CANADIAN OVERSEAS PETROLEUM LIMITED

ANNUAL AUDITED CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEARS ENDED
DECEMBER 31, 2022 AND 2021

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The annual financial statements of Canadian Overseas Petroleum Limited for the year ended December 31, 2022 were prepared by management within the acceptable limits of materiality and are in accordance with International Financial Reporting Standards. The financial statements have been prepared by management in accordance with the accounting policies as described in the notes to the financial statements. Timely release of financial information sometimes necessitates the use of estimates when transactions affecting the current accounting period cannot be finalized until future periods. When necessary, such estimates are based on informed judgments made by management.

To assist management in the discharge of these responsibilities, it has designed and maintains an appropriate system of internal controls to provide reasonable assurance that all assets are safeguarded and financial records properly maintained to facilitate the preparation of financial statements for reporting purposes.

The consolidated financial statements have been audited independently by Ernst & Young LLP on behalf of the shareholders in accordance with generally accepted auditing standards. Their report outlines the nature of their audit and expresses their opinion on the consolidated financial statements. The Audit Committee, consisting of non-management directors, has met with representatives of Ernst & Young LLP and management in order to determine if management has fulfilled its responsibilities in the preparation of the consolidated financial statements. The Board of Directors has approved the consolidated financial statements on the recommendation of the Audit Committee.

Signed "Arthur S. Millholland"
Arthur S. Millholland
President and Chief Executive Officer
March 31, 2023

Signed "Ryan Gaffney"
Ryan Gaffney
Chief Financial Officer
March 31, 2023

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Canadian Overseas Petroleum Ltd.

Report of the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Canadian Overseas Petroleum Ltd. and its subsidiaries (the Company), which comprise the consolidated statements of financial position as at December 31, 2022 and 2021, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects the consolidated financial position of the Company as at December 31, 2022 and 2021, and its consolidated financial performance and consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

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

Material uncertainty related to going concern

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying financial statement. In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matter described below to be the key audit matter to be communicated in our report.

Key Audit Matter	How our audit addressed the key audit matter
Classification, valuation and disclosure of convertible bonds	
In July 2022 the Company issued two convertible bonds for total net proceeds of $19.7 million as well as warrants to the bondholders. In December 2022, the Company issued an additional $3.2 million in bonds under the same terms and conditions. The terms and conditions of the convertible bonds contain embedded derivatives related to the conversion option and prepayment option. The warrants were assessed as a separate financial liability measured at fair value through profit or loss as they were issued in a currency that differs from the Company's functional currency. Derivative liabilities are measured at fair value upon inception and remeasured at each reporting date. The Company has chosen to value the entire debt instrument and embedded derivatives together in accordance with IFRS 9, *Financial Instruments*. Refer to Note 3 of the consolidated financial statements for a description of the Company's accounting policy related to the Convertible Bonds. This matter was identified as a key audit matter because auditing the issuance of the convertible bonds of the Company was complex given the significant estimation uncertainty and judgment required in determining the fair value of the derivative financial instruments. The valuation of derivative financial instruments uses complex valuation models, with two significant unobservable inputs used by the Company, including credit spread and share price volatility. These unobservable inputs could be affected by future economic and market conditions. In addition, significant judgment is required in identifying the nature of the financial instruments and whether they are to be accounted for as a financial liability measured at fair valued through profit and loss.	Our audit procedures included, among others: • We inspected the bond and warrant agreement to identify the nature of the financial instruments, identify any embedded derivatives that required separate valuation and to assess their classification, in accordance with IFRS 9, Financial Instruments, as a financial liability measured at fair value through profit and loss. • We involved our valuation specialist to assist in evaluating that the methodologies and models used by the Company were in accordance with IFRS 13, Fair Value Measurement. • With the support of our valuation specialist, we tested the Company's credit spread and share price volatility within the model by comparing each to market rates and historical share price data. In addition, we considered any changes in the operations of the business which may impact the Company specific credit spread. We independently recalculated the fair value of the derivatives and compared the result to the Company's estimate. • We evaluated the adequacy of the note disclosure included in Note 3 and Note 13 of the consolidated financial statements in relation to this matter.

Other information

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

- Management's Discussion and Analysis

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

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

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

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

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

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

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

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

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Ernst & Young LLP

Chartered Professional Accountants

Calgary, Canada
March 31, 2023

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

As at	Note	December 31, 2022	December 31, 2021
Assets			
Current:			
Cash and cash equivalents	6	**4,011**	7,841
Accounts receivable	8	**1,056**	6,875
Other current assets	9	**999**	674
		6,066	15,390
Non-current:			
Exploration and evaluation assets	10	**5,353**	5,172
Property and equipment, net	11	**102,204**	78,006
Right-of-use assets, net		**104**	166
Long-term deposits		**596**	44
		114,323	98,778
Liabilities			
Current:			
Accounts payable and accrued liabilities	12	**10,614**	12,438
Senior credit facility	14	**-**	36,372
Derivative liabilities	15	**-**	3,573
Unissued share liability	13	**298**	-
Commodity derivative net liability	25(a)	**1,649**	2,976
Current portion of lease liabilities		**79**	74
		12,640	55,433
Non-current liabilities:			
Convertible bonds	13	**21,721**	-
Senior credit facility	14	**36,215**	-
Derivative liabilities	15	**16,284**	-
Commodity derivative net liability	25(a)	**5,232**	-
Lease liabilities		**54**	143
Ad valorem tax payable	17	**2,487**	-
Asset retirement obligations	16	**7,463**	8,191
		102,096	63,767
Shareholders' Equity			
Share capital	18	**209,661**	190,705
Warrants	19(a)	**873**	1,173
Contributed capital reserve	19(b)	**54,930**	51,260
Accumulated deficit		**(251,362)**	(205,927)
Accumulated other comprehensive loss		**(1,875)**	(2,200)
		12,227	35,011
		114,323	98,778

Going concern (note 2)
Commitments (note 28)
Subsequent events (note 30)

See accompanying notes to the consolidated financial statements

Approved on behalf of the Board of Directors:

Signed "Arthur S. Millholland"
Director

Signed "John F. Cowan"
Director

CANADIAN OVERSEAS PETROLEUM LIMITED

CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS

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

For the years ended December 31,	Note	2022	2021
Revenue			
Petroleum sales, net of royalties		**28,012**	15,003
Realized loss on commodity derivatives – crude oil		**(14,252)**	(2,274)
Unrealized gain (loss) on commodity derivatives – crude oil	25(a)	**1,097**	(10,331)
		14,857	2,398
Expenses			
Production taxes		**(3,498)**	(1,900)
Operating		**(8,351)**	(4,279)
Realized gain on commodity derivatives – butane		**6,273**	2,816
Unrealized (loss) gain on commodity derivatives – butane	25(a)	**(5,002)**	7,355
Depletion, depreciation and amortization		**(5,074)**	(3,682)
General and administrative	20	**(8,187)**	(8,302)
Share-based compensation	19(b)	**(3,670)**	-
Expected credit loss	25(b)	**(307)**	(1)
Acquisition costs		**-**	(2,159)
Pre-license costs		**(692)**	(300)
		(28,508)	(10,452)
Financing expenses			
Finance costs, net	21	**(14,851)**	(6,898)
Change in fair value of convertible bonds	13	**(13,632)**	-
(Loss) gain on derivative liabilities	22	**(2,649)**	1,091
Gain on extinguishment of loan		**-**	332
Foreign exchange loss, net		**(651)**	(6)
		(31,783)	(5,481)
Loss before investment in joint venture		**(45,434)**	(13,535)
Loss on investment in joint venture	7	**(1)**	(1)
Loss after investment in joint venture		**(45,435)**	(13,536)
Income tax expense		**-**	-
Net loss		**(45,435)**	(13,536)
Gain on translation of foreign subsidiaries		**325**	48
Comprehensive loss		**(45,110)**	(13,488)
Net loss per share – basic		**(0.19)**	(0.09)
Net loss per share – diluted		**(0.27)**	(0.09)
Weighted average shares outstanding – basic		**239,321,072**	145,594,913
Weighted average shares outstanding – diluted		**303,207,239**	145,594,913

See accompanying notes to the consolidated financial statements

CANADIAN OVERSEAS PETROLEUM LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2022 and 2021

(US$ thousands)

	Note	Share Capital	Warrants	Contributed Capital Reserve	Deficit	Accumulated Other Comprehensive Loss [(1)]	Total 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	18(b,c,f,g)	32,803	-	-	-	-	32,803
Issued further to CEO loan conversion	18(b)	155	-	-	-	-	155
Issued further to business combination	5(a)	4,000	-	-	-	-	4,000
Issued as payment of Finders' and Brokers' fees	18(b,c,f)	2,794	-	-	-	-	2,794
Issued as payment of advisory services	18(d)	202	-	-	-	-	202
Issued further to exercise of Unit Warrants	18(b)	5,479	-	-	-	-	5,479
Fair value of Unit Warrants issued as derivative liability	18(b)	(2,132)	-	-	-	-	(2,132)
Fair value of Unit Warrants exercised	18(b)	4,590	-	-	-	-	4,590
Issued further to exercise of 2020 3rd finders' warrants	18(e)	112	-	-	-	-	112
Fair value of Finders' and Brokers' Warrants issued	19(a)	-	1,091	-	-	-	1,091
Fair value of expired and exercised 2020 3rd finders' warrants	18(e)	63	(63)	-	-	-	-
Net loss and comprehensive loss for the year		-	-	-	(13,536)	48	(13,488)
Balance as at December 31, 2021		190,705	1,173	51,260	(205,927)	(2,200)	35,011
Balance as at December 31, 2021		**190,705**	**1,173**	**51,260**	**(205,927)**	**(2,200)**	**35,011**
Issued further to placing, net of issue costs	18(i)	**11,784**	**-**	**-**	**-**	**-**	**11,784**
Issued pursuant to the Bond conversions	13	**6,491**	**-**	**-**	**-**	**-**	**6,491**
Issued as payment of the Bonds Brokers' fees	13	**1,179**	**-**	**-**	**-**	**-**	**1,179**
Fair value of Unit Warrants issued as derivative liability	18(i)	**(1,269)**	**-**	**-**	**-**	**-**	**(1,269)**
Fair value of brokers' warrants issued	18(i)	**-**	**226**	**-**	**-**	**-**	**226**
Fair value of bond brokers' warrants issued	13	**-**	**245**	**-**	**-**	**-**	**245**
Expiry of finders' and brokers' warrants	18(h)	**526**	**(526)**	**-**	**-**	**-**	**-**
Expiry of July 2026 Bond Brokers' Warrants	13	**245**	**(245)**	**-**	**-**	**-**	**-**
Share-based compensation	19(b)	**-**	**-**	**3,670**	**-**	**-**	**3,670**
Net loss and comprehensive loss for the year		**-**	**-**	**-**	**(45,435)**	**325**	**(45,110)**
Balance as at December 31, 2022		**209,661**	**873**	**54,930**	**(251,362)**	**(1,875)**	**12,227**

(1) As at December 31, 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 consolidated financial statements

CANADIAN OVERSEAS PETROLEUM LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS

(US$ thousands)

For the years ended December 31,	**Note**	**2022**	2021
Cash Flow From (Used In) Operating Activities:			
Net loss		**(45,435)**	(13,536)
Add (deduct) non-cash items:			
Depletion, depreciation and amortization		**5,074**	3,682
Unrealized (gain) loss on commodity derivatives – crude oil	25(a)	**(1,097)**	10,331
Unrealized loss (gain) on commodity derivatives – butane	25(a)	**5,002**	(7,355)
Change in fair value of convertible bonds	13	**13,632**	-
Finance costs, net	21	**14,851**	6,898
Gain on extinguishment of loan		**-**	(332)
Loss (gain) on derivative liabilities	22	**2,649**	(1,091)
Share-based compensation	19(b)	**3,670**	-
Unrealized foreign exchange loss (gain), net		**577**	(50)
Loss on investment in joint venture		**1**	1
		(1,076)	(1,452)
Net change in non-cash operating working capital	27	**3,322**	(6,306)
		2,246	(7,758)
Cash Flow From (Used In) Financing Activities:			
Issuance of share capital, net of issue costs	18	**12,010**	37,095
(Repayment) gross proceeds from senior credit facility	14	**(2,883)**	45,000
Lender's & borrower's fees paid on senior credit facility		**(2,167)**	(3,544)
Interest paid on senior credit facility	21	**(5,886)**	(4,643)
Proceeds from convertible bonds	13	**22,856**	-
Cost to issue convertible bonds		**(629)**	-
Repayment of YARF loan		**-**	(683)
Other financing expenses		**(346)**	-
Payment of lease obligations		**(78)**	(109)
Net change in non-cash financing working capital	27	**687**	(149)
		23,564	72,967
Cash Flow From (Used In) Investing Activities			
Acquisitions	5	**(19,392)**	(45,079)
Acquisitions cash acquired	5(a)	**-**	9,160
Property and equipment expenditures	11	**(8,955)**	(19,003)
Exploration and evaluation assets expenditures	10	**(274)**	(3,285)
Additions to investment in joint venture	7	**(1)**	(1)
Interest		**11**	10
Net change in non-cash investing working capital	27	**(664)**	(548)
		(29,275)	(58,746)
Increase in cash and cash equivalents during the period		**(3,465)**	6,463
Effect of foreign exchange held in foreign currencies		**(365)**	(23)
Cash and cash equivalents, beginning of year		**7,841**	1,401
Cash and cash equivalents, end of year		**4,011**	7,841

See accompanying notes to the consolidated financial statements

1. NATURE OF OPERATIONS

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

The Company and its subsidiaries are involved in the identification, acquisition, exploration, development and production of oil and natural gas reserves and hold interests in petroleum assets located in the United States of America (the "**US**") and sub-Saharan Africa. As at December 31, 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 7).

2. BASIS OF PREPARATION

Basis of Preparation and Compliance

The Company's audited consolidated financial statements for the years ended December 31, 2022 and 2021 ("**Financial Statements**") have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**").

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

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

These Financial Statements were authorized for issue by the Company's Board of Directors on March 31, 2023.

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 it is able to generate positive operating cash flows. Furthermore, the Company does not have sufficient working capital to cover forecasted expenses for the next 12 months, and does not have cash inflows and/or adequate financing to continue its operations. As indicated in notes 13 and 18, the Company closed financings comprising of convertible bonds issued in July 2022 and December 2022 and a brokered equity placing in April 2022, however, the funds are not sufficient to cover forecasted expenses, and there is no assurance that the Company will be able to obtain adequate financing in the future or that such financing will be obtained on terms acceptable to the Company. 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 and such adjustments may be material.

3. ACCOUNTING POLICIES

Basis of consolidation

The Financial Statements include the financial statements of COPL and its subsidiaries.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. All intercompany transactions and balances have been eliminated on consolidation. The joint venture investment is not subject to consolidation and uses the equity method of accounting.

Cash and cash equivalents

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

Foreign currency translation

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

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

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

Revenue recognition

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

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

Business combinations and asset acquisitions

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

A business combination is a transaction or event in which an acquirer obtains control of one or more businesses. A business is an integrated set of activities and assets that are capable of being conducted and managed for the purpose of generating income from ordinary activities. An optional concentration test which focuses on assessing the concentration of the fair value of gross assets acquired is used to assist in determining whether an acquired set of activities and assets is not a business. If substantially all of the fair value of the gross assets acquired are concentrated in a single identifiable asset or group of similar identifiable assets, the concentration test is met, and the transaction is determined to be an asset acquisition. Transaction costs associated with an asset acquisition are capitalized as incurred.

Inventory

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

Finance costs, net

Net financing costs include interest expense and other costs related to all borrowings, accretion of interest on the borrowings, interest on lease liabilities and accretion of the asset retirement obligations.

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

Interest income is recognized as earned.

Pre-license costs

The costs incurred prior to the award or the acquisition of oil and gas assets, licenses, concessions and other exploration rights are recognized as an expense in the period incurred.

Exploration and evaluation assets

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

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

Upon determination of proved plus probable reserves and a full evaluation of the development plan in the exploration area has been completed, E&E assets attributable to those costs are first tested for impairment at the cash-generating unit ("**CGU**") level, and then reclassified from E&E assets to developed and producing ("**D&P**") assets. E&E costs related to prospects for which no proved or probable reserves exist, and lease expiries, are expensed. If a decision is made by management not to continue an E&E project, the E&E asset is derecognized, and all associated costs are charged to net earnings.

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

Property and equipment

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

D&P assets are measured at cost less accumulated depletion, depreciation, amortization and impairment. D&P assets are grouped into CGUs for impairment testing.

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

(i) Initial costs

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

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

Other items of P&E assets are carried at cost less accumulated depreciation and impairment.

(ii) *Subsequent costs*

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

(iii) Asset exchanges and disposals

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

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

(iv) Depletion, depreciation and amortization

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

For administrative and other assets, depreciation is recognized in net earnings on a straight-line basis over the estimated useful lives of each asset that range from 3 to 5 years. The depreciation methods, useful lives and residual values are reviewed at each reporting date.

Impairment of non-financial assets

Property and equipment

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

Exploration and evaluation assets

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

Provisions

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

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

Offsetting of financial instruments

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

Derivative financial instruments

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

Convertible bonds

The Company's convertible bonds currently outstanding are complex financial instruments that include multiple embedded derivatives, warrants issued to bondholders and conversion payment liabilities. The Company accounts for the entire hybrid bond instruments at fair value through profit and loss ("**FVTPL**").

To estimate the fair value of the bond instruments at each balance sheet date and upon conversions, the Company uses an external professional valuator, that performs the calculation using a valuation model based on the finite difference method, with major assumptions and inputs being: the Company's stock price, expected life of the bonds, expected volatility, implied credit worthiness, expected dilution effect and market risk-free interest rates, all as applicable at each valuation date.

Upon initial valuation of the newly issued bonds, the Company recognized a deferred loss that is calculated as a fair value of bonds and fair value of related bondholders' warrants less proceeds from the issue of the bonds. The deferred loss is amortized on a straight-line basis over the life of the respective bond series. The fair value of bondholders' warrants is recognized as a derivative liability.

Due to the recognition of the bonds at FVTPL, all of the costs related to issue of the bonds, such as brokers' fees, legal fees and calculation agent fees, representing transaction costs, are recognized as finance expenses in net earnings.

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 the change in the Company's credit risk in other comprehensive loss, and the remaining change in net earnings. Similarly, the fair value of bondholders' warrants is reassessed at each reporting date and a respective gain or loss on the derivative liability is recognized in net earnings.

Upon 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 liability that remains within the fair value of the bonds. In addition, upon conversion of the bonds, the remaining amortization of the portion of deferred loss that relates to converted bonds is accelerated and recognized in net earnings.

Joint arrangements

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

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

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

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

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

Share-based compensation

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

Leases

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

Per share data

Basic net earnings per share is calculated using the weighted average number of shares outstanding during the year. The treasury stock method is used to calculate diluted net earnings per share. This method assumes the dilution of in-the-money convertible bonds and in-the-money stock options and warrants exercised with the proceeds used to purchase Common Shares at the average market price during the year.

Deferred Income Tax

The Company uses the liability method of accounting for income taxes, whereby deferred income tax assets and liabilities are recognized based on temporary differences between the tax basis of assets and liabilities and their carrying amount in the Financial Statements, and for unused tax loss carry-forwards. Deferred tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted at the date of the Financial Statements. Deferred income tax assets are recognized only to the extent it is probable that taxable profit will be available to utilize the associated tax deductions. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to offset current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same tax jurisdiction.

Segment reporting

Operating segments have been determined based on the nature of the Company's activities and the geographic locations in which the Company operates, and are consistent with the level of information regularly provided to and reviewed by the Company's chief decision makers.

Comparative information

Certain comparative information has been re-classified to conform to current presentation.

Significant accounting judgements and estimates

Critical judgements in applying accounting policies

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

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

Management applies judgement in assessing the existence of indicators of impairment or impairment reversal at a CGU level on a quarterly basis, based on various internal and external factors. The key estimates applied in determining an acceptable range of recoverable amounts normally includes information on future commodity prices, expected production volumes, quantity of reserves, future development and operating costs, discount rates, and income taxes.

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

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

Key sources of estimation uncertainty

The following are key estimates and the assumptions made by management affecting the measurement of balances and transactions in the Financial Statements.

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

The fair value assigned to the host contract of the senior credit facility and convertible bonds including the embedded derivative and warrants associated with this debt are based on the Company's estimate, calculated using assumptions including forward interest curves, credit worthiness of the Company and share price volatility. By nature, these estimates and assumptions are subject to uncertainty, and the actual fair value of the derivative liabilities may differ.

The Company's oil and natural gas reserves are evaluated by independent petroleum engineers and are determined in accordance with Canadian practices and specifically in accordance NI 51-101 and the Canadian Oil and Gas Evaluation Handbook. The estimation of reserves is a subjective process. Forecasts are based on engineering data, projected future rates of production, commodity prices and the timing of future expenditures, all of which are subject to numerous uncertainties and various interpretations. The Company expects that its estimates of reserves will change to reflect updated information. Reserve estimates can be revised upward or downward based on actual reservoir performance, the results from capital expenditure programs, revisions to previous estimates, new discoveries and acquisitions and dispositions during the year. By their nature, these estimates are subject to measurement uncertainty, and the impact on the Financial Statements from changes in such estimates in future periods could be material. Changes in reserve estimates can affect the impairment of assets, including the reversal of previously recorded impairments, the estimation of ARO, the economic feasibility of E&E assets and the amounts recognized for depletion of D&P assets.

If indicators of impairment exist, the carrying value of each CGU is compared to its recoverable amount which is defined as the greater of its FVLCD and its VIU. The VIU is estimated as the present value of the future cash flows expected to arise from the continuing use of the CGU or an asset. The FVLCD is the amount that would be realized from the disposition of the asset or CGU in an arm's length transaction between knowledgeable and willing parties.

The fair value of derivative financial instruments (see note 25) is dependent upon forward commodity prices and the volatility of those prices.

Share-based compensation expense, warrants and derivative liabilities involves the Company's estimation of fair value, calculated using assumptions regarding the expected life of the option or warrant, interest rates and volatility. By their nature, these estimates and assumptions are subject to uncertainty, and the actual fair value of options or warrants may differ at any time.

Incremental borrowing rates are based on judgements including the Company's own credit risk, economic environment, term, currency and risks specific to the underlying assets. The carrying balance of the right-of-use assets, lease liabilities, and the resulting depreciation and amortization and finance expenses may differ due to changes in the market conditions and lease term.

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

Provisions, commitments and contingent liabilities are estimated based on the terms of the related contracts and management's best knowledge at the time of issuing the Financial Statements. The actual results ultimately may differ from those estimates as future confirming events occur.

Future Changes in Accounting Policies

Amendments to IAS 1 – "Presentation of Financial Statements"

In January 2020, the IASB issued amendments to IAS 1, to clarify its requirements for the presentation of liabilities as current or non-current in the statement of financial position. In October 2022, the IASB issued further amendments, which specify the classification and disclosure of a liability with covenants. The amendments will be effective on January 1, 2024. The Company is currently assessing the impact of these amendments.

Amendments to IAS 8 – " Accounting Policies, Changes in Accounting Estimates and Errors"

In February 2021, the IASB issued amendments to IAS 8, which introduces a definition of "accounting estimates". The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed. The impact of the amendments is not material to the Financial Statements.

Amendments to IAS 12 – "Income Taxes"

In May 2021, the IASB issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

The amendments should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. The impact of the amendments is not material to the Financial Statements.

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.

4. RECENT DEVELOPMENTS AND IMPACT ON ESTIMATION UNCERTAINTY

Current Environment and Estimation Uncertainty

Since Russia's invasion of Ukraine in early 2022 there has been emerging global concerns over oil and natural gas supply, which has resulted in more volatile benchmark commodity prices. Additionally, the conflict contributed to increased inflationary pressures on governments, businesses and communities which have been rising since 2021. In response to increasing inflation central banks around the globe began increasing interest rates which continued throughout 2022. 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. Due to the uncertainty surrounding the magnitude, duration and potential outcomes of the above noted factors, 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, but the impact may be material.

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. With respect to environmental, social, governance ("**ESG**") and climate reporting, the International Sustainability Standards Board ("**ISSB**") 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 ("**CSA**") 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 governmental authorities, and raise capital may be adversely affected. The cost to comply with these standards, and others that may be developed or evolve over time, has not yet been quantified. The Company continues to monitor the evolving ESG regulations and its potential impact on the Company.

All amounts in US$ thousands, except otherwise stated

5. 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. and Pipeco LLC (entities collectively, the "**Atomic Group**") (together the "**Atomic Group Acquisition**") for aggregate consideration of $54.1 million. 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 exploration units within its land position: a 55.6% working interest in the Barron Flats Deep Federal unit (the "**BFDU**") and a 66.7% working interest in the Cole Creek unit (the "**CCU**") as well as a 58.0% working interest in the Barron Flats Shannon secondary recovery unit (the "**BFSU**"). 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 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.

In accordance with the Atomic Group Acquisition, 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 10)	1,665
P&E assets (note 11)	55,659
Right-of-use assets	41
ARO (note 16)	(977)
Total identifiable net assets	**54,079**
Goodwill (bargain purchase gain)	-

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

(b) 2022 Asset Acquisition

On July 26, 2022, COPLA closed the acquisition of the assets of Cuda Energy LLC ("**Cuda**") with the court-appointed receiver of Cuda for cash consideration of $19.2 million plus the assumption of Cuda's operating arrears owed to the Company of $1.7 million and acquisition costs of $0.1 million for a total cost of $21.0 million (the "**Cuda Asset Acquisition**"). Cuda's sole assets are non-operating interests in the BFSU (27.0% WI), the CCU (33.3% WI) and the BFDU (28.0%) 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 assets 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*". The total acquisition cost of $21.0 million was recognized in property and equipment balances at the date of the acquisition as substantially all of the fair value of the gross assets acquired were concentrated in a group of similar identifiable assets, and as such the transaction was determined not to be a business combination.

The ARO was measured at $2.4 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.

In October 2022, COPL closed an additional minor acquisition of a 0.1% working interest in the BFSU for $0.1 million.

6. CASH AND CASH EQUIVALENTS

Cash balances earn interest, whenever possible, at floating rates based on daily bank deposit rates. The fair value of cash and cash equivalents was $4.0 million as at December 31, 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 December 31, 2022 and December 31, 2021.

7. INVESTMENT IN JOINT VENTURE

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

From time to time the Company or its joint venture partner pay for ShoreCan's general and administrative expenses on behalf of the other partner. As at December 31, 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 the Company's consolidated statement of net loss for the year ended December 31, 2022 ($1,000 for the year ended December 31, 2021).

During the year ended December 31, 2022, COPL and its subsidiaries charged ShoreCan management and technical services of $0.2 million (2021 - $0.6 million) and charged an interest expense of $0.9 million (2021- $0.4 million). As at December 31, 2022, the Company had non-current receivables of $15.4 million due from ShoreCan under the terms of the funding agreement (December 31, 2021 - $14.3 million), which in accordance with the equity method of accounting for the ShoreCan joint venture the charges for management and technical services and interest expense were reversed from the Company's revenue and investment in the joint venture.

For the year ended December 31, 2022, the Company's share of ShoreCan's losses exceeded the Company's net investment in the joint venture of $1,000 (December 31, 2021 - $1,000). Accordingly, pursuant to the equity method, the Company recognized a loss on the investment in ShoreCan of $1,000 for the year ended December 31, 2022 (December 31, 2021 - $1,000). As the Company's share of ShoreCan's net liabilities exceeds the Company's net interest as at December 31, 2022, under the equity method, the Company discontinued recognizing its share of future losses and the carrying amount of the investment in the jointly controlled entity was $NIL as at December 31, 2022 (December 31, 2021 - $NIL).

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.

All amounts in US$ thousands, except otherwise stated

8. ACCOUNTS RECEIVABLE

	December 31, 2022	December 31, 2021
Revenue receivable	**310**	432
Joint interest receivable	**686**	5,821
Realized commodity contracts receivable	**-**	49
Share issuance receivable	**-**	500
Other receivables	**60**	73
Balance, end of the year	**1,056**	6,875

9. OTHER CURRENT ASSETS

	December 31, 2022	December 31, 2021
Prepaid expenses	**507**	579
Deferred share issue costs	**208**	-
Oil inventory	**193**	82
Condensate inventory	**81**	-
Short-term deposits	**10**	13
Balance, end of the year	**999**	674

10. EXPLORATION AND EVALUATION ASSETS

	December 31, 2022	December 31, 2021
Balance, beginning of the year	**5,172**	-
Acquisition (note 5a)	**-**	1,665
Additions	**274**	3,285
ARO	**(93)**	222
Balance, end of the year	**5,353**	5,172

The E&E assets acquired in 2021 for $1.7 million relate to the undeveloped land acquired as part of the Atomic Group Acquisition (see note 5a) that will require further exploration work and is pending a determination of proven or probable reserves.

E&E additions and ARO assets of $0.2 million (December 31, 2021 - $3.5) million relate to a successful discovery well drilled and completed in 2021 in the BFDU unitized exploration area. As the discovery well has potentially opened a new oil field development project and will be a critical source of knowledge to evaluate and plan the operational approach for the future drill program in the BFDU and CCU, the costs of the discovery well remain in E&E assets as at December 31, 2022.

Impairment

There are no indicators of impairment as at December 31, 2022.

All amounts in US$ thousands, except otherwise stated

11. PROPERTY AND EQUIPMENT

	D&P Assets	**Administrative Assets**	**Total**
Cost:			
Balance, January 1, 2021	-	313	313
Acquisition (note 5a)	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 5b)	21,077	-	21,077
Additions	8,786	169	8,955
Disposals	-	(6)	(6)
Change in ARO	(822)	-	(822)
Balance, December 31, 2022	**110,243**	**797**	**111,040**
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	(4,923)	(89)	(5,012)
Disposals	-	6	6
Balance, December 31, 2022	**(8,449)**	**(387)**	**(8,836)**
Net carrying amount, December 31, 2021	77,676	330	78,006
Net carrying amount, December 31, 2022	**101,794**	**410**	**102,204**

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 5a and 5b). At December 31, 2022, estimated future development costs of $426.7 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 December 31, 2022.

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2022	December 31, 2021
Trade payables and accrued liabilities	**7,330**	6,020
Revenue related payable	**2,273**	3,313
Production taxes payable	**1,011**	3,105
Balance, end of the year	**10,614**	12,438

13. CONVERTIBLE BONDS

On July 26, 2022, the Company (the "**Issuer**") issued at a 22% discount to the principal face value, 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**").

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 a planned reserve based loan ("**RBL**") facility that refinances the senior credit facility (note 14), 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 quarterly from 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 quarterly 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. Further to the Bond instrument provisions, this initial fixed conversion price was reset to £0.1325 ($0.1583) per Common Share on December 26, 2022, which was the date falling 5 months after the issue date as the senior credit facility was not repaid and a Cash Payment Notice had not been issued prior to December 26, 2022.

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.

The documentation relating to the Bonds contains various non-financial 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. As at December 31, 2022, the Company was in compliance with the non-financial covenants. 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.

All amounts in US$ thousands, except otherwise stated

December Tap 2025 Bonds

On December 30, 2022, the Company issued to one Bondholder 20 additional 2025 Bonds with a principal face value amount of $4.0 million (the "**December Tap 2025 Bonds**") at a 20% discount to the principal face value of the 2025 Bonds for proceeds of approximately $3.2 million. The December Tap 2025 Bonds have the same terms as the original 2025 Bonds, including a deemed issue date of July 26, 2022, and as such formed a single series with the 2025 Bonds issued in July 2022. For accounting purposes, the December Tap 2025 Bonds are recorded separately to facilitate the calculation of a deferred loss.

Bondholders' Warrants

On July 26, 2022, the Company also issued to the Bondholders a total of 54,792,590 Common Share purchase warrants (the "**July 2022 Bondholders' Warrants**") as an additional compensation to the Bondholders for their participation in the Bonds issue. Each July 2022 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 July 2022 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 July 2022 Bondholders' Warrants are classified as a derivative financial instrument and subsequently revalued at each balance sheet date.

The fair value of the July 2022 Bondholders' Warrants as of July 26, 2022, estimated at $6.2 million, using a Black-Scholes option pricing model, was recognized as a derivative liability as at the date of issue of these July 2022 Bondholders' Warrants. As at December 31, 2022, the fair value of the July 2022 Bondholders' Warrants was estimated to be $6.4 million. Accordingly, the Company recognized a loss on the derivative liability of $0.2 million in net earnings.

On December 30, 2022, the Company issued 12,760,572 Common Share purchase warrants to the Bondholder of the December Tap 2025 Bonds (the "**December 2022 Bondholders' Warrants**"). Each December 2022 Bondholders' Warrant entitles the holder to purchase one Common Share at an exercise price of £0.135 ($0.1627) on or before June 30, 2025.

The fair value of the December 2022 Bondholders' Warrants as of December 30 and 31, 2022, estimated at $1.8 million, using a Black-Scholes option pricing model, was recognized as a derivative liability as at the date of issue of these December 2022 Bondholders' Warrants.

The following assumptions were used for the Black-Scholes option pricing model to estimate the fair value of the July 2022 Bondholders' Warrants and the December 2022 Bondholders' Warrants (collectively the "**Bondholders' Warrants**") at the dates of valuation:

	July 2022 Bondholders' Warrants	**July 2022 Bondholders' Warrants**	**December 2022 Bondholders' Warrants**
	July 26, 2022	**December 31, 2022**	**December 31, 2022**
Risk-free interest rate	3.02%	4.40%	4.30%
Weighted average life (years)	2.50	2.07	2.50
Expected volatility	87%	82%	82%
Expected dividend yield	-	-	-
COPL's share price*	$0.21	$0.23	$0.23

*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 (the "**July 2022 Bond Brokers' Fees**") for a total of $1.2 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 "**July 2022 Bond Brokers' Warrants**") as additional compensation. Each July 2022 Bond Brokers' Warrant 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.

All amounts in US$ thousands, except otherwise stated

The fair value of the July 2022 Bond Brokers' Warrants as at July 26, 2022 was estimated at $0.25 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 July 2022 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.

Other costs related to the Bonds include $0.4 million of Bondholders' legal fees, $0.7 million of Issuer's legal and advisory fees and $0.1 million of calculation agent fees.

On October 24, 2022, the July 2022 Bond Brokers' Warrants of 5,895,000 expired unexercised. The fair value of the unexercised warrants for a total amount of $0.25 million was recognized as an addition to share capital and a respective decrease in the warrants.

No brokers' fees were incurred in connection to the issue of the December Tap 2025 Bonds and legal and calculation agent fees amounted to $0.2 million.

Conversions

During 2022, the Company received conversion notices from Bondholders to convert seven of the 2024 Bonds and 18 of the 2025 Bonds with a total principal amount of $5.0 million. Further to the conversion provisions and calculations confirmed by the calculation agent, the Company issued a total of 24,987,502 Common Shares in respect of the conversion of these Bonds.

In addition, one of the 2024 Bonds with a principal amount of $0.2 million was converted on December 30, 2022 and the respective 1,263,423 Common Shares were issued on January 6, 2023. Accordingly, as at December 31, 2022, the Company recognized the value of this converted 2024 Bond of $0.3 million as "unissued share liability".

As at December 31, 2022, there were 55 unconverted 2024 Bonds with a principal amount of $11.0 million, 45 unconverted 2025 Bonds with a principal amount of $9.0 million and 20 unconverted December Tap 2025 Bonds with a principal amount of $4.0 million.

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 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.

All amounts in US$ thousands, except otherwise stated

As at July 26, 2022, the FVTPL liability (the "**Bonds' FVTPL**") was estimated to be $24.5 million for the 2024 Bonds and $29.1 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 $18.3 million for the 2024 Bonds and $21.8 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.

As at December 31, 2022, the FVTPL liability was estimated to be $9.8 million for the December Tap 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 "**Tap Deferred Loss**") was $8.3 million for the December Tap 2025 Bonds, which is deferred and amortized on a straight-line basis over the life of the December Tap 2025 Bonds. The fair value loss is deferred as there are significant unobservable inputs used in valuation model.

The following table provides a summary of the Deferred Loss and Tap Deferred Loss as at December 31, 2022:

	2024 Bonds Deferred Loss	2025 Bonds Deferred Loss	December Tap 2025 Bonds Deferred Loss	Total
Balance, beginning of year	-	-	-	-
Deferred Loss on initial recognition	18,326	21,818	8,313	48,457
Amortization	(3,782)	(2,719)	(9)	(6,510)
Accelerated amortization on conversions	(1,410)	(3,608)	-	(5,018)
Balance, end of the year	**13,134**	**15,491**	**8,304**	**36,929**

Due to the recognition of the Bonds at FVTPL, all of the costs related to issue of the Bonds for a total of $2.8 million, representing transaction costs, were recognized as finance expenses in net earnings.

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, and the remaining change in net earnings. For the year ended December 31, 2022, there was no gain or loss attributable to the change in the Company's credit risk.

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 $1.6 million in respect of the converted 2024 Bonds, $4.9 million in respect of the converted 2025 Bonds for the year ended December 31, 2022 and an unissued share liability of $0.3 million in respect of one 2024 Bond converted on December 30, 2022 with the respective Common Shares issued on January 6, 2023.

As at December 31, 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 $23.7 million for the 2024 Bonds and $25.2 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 and the Tap 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 loss of $6.4 million in respect of the 2024 Bonds and a loss of $7.3 million in respect of the 2025 Bonds for the year ended December 31, 2022.

All amounts in US$ thousands, except otherwise stated

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:

	2024 and 2025 Bonds			December Tap 2025 Bond
	as at July 26, 2022	**for conversions from July 29, 2022 to Sept 15, 2022**	**as at December 31, 2022**	**as at December 31, 2022**
Risk-free interest rate	3.02%	2.83% - 4.55%	4.30-4.55%	4.30%
Weighted average life	maturity date	maturity date	maturity date	Maturity date
Implied credit spread	45.12%	44.37% - 45.10%	45.05%	45.05%
Expected volatility	87%	82% - 88%	82%	82%
Underlying stock price*	$0.21	$0.15 - $0.22	$0.23	$0.23
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 December 31, 2022:

	2024 Bonds' FVTPL	2025 Bonds' FVTPL	December Tap 2025 Bonds' FVTPL	Total Bonds' FVTPL	Bondholders' Warrants Derivative Liability
Initial fair value	24,456	29,117	9,762	63,335	7,978
Deferred loss	(18,326)	(21,818)	(8,313)	(48,457)	-
Balance, at issue dates	**6,130**	**7,299**	**1,449**	**14,878**	**7,978**
Conversion to Common Shares	(1,915)	(4,874)	-	(6,789)	-
Net change in fair value	6,354	7,269	9	13,632	199
Balance, December 31, 2022	**10,569**	**9,694**	**1,458**	**21,721**	**8,177**

As at December 31, 2022, the Company would be contractually required to pay at maturity a maximum of $17.4 million in respect of the 2024 Bonds, $18.0 million in respect of the 2025 Bonds and $6.8 million in respect of the December Tap 2025 Bonds, assuming that the Bonds are not repaid in cash earlier than at maturity, that all outstanding Bonds are not converted before maturity, and that none of the Bondholders that already converted the Bonds elects to receive its Conversion Payment in shares earlier than at maturity.

14. SENIOR CREDIT FACILITY

The Atomic Group Acquisition was funded in part with debt through a loan agreement dated March 16, 2021 between a US based global investment firm (the "**Lender**") and COPLA (the "**Borrower**") 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. 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), 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 were applicable for the periods commencing after the first anniversary of the SCF, which was March 31, 2022. 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.

The Senior Credit Facility has an accordion feature whereby the Borrower may draw upon up to a maximum of $20.0 million for future development, at the sole discretion of the Lender. As at December 31, 2022, the accordion feature was undrawn.

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 earnings.

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 December 31, 2022.

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 December 31, 2022:

	Senior Credit Facility	Derivative Liabilities (note 15)	Total
Principal amount	45,000	-	45,000
Lender's closing and legal costs (c)	(1,870)	-	(1,870)
Borrower's closing and legal costs (c)	(1,560)	-	(1,560)
Initial valuation of Lender Warrants (a)	(4,900)	4,900	-
Initial valuation of LIBOR floor (b)	(2,252)	2,252	-
Financing costs expensed upon initial valuation (c)	545	-	545
Lender Warrants revaluation (a)	-	(2,650)	(2,650)
LIBOR floor revaluation (b)	-	(937)	(937)
Accretion (note 21)	1,409	-	1,409
Balance, December 31, 2021	36,372	3,565	39,937
Lender Warrants revaluation (a)	-	5,770	5,770
LIBOR floor revaluation (b)	-	(1,228)	(1,228)
Repayment of principal amount	(2,883)	-	(2,883)
Loss on loan modification on partial repayment of the SCF (d)	489	-	489
Accretion (note 21)	2,237	-	2,237
Balance, December 31, 2022	**36,215**	**8,107**	**44,322**

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 $2.9 million to the SCF, $4.9 million to the Lender Warrants and $2.3 million to the LIBOR floor.

(a) As at December 31, 2022, the Lender Warrants were revalued at $8.0 million using 6% of COPL's market capitalization on a fully diluted basis (December 31, 2021 - $2.2 million using 5% of COPL's market capitalization on a fully diluted basis). The resulting change in fair value of $5.8 million related to an initial valuation of the additional 1% Lender Warrants of $0.9 million recognized in financing costs pursuant to a third amending agreement to the Senior Credit Facility and a loss on derivative liabilities of $4.9 million for the year ended December 31, 2022 (see note 22).

(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 earnings. As at December 31, 2022, the LIBOR floor was revalued at $0.1 million (December 31, 2021 - $1.3 million) and the resulting change in fair value was recognized as a gain on derivative liabilities of $1.2 million for the year ended December 31, 2022 (see note 22).

(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 of $2.9 million 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 increased to 23.3% as at December 31, 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.

(d) The principal repayment of $2.9 million in the year resulted in a loss on the loan modification of the SCF of $0.5 million to be recognized in net earnings.

During the year ended December 31, 2022, COPLA paid interest on this loan in the amount of $5.9 million (December 31, 2021 - $4.6 million).

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

- failure to meet liquidity covenants at November 30, 2021 and February 28, 2022 due mainly to an uncollected joint interest receivable from Cuda, which was a joint interest partner in receivership as disclosed in note 5(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 including the delivery of an Approved Plan of Development ("**APOD**") from March 1, 2022 to December 31, 2022, a waiver fee of $1.18 million and an increase of the Lender Warrants to 6% of the common shares in the Borrower, all of which have been satisfied. Due to the waiver, the Company was not in default on the Senior Credit Facility and the indebtedness was classified as a non-current liability as at March 31, 2022.

On June 30, 2022, 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 the delivery of an updated APOD from March 1, 2022 to December 31, 2022, closing the Cuda Asset Acquisition by July 31, 2022 (note 5b) and the contribution of $8.0 million from the Company to COPLA, all of which have been satisfied. Due to the waiver, the Company was 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, 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 the delivery of an updated APOD from August 1, 2022 to December 31, 2022, a new APOD from January 1, 2023 to March 31, 2023 and the payment of a waiver fee of $0.6 million, all of which have been satisfied. Due to the waiver, the Company was not in default on the Senior Credit Facility and the indebtedness was classified as a non-current liability as at September 30, 2022

On December 30, 2022, the Borrower received a waiver from the Lender for not meeting the requirements of the leverage ratio of 2.50:1.0 and a 45-day minimum average balance of unrestricted cash of at least $2.5 million as at December 31, 2022 subject to the following conditions:

- the Borrower to provide an APOD acceptable to the Lender on or before March 31, 2023 that relates to spending from April 1, 2023 to June 30, 2023, which has been satisfied;
- the Company to contribute $2.0 million to COPL no later than January 2, 2023, which has been satisfied; and
- the Borrower to pay a waiver fee of $0.4 million at the earliest of: (i) the date the Senior Credit Facility is paid in full; or (ii) March 31, 2023.

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 December 31, 2022.

In addition, the December 30, 2022 waiver provides for the required liquidity of at least $2.5 million based on 45-day minimum average balance of unrestricted cash to be temporarily changed to liquidity of at least $2.0 million and based on the preceding 30-day minimum average balance of unrestricted cash as at January 31, 2023 and February 28, 2023.

On February 28, 2023, the Borrower received a waiver from the Lender for not meeting the requirements of the 30-day minimum average balance of unrestricted cash of at least $2.0 million as at February 28, 2023 and provided that the average balance of unrestricted cash to be temporarily changed to a liquidity of at least $2.5 million based on the preceding 59-day minimum average balance of unrestricted cash as at March 14, 2023, which has subsequently been amended by the Lender to March 25, 2023.

On March 13, 2023, the Borrower received a waiver from the Lender for the expiration of certain leases totaling 2,693 net acres of undeveloped land in the BFDU. These lands had no net book value on the Financial Statements and as such, the expiration was not considered an indicator of impairment.

On March 24, 2023, the Borrower received a waiver from the Lender for the liquidity covenant as at March 31, 2023 and the asset coverage ratio of 1.5:1 and leverage ratio of 2.5:1 as at March 31, 2023 and June 30, 2023 subject to the following conditions:

All amounts in US$ thousands, except otherwise stated

- the Borrower shall provide an APOD acceptable to the Lender on or before April 7, 2023 that relates to spending from March 24, 2023 to December 31, 2023;
- the Company shall contribute $8.0 million to COPLA no later than March 24, 2023, which has been satisfied; and
- an increase of the Lender Warrants to 8.5% of the common shares in the Borrower.

The Lender also has an option to receive Bonds on economic terms no less favorable than the Bonds issued in March 2023 (see note 30) in exchange for future interest payments.

15. DERIVATIVE LIABILITIES

	December 31, 2022	December 31, 2021
2020 short-term loan warrants	**-**	8
Lender Warrants (note 14a)	**-**	2,250
LIBOR floor (note 14b)	**-**	1,315
Current derivative liabilities	**-**	3,573
Bondholders' Warrants (note 13)	**8,177**	-
Lender Warrants (note 14a)	**8,020**	-
LIBOR floor (note 14b)	**87**	-
Non-current derivative liabilities	**16,284**	-

The resulting impact on net earnings for the years ended December 31, 2022 and 2021 from the remeasurement of these derivative liabilities at the reporting period end is disclosed in note 22.

Due to the classification of the Senior Credit Facility as a current liability as at December 31, 2021, as disclosed in note 14, the Lender Warrants and LIBOR floor were also classified as a current liability due to being aligned with the Senior Credit Facility.

16. ASSET RETIREMENT OBLIGATIONS

	December 31, 2022	December 31, 2021
Balance, beginning of the year	**8,191**	-
Obligations acquired (note 5a and 5b)	**2,351**	977
Obligations incurred	**-**	214
Revaluation of obligations acquired	**-**	6,027
Change in estimates	**(3,265)**	844
Accretion	**186**	129
Balance, end of the year	**7,463**	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 $22.3 million as at December 31, 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 December 31, 2022, the ARO was calculated using a discount factor of 4.14% (December 31, 2021 - 1.94%), being the risk-free rate based on US long-term bonds and a long term inflation rate of 2.0% per annum (December 31, 2021 - 2.0%).

17. AD VALOREM TAXES – LONG TERM

As at December 31, 2022, the Company recorded $2.5 million (December 31, 2021 - $NIL) of ad valorem taxes as a long term liability. The amount represents a portion of 2020 and 2021 ad valorem taxes that are payable in annual instalments from 2024 to 2035, further to a special bill introduced by State of Wyoming for oil production in Converse County.

All amounts in US$ thousands, except otherwise stated

18. 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.

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 (b)	44,425,000	12,072
Issued pursuant to CEO loan conversion (b)	575,000	155
Fair value of the January 2021 Unit Warrants (b)	-	(2,132)
Issued as payment of January 2021 2nd Finders' Fee (b)	2,850,417	1,347
Issued pursuant to March 2021 Brokered Placing (c)	41,715,625	18,652
Issued as payment of March 2021 Brokers' Fee (c)	2,034,375	966
Issued pursuant to exercise of January 2021 Unit Warrants (b)	15,300,000	5,479
Fair value of January 2021 Unit Warrants exercised (b)	-	4,590
Issued as payment of purchase price of the Atomic Group (note 5a)	8,188,733	4,000
Issued as payment of advisory services (d)	250,000	202
Issued pursuant to exercise of 2020 3rd finders' warrants (e)	208,333	112
Fair value of expired and exercised 2020 3rd finders' warrants (e)	-	63
Issued pursuant to December 2021 Brokered Placing (f)	28,435,000	7,531
Issued as payment of December 2021 Brokers' Fee (f)	1,815,000	481
2021 share issue costs (g)	-	(5,452)
Balance, December 31, 2021	194,519,464	190,705
Fair value of expired January 2021 Finders' Warrants (h)	-	307
Fair value of expired July 2020 finders' warrants (h)	-	82
Fair value of April 2022 Unit Warrants (i)	-	(1,269)
Fair value of expired July 2022 Bond Brokers' Warrants (13)	-	245
Fair value of expired December 2021 Brokers' Warrants (h)	-	137
Issued pursuant to April 2022 Brokered Placing (i)	49,930,000	12,834
Issued pursuant to 2024 Bond conversion (note 13)	6,996,500	1,617
Issued pursuant to 2025 Bond conversion (note 13)	17,991,002	4,874
Issued as payment of July 2022 Bonds Brokers' Fee (note 13)	5,895,000	1,179
2022 share issue costs (i)	-	(1,050)
Balance, December 31, 2022	**275,331,966**	**209,661**

(b) January 2021 Non-brokered Placing

During the first quarter of 2021, further to a non-brokered placing that closed in the UK (the "**January 2021 Non-brokered Placing**"), the Company issued a total of 44,425,000 units at a price of £0.20 ($0.27) per unit for gross proceeds of £8.9 million ($12.1 million). Each unit consisted of one Common Share and one half of one Common

Share purchase warrant (the "**January 2021 Unit Warrants**"). Each January 2021 Unit Warrant entitled the holder thereof to purchase one Common Share at an exercise price of £0.26 ($0.35) per share on or before January 8, 2022.

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

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

The fair value of the 22,500,000 January 2021 Unit Warrants was estimated at $2.1 million, using a Black-Scholes option pricing model with assumptions as noted in a table below and was netted against proceeds from share capital and a derivative liability of $2.1 million was recognized as at January 8, 2021, which was the legal issue date of the January 2021 Unit Warrants. The exercise price of the January 2021 Unit Warrants is denominated in GBP, and the Company's functional currency is US$. Accordingly, due to the variability in these exchange rates, the Unit Warrants are classified as a derivative financial instrument.

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

In connection with the January 2021 Non-brokered Placing, the Company paid and issued:

- to a first finder a cash finders' fee of £35,000 ($47,500) and issued 187,500 Common Share purchase warrants (the "**January 2021 1st Finders' Warrants**") as additional compensation to the finder; and
- to a second finder on March 9, 2021 the Company issued 2,850,417 Common Shares as a payment for a finder's fee (the "**January 2021 1st Finders' Fee")**, representing a 7% commission in respect of placings arranged by the second finder. Accordingly, the Company recognized £1.0 million ($1.3 million), being the fair value of these shares as at the issue date, as an addition to the share capital and an addition to share issue costs related to the January 2021 Non-brokered Placing. In addition, the Company issued 3,054,018 Common Share purchase warrants (the "**January 2021 2nd Finders' Warrants**") as additional compensation for the finder.

Each 1st Finders' Warrants and 2nd Finders' Warrants entitled the holder thereof to purchase one Common Share at an exercise price of £0.26 ($0.35) per Common Share on or before January 8, 2022. The fair value of the finders' warrants, estimated using a Black-Scholes option pricing model with assumptions as noted in a table below were $18,000 for the 1st Finders' Warrants and $0.3 million for the 2nd Finders' Warrants and were recognized in equity as warrants and netted against proceeds from the January 2021 Non-brokered Placing as share issue costs.

The net proceeds from the January 2021 Non-brokered Placing were used to make the initial, partial payments of the Atomic Purchase Price (see note 5a) as well as to cover the Company's ongoing general and administrative costs.

All amounts in US$ thousands, except otherwise stated

The following assumptions were used for the Black-Scholes option pricing model to estimate the fair value of January 2021 Unit Warrants, the January 2021 1st Finders' Warrants and the January 2021 2nd Finders' Warrants at the valuation dates:

	January 8, 2021	December 31, 2021
Risk-free interest rate	(0.036%)	0.189%
Weighted average life (years)	0.75	0.02
Expected volatility	90%	90%
Expected dividend yield	-	-
COPL's share price*	$0.33	$0.22

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

Further to an exercise of January 2021 Unit Warrants, the Company received $5.5 million and issued 15,300,000 Common Shares between March 9, 2021 and August 25, 2021.

The fair value of the exercised January 2021 Unit Warrants estimated at $4.6 million in total was recognized as an addition to the share capital and respective decrease in the derivative liability. The following assumptions were used for the Black-Scholes option pricing model to estimate the fair value of January 2021 Unit Warrants exercised:

	March 9, 2021	March 23, 2021	March 31, 2021	April 12, 2021
Risk-free interest rate	0.065%	0.054%	0.053%	0.077%
Weighted average life (years)	0.58	0.55	0.52	0.49
Expected volatility	90%	90%	90%	90%
Expected dividend yield	-	-	-	-
COPL's share price*	$0.48	$1.19	$0.80	$0.80

	July 2, 2021	July 29, 2021	August 23, 2021	August 25, 2021
Risk-free interest rate	0.085%	0.057%	0.042%	0.026%
Weighted average life (years)	0.52	0.45	0.38	0.47
Expected volatility	90%	90%	90%	90%
Expected dividend yield	-	-	-	-
COPL's share price*	$0.81	$0.40	$0.52	$0.50

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

(c) March 2021 Brokered Placing

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

In connection with the March 2021 Brokered Placing, the Company issued 2,034,375 Common Shares as a partial payment of a broker's fee (the "**March 2021 Broker's Fee**"), and paid in cash a remaining March 2021 brokers' fee of £0.2 million ($0.3 million), representing commission of approximately 6% in respect of the March 2021 Brokered Placing. The Company recognized £0.7 million ($1.0 million), being the fair value of these brokers' shares as at the issue date, as an addition to the share capital and an addition to share issue costs related to the March 2021 Brokered Placing.

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

All amounts in US$ thousands, except otherwise stated

The fair value of the March 2021 Brokers' Warrants estimated at $0.6 million, was recognized in equity as warrants and netted against proceeds from the March 2021 Brokered Placing as share issue costs. The following assumptions were used for the Black-Scholes option pricing model to estimate the fair value of the March 2021 Brokers' Warrants at the valuation date:

	March 8, 2021
Risk-free interest rate	0.018%
Weighted average life (years)	1.50
Expected volatility	90%
Expected dividend yield	-
COPL's share price*	$0.53

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

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

(d) Shares issued as payment for services

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

(e) Shares issued further to an exercise of 2020 3rd finders' warrants

On July 23, 2021, further to an exercise of a portion of a 2020 3rd finders' warrants, the Company issued 208,333 Common Shares for proceeds of £0.08 million ($0.11 million). On July 24, 2021, the remaining balance of 2020 3rd finders' warrants in the amount of 116,667, expired unexercised. The fair value of exercised and expired 2020 3rd finders' warrants of $0.1 million, initially recorded as warrants, was reversed and recognized as an addition to share capital.

(f) December 2021 Brokered Placing

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

In connection with the December 2021 Brokered Placing, the Company issued 1,815,000 Common Shares as a payment of a brokers' fee (the "**December 2021 Brokers' Fee**"), representing commission of approximately 6% in respect of the Brokered Placing. The Company recognized £0.4 million ($0.5 million), being the fair value of these brokers' shares as at the issue date, as an addition to the share capital and an addition to share issue costs related to the December 2021 Brokered Placing.

The Company also issued 1,815,000 Common Share purchase warrants (the "**December 2021 Brokers' Warrants**") to the broker as additional compensation. Each Brokers' Warrant entitled the holder thereof to purchase one Common Share of the Company at an exercise price of £0.24 ($0.32) per Common Share on or before December 3, 2022.

All amounts in US$ thousands, except otherwise stated

The fair value of the December 2021 Broker's Warrants estimated at $0.1 million, was recognized in equity as warrants and netted against proceeds from the Brokered Placing as share issue costs. The following assumptions were used for the Black-Scholes option pricing model to estimate the fair value of the Broker's Warrants at the valuation date:

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

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

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

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

(g) Share issue cost

The Company incurred approximately $5.5 million of total costs in connection with the January 2021 Non-brokered Placing, March 2021 Brokered Placing and December 2021 Brokered Placing, including $0.1 million incurred in 2020 and recognized as deferred share issue costs as at December 31, 2020. In addition to finders' and brokers' fees paid in cash, share issue costs also include the fair value of finders' and brokers' fees paid in Common Shares and the fair value of warrants issued to finders and the broker (as disclosed in notes 18b, 18c and 18f). Share issue costs also include legal, LSE, transfer agent, and consulting fees of approximately $1.6 million.

(h) Expired Finders' and Broker’s Warrants

On January 8, 2022, the January 2021 1st Finders' Warrants of 187,500 and the January 2021 2nd Finders' Warrants of 3,054,018 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, 1st finders' warrants of 250,000 and 2nd finders' warrants of 160,000 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.

On December 3, 2022, the December 2021 Brokers' warrants of 1,815,000 expired unexercised. The fair value of the unexercised warrants for a total amount of $0.1 million was recognized as an addition to share capital and a respective decrease in the warrants.

All amounts in US$ thousands, except otherwise stated

(i) 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 entitled 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 April 2022 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 were classified as a derivative financial instrument. 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 earnings for the year ended December 31, 2022 (see note 22). On October 22, 2022, April 2022 Unit Warrants of 24,965,000 expired unexercised.

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 April 2022 Brokers' 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.

All amounts in US$ thousands, except otherwise stated

19. 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 December 31, 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 (note 18b)	22,500,000	0.35	-	Jan 8/22
Issued January 2021 1st Finders' Warrants (note 18b)	187,500	0.35	18	Jan 8/22
Issued January 2021 2nd Finders' Warrants (note 18b)	3,054,018	0.35	289	Jan 8/22
Issued March 2021 Brokers' Warrants (note 18c)	2,625,000	0.44	647	Mar 8/23
Issued December 2021 Brokers' Warrants (note 18f)	1,815,000	0.32	137	Dec 3/22
Exercised January 2021 Unit Warrants (note 18b)	(15,300,000)	0.35	-	Jan 8/22
Exercised 2020 3rd finders' warrants (note 18e)	(208,333)	0.50	(40)	Jul 24/21
Expired 2020 3rd finders' warrants (note 18e)	(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 (note 18b)	(7,200,000)	0.35	-	Jan 8/22
Expired January 2021 1st Finders' Warrants (note 18h)	(187,500)	0.35	(18)	Jan 8/22
Expired January 2021 2nd Finders' Warrants (note 18h)	(3,054,018)	0.35	(289)	Jan 8/22
Issued April 2022 Unit Warrants (note 18i)	24,965,000	0.31	-	Oct 22/22
Issued April 2022 Brokers' Warrants (note 18i)	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 18h)	(250,000)	0.49	(40)	Jul 2/22
Expired 2020 2nd finders' warrants (note 18h)	(160,000)	0.50	(42)	Jul 2/22
Issued July 2022 Bondholders' Warrants (note 13)	54,792,590	0.20	-	Jan 26/25
Issued July 2022 Bond Brokers' Warrants (note 13)	5,895,000	0.20	245	Oct 24/22
Expired April 2022 Unit Warrants (note 18i)	(24,965,000)	0.31	-	Oct 22/22
Expired July 2022 Bond Brokers' Warrants (note 13)	(5,895,000)	0.20	(245)	Oct 24/22
Expired December 2021 Brokers' Warrants (note 18h)	(1,815,000)	0.32	(137)	Dec 3/22
Issued December 2022 Bondholders' Warrants (note 13)	12,760,572	0.16	-	June 30/25
Balance, December 31, 2022	**72,175,362**	**0.21**	**873**	(Mar 8/23 to June 30/25)

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

All amounts in US$ thousands, except otherwise stated

As at December 31, 2022, the outstanding warrants are as follows:

- 2,625,000 March 2021 Brokers' Warrants at an exercise price of £0.32 ($0.44) per Common Share on or before March 8, 2023;
- 1,997,200 April 2022 Brokers' Warrants at an exercise price of £0.25 ($0.32) per Common Share on or before April 22, 2024;
- 54,792,590 July 2022 Bondholders' Warrants at an exercise price of £0.1675 ($0.2001) per Common Share on or before January 26, 2025; and
- 12,760,572 December 2022 Bondholders' Warrants at an exercise price of £0.135 ($0.1627) on or before June 30, 2025.

Subsequent to December 31, 2022:

- 2,625,000 March 2021 Brokers' Warrants expired unexercised on March 8, 2023.
- 70,257,026 new Bondholders' Warrants at an exercise price of £0.0.675 ($0.0817) were issued on March 24, 2023, and the exercise price of the July 2022 Bondholders' Warrants and the December 2022 Bondholders' Warrants were amended to £0.0.675 ($0.0817) (see note 30).

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

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 $3.7 million has been recognized in the net earnings for the year ended December 31, 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 the CSE, translated into US$ as at the date of valuation.

All amounts in US$ thousands, except otherwise stated

As at December 31, 2022, a total of 18,020,796 stock options to purchase Common Shares were outstanding, having a weighted average exercise price of $0.43 per Common Share and a remaining weighted average contractual life of 3.9 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	3,670
Forfeited	(898,293)	0.50	-
Expired	(526,650)	1.18	-
Balance, December 31, 2022	**18,020,796**	**0.43**	**54,930**

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

20. GENERAL AND ADMINISTRATIVE EXPENSES

	December 31, 2022	December 31, 2021
Salaries, benefits and consultants	**6,426**	6,039
Other[(1)]	**1,761**	2,263
General and administrative	**8,187**	8,302

(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.

21. FINANCE COSTS

	December 31, 2022	December 31, 2021
Interest expense on SCF (note 14)	**5,886**	4,643
Loss on loan modification on partial repayment of the SCF	**489**	-
Financing costs related to SCF[(1)]	**3,588**	860
Financing costs related to the Bonds (note 13)	**2,847**	-
Interest on lease liabilities	**7**	9
Interest income	**(389)**	(152)
Accretion of SCF (note 14)	**2,237**	1,409
Accretion of ARO (note 16)	**186**	129
Finance costs, net	**14,851**	6,898

(1) includes costs such as Lender waiver fees of $2.3 million, the additional 1% Lender Warrants of $0.9 million, Lender repayment fees of $0.3 million and additional professional fees of $0.1 million related to the SCF.

22. (LOSS) GAIN ON DERIVATIVE LIABILITIES

	December 31, 2022	December 31, 2021
Lender Warrants revaluation (note 14a)	**(4,852)**	2,650
LIBOR interest rate floor revaluation (note 14b)	**1,228**	937
Bondholders' Warrants revaluation (note 13)	**(199)**	-
April 2022 Unit Warrants revaluation (note 18i)	**1,172**	(2,574)
2020 short-term loan warrant revaluation	**2**	78
(Loss) gain on derivative liabilities	**(2,649)**	1,091

All amounts in US$ thousands, except otherwise stated

23. DEFERRED INCOME TAX

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

	December 31, 2022	December 31, 2021
Net loss before investment in joint venture	**(45,434)**	(13,535)
Income tax rates	**23.0%**	23.0%
Provision at statutory rates	**(10,450)**	(3,113)
Foreign and domestic tax rate differential	**2,540**	675
Non-deductible items	**770**	558
Non-deductible portion of capital items	**-**	216
Change in unrecognized deferred tax asset	**6,754**	1,827
Other	**386**	(163)
Income tax expense	**-**	-

The components of the unrecognized deferred income tax asset are as follows:

	December 31, 2022	December 31, 2021
Property and equipment and E&E assets	**2,839**	5,238
Non-capital losses	**16,623**	12,923
Capital losses	**888**	949
Asset retirement obligations	**1,567**	1,720
Unrealized loss on financial instruments	**6,040**	1,481
Share and debt issue costs	**1,903**	795
Unrecognized deferred income tax asset	**29,860**	23,106

The Company has an unrecognized deferred tax asset of $29.9 million as at December 31, 2022 (December 31, 2021 - $23.1 million) as a result of the uncertainty that future cash flows will be sufficient to realize the deferred tax asset.

As at December 31, 2022, the Company had approximately $42.5 million (December 31, 2021 - $38.7 million) of non-capital losses, which can be applied against taxable income earned in Canada with the expiry dates between December 31, 2026 and December 31, 2042. The Company also had approximately $32.7 million (December 31, 2021 - $17.1 million) of net operating losses in the US, which can be carried forward indefinitely to reduce taxable income earned in US.

As at December 31, 2022, the Company also had capital losses of approximately $7.7 million (December, 31, 2021 - $8.3 million), which will carry forward indefinitely to reduce capital gains taxed in Canada.

All amounts in US$ thousands, except otherwise stated

24. RELATED PARTY TRANSACTIONS

(a) Related parties

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

(b) Other transactions with directors and officers

As at December 31, 2022, the Company had the following balances due to/from its directors and officers:

- $268,000 due to Directors in respect of third and fourth quarter directors' fees earned but not paid as at December 31, 2022.
- accounts receivable from officers of $9,000 in respect of travel advances and withholding taxes; and
- accounts payable to officers of $7,000 in respect of travel and office expenses.

(c) Remuneration of directors and other key management personnel

The key management personnel of the Company are comprised of executives of the Company and members of its Board of Directors.

	December 31, 2022	December 31, 2021
Salaries and benefits	**2,249**	1,832

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

In 2022, the Company granted to its directors and officers 11,430,000 stock options to acquire the Company's Common Shares at an exercise price of CAD$0.54 ($0.42) per share. The options vested immediately and expire five years from the date of grant. There were no stock options granted to the Company's directors and officers in 2021.

(d) Other Related Party Transactions

The Company employs a family member of a member of key management under normal commercial terms. Total salary and benefits paid to this individual for the year ended December 31, 2022 amounted to $221,000 (2021 - $134,000). In addition, this individual was granted 400,000 stock options on January 29, 2022 on the same terms as discussed above. There are no accounts receivable due from, or accounts payable due to this individual as at December 31, 2022.

During the year ended 2021, a family member of a member of key management provided consulting services under normal commercial terms. Total consulting fees paid to this individual for the year ended December 31, 2021 amounted to $1,200. No such services were provided by this individual during the year ended December 31, 2022.

(e) Transactions with Joint Venture

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

25. 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 earnings 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 income and do not get charged to net earnings. Under this classification, the Company included the Bonds' FVTPL and the Bondholders' Warrants (see note 13), the Lender Warrants (see note 14a), LIBOR floor (see note 14b) and the commodity derivatives (see note 25a).
- 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 14) and accounts payable and accrued liabilities.
- Fair value through other comprehensive income - financial instruments designated as fair value through other comprehensive income are initially recognized at fair value, net of directly attributable transaction costs, and are subsequently measured at fair value with changes in fair value recognized in other comprehensive income, net of tax. Financial instruments under this classification include the changes in the Company's credit risk of the unconverted Bonds (see note 13).

Impairment of financial assets

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

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 FVTPL and the Senior Credit Facility at amortized cost approximates fair value as at December 31, 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 13, 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.

All amounts in US$ thousands, except otherwise stated

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.

Market risk

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

(a) Commodity Price Risk

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

Effective March 15, 2021, in anticipation of the closing of the Atomic Group Acquisition and as a condition to the Senior Credit Facility, the Company entered into a master risk management agreement with a third-party institution that was restructured in December 2022.

As at December 31, 2022, the Company has in place the following commodity risk management contracts with respect to the sale of its crude oil production and the purchase of butane used in the miscible flood injection program.

Commodity	Fixed price SWAP	Total notional volumes	Term	Average price (US$)	Fair Value
Crude oil	WTI Put option	135,750 barrels	Jan 1/23 to Jun 30/23	$60.00	**146**
Crude oil	WTI Futures	231,218 barrels	Jul 1/23 to Feb 29/24	$52.87	**(4,777)**
Crude oil	WTI Futures	306,000 barrels	Mar 1/24 to Dec 31/24	$52.88	**(4,603)**
			Commodity derivative liability		**(9,234)**
Butane	Normal (NC4)	7,551,678 gallons	Jan 1/23 to Feb 29/24	$0.67	**2,353**
			Commodity derivative asset		**2,353**
			Net derivative liability		**(6,881)**
Short-term portion - commodity derivative liability					**(1,649)**
Long-term portion - commodity derivative liability					**(5,232)**

(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 December 31, 2022, the resulting fair value of these contracts has been recognized in the Financial Statements as a Level 2 current commodity derivative liability of $1.6 million (December 31, 2021 - $3.0 million) and a non-current commodity derivative liability of $5.2 million (December 31, 2021 - $NIL).

Due to the classification of the Senior Credit Facility as a current liability as at December 31, 2021 as disclosed in note 14, 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.

All amounts in US$ thousands, except otherwise stated

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

- an unrealized gain of $1.1 million on crude oil contracts for the year ended December 31, 2022 (December 31, 2021 - $10.3 million unrealized loss); and
- an unrealized loss of $5.0 million on butane contracts for the year ended December 31, 2022 (December 31, 2021 - $7.4 million unrealized).

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 one purchaser of the Company's oil and the joint interest owners in the Atomic Group assets, which are subject to normal industry credit risks. As at December 31, 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 $0.3 million as at December 31, 2022, was owing from one company and the majority of joint interest receivables of $0.7 million as at December 31, 2022, was owing from one joint interest partner. The Company considers all of its accounts receivable as at December 31, 2022 to be collectable.

The Company recognized an ECL provision of $0.3 million for the year ended December 31, 2022 (December 31, 2021 - $1,000), which relates primarily to potentially uncollectable net accounts receivable due from the prior owner of the Atomic Group.

As at December 31, 2022, the Company holds $4.0 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 (see note 7), the Company recognized a full allowance for and ECL as follows:

	December 31, 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 has exceeded 2.0% since August 2022 and as at December 31, 2022 was anticipated to vary between 3.3% and 5.1% for the remaining monthly periods until maturity of the facility in March 2025. The current, maximum interest risk exposure is approximately $1.3 million of additional interest expense per annum, assuming a LIBOR rate of 5.1% 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)	**December 31, 2022**	December 31, 2021
GBP	**30**	1,125
Canadian dollars	**251**	281

(e) Stock market price risk

The Company's stock volatility, estimated at approximately 82% for 2022, and related changes in the Company's stock price affect the value of its financial instruments. The Company's Bonds are fair valued at each balance sheet date and one of the key variables used in the valuation is the stock price as at valuation date. While the Company has no control over its stock market price, management prepares a sensitivity analysis to estimate an impact that the change in stock price may have on the valuation of its Bonds. Based on the December 31, 2022 valuations and for all the Bonds outstanding and unconverted as at that date, a 10% increase/decrease in the stock price would result in the Bonds fair value being higher/lower by approximately $1.6 million for the 2024 Bonds, $1.3 million for the 2025 Bonds and $0.6 million for December Tap 2025 Bonds, assuming all other valuation inputs are unchanged.

(f) 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 operations or reputation. The Company prepares an annual budget, which outlines the planned operating, investing and financing activities and is regularly monitored against actual costs and revised as considered necessary.

The timing of cash outflows relating to financial liabilities on an undiscounted basis as at December 31, 2022 are outlined in the table below:

	2023	**2024-2025**	**2026-2028**	**Thereafter**
Accounts payables and accrued liabilities	10,614	-	-	-
Bonds, if not converted (note 13)	-	42,251	-	-
Senior Credit Facility (note 14)	-	42,117	-	-
Lender’s Warrants (note 14a)	-	8,020	-	-
Commodity risk management contracts	1,649	5,232	-	-
Lease liabilities	83	55	-	-
Ad valorem tax payable (note 17)	-	432	649	1,406
	12,346	**98,107**	**649**	**1,406**

26. 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 the 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.

All amounts in US$ thousands, except otherwise stated

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 and refinancing its SCF. There is no assurance that the Company will be successful in sufficiently financing the Company's ongoing business activities.

Although currently the Company is not subject to any external capital requirements, the Company's US operation is subject to financial covenants imposed by the Senior Credit Facility (see note 14). These financial covenants will have an impact on the Company's overall capital requirements and management of capital requirements.

27. NET CHANGE IN NON-CASH WORKING CAPITAL

	December 31, 2022	December 31, 2021
Accounts receivable	**4,512**	(4,466)
Prepaid expenses	**157**	(488)
Oil inventory	**(111)**	(82)
Condensate inventory	**(81)**	-
Long-term deposit	**(552)**	-
Accounts payable and accrued liabilities related to operations	**(603)**	(1,270)
Net change in non-cash operating working capital	**3,322**	(6,306)
Prepaid expenses	**-**	(15)
Accounts payable and accrued liabilities related to financing	**895**	(134)
Deferred share issue costs	**(208)**	-
Net change in non-cash financing working capital	**687**	(149)
Prepaid expenses	**(96)**	-
Accounts payable and accrued liabilities related to investing	**(568)**	(548)
Net change in non-cash investing working capital	**(664)**	(548)

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

28. COMMITMENTS

On May 18, 2021 and as amended on February 28, 2022, the Company entered into a mixed natural gas liquids purchase agreement ("**NGL Agreements**"), whereby the Company will purchase the production of mixed natural gas liquids, consisting primarily of propane and butane, from a third-party facility with title to the liquids passing at the plant truck rack meter. The NGL Agreements include a provision that in the event the Company purchases less than all production during any month of the term of the agreement, the Company shall pay an additional deficiency fee 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 the third party for such product and (ii) the price the third party received from selling the gallons not taken into the local pipeline. The term of the NGL Agreements is for five years, which commenced in October 2021 and terminates September 2026.

As at December 31, 2022, the Company estimated the minimum commitment pursuant to the NGL Agreements to be as follows:

- $3.1 million for 2023; and
- $8.4 million from 2024 to September 2026.

All amounts in US$ thousands, except otherwise stated

29. SEGMENTED REPORTING

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

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

	USA Operations		Corporate & Other		Consolidated	
For the years ended December 31	**2022**	2021	**2022**	2021	**2022**	2021
Revenue						
Petroleum sales, net of royalties	**28,012**	15,003	**-**	-	**28,012**	15,003
Realized loss on commodity derivatives – crude oil	**(14,252)**	(2,274)	**-**	-	**(14,252)**	(2,274)
Unrealized gain (loss) on commodity derivatives – crude oil	**1,097**	(10,331)	**-**	-	**1,097**	(10,331)
	14,857	2,398	**-**	-	**14,857**	2,398
Expenses						
Production taxes	**(3,498)**	(1,900)	**-**	-	**(3,498)**	(1,900)
Operating	**(8,351)**	(4,279)	**-**	-	**(8,351)**	(4,279)
Realized gain on commodity derivatives – butane	**6,273**	2,816	**-**	-	**6,273**	2,816
Unrealized (loss) gain on commodity derivatives – butane	**(5,002)**	7,355	**-**	-	**(5,002)**	7,355
Depletion, depreciation and amortization	**(4,973)**	(3,592)	**(101)**	(90)	**(5,074)**	(3,682)
General and administrative	**(2,316)**	(1,508)	**(5,871)**	(6,794)	**(8,187)**	(8,302)
Share-based compensation	**(522)**	-	**(3,148)**	-	**(3,670)**	-
Expected credit loss	**(306)**	-	**(1)**	(1)	**(307)**	(1)
Acquisition costs	**-**	-	**-**	(2,159)	**-**	(2,159)
Pre-license costs	**(87)**	-	**(605)**	(300)	**(692)**	(300)
	(18,782)	(1,108)	**(9,726)**	(9,344)	**(28,508)**	(10,452)
Financing expenses						
Finance costs, net	**(12,007)**	(6,690)	**(2,844)**	(208)	**(14,851)**	(6,898)
Change in fair value of convertible bonds	**-**	-	**(13,632)**	-	**(13,632)**	-
(Loss) gain on derivative liabilities	**(3,624)**	3,587	**975**	(2,496)	**(2,649)**	1,091
Gain on extinguishment of loan	**-**	332	**-**	-	**-**	332
Foreign exchange gain (loss), net	**5**	5	**(656)**	(11)	**(651)**	(6)
	(15,626)	(2,766)	**(16,157)**	(2,715)	**(31,783)**	(5,481)
Loss before investment in joint venture	**(19,551)**	(1,476)	**(25,883)**	(12,059)	**(45,434)**	(13,535)
Loss on investment in joint venture	**-**	-	**(1)**	(1)	**(1)**	(1)
Loss after investment in joint venture	**(19,551)**	(1,476)	**(25,884)**	(12,060)	**(45,435)**	(13,536)
Income tax expense	**-**	-	**-**	-	**-**	-
Net loss	**(19,551)**	(1,476)	**(25,884)**	(12,060)	**(45,435)**	(13,536)
Gain on translation of foreign subsidiaries	**-**	-	**325**	48	**325**	48
Comprehensive loss	**(19,551)**	(1,476)	**(25,559)**	(12,012)	**(45,110)**	(13,488)

	USA Operations		Corporate & Other		Consolidated	
As at December 31	**2022**	2021	**2022**	2021	**2022**	2021
Exploration and evaluation assets	**5,353**	5,172	**-**	-	**5,353**	5,172
Property and equipment, net	**102,040**	77,855	**164**	151	**102,204**	78,006
Total assets	**112,696**	95,640	**1,627**	3,138	**114,323**	98,778
Acquisitions	**19,392**	45,079	**-**	-	**19,392**	45,079
Property and equipment expenditures	**8,902**	18,883	**53**	120	**8,955**	19,003
Exploration and evaluation assets expenditures	**274**	3,285	**-**	-	**274**	3,285

30. SUBSEQUENT EVENTS

- In March 2023, the Company issued a total of 29,134,406 Common Shares to certain vendors at a deemed price of £0.0675 ($0.0817) per Common Share, further to executed debt exchange arrangements in lieu of cash payments for outstanding accounts payables due to these vendors of approximately $2.4 million.

- On March 24, 2023, the Company issued the following supplemental Bond and warrant instruments:
  - 37 new 2027 Bonds with a principal face value of $7.4 million and a maturity date on January 26, 2027;
  - 37 new 2028 Bonds with a principal face value of $7.4 million and a maturity date on January 26, 2028; and
  - 70,257,026 new warrants, which entitles the holder to purchase one Common Share at an exercise price of £0.0.675 ($0.0817) on or before August 26, 2027.

  The new 2027 and 2028 Bonds were issued with a 20% discount to the principal face value for total proceeds of approximately $11.8 million and have a conversion price of £0.0.675 ($0.0817) per Common Share. The other terms of new 2027 and 2028 Bonds remain the same as the original 2024 and 2025 Bonds and for the purpose of interest calculations, the new Bonds have a deemed issue date of July 26, 2022.

  In connection with the issue of the new 2027 and 2028 Bonds, the Company paid brokers' fees of approximately $0.6 million. The net proceeds from the new 2027 and 2028 Bonds issue will be used to fund production growth in the US and to cover the Company's general and administrative expenses.

  In addition, the supplemental Bonds instruments and warrants instruments provide for some changes in the terms of the 2024 Bonds, the 2025 Bonds and the December Tap 2025 Bonds that were outstanding and unconverted as at March 24, 2023. The major changes include:
  - an extension of maturity date for the 2024 Bonds to January 26, 2027;
  - an extension of maturity dates for the 2025 Bonds and the December Tap 2025 Bonds to January 26, 2028;
  - a change in the conversion price for all the Bonds and the exercise price for all the Bondholders' Warrants to £0.0.675 ($0.0817) per Common Share; and
  - an extension of the expiry date for all Bondholders' Warrants to August 26, 2027.

  As at the date of filing the Financial Statements, the Company received additional conversion notices from its Bondholders to convert five of the 2024 Bonds and two of the 2025 Bonds. Further to these conversions the Company issued a total of 8,843,965 Common Shares, along with 1,263,423 Common Shares issued on January 6, 2023 related to the 2024 Bond conversion which occurred on December 30, 2022.

  In addition, the Company issued 30,844,945 Common Shares pursuant to the Share Settlement Option exercised by certain Bondholders for settlement of $2.6 million of the Conversion Payment amounts and related accrued interest due in respect of four converted 2024 Bonds and 16 converted 2025 Bonds. The number of shares issued for settlement of these Conversion Payments is based on the lowest 5 day volume weighted average market price following election of the share settlement option for the Conversion Payments.

  As at the date of filing the Financial Statements, the Company has a total of 187 unconverted Bonds outstanding with a principal amount of $37.4 million.