CANADIAN OVERSEAS PETROLEUM LIMITED

THIRD QUARTER

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

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

As at	Note	September 30, 2022	December 31, 2021
Assets			
Current:			
Cash and cash equivalents	4	**5,664**	7,841
Accounts receivable	6	**1,566**	6,875
Other current assets	7	**801**	674
		8,031	15,390
Non-current:			
Exploration and evaluation assets	8	**5,306**	5,172
Property and equipment, net	9	**100,798**	78,006
Right-of-use assets, net		**120**	166
Long-term deposits		**594**	44
		114,849	98,778
Liabilities			
Current:			
Accounts payable and accrued liabilities	10	**11,684**	12,438
Senior credit facility	12	**-**	36,372
Derivative liabilities	13	**-**	3,573
Commodity derivative net liability	20(a)	**5,000**	2,976
Current portion of lease liabilities		**78**	74
		16,762	55,433
Non-current:			
Convertible bonds	11	**11,101**	-
Senior credit facility	12	**35,181**	-
Derivative liabilities	13	**6,545**	-
Commodity derivative net liability	20(a)	**1,139**	-
Lease liabilities		**74**	143
Asset retirement obligations	14	**6,740**	8,191
		77,542	63,767
Shareholders' Equity			
Share capital	15	**205,919**	190,705
Warrants	16(a)	**1,254**	1,173
Contributed capital reserve	16(b)	**54,814**	51,260
Accumulated deficit		**(223,169)**	(205,927)
Accumulated other comprehensive loss		**(1,511)**	(2,200)
		37,307	35,011
		114,849	98,778

Going concern (note 2)
Commitments (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) INCOME AND COMPREHENSIVE (LOSS) INCOME

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

	Note	Three months ended September 30, 2022	Three months ended September 30, 2021	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Revenue					
Petroleum sales, net of royalties		**7,107**	5,242	**21,267**	9,174
Realized loss on commodity derivatives – crude oil		**(3,380)**	(648)	**(11,557)**	(909)
Unrealized gain (loss) on commodity derivatives – crude oil	20(a)	**10,382**	(2,456)	**1,439**	(9,639)
		14,109	2,138	**11,149**	(1,374)
Expenses					
Production taxes		**(852)**	(655)	**(2,643)**	(1,156)
Operating		**(2,359)**	(2,364)	**(4,993)**	(3,343)
Realized gain on commodity derivatives – butane		**1,119**	1,074	**5,768**	1,173
Unrealized (loss) gain on commodity derivatives – butane	20(a)	**(5,618)**	3,718	**(4,603)**	9,823
Depletion, depreciation and amortization		**(1,192)**	(1,291)	**(3,510)**	(2,430)
General and administrative	17	**(2,062)**	(2,453)	**(6,466)**	(5,818)
Share-based compensation	16(b)	**(101)**	-	**(3,554)**	-
Acquisition costs		**52**	(33)	**-**	(2,145)
Pre-license costs		**(505)**	(100)	**(592)**	(300)
		(11,518)	(2,104)	**(20,593)**	(4,196)
Financing expenses					
Finance costs, net	18	**(5,224)**	(1,868)	**(11,371)**	(4,788)
Change in fair value of convertible bonds	11	**325**	-	**325**	-
Gain (loss) on derivative liabilities	19	**2,090**	8,937	**4,198**	(1,931)
Gain on extinguishment of loan		**-**	332	**-**	332
Foreign exchange gain (loss), net		**(248)**	33	**(949)**	(67)
		(3,057)	7,434	**(7,797)**	(6,454)
Loss before investment in joint venture		**(466)**	7,468	**(17,241)**	(12,024)
Loss on investment in joint venture	5	**-**	-	**(1)**	(1)
Loss after investment in joint venture		**(466)**	7,468	**(17,242)**	(12,025)
Income tax expense		**-**	-	**-**	-
Net (loss) income		**(466)**	7,468	**(17,242)**	(12,025)
Gain on translation of foreign subsidiaries		**364**	99	**689**	66
Comprehensive (loss) income		**(102)**	7,567	**(16,553)**	(11,959)
Net (loss) income per share – basic and diluted		**-**	0.05	**(0.08)**	(0.09)
Weighted average shares outstanding – basic		**256,221,742**	159,108,028	**228,115,470**	136,088,288
Weighted average shares outstanding – diluted		**256,221,742**	165,680,638	**228,115,470**	136,088,288

See accompanying notes to the unaudited condensed interim consolidated financial statements

CANADIAN OVERSEAS PETROLEUM LIMITED

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)

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		26,127	-	-	-	-	26,127
Issued further to CEO loan conversion		155	-	-	-	-	155
Issued further to business combination	3(a)	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		5,479	-	-	-	-	5,479
Issued further to exercise of 2020 3rd finders' warrants		112	-	-	-	-	112
Fair value of unit warrants issued as derivative liability		(2,132)	-	-	-	-	(2,132)
Fair value of unit warrants exercised		4,590	-	-	-	-	4,590
Fair value of finders' and brokers' warrants issued		-	955	-	-	-	955
Fair value of expired and exercised 2020 3rd finders' warrants		63	(63)	-	-	-	-
Net loss and comprehensive loss for the period		-	-	-	(12,025)	66	(11,959)
Balance as at September 30, 2021		183,548	1,037	51,260	(204,416)	(2,182)	29,247
Balance as at December 31, 2021		**190,705**	**1,173**	**51,260**	**(205,927)**	**(2,200)**	**35,011**
Expiry of finders' warrants	15(b)	**390**	**(390)**	**-**	**-**	**-**	**-**
Share-based compensation	16(b)	**-**	**-**	**3,554**	**-**	**-**	**3,554**
Issued further to placing, net of issue costs	15(c)	**11,769**	**-**	**-**	**-**	**-**	**11,769**
Issued pursuant to bond conversions	11	**3,145**	**-**	**-**	**-**	**-**	**3,145**
Issued as payment of convertible bonds brokers' fees	11	**1,179**	**-**	**-**	**-**	**-**	**1,179**
Fair value of unit warrants issued as derivative liability	15(c)	**(1,269)**	**-**	**-**	**-**	**-**	**(1,269)**
Fair value of brokers' warrants issued	16(a)	**-**	**471**	**-**	**-**	**-**	**471**
Net loss and comprehensive loss for the period		**-**	**-**	**-**	**(17,242)**	**689**	**(16,553)**
Balance as at September 30, 2022		**205,919**	**1,254**	**54,814**	**(223,169)**	**(1,511)**	**37,307**

(1) As at September 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 September 30, 2022	Three months ended September 30, 2021	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Cash Flow From (Used In) Operating Activities:					
Net (loss) income		**(466)**	7,468	**(17,242)**	(12,025)
Add (deduct) non-cash items:					
Depletion, depreciation and amortization		**1,192**	1,291	**3,510**	2,430
Unrealized (gain) loss on commodity derivatives – crude oil	20(a)	**(10,382)**	2,456	**(1,439)**	9,639
Unrealized loss (gain) on commodity derivatives – butane	20(a)	**5,618**	(3,718)	**4,603**	(9,823)
Change in fair value of convertible bonds	11	**(325)**	-	**(325)**	-
Finance costs, net	18	**5,224**	1,868	**11,371**	4,788
Gain on extinguishment of loan		**-**	(332)	**-**	(332)
(Gain) loss on derivative liabilities	19	**(2,090)**	(8,937)	**(4,198)**	1,931
Share-based compensation	16(b)	**101**	-	**3,554**	-
Unrealized foreign exchange (gain) loss, net		**338**	(24)	**939**	(9)
		(790)	72	**773**	(3,401)
Net change in non-cash operating working capital	22	**(1,591)**	(3,432)	**2,424**	(7,149)
		(2,381)	(3,360)	**3,197**	(10,550)
Cash Flow From (Used In) Financing Activities:					
Issuance of share capital, net of issue costs	15(c)	**(24)**	2,672	**11,995**	29,801
(Repayment of) gross proceeds from senior credit facility	12	**-**	-	**(2,883)**	45,000
Lender's and borrower's fees paid on senior credit facility		**(225)**	(15)	**(1,731)**	(3,460)
Interest paid on senior credit facility	18	**(1,381)**	(1,438)	**(4,357)**	(3,094)
Repayment of loan		**-**	-	**-**	(683)
Proceeds from convertible bonds	11	**19,656**	-	**19,656**	-
Cost to issue convertible bonds	11	**(510)**	-	**(510)**	-
Financing expense		**(180)**	-	**(193)**	-
Payment of lease obligations, net of rent concessions		**(19)**	(28)	**(57)**	(90)
Net change in non-cash financing working capital	22	**725**	242	**409**	137
		18,042	1,433	**22,329**	67,611
Cash Flow From (Used In) Investing Activities:					
Acquisitions	3(b)	**(19,294)**	-	**(19,294)**	(45,079)
Acquisitions cash acquired	3(a)	**-**	-	**-**	9,160
Property and equipment expenditures	9	**(2,338)**	(5,159)	**(6,758)**	(10,608)
Exploration and evaluation asset expenditures	8	**-**	(745)	**(274)**	(962)
Additions to investment in joint venture	5	**-**	-	**(1)**	(1)
Interest		**4**	1	**10**	2
Net change in non-cash investing working capital	22	**124**	3,847	**(1,020)**	580
		(21,504)	(2,056)	**(27,337)**	(46,908)
Change in cash and cash equivalents during the period		**(5,843)**	(3,983)	**(1,811)**	10,153
Effect of foreign exchange held in foreign currencies		**(13)**	(72)	**(366)**	(57)
Cash and cash equivalents, beginning of period		**11,520**	15,552	**7,841**	1,401
Cash and cash equivalents, end of period		**5,664**	11,497	**5,664**	11,497

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 September 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 nine months ended September 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 November 14, 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 11 and 15, the Company closed financings comprising of convertible bonds issued in July 2022 and a brokered placing in April 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 convertible bonds including the embedded derivatives and warrants associated with this debt.

During 2022, the global economy continued to recover from the impacts of the COVID-19 pandemic. Benchmark oil and natural gas prices have remained volatile during the year due to the uncertainty regarding COVID-19 pandemic, the potential for global economic slowdown attributed to rising inflation and interest rates geopolitical tensions from the Russian invasion of Ukraine and global commodity supply constraints and labour shortages, which have increased inflationary pressures on governments, businesses and communities. These events and economic conditions 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 events and conditions, or the extent to which they will impact the Company long-term.

Climate Change and Environmental Reporting Regulations

Regulations relating to climate and climate-related matters continue to evolve and may have additional disclosure requirements in the future. The International Sustainability Standards Board has issued an IFRS Sustainability Disclosure Standard with the aim to develop an environment sustainability disclosure framework that is accepted globally. In addition, the Canadian securities administrators have proposed National Instrument 51-107, *Disclosure of Climate-related Matters*, with additional climate-related disclosure requirements for Canadian public companies. If the Company is unable to meet future sustainability reporting requirements of regulators or current and future expectations of stakeholders, its business and ability to attract and retain skilled employees, obtain regulatory permits, licenses, registrations, approvals and authorizations from various government authorities, and raise capital may be adversely affected. The cost to comply with these standards, and others that may be developed or evolved over time, has not yet been quantified

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 impact of this IFRS IC agenda decision is not material to the Financial Statements.

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

3. ACQUISITIONS

(a) 2021 Business Combination

On March 16, 2021, COPL's affiliate COPL America Inc. ("**COPLA**") 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 14).

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 14)	(977)
Total identifiable net assets	**54,079**
Goodwill (bargain purchase gain)	-

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.

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

(b) 2022 Asset Acquisition

On July 26, 2022, the Company's affiliate COPLA, closed the acquisition of the assets of Cuda Energy LLC ("**Cuda**") with the court-appointed receiver for Cuda for cash consideration of $19.2 million plus the assumption of Cuda's operating arrears owed to the Company of $1.6 million and acquisition costs of $0.1 million for a total cost of $20.9 million (the "**Cuda Asset Acquisition**"). 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 became the majority owner of its Wyoming assets with operated interests of 85% to 100% across its three oil producing units in Wyoming, US.

The Cuda Asset Acquisition was accounted for as an asset acquisition in accordance with the concentration test pursuant to IFRS 3, "*Business Combinations*", whereby the total acquisition cost of $20.9 million was recognized in property and equipment balances at the date of the acquisition. The concentration test focuses on assessing the concentration of the fair value of gross assets acquired. If substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets, the concentration test is met, and the transaction is determined not to be a business combination.

The ARO was measured at $2.3 million associated with the acquired assets, using a risk-free discount rate of 3.27%, were recognized in ARO and as an addition to property and equipment balances in the Financial Statements (see note 14).

4. CASH AND CASH EQUIVALENTS

	September 30, 2022	December 31, 2021
Cash	**5,121**	6,913
Escrow accounts	**491**	873
Credit card deposits	**52**	55
Balance, end of the period	**5,664**	7,841

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

Escrow amounts of $0.5 million as at September 30, 2022 relate to cash held in escrow accounts with respect to royalty payments, pursuant to US legal requirements.

The fair value of cash and cash equivalents was $5.7 million as at September 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 September 30, 2022 and December 31, 2021.

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 September 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) income for the nine months ended September 30, 2022 ($1,000 for the nine months ended September 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.

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

6. ACCOUNTS RECEIVABLE

	September 30, 2022	December 31, 2021
Revenue receivable	**405**	432
Joint interest receivable	**696**	5,821
Realized commodity contracts receivable	**-**	49
Share issuance receivable	**-**	500
Other receivables	**465**	73
Balance, end of the period	**1,566**	6,875

7. OTHER CURRENT ASSETS

	September 30, 2022	December 31, 2021
Prepaid expenses	**356**	579
Oil and condensate inventory	**255**	82
Deferred share issue costs	**93**	-
Deferred financing costs	**87**	-
Short-term deposits	**10**	13
Balance, end of the period	**801**	674

8. EXPLORATION AND EVALUATION ASSETS

	September 30, 2022	December 31, 2021
Balance, beginning of the year	**5,172**	-
Acquisition (note 3a)	**-**	1,665
Additions	**274**	3,285
Change in ARO (note 14)	**(140)**	222
Balance, end of the period	**5,306**	5,172

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 $0.1 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 is 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 September 30, 2022.

Impairment

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

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

9. PROPERTY AND EQUIPMENT

	Developed & Producing Assets	Administrative Assets	Total
Cost:			
Balance, January 1, 2021	-	313	313
Acquisition (note 3a)	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
Acquisition (note 3b)	20,937	-	20,937
Additions	6,595	163	6,758
Disposals	-	(2)	(2)
Change in ARO (note 14)	(1,439)	-	(1,439)
Balance, September 30, 2022	**107,295**	**795**	**108,090**
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	(3,401)	(63)	(3,464)
Disposals	-	2	2
Balance, September 30, 2022	**(6,927)**	**(365)**	**(7,292)**
Net carrying amount, December 31, 2021	77,676	330	78,006
Net carrying amount, September 30, 2022	**100,368**	**430**	**100,798**

Developed and producing ("**D&P**") assets relate primarily to two oil producing units that were included in the Atomic Group Acquisition and the Cuda Asset Acquisition (see note 3). As at September 30, 2022, estimated future development costs of $316.7 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 September 30, 2022.

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2022	December 31, 2021
Trade payables and accrued liabilities	**5,261**	6,020
Revenue related payable	**2,646**	3,313
Production taxes payable	**3,777**	3,105
Balance, end of the period	**11,684**	12,438

11. CONVERTIBLE BONDS

On July 26, 2022, the Company (the "**Issuer**") issued at a 22% discount to the principal face value of two series of unsecured convertible bonds with a principal face value amount of $25.2 million as follows:

- 63 bonds at a principal face value of $0.2 million per bond for an aggregate principal face value of $12.6 million maturing on July 26, 2024 (the **"2024 Bonds"**); and
- 63 bonds at a principal face value of $0.2 million per bond for an aggregate principal face value of $12.6 million maturing on July 26, 2025 (the "**2025 Bonds**", and collectively with the 2024 Bonds, the "**Bonds**").

The Bonds are anchored by a long-term, UK-based institutional shareholder (the "**Lead Investor**") and other investors (all investors collectively, "**Bondholders**"). The Bonds are structured to incentivize the Company to refinance the Senior Credit Facility by no later than December 25, 2022 and in certain ways to accommodate, the implementation of a planned reserve based loan ("**RBL**") facility that refinances the Senior Credit Facility (note 12).

Terms

The 2024 Bonds and 2025 Bonds have the same commercial terms, other than in relation to their maturity dates.

The Bonds are currently unsecured. However, upon security interests being granted in relation to the RBL, the Company is obliged to ensure that it and its subsidiaries grant the Bondholders a customary second ranking "security and guarantee package" covering the same security collateral as was provided in relation to the RBL. Moreover, while the Bonds are outstanding, the Company may not grant any security for financial indebtedness or financial indebtedness guarantees without (at the same time or before) granting a pari passu equivalent security package to the relevant Bondholders.

The Bonds were issued at a discount of 22% to the principal amount for proceeds of approximately $19.7 million.

The Bonds have a 13.0% interest rate per annum on the principal face value of the Bonds, which increases by 0.75% per annum on each three month anniversary of the issue date (each such anniversary an "**Interest Payment Date**") until maturity or, until the Company gives notice to the Bondholders that it shall pay all Bond interest in cash (the "**Cash Payment Notice**"). The Cash Payment Notice cannot be issued by the Company until the Senior Credit Facility has been repaid and discharged. From the date the Company provides a Cash Payment Notice, the interest rate will decrease by 2.0% per annum and no further three monthly increases of 0.75% per annum will apply.

Unless the Company provides the Cash Payment Notice to the Bondholders, interest is accrued and its payment deferred until the earlier of: (a) conversion of the Bonds, at which time such accrued unpaid deferred interest will be included in the Conversion Payment (as defined below); and (b) maturity of the Bonds, at which time accrued unpaid deferred interest will be included in the maturity redemption amount; and (c) certain contingent "early exit" type scenarios for the Bondholders, which include the date of an acceleration notice delivered to the Company by a Bondholder and the Company deciding to redeem the Bonds ahead of the scheduled maturity, at which time accrued unpaid deferred interest will be payable.

However, from the date the Company provides a Cash Payment Notice, interest will be payable as follows: (a) all accrued unpaid deferred interest must be paid by the Company on the first Interest Payment Date after the Cash Payment Notice; (b) all interest relating to the interest period in which the Cash Payment Notice is given must be paid on the first Interest Payment Date after the Cash Payment Notice; and (c) all interest relating to an interest period falling after when the Cash Payment Notice is given must be paid on the Interest Payment Date at the end of such interest period.

Bondholders have the right to convert their Bonds at anytime (**the** "**Conversion Option**") at an initial fixed conversion price of £0.1675 ($0.2001) per Common Share, which is subject to customary anti-dilution protections and price re-adjustments. This initial fixed conversion price will be reset to £0.1325 ($0.1583) per Common Share: (a) on the date falling 5 months after the issue date, if either the Senior Credit Facility is not repaid or a

Cash Payment Notice is not issued in each case prior to the date falling five months after the issue date; and (b) in any event, on the first annual anniversary of the issue date of the Bonds.

The conversion of the Bonds also results in a payment due to the Bondholders (the "**Conversion Payment**") that is calculated as the sum of: (a) a redemption premium of 19% of the relevant principal face value of the Bonds being redeemed; (b) the relevant make whole amount calculated as the sum of the present values of all interest payable on the principal face value from the conversion date until maturity and discounted at 2% per annum on a quarterly compounding basis; and (c) all accrued but unpaid interest, including deferred interest to the conversion date. Subject to the next paragraph, the Conversion Payment is payable as follows: (a) if a Cash Payment Notice has been given, the Conversion Payment shall be made 7 business days after the relevant conversion date; and (b) if a Cash Payment Notice has not yet been given, the Conversion Payment shall be deferred and paid on the earlier of: (i) the maturity date for the relevant Bonds; (ii) certain contingent "early exit" type scenarios for the Bondholders; and (iii) the Interest Payment Date immediately after when a Cash Payment Notice is given. If a Conversion Payment is deferred it will bear interest at the applicable interest rate referred to above from the day falling 6 months after the issue date until the relevant date for payment or as applicable the date that shares are delivered pursuant to the Share Settlement Option referred to below

The Conversion Payment can at the Bondholder's option, be settled in shares (the "**Share Settlement Option")** if a share settlement notice is issued by the Bondholder and: (a) no Cash Payment Notice has been given by the Company on or prior to such notice's date of issue; and (b) such notice is given on or after 45 days from the relevant conversion date. The Share Settlement Option provides for the Conversion Payment to be settled by the Company issuing a number of Common Shares that is calculated by dividing the Conversion Payment by the lowest daily volume weighted average market price of the Common Shares for the five consecutive trading days immediately after the date of the share settlement notice.

At the relevant maturity date any relevant Bonds outstanding, except for the Bonds in which the Conversion Option has been exercised will be redeemed by the Company by a cash payment on the maturity date of the maturity redemption amount of: (a) 119% of the principal face value amount of the relevant Bonds; and (b) all accrued but unpaid interest up to the maturity date.

Subject to the right of each Bondholder to exercise its conversion rights, by giving not less than 30 days and not more than 45 days notice (the "**Issuer's Option Notice**"), the Issuer may at its option redeem all, but not some of the Bonds by the cash payment (on the date (the "**Issuer Option Redemption Date**") specified in the Issuer Option Notice of an early redemption amount (the "**Issuer Call Early Redemption Amount**") in respect of each Bond outstanding, at any time on or after the date falling six months after the issue date, if the value of a Bond as determined by the calculation agent, on at least 20 dealing days in any period of 30 consecutive dealing days not ending earlier than 7 dealing days prior to the giving of the relevant Issuer Option Notice, has exceeded US$0.26 million (such option of the Company being the "**Issuer's Prepayment Option**"). The Company may not exercise the Issuer's Prepayment Option prior to the date falling 6 months after the issue date. The Issuer Call Early Redemption Amount is comprised of: (a)(i) 114% of the principal face value of the relevant Bonds if the redemption date falls into the period between 6 and 12 months from the issue date; or (ii) 109% of the principal face value of the relevant Bonds if the redemption falls into a period after 12 months from the issue date; (b) the relevant make whole amount calculated as the sum of the present values of all interest payable from the Issuer Option Redemption Date until maturity and discounted at 2% per annum on a quarterly compounding basis; and (c) all accrued but unpaid interest up to, but excluding the Issuer Option Redemption Date including any deferred interest.

Subject to a fundamental change event or an event of default, the Bondholder will have the right to require the Issuer to redeem in cash any of its Bonds (the "**Bondholders' Redemption Option**") in an amount equal to: (a) 119% of the principal face value amount of the relevant Bonds; (b) the relevant make whole amount calculated as the sum of the present values of all interest payable from the Issuer Option Redemption Date until maturity and discounted at 2% per annum on a quarterly compounding basis; and (c) all accrued but unpaid interest up to, but excluding the Issuer Option Redemption Date including any deferred interest. A fundamental change event is defined as a change in control, a de-listing event or a free float event, which is Common Shares held by shareholder groups holding less than 5% of the Company's outstanding share capital falling below 20% of the total outstanding share capital of the Company for a period of 20 consecutive business days.

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

The documentation relating to the Bonds contains various covenants, including in relation to anti-dilution matters and protection of rights relating to shares and events of default, including in relation to insolvency type matters, non-payment, non-performance, and cross-default under other financial indebtedness of the Company or its material subsidiaries. There is a calculation agent involved in performing and providing the various relevant calculations flowing from the documents relating to the Bonds, which are generally binding on all parties.

Bondholders' Warrants

On July 26, 2022, the Company also issued to the Bondholders a total of 54,792,590 Common Share purchase warrants (the "**Bondholders' Warrants**") as an additional compensation to Bondholders for their participation in the Bonds issue. Each Bondholders' Warrant entitles the holder to purchase one Common Share at an exercise price of £0.1675 ($0.2001) per Common Share on or before January 26, 2025.

The exercise price of the Bondholders' Warrants is denominated in GBP, and the Company's functional currency is US$. Accordingly, due to the variability in exchange rates this would not result in a fixed amount of equity instruments being issued for a fixed price and as such the Bondholders' Warrants are classified as a derivative financial instrument and subsequently revalued at each balance sheet date.

The fair value of Bondholders' Warrants as of July 26, 2022, estimated at $5.1 million, using a Black-Scholes option pricing model, with payoffs modified to account for dilution, was recognized as a derivative liability as at the date of issue of these Bondholders' Warrants. As at September 30, 2022, the fair value of the Bondholders' Warrants was estimated to be $3.2 million. Accordingly, the Company recognized a gain on the derivative liability of $1.9 million in its statement of net (loss) income.

The following assumptions were used for the Black-Scholes option pricing model with payoffs modified to account for dilution to estimate the fair value of the Bondholders' Warrants at the dates of valuation:

	July 26, 2022	**September 30, 2022**
Risk-free interest rate	3.02%	4.23%
Weighted average life (years)	2.50	2.33
Expected volatility	87%	85%
Expected dividend yield	-	-
Dilution discount	17.9%	17.0%
COPL's share price*	$0.21	$0.16

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

Costs related to the issue of Bonds

In connection with the issue of the Bonds, the Company incurred brokers' fees for a total of $1.18 million that was paid by the issue of 5,895,000 Common Shares to brokers on August 9, 2022. The Company also issued 5,895,000 Common Share purchase warrants to its brokers (the "**Bond Brokers' Warrants**"), as an additional compensation. Each Bond Brokers' Warrants entitled the holder to purchase one Common Share at an exercise price of £0.1675 ($0.2001) per Common Share on or before October 24, 2022, which expired unexercised.

The fair value of the Bond Brokers' Warrants as at July 26, 2022 was estimated at $0.24 million, using a Black-Scholes option pricing model. Given that fees and warrants represent payments to the brokers in respect of issue of the Bonds, they are recognized as transaction costs and are not subject to further revaluations.

The following assumptions were used for the Black-Scholes option pricing model to estimate the fair value of the Bond Brokers' Warrants at the date of valuation:

	July 26, 2022
Risk-free interest rate	1.86%
Weighted average life (years)	0.25
Expected volatility	90%
Expected dividend yield	-
COPL's share price*	$0.21

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

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

Other costs related to the Bonds include $0.4 million of Bondholders' legal fees, $0.4 million of Issuer's legal fees and $0.1 million of calculation agent fees.

Conversions

During the third quarter of 2022, the Company received conversion notices from Bondholders to convert three of the 2024 Bonds and 13 of the 2025 Bonds with a total principal amount of $3.2 million. Further to conversion provisions and calculations confirmed by the calculation agent, the Company issued a total of 15,992,002 Common Shares in respect of the conversion of these Bonds. As at September 30, 2022, there are 60 unconverted 2024 Bonds and 50 unconverted 2025 Bonds.

Subsequent Conversions

As at the date of filing the Financial Statements, the Company received additional conversion notices from its Bondholders to convert four of the 2024 Bonds and five of the 2025 Bonds. Further to these conversions the Company issued a total of 8,995,500 Common Shares.

Reporting

The Bonds include multiple embedded derivatives, consisting of the Conversion Option, the Share Settlement Option, the Issuer's Prepayment Option and the Bondholders' Redemption Option (collectively the "**Embedded Derivatives**"). Based on the terms, as described earlier in this section, the Company has determined that with the exception of the Issuer's Prepayment Option, which could be optionally bifurcated, these Embedded Derivatives would otherwise require bifurcation. The Company has elected to account for the entire hybrid instrument, being the 2024 Bonds and 2025 Bonds, at fair value through profit and loss ("**FVTPL**"). The Company made this election on the basis that recognizing the hybrid instruments at FVTPL provides more relevant information. In assessing the appropriateness of electing the fair value option, the Company considered that the Embedded Derivatives shared risks related to credit worthiness of the Company, market interest rates and share price volatility. The Bonds also measured at FVTPL, as opposed to amortized cost, also share such risks with the Embedded Derivatives. By recognizing the entire hybrid instrument at FVTPL, the Company is of the view that it eliminates the mismatch that would otherwise be created by bifurcating each of the Embedded Derivatives.

As at July 26, 2022, the FVTPL liability (the "**Bonds' FVTPL**") was estimated to be $20.3 million for the 2024 Bonds and $25.0 million for the 2025 Bonds, by the Company's external valuators, using a valuation model with major assumptions as provided in the table below. The initial fair value loss (the "**Deferred Loss**") was $13.8 million for the 2024 Bonds and $17.0 million for the 2025 Bonds, which is deferred and amortized on a straight-line basis over the life of the respective Bonds series. The fair value loss is deferred as there are significant unobservable inputs used in valuation model that are considered off market.

The following table provides a summary of the Deferred Loss as at September 30, 2022:

	2024 Bonds Deferred Loss	**2025 Bonds Deferred Loss**
Balance, beginning of period	-	-
Deferred Loss on initial recognition on July 26, 2022	13,783	16,964
Amortization of Deferred Loss	(1,244)	(1,022)
Accelerated amortization of Deferred Loss on conversions	(376)	(1,799)
Balance, end of the period	**12,163**	**14,143**

Due to the recognition of the Bonds at FVTPL, all of the costs related to issue of the Bonds for a total of $2.1 million, representing transaction costs, were recognized as finance expenses in the statement of net (loss) income.

At each reporting date as well as upon each conversion date of the Bonds, the Company reassesses the fair value of its Bonds and records any gain or loss that is attributable to changes in the Company's credit risk in other comprehensive (loss) income, and the remaining change in the statement of net (loss) income. For the three and nine months ended September 30, 2022, there was no gain or loss attributable to the change in the Company's credit risk.

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

At each conversion date of the Bonds, a value of Common Shares issued further to the conversions is recognized at an approximate amount of fair value of the converted Bonds less the fair value of the related Conversion Payment that remains within the fair value of the Bonds. The Company recorded additional share capital of $0.5 million in respect of the converted 2024 Bonds and $2.6 million in respect of the converted 2025 Bonds for the three and nine months ended September 30, 2022.

As at September 30, 2022, the Bonds' FVTPL, which includes the fair value of the Conversion Payment related to the Bonds converted during the reporting period were reassessed at $17.1 million for the 2024 Bonds and $20.3 million for the 2025 Bonds, using a valuation model with major assumptions as provided in a table below. The Company records the adjustment to recognize the Bonds at fair value as a gain or loss, along with the corresponding amortization of the Deferred Loss. Further, upon conversion of the Bonds the remaining amortization of the respective amount of the Deferred Loss is accelerated and recognized in gain or loss. As a result, the Company recognized a gain of $1.1 million and a loss of $0.8 million related to the 2024 Bonds and the 2025 Bonds, respectively for the three and nine months ended September 30, 2022.

The following major assumptions were used by the Company's external valuators in the valuation model based on the finite difference method to estimate the fair value of the Bonds' FVTPL at the dates of valuation:

	As at July 26, 2022	**For conversions from July 29, 2022 to Sept 15, 2022**	**As at September 30, 2022**
Risk-free interest rate	3.02%	2.83% - 3.60%	4.24%
Weighted average life	maturity date	maturity date	maturity date
Implied credit spread	45.12%	44.37% - 44.89%	45.48%
Expected volatility	87%	87% - 88%	85%
Underlying stock price*	$0.21	$0.15 - $0.22	$0.16
Expected dividend yield	-	-	-

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

The following table provides a summary of the Bonds and related liabilities as at September 30, 2022:

	2024 Bonds' FVTPL	**2025 Bonds' FVTPL**	**Total Bonds' FVTPL**	**Bondholders' Warrants Derivative Liability**
Initial fair value	20,315	25,003	45,318	5,085
Deferred Loss	(13,783)	(16,964)	(30,747)	-
Balance, at issue date of July 26, 2022	**6,532**	**8,039**	**14,571**	**5,085**
Conversion to Common Shares	(500)	(2,645)	(3,145)	-
Net change in fair value	(1,137)	812	(325)	(1,856)
Balance, September 30, 2022	**4,895**	**6,206**	**11,101**	**3,229**

As at September 30, 2022, the Company would be contractually required to pay at maturity a maximum of $19.9 million in respect of the 2024 Bonds and $22.7 million in respect of the 2024 Bonds, assuming that the Bonds are not repaid in cash earlier than at maturity, that all remaining Bonds are converted before January 26, 2023 and that none of the Bondholders elects to receive its Conversion Payment in shares earlier than at maturity.

12. 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 COPLA (the "**Borrower**"), 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: (a) assets sales greater than $0.15 million per transaction or $0.25 million in aggregate over the term of the Senior Credit Facility; (b) insurance proceeds greater than $0.15 million and (c) 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 (2.5:1) 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.

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 September 30, 2022.

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

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

	Senior Credit Facility	Derivative Liabilities (note 13)	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 September 30, 2022 (a)	-	940	940
LIBOR floor revaluation as at September 30, 2022 (b)	-	(1,189)	(1,189)
Repayment of principal amount	(2,883)	-	(2,883)
Accretion (note 18)	1,692	-	1,692
Balance, September 30, 2022	**35,181**	**3,316**	**38,497**

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 September 30, 2022, the Lender Warrants were revalued at $3.2 million using 6% of an adjusted net assets value of COPLA (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 $0.94 million related to an initial valuation of the additional 1% Lender Warrants of $0.92 million recognized in financing costs pursuant to a third amending agreement to the Senior Credit Facility and loss on derivative liabilities of $0.02 million for the nine months ended September 30, 2022 (see note 19).

(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 one-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 (loss) income. As at September 30, 2022, the LIBOR floor was revalued at $0.1 million (December 31, 2021 - $1.3 million) and the resulting change in fair value of $1.2 million was recognized as a gain on derivatives for the nine months ended September 30, 2022 (see note 19).

(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%, which has increased to 23.8% as at September 30, 2022 due to the forward LIBOR rate in excess of the 2.0% floor. 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 nine months ended September 30, 2022, COPLA paid interest on this loan in the amount of $4.4 million (see note 18).

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 which was a joint interest partner in receivership as disclosed in note 3(b); 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 was classified as a non-current liability as at March 31, 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 18) 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 Cuda Asset Acquisition by July 31, 2022, which has been satisfied as disclosed in note 3(b). Due to the waiver, the Company is not in default on the Senior Credit Facility and the indebtedness was classified as a non-current liability as at June 30, 2022.

On September 30, 2022, pursuant to a limited waiver agreement to the Senior Credit Facility, the Borrower received a waiver from the Lender for not meeting the requirements of the leverage ratio of 2.50:1.0 as at September 30, 2022 subject to certain conditions including delivery of an updated APOD for the period commencing on August 1, 2022 to December 31, 2022 and the payment of an initial waiver fee of $0.2 million, which has been satisfied. Additionally, the Borrower shall deliver an APOD for the period commencing on January 1, 2023 to March 31, 2023 by December 31, 2022 and an additional waiver fee of $0.4 million payable no later than the earlier of the date the Senior Credit Facility is paid in full and December 31, 2022. 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 September 30, 2022. These waiver fees for a total of $0.6 million were recorded as a finance expense for the three and nine months ended September 30, 2022.

13. DERIVATIVE LIABILITIES

	September 30, 2022	December 31, 2021
2020 short-term loan warrants	**-**	8
Lender Warrants (note 12a)	**-**	2,250
LIBOR floor (note 12b)	**-**	1,315
Current derivative liabilities	**-**	3,573
Bondholders' Warrants (note 11)	**3,229**	-
Lender Warrants (note 12a)	**3,190**	-
LIBOR floor (note 12b)	**126**	-
Non-current derivative liabilities	**6,545**	-

The resulting impact on net (loss) income for the nine months ended September 30, 2022 and 2021 from the remeasurement of these derivative liabilities at the reporting period end is disclosed in note 19.

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

Due to the classification of the Senior Credit Facility as a current liability as at December 31, 2021, as disclosed in note 12, the Lender Warrants and LIBOR floor were also classified as a current liability due to being aligned with the Senior Credit Facility.

14. ASSET RETIREMENT OBLIGATIONS

	September 30, 2022	December 31, 2021
Balance, beginning of the period	**8,191**	-
Obligations acquired (notes 3a and 3b)	**2,347**	977
Obligations incurred	**-**	214
Revaluation of obligations acquired	**-**	6,027
Change in estimates	**(3,926)**	844
Accretion	**128**	129
Balance, end of the period	**6,740**	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 and the Cuda Asset Acquisition. The Company estimates the undiscounted and inflation adjusted value of total ARO to be $20.3 million as at September 30, 2022 (December 31, 2021 - $15.7 million). The majority of these obligations are anticipated to be incurred 20 to 45 years in the future. As at September 30, 2022, the ARO was calculated using a discount factor of 4.08% (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%).

15. 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 3a)	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
Fair value of expired July 2020 finders' warrants (b)	-	83
Fair value of April 2022 unit warrants as derivative liability (c)	-	(1,269)
Issued pursuant to April 2022 brokered placing (c)	49,930,000	12,834
Issued pursuant to 2024 Bond conversion (note 11)	2,998,500	500
Issued pursuant to 2025 Bond conversion (note 11)	12,993,502	2,645
Issued as payment of Bonds brokers' fee (note 11)	5,895,000	1,179
2022 share issue costs (c)	-	(1,065)
Balance, September 30, 2022	**266,336,466**	**205,919**

(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.

On July 2, 2022, the July 2020 1st finders' warrants of 250,000 and July 2020 2nd finders' warrants of 160,000 have expired unexercised. The fair value of the unexercised warrants for a total amount of \$0.08 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.

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

The April 2022 Unit Warrants were revalued as at September 30, 2022 to $NIL, and a related derivative gain of $1.2 million was recognized in net (loss) income for the nine months ended September 30, 2022 (see note 19).

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.

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 used 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 various valuation dates:

	Brokers' Warrants April 22, 2022	Unit Warrants April 22, 2022	Unit Warrants Sept 30, 2022
Risk-free interest rate	1.72%	1.26%	1.98%
Weighted average life (years)	2.0	0.5	0.1
Expected volatility	90%	90%	88%
Expected dividend yield	-	-	-
COPL's share price*	$0.26	$0.26	$0.16

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

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

16. 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 September 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 15b)	(187,500)	0.35	(18)	Jan 8/22
Expired 2021 – 2nd finders' warrants (note 15b)	(3,054,018)	0.35	(289)	Jan 8/22
Issued April 2022 – unit warrants (note 15c)	24,965,000	0.31	-	Oct 22/22
Issued April 2022 – brokers' warrants (note 15c)	1,997,200	0.32	226	Apr 22/24
Expired 2020 – warrants	(1,000,000)	0.49	-	Jul 2/22
Expired 2020 – 1st finders' warrants (note 15b)	(250,000)	0.49	(40)	Jul 2/22
Expired 2020 – 2nd finders' warrants (note 15b)	(160,000)	0.50	(43)	Jul 2/22
Issued July 2022 – Bondholders' warrants (note 11)	54,792,590	0.20	-	Jan 26/25
Issued July 2022 – brokers' warrants (note 11)	5,895,000	0.20	245	Oct 24/22
Balance, September 30, 2022	**92,089,790**	**0.24**	**1,254**	(Oct 22/22 to Jan 26/25)

*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 September 30, 2022, 24,965,000 unit warrants related to an April 2022 placing expired unexercised on October 22, 2022 and 5,895,000 brokers' warrants related to the issue of the Bonds expired unexercised on October 24, 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 $3.6 million has been recognized in the net (loss) income for the three and nine months ended September 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 September 30, 2022, a total of 18,986,644 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 4.0 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	3,554
Forfeited	(459,095)	0.51	-
Balance, September 30, 2022	**18,986,644**	**0.45**	**54,814**

*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)

17. GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	**2022**	2021
Salaries, benefits and consultants	**1,471**	1,763	**4,808**	4,306
Other(1)	**591**	690	**1,658**	1,512
General and Administrative	**2,062**	2,453	**6,466**	5,818

(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. FINANCE COSTS

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	**2022**	2021
Interest expense on the SCF (note 12)	**1,381**	1,438	**4,357**	3,094
Financing costs related to SCF	**826**	15	**3,263**	777
Financing costs related to the Bonds (note 11)	**2,312**	-	**2,312**	-
Interest on lease liabilities	**1**	2	**5**	7
Interest income	**(52)**	(44)	**(386)**	(69)
Accretion of the SCF (note 12)	**703**	441	**1,692**	945
Accretion of ARO (note 14)	**53**	16	**128**	34
Finance costs, net	**5,224**	1,868	**11,371**	4,788

19. (GAIN) LOSS ON DERIVATIVE LIABILITIES

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	**2022**	2021
Lender warrants revaluation	**230**	(3,610)	**22**	(1,130)
LIBOR interest rate floor revaluation	**(174)**	(151)	**(1,189)**	(388)
Bondholders' Warrants revaluation	**(1,856)**	-	**(1,856)**	-
Unit warrants revaluation	**(290)**	(4,899)	**(1,172)**	3,433
2020 short-term loan warrants revaluation	**-**	(277)	**(3)**	16
(Gain) loss on derivative liabilities	**(2,090)**	(8,937)	**(4,198)**	1,931

20. 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 FVTPL are initially recognized and subsequently measured at fair value with changes in those fair values immediately charged to net (loss) income with the exception of movements in fair value of liabilities designated at FVTPL due to changes in the Company's credit risk. Such changes in fair value are recorded in other comprehensive (loss) income and do not get charged to net (loss) income. Under this classification, the Company included the Bonds' FVTPL and the Bondholders' Warrants (see note 11), the Lender Warrants (see note 12a), LIBOR floor (see note 12b) and the commodity derivatives (see note 20a).
- 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 12) 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. Financial instruments under this classification include the changes in the Company's credit risk of the unconverted Bonds (see note 11).

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 (loss) income.

Fair value of financial instruments

The Company's financial instruments include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, financial derivative contracts, the Bonds, the Bondholders' Warrants and the Senior Credit Facility. 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 financial derivative contracts, the Bonds, and the Bondholders' Warrants at fair value through profit and loss and the Senior Credit Facility at amortized cost approximates fair value as at September 30, 2022.

The fair values of unquoted instruments, including financial derivative contracts and the Senior Credit Facility and other financial liabilities, as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities. The fair value model used to value the Bonds incorporates several inputs, as disclosed in Note 11, of which the implied credit spread and expected volatility are unobservable inputs.

The Company's financial instruments recorded at fair value are assessed using the following hierarchy based on the amount of observable inputs used to value the instrument:

- 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 of the instrument within the fair value hierarchy level. The financial derivative contracts and the Bondholders' Warrants are classified as level 2 instruments and the Bonds are classified as Level 3 instruments based on their respective inputs.

Unaudited (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 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.

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	103,409 barrels	Oct 1/22 to Dec 31/22	$56.58	**(2,175)**
Crude oil	WTI Futures	416,772 barrels	Jan 1/23 to Feb 29/24	$52.87	**(6,717)**
			Commodity derivative liability		**(8,892)**
Butane	Normal (NC4)	2,439,338 gallons	Oct 1/22 to Dec 31/22	$0.7675	**517**
Butane	Normal (NC4)	9,921,552 gallons	Jan 1/23 to Feb 29/24	$0.6700	**2,236**
			Commodity derivative asset		**2,753**
			Net derivative liability		**(6,139)**
Current - commodity derivative liability					**(5,000)**
Non-current - commodity derivative liability					**(1,139)**

(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 September 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 $5.0 million (December 31, 2021 - $3.0 million) and a non-current commodity derivative liability of $1.1 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 12, 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 $10.4 million and $1.4 million on crude oil contracts for the three and nine months ended September 30, 2022, respectively ($2.5 and $9.6 million an unrealized loss for the three and nine months ended September 30, 2021); and
- an unrealized loss of $5.6 million and $4.6 million on butane contracts for the three and nine months ended September 30, 2022, respectively ($3.7 and $9.8 million an unrealized gain for the three and nine months ended September 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 September 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 $0.4 million as at September 30, 2022, was owing from one company and the majority of joint interest receivables of $0.7 million as at September 30, 2022, was owing from one joint interest partner. The Company considers all of its accounts receivable as at September 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 September 30, 2022, the Company holds $5.7 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:

	September 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 exceeded 2.0% in both August and September 2022 and as at September 30, 2022 was anticipated to vary between 3.6% and 4.7% for the remaining monthly periods until maturity of the facility in March 2025. The current, maximum interest risk exposure is approximately $1.1 million of additional interest expense per annum, assuming a LIBOR rate of 4.7% 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)	**September 30, 2022**	December 31, 2021
GBP	**93**	1,125
Canadian dollars	**245**	281

Unaudited (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 September 30, 2022 are outlined in the table below:

	2022	2023-2024	2025-2027	Thereafter
Accounts payable and accrued liabilities	11,684	-	-	-
Bonds (note 11)	-	18,332	18,867	-
Senior Credit Facility (note 12)	-	-	42,117	-
Lender's Warrants (note 12a)	-	-	3,190	-
Lease liabilities	21	136	-	-
	11,705	**18,468**	**64,174**	**-**

21. 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 12). These financial covenants will have an impact on the Company's overall capital requirements and management of capital requirements.

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

22. NET CHANGE IN NON-CASH WORKING CAPITAL

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	**2022**	2021
Accounts receivable	**1,979**	16	**4,042**	(643)
Prepaid expenses	**(23)**	(179)	**130**	(187)
Long-term deposit	**(414)**	-	**(550)**	-
Accounts payable and accrued liabilities	**(3,133)**	(3,269)	**(1,198)**	(6,319)
Net change in non-cash operating working capital	**(1,591)**	(3,432)	**2,424**	(7,149)
Prepaid expenses	**-**	-	**-**	(15)
Accounts payable and accrued liabilities	**751**	(17)	**589**	180
Deferred financing costs	**20**	-	**(87)**	-
Deferred share issue costs	**(46)**	259	**(93)**	(28)
Net change in non-cash financing working capital	**725**	242	**409**	137
Accounts receivable	**-**	(137)	**-**	(1,383)
Prepaid expenses	**7**	-	**(76)**	-
Accounts payable and accrued liabilities	**117**	3,984	**(944)**	1,963
Net change in non-cash investing working capital	**124**	3,847	**(1,020)**	580

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.

23. 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 a Tallgrass facility 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 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 September 30, 2022, the Company estimated the minimum commitment pursuant to the Tallgrass Agreements to be as follows:

- $0.4 million for the remainder of 2022; and
- $7.8 million from 2023 to September 2026.