miscible flood recovery program. As at June 30, 2022, estimated future development costs of $268.4 million (December 31, 2021 - $272.4 million) 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 June 30, 2022.

Unaudited (all amounts in US$ thousands, except otherwise stated)

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	June 30, 2022	December 31, 2021
Trade payables and accrued liabilities	**4,797**	6,019
Revenue related payable	**4,238**	3,313
Production taxes payable	**4,114**	3,105
Other	**1**	1
Balance, end of the period	**13,150**	12,438

11. 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 "**COPLA**"), 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 COPLA 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 March 16, 2021, and the remainder for funding ongoing US operations. The Senior Credit Facility is secured with all the assets of COPLA.

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 paid monthly in arrears. The outstanding loan principal is repaid monthly by COPLA's cash resources less expenditures approved by the Lender in excess of $2.5 million, or COPLA may prepay amounts outstanding subject to prepayment premiums. The Senior Credit Facility includes mandatory prepayments toward amounts outstanding for any COPLA transactions that are: (i) assets sales greater than $0.15 million per transaction or $0.25 million in aggregate over the term of the Senior Credit Facility; (ii) insurance proceeds greater than $0.15 million and (iii) issuance of indebtedness, extraordinary receipts and equity issuances by COPLA.

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 2.75:1) 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 COPLA and its US subsidiaries.

Under a separate warrant purchase agreement dated March 16, 2021, the Lender was granted warrants representing 5% of the fully diluted common shares of COPLA for an exercise price of $0.01 per share. Pursuant to a third amending agreement to the Senior Credit Facility effective as of March 31, 2022, the Lender was granted on April 6, 2022 warrants representing an additional 1% of the fully diluted common shares of COPLA for an exercise price of $0.01 per share for a combined total warrant coverage of 6% of such fully diluted shares (collectively, 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) March 16, 2025. Upon the occurrence of certain trigger events, the Lender would be entitled to redeem such Lender Warrants for an amount equal to the greater of 6% of the Company's market capitalization and 6% of the net asset value of COPLA at such time, subject to certain adjustments. 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 the overall determination of the effective interest rate for the facility. As the Lender Warrants are puttable financial instruments at the option of the Lender, following the occurrence of certain trigger events, the Lender Warrants 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 loss.

Unaudited (all amounts in US$ thousands, except otherwise stated)

On June 30, 2022, pursuant to a fourth amending agreement to the Senior Credit Facility, the Company repaid $2.9 million of the principal loan balance and $0.3 million in related fees that were recognized as finance costs. Accordingly, the outstanding principal amount of the Senior Credit Facility was $42.1 million as at June 30, 2022.

The following table provides a summary of the Senior Credit Facility including associated derivative liabilities as at June 30, 2022:

	Senior Credit Facility	Derivative Liabilities (note 12)	Total
Principal amount	45,000	-	45,000
Lender's closing and legal costs (c)	(1,870)	-	(1,870)
Borrower's closing and legal costs (c)	(1,560)	-	(1,560)
Initial valuation of Lender Warrants (a)	(4,900)	4,900	-
Initial valuation of LIBOR floor (b)	(2,252)	2,252	-
Financing costs expensed upon initial valuation (c)	545	-	545
Lender Warrants revalued as at December 31, 2021 (a)	-	(2,650)	(2,650)
LIBOR floor revaluation as at December 31, 2021 (b)	-	(937)	(937)
Accretion	1,409	-	1,409
Balance, December 31, 2021	36,372	3,565	39,937
Lender Warrants revaluation as at June 30, 2022 (a)	-	710	710
LIBOR floor revaluation as at June 30, 2022 (b)	-	(1,015)	(1,015)
Repayment of principal amount	(2,883)	-	(2,883)
Accretion (note 16)	989	-	989
Balance, June 30, 2022	**34,478**	**3,260**	**37,738**

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 June 30, 2022, the Lender Warrants were revalued at $3.0 million using 6% of COPL's market capitalization on a fully diluted basis (December 31, 2021 - $2.3 million using 5% of COPL's market capitalization on a fully diluted basis). The resulting change in fair value of $0.7 million related to an initial valuation of the additional 1% Lender Warrants of $0.9 million recognized in financing costs pursuant to a third amending agreement to the Senior Credit Facility and an offsetting gain on derivative liabilities of $0.2 million for the six months ended June 30, 2022 (see note 18).

(b) The LIBOR floor was assessed to be an embedded derivative. As at March 16, 2021, the LIBOR floor was in-the-money, and the forward curve for 1-month LIBOR over the term of the SCF indicated 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 June 30, 2022, the LIBOR floor was revalued at $0.3 million (December 31, 2021 - $1.3 million) and the resulting change in fair value of $1.0 million was recognized in net loss for the six months ended June 30, 2022 (see note 18).

(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 six months ended June 30, 2022, COPLA paid interest on this loan in the amount of $3.0 million (see note 16).

Unaudited (all amounts in US$ thousands, except otherwise stated)

As at December 31, 2021, the Borrower was considered to be in default on the Senior Credit Facility with respect to the following:

- failure to meet liquidity covenants at the end of November 2021 and the end of February 2022 due mainly to an uncollected joint interest receivable from Cuda that was in receivership as disclosed in note 23; and
- failure to notify the Lender of material events involving Cuda.

Due to these defaults, the Company had classified the Senior Credit Facility as a current liability as at December 31, 2021. On March 31, 2022, the Borrower received a waiver from the Lender with respect to the above-noted defaults subject to certain conditions and fees. Due to the waiver, the Company is no longer in default on the Senior Credit Facility and the indebtedness has been classified as a non-current liability as at March 31, 2022 and June 30, 2022.

The Company has satisfied the following conditions of the above-noted waiver:

- submitted an Approved Plan of Development ("**APOD**") related to spending from March 31, 2022 to June 30, 2022 and the Lender has approved as at April 15, 2022;
- submitted an APOD related to spending from March 31, 2022 to December 31, 2022 and the Lender has approved as at June 30, 2022;
- the waiver fee of $1.18 million has been reflected in finance costs (see note 16) and paid on June 30, 2022; and
- the Lender Warrants that in aggregate are exercisable for 6% of the common shares in the Borrower have been issued.

On June 30, 2022, pursuant to a fourth amending agreement to the Senior Credit Facility, the Borrower received a waiver from the Lender for not meeting the requirements of the leverage ratio of 2.75:1.0 as at June 30, 2022 subject to certain conditions including delivery of updated APODs by September 30, 2022 and December 31, 2022 and closing the acquisition of Cuda assets by July 31, 2022, which has been satisfied as disclosed in note 23. Due to the waiver, the Company is not in default on the Senior Credit Facility and the indebtedness has been classified as a non-current liability as at June 30, 2022.

12. DERIVATIVE LIABILITIES

	June 30, 2022	December 31, 2021
2020 short-term loan warrants	**-**	8
April 2022 Unit Warrants (note 14c)	**319**	-
Lender Warrants (note 11a)	**-**	2,250
LIBOR floor (note 11b)	**-**	1,315
Current derivative liabilities	**319**	3,573
Lender Warrants (note 11a)	**2,960**	-
LIBOR floor (note 11b)	**300**	-
Non-current derivative liabilities	**3,260**	-

The resulting impact on net loss for the six months ended June 30, 2022 and for the year ended December 31, 2021 from the remeasurement of these derivative liabilities at the reporting period end is disclosed in note 18.

Due to the classification of the Senior Credit Facility as a current liability as at December 31, 2021, as disclosed in note 11, the Lender Warrants and LIBOR floor were also classified as a current liability due to being aligned with the Senior Credit Facility.

Unaudited (all amounts in US$ thousands, except otherwise stated)

13. ASSET RETIREMENT OBLIGATIONS

	June 30, 2022	December 31, 2021
Balance, beginning of the year	**8,191**	-
Obligations acquired (note 3b)	**-**	977
Obligations incurred	**-**	214
Revaluation of obligations acquired	**-**	6,027
Change in estimates	**(2,724)**	844
Accretion	**75**	129
Balance, end of the period	**5,542**	8,191

The Company's ARO relates to the net ownership interests in oil and gas assets, including well sites and processing facilities that were acquired in the Atomic Group Acquisition. The Company estimates the undiscounted and inflation adjusted value of total ARO to be $15.1 million as at June 30, 2022 (December 31, 2021 - $15.7 million). The majority of these obligations are anticipated to be incurred 20 to 43 years in the future. As at June 30, 2022, the ARO was calculated using a discount factor of 3.38% (December 31, 2021 - 1.94%), being the risk-free rate based on US long-term bonds and an inflation rate of 2.0% per annum (December 31, 2021 - 2.0%).

14. 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:

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

Unaudited (all amounts in US$ thousands, except otherwise stated)

Issued

The issued share capital is as follows:

	Number of Common Shares	Amount
Balance, January 1, 2021	48,721,981	142,639
Issued pursuant to January 2021 non-brokered placing	44,425,000	12,072
Issued pursuant to CEO loan conversion	575,000	155
Fair value of January 2021 unit warrants as derivative liability	-	(2,132)
Issued as payment of January 2021 2nd finders' fee	2,850,417	1,347
Issued pursuant to March 2021 brokered placing	41,715,625	18,652
Issued as payment of March 2021 brokers' fee	2,034,375	966
Issued pursuant to exercise of January 2021 unit warrants	15,300,000	5,479
Fair value of January 2021 unit warrants exercised	-	4,590
Issued as payment of purchase price of Atomic (note 3)	8,188,733	4,000
Issued as payment of advisory services	250,000	202
Issued pursuant to exercise of 2020 3rd finders' warrants	208,333	112
Fair value of expired and exercised 2020 3rd finders' warrants	-	63
Issued pursuant to December 2021 brokered placing	28,435,000	7,531
Issued as payment of December 2021 brokers' fee	1,815,000	481
2021 share issue costs	-	(5,452)
Balance, December 31, 2021	194,519,464	190,705
Fair value of expired January 2021 finders' warrants (b)	-	307
Issued pursuant to April 2022 brokered placing (c)	49,930,000	12,834
Fair value of April 2022 unit warrants as derivative liability (c)	-	(1,269)
2022 share issue costs (c)	-	(1,040)
Balance, June 30, 2022	**244,449,464**	**201,537**

(b) Expired Finders' Warrants

On January 8, 2022, the January 8, 2021 1st finders' warrants of 187,500 and January 8, 2021 2nd finders' warrants of 3,054,018 have expired unexercised. The fair value of the unexercised warrants for a total amount of $0.3 million was recognized as an addition to share capital and a respective decrease in the warrants.

(c) April 2022 Brokered Placing

On April 22, 2022, further to a brokered placing that closed in the UK (the "**April 2022 Brokered Placing**"), the Company issued a total of 49,930,000 units at a price of £0.20 ($0.26) per unit for gross proceeds of £10.0 million ($12.8 million). Each unit consisted of one Common Share and one half of one Common Share purchase warrant ("**April 2022 Unit Warrants**"). Each April 2022 Unit Warrant entitles the holder thereof to purchase one Common Share at an exercise price of £0.24 ($0.31) per share on or before October 22, 2022.

The fair value of the 24,965,000 Unit Warrants was estimated at $1.3 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 $1.3 million was recognized as at April 22, 2022. The exercise price of the April 2022 Unit Warrants is denominated in GBP, and the Company's functional currency is US$. Accordingly, due to the variability in these exchange rates, the April 2022 Unit Warrants are classified as a derivative financial instrument. The April 2022 Unit Warrants were revalued as at June 30, 2022 to $0.3 million, and a related derivative gain of $1.0 million was recognized in net loss for the six months ended June 30, 2022 (see note 18).

In connection with the April 2022 Brokered Placing, the Company paid in cash a brokers' fee of approximately £0.5 million ($0.6 million) and issued 1,997,200 Common Share purchase warrants ("**April 2022 Brokers' Warrants**") to the brokers as an additional compensation. Each April 2022 Brokers' Warrant entitles the holder thereof to purchase one Common Share of the Company at an exercise price of £0.25 ($0.32) per Common Share on or before April 22, 2024. The fair value of the April 2022 Brokers' Warrants of $0.2 million, estimated using a Black-Scholes option pricing model with assumptions as noted in a table below, was recognized in equity as warrants and netted against proceeds from the April 2022 Brokered Placing as share issue costs.

Unaudited (all amounts in US$ thousands, except otherwise stated)

The Company incurred approximately $1.0 million of total costs in connection with the April 2022 Brokered Placing. In addition to brokers' fees paid in cash and the fair value of warrants issued to brokers, these share issue costs also include legal, LSE, transfer agent, and consulting fees of approximately $0.2 million.

The Company intends to use the net proceeds from the April 2022 Brokered Placing to finance operating and capital expenditures and to cover the Company's ongoing general and administrative costs.

The following assumptions were used for the Black-Scholes option pricing model to estimate the fair value of the April 2022 Unit Warrants and the April 2022 Brokers' Warrants at the valuation dates:

	Brokers' Warrants April 22, 2022	Unit Warrants April 22, 2022	Unit Warrants June 30, 2022
Risk-free interest rate	1.72%	1.26%	1.19%
Weighted average life (years)	2.0	0.5	0.3
Expected volatility	90%	90%	90%
Expected dividend yield	-	-	-
COPL's share price*	$0.26	$0.26	$0.19

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

Unaudited (all amounts in US$ thousands, except otherwise stated)

15. 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 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.

A summary of the Company's post-Share Consolidation Common Share purchase warrants outstanding at June 30, 2022 is as follows:

	Number of Warrants	Weighted Average Exercise Price (US$)*	Amount	Expiry Date
Balance, January 1, 2021	1,735,000	0.49	145	(Jul 24/21 to Jul 2/22)
Issued January 2021 – unit warrants	22,500,000	0.35	-	Jan 8/22
Issued January 2021 – 1st finders' warrants	187,500	0.35	18	Jan 8/22
Issued January 2021 – 2nd finders' warrants	3,054,018	0.35	289	Jan 8/22
Issued March 2021 – brokers' warrants	2,625,000	0.44	647	Mar 8/23
Issued December 2021 – brokers' warrants	1,815,000	0.32	137	Dec 3/22
Exercised January 2021 – unit warrants	(15,300,000)	0.35	-	Jan 8/22
Exercised 2020 UK placing – 3rd finders' warrants	(208,333)	0.50	(40)	Jul 24/21
Expired 2020 UK placing – 3rd finders' warrants	(116,667)	0.50	(23)	Jul 24/21
Balance, December 31, 2021	16,291,518	0.38	1,173	(Jan 8/22 to Mar 8/23)
Expired January 2021 – unit warrants	(7,200,000)	0.35	-	Jan 8/22
Expired 2021 – 1st finders' warrants (note 14b)	(187,500)	0.35	(18)	Jan 8/22
Expired 2021 – 2nd finders' warrants (note 14b)	(3,054,018)	0.35	(289)	Jan 8/22
Issued April 2022 – unit warrants (note 14c)	24,965,000	0.31	-	Oct 22/22
Issued April 2022 – brokers' warrants (note 14c)	1,997,200	0.32	226	April 22/24
Balance, June 30, 2022	**32,812,200**	**0.33**	**1,092**	(Jul 2/22 to April 22/24)

*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 June 30, 2022, 1,000,000 warrants related to a 2020 short-term loan and 410,000 finders' warrants related to a July 2020 placing expired unexercised on July 2, 2022.

Unaudited (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 Company has a stock option plan where the number of Common Shares reserved under the plan shall not exceed 10% of the issued and outstanding Common Shares and the number reserved for any one individual may not exceed 5% of the issued and outstanding Common Shares. Exercise prices for stock options granted are determined by the closing market price on the day before the date of grant.

On January 29, 2022, the Company granted to its directors, officers and employees 15,430,000 stock options to acquire the Company's Common Shares at an exercise price of $0.42 (CAD$0.54) per share, with 13,380,000 options vesting immediately and 2,050,000 vesting after the first anniversary of the date of grant and all options expire five years from the date of grant. The related share-based compensation expense of $0.1 million and $3.5 million has been recognized in the net loss for the three and six months ended June 30, 2022, respectively and as an 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:

	January 29, 2022
Risk-free interest rate	1.42%
Weighted average life (years)	3.0
Expected volatility	90%
Expected dividend yield	-
COPL's share price*	$0.42

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

As at June 30, 2022, a total of 19,136,644 stock options to purchase Common Shares were outstanding, having a weighted average exercise price of $0.45 per Common Share and a remaining weighted average contractual life of 4.2 years.

	Number of Options	**Weighted Avg. Exercise Price (US$)***	**Contributed Capital Reserve Amount**
Balance, January 1, 2021	4,490,139	1.41	51,260
Expired	(474,400)	8.64	-
Balance, December 31, 2021	4,015,739	0.56	51,260
Granted	15,430,000	0.42	3,453
Forfeited	(309,095)	0.56	-
Balance, June 30, 2022	**19,136,644**	**0.45**	**54,713**

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

Unaudited (all amounts in US$ thousands, except otherwise stated)

16. FINANCE COSTS

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	**2022**	2021
Interest expense on the SCF (note 11)	**1,422**	1,422	**2,976**	1,656
Financing costs	**303**	217	**2,437**	762
Interest on lease liabilities	**2**	3	**4**	5
Interest income	**(175)**	(25)	**(334)**	(25)
Accretion of the SCF (note 11)	**510**	415	**989**	504
Accretion of ARO (note 13)	**38**	15	**75**	18
Finance costs, net	**2,100**	2,047	**6,147**	2,920

17. GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	**2022**	2021
Salaries, benefits and consultants	**1,701**	1,471	**3,337**	2,575
Other[1]	**641**	471	**1,067**	790
General and Administrative	**2,342**	1,942	**4,404**	3,365

(1) includes costs such as rent and office expenses, professional fees, insurance, computer software licenses, stock exchange fees, transfer agent fees and other business expenses incurred by the Company.

18. LOSS (GAIN) ON DERIVATIVE LIABILITIES

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	**2022**	2021
Lender warrants revaluation	**(2,550)**	100	**(208)**	2,480
LIBOR interest rate floor revaluation	**(217)**	(133)	**(1,015)**	(237)
Unit warrants revaluation	**(882)**	203	**(882)**	8,332
2020 short term loan warrants revaluation	**(49)**	(15)	**(3)**	293
Loss (gain) on derivative liabilities	**(3,698)**	155	**(2,108)**	10,868

19. FINANCIAL INSTRUMENTS

The Company measures financial assets and financial liabilities at fair value on initial recognition, which is typically the transaction price unless a financial instrument contains a significant financing component. Measurement in subsequent periods depends on the financial instrument's classification, as described below.

- Fair value through profit or loss - financial instruments designated at fair value through profit or loss are initially recognized and subsequently measured at fair value with changes in those fair values immediately charged to net income (loss). Under this classification, the Company included the 2020 short-term loan warrants, the Lender Warrants (see note 11a), LIBOR floor (see note 11b), April 2022 Unit Warrants (see note 14c) and the commodity derivatives (see note 19a).
- Amortized cost - financial instruments designated at 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 11) 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 that have an impact on the estimated future cash flows of the financial asset and that impact can be reliably measured. The Company uses a combination of historical and forward-looking information to determine the appropriate expected credit loss. The carrying amount of the asset is reduced through the use of an allowance account, and the loss is recognized in net income (loss).

Fair value

As at June 30, 2022, 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 value of the Senior Credit Facility at amortized cost approximates fair value as at June 30, 2022.

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.

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 consists 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. The 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.

Unaudited (all amounts in US$ thousands, except otherwise stated)

Effective March 15, 2021, in anticipation of the closing of the Atomic Group Acquisition and satisfying conditions attached to the Senior Credit Facility, the Company had entered into a master risk management agreement with a third-party institution. The Company has in place the following commodity risk management contracts with respect to the sale of crude oil production and the purchase of butane used in the miscible flood recovery program.

Commodity	Fixed price SWAP	Total notional volumes	Term	Average price (US$)	Fair Value
Crude oil	WTI Futures	200,309 barrels	Jul 1/22 to Dec 31/22	$56.58	**(7,955)**
Crude oil	WTI Futures	416,772 barrels	Jan 1/23 to Feb 29/24	$52.87	**(11,319)**
			Commodity derivative liability		**(19,274)**
Butane	Normal (NC4)	5,104,219 gallons	Jul 1/22 to Dec 31/22	$0.7675	**3,243**
Butane	Normal (NC4)	9,921,552 gallons	Jan 1/23 to Feb 29/24	$0.6700	**5,127**
			Commodity derivative asset		**8,370**
			Net derivative liability		**(10,904)**
Current - commodity derivative liability					**(7,870)**
Non-current - commodity derivative liability					**(3,034)**

(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.

As at June 30, 2022, the resulting fair value of these contracts has been recognized in the Financial Statements as a Level 2 current commodity derivative liability of $7.9 million (December 31, 2021 - $3.0 million) and a non-current commodity derivative liability of $3.0 million (December 31, 2021 - $NIL). Due to the classification of the Senior Credit Facility as a current liability as at December 31, as disclosed in note 11, the commodity derivatives beyond 2022 had also been classified as a current liability in the amount of $3.0 million as at December 31, 2021, due to the commodity derivative agreements being aligned with that of the Senior Credit Facility.

In respect of these commodity derivative contracts, the Company recognized in its Financial Statements:

- an unrealized gain of $0.7 million and an unrealized loss of $8.9 million on crude oil contracts for the three and six months ended June 30, 2022, respectively ($9.4 and $7.2 million of unrealized losses for the three and six months ended June 30, 2021); and
- an unrealized loss of $3.1 million and an unrealized gain of $1.0 million on butane contracts for the three and six months ended June 30, 2022, respectively ($7.2 and $6.1 million of unrealized gains for the three and six months ended June 30, 2021).

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 June 30, 2022, 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 $1.4 million as at June 30, 2022, was owing from one company. The Company's joint interest receivables of $3.4 million as at June 30, 2022, include $1.8 million due from Cuda, and as disclosed in note 23, on July 26, 2022, the Company closed the acquisition of all Cuda's interests in the Atomic Group assets, which resulted in the settlement of the joint interest receivable balance. As such, the Company considers all of its accounts receivable as at June 30, 2022 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 June 30, 2022, the Company holds $11.5 million of cash and cash equivalents with Canadian, US and Bermudian chartered banks (December 31, 2021 - $7.8 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, the Company recognized a full allowance for expected credit loss as follows:

	June 30, 2022	December 31, 2021
Long-term receivable	**387**	386
Allowance for expected credit loss	**(387)**	(386)
	-	-

(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. Management monitors the LIBOR forward curve, which currently is expected to be over 2.0% in July 2022 and varies between 2.3% and 3.5% for the remaining monthly periods until maturity of the facility in March 2025. The current, maximum interest risk exposure is approximately $0.6 million of additional interest expense per annum, assuming a LIBOR rate of 3.5% is applicable for the full year.

(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)	**June 30, 2022**	December 31, 2021
GBP	**238**	1,125
Canadian dollars	**1,805**	281

(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 June 30, 2022 are outlined in the table below:

	2022	**2023-2024**	**2025-2027**	**Thereafter**
Accounts payable and accrued liabilities	13,150	-	-	-
Senior Credit Facility (note 11)	-	-	42,117	-
Lender's Warrants (note 11a)	-	-	2,960	-
Lease liabilities	42	145	-	-
	13,192	**145**	**45,077**	**-**

Unaudited (all amounts in US$ thousands, except otherwise stated)

20. CAPITAL MANAGEMENT

The Company's objectives when managing capital are:

- to fund its development and exploration programs;
- to maintain 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 indebtedness (defined as long-term loans and short-term loans). Shareholders' equity 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 execute 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 11). Commencing from March 2022, these financial covenants will have an impact on the Company's overall capital requirements and management of capital requirements.

21. NET CHANGE IN NON-CASH WORKING CAPITAL

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	**2022**	2021
Accounts receivable	**739**	(155)	**2,063**	(659)
Prepaid expenses	**23**	10	**153**	(8)
Long-term deposit	**-**	-	**(136)**	-
Accounts payable and accrued liabilities	**1,135**	445	**1,935**	(3,050)
Net change in non-cash operating working capital	**1,897**	300	**4,015**	(3,717)
Prepaid expenses	**-**	-	**-**	(15)
Accounts payable and accrued liabilities	**(1,531)**	-	**(162)**	197
Deferred financing costs	**(107)**	-	**(107)**	-
Deferred share issue costs	**(27)**	(287)	**(47)**	(287)
Net change in non-cash financing working capital	**(1,665)**	(287)	**(316)**	(105)
Accounts receivable	**-**	(1,246)	**-**	(1,246)
Prepaid expenses	**(83)**	-	**(83)**	-
Accounts payable and accrued liabilities	**579**	(1,946)	**(1,061)**	(2,021)
Net change in non-cash investing working capital	**496**	(3,192)	**(1,144)**	(3,267)

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.

22. COMMITMENTS

On May 18, 2021 and as amended on February 28, 2022, the Company entered into a Natural Gas Liquids Purchase Agreement ("**Tallgrass Agreements**") 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. The Tallgrass Agreements include a provision that in the event the Company purchases less than all production during any month of the term of the Tallgrass Agreements, 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. The term of the Tallgrass Agreements is for five years, which commenced in October 2021.

As at June 30, 2022, the Company estimated the minimum commitment pursuant to the Tallgrass Agreements to be as follows:

- $1.0 million for the remainder of 2022; and
- $7.8 million from 2023 to September 2026.

23. SUBSEQUENT EVENTS

Asset Acquisition

On April 19, 2022, the Company announced its affiliate, COPLA, signed an agreement to acquire the assets of Cuda (the "**Cuda Acquisition**") with the court-appointed receiver for Cuda. On July 26, 2022, the Company closed the Cuda Acquisition for cash consideration of $19.15 million plus the assumption of Cuda's operating arrears owed to SWP of $1.8 million as at June 30, 2022. Cuda's sole assets are non-operating interests in the BFU (27.0% WI), the CCU (33.3% WI) and non-unitized lands complimentary to COPLA's assets. As such, COPLA will become the majority owner of its Wyoming assets with operated interests of 85% to 100% across its three oil producing units in Wyoming, US.

Convertible Bonds

The Company financed the Cuda Acquisition with proceeds from the issue of two series of convertible bonds with a principal amount of $12.6 million maturing in 2024 (the "**2024 Bonds**") and $12.6 million maturing in 2025 (the "**2025 Bonds**" and collectively, the "**Bonds**") at an issue price of 78%, or $19.7 million. The Bonds are anchored by a long-term, UK-based institutional shareholder (the "**Lead Investor**") and other institutional investors (all investors collectively, "**Bondholders**"). This instrument is structured to accommodate the implementation of a planned Reserve Based Loan ("**RBL**") facility. The Bonds have a 13.0% interest rate per annum in cash and will increase by 0.75% each three months until the Company gives notice to the Bondholders that it shall pay all interest coupons in cash. Interest will decrease by 2.0% per annum, and no further quarterly increases will apply from such time as the Company provides a notice that it will henceforth pay interest and make whole payments in cash. The Bonds have a conversion price of £0.1675 ($0.2001) per Common Share, which is subject to adjustments including a reset to £0.1325 ($0.1583) if, among other things, an RBL is not secured five months from the issue date, or on the twelfth month anniversary of the issue date of the Bonds. Warrants expiring 30 months from the issue date were issued to the Bondholders, providing for the right to acquire an aggregate number of 54,792,590 Common Shares at an exercise price of £0.1675 ($0.2001). In connection with the issue of Bonds, the Company paid a brokers' fee of approximately $1.2 million that was agreed to be payable in Common Shares at the same conversion rate as stipulated in Bond Instruments. Accordingly, a total of 5,895,000 Common Shares were issued to the brokers on August 9, 2022. In addition, the Company also issued 5,895,000 Common Share purchase warrants ("**July 2022 Brokers' Warrants**") to the brokers, as additional compensation. Each July 2022 Brokers' Warrant entitles the holder thereof to purchase one Common Share of the Company at an exercise price of £0.1675 ($0.2001) per Common Share on or before October 24, 2022. A tap feature to increase the Bonds allows the Company to draw further development funds, should it require, with the aim of increasing production or for future drilling plans, subject to mutual agreement with the Lead Investor.

As at August 15, 2022, the date of filing this interim financial statement, the Company received conversion notices from Bondholders to convert two 2024 Bonds and ten 2025 Bonds with a total principal amount of $2.4 million. Further to conversion provisions and calculations provided by a calculation agent of the Bond instruments, the Company issued a total of 11,994,002 Common Shares in respect of the conversion of these Bonds. The conversion resulted in a total conversion payment of $1.6 million due to these Bondholders that, at the Bondholder's option, are as follows:

- settled in shares if a share settlement notice is issued by the Bondholder on or after 45 days from the date of conversion notice. The share settlement option provides for the conversion payment to be settled by issuing a number of Common Shares that is calculated using the 5-day lowest market price of Common Shares, being that of the next five trading days from the date of the share settlement notice; or
- deferred until the Bonds original maturity date and the conversion payment will bear interest at the same interest rates as applicable for the Bonds, but accrued for periods commencing six months after Bonds issue date and payable at the Bonds original maturity date.