CANADIAN OVERSEAS PETROLEUM LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS
AS AT AND FOR THE YEAR ENDED
DECEMBER 31, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("**MD&A**") for Canadian Overseas Petroleum Limited, and its wholly owned subsidiaries ("**COPL**" or the "**Company**") dated March 31, 2023 is with respect to the three and twelve months ended December 31, 2022 (the "**Reporting Periods**") as compared to the three and twelve months ended December 31, 2021 (the "**Comparable Prior Periods**"). This MD&A has been prepared by management and approved by the Company's Audit Committee and Board of Directors (the "**Board**") and should be read in conjunction with the Company's audited consolidated financial statements (the "**Financial Statements**") and related notes as at and for the years ended December 31, 2022 and 2021, which have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") and the Annual Information Form dated March 31, 2023 (the "**AIF**"), which are available on the Company's website at www.canoverseas.com and on SEDAR at www.sedar.com.

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

ABOUT THE COMPANY

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

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

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

FORWARD-LOOKING INFORMATION AND STATEMENTS

This MD&A contains forward-looking information and statements relating to future events or future performance. In some cases, forward-looking information and statements can be identified by terminology such as "may", "will", "should", "expect", "project", "plan", "anticipate", "potential", "intend", "believe", "estimate", "proposed" and similar expressions. These statements represent management's expectations or beliefs concerning, among other things, future operating results and various components thereof or the economic performance of COPL. The projections, estimates and beliefs contained in such forward-looking information and statements necessarily involve known and unknown risks and uncertainties, including the business risks discussed in the AIF dated March 31, 2023, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or results expressed or implied by such forward-looking information and statements. Operating conditions can have a significant effect on the timing of events. Accordingly, readers are cautioned that events or circumstances could cause results to differ materially from those predicted.

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

- the Company's current strategy to establish and grow an oil and gas business, including the recently acquired business in the US (see *"Overview and Overall Performance"* and *"Outlook"* sections);
- the Company's ability to raise capital and obtain the additional financing for capital projects (see *"Overview and Overall Performance"*, *"Outlook"*, *"Capital Resources and Liquidity"* and *"Contractual Obligations and Commitments"* sections); and
- the Company's valuation of the convertible bonds, derivatives, warrants and stock options (see *"Results of Operations"* and *"Capital Resources and Liquidity"* sections).

The Company's AIF for the year ended December 31, 2022 and the Company's public disclosure documents on www.sedar.com describe major risks, material assumptions and other factors related to forward-looking information and statements that could influence actual results and are incorporated herein by reference. These risks, assumptions and other factors have been provided for readers to gain a more complete perspective on COPL's future operations. However, readers should be cautioned that the list of factors is not exhaustive and that this information may not be appropriate for other purposes. Forward-looking information and statements included or incorporated by reference in this MD&A are valid only as at the date of this MD&A, and the Company does not intend to update or revise these forward-looking information and statements except as required by applicable securities laws. The forward-looking information and statements contained in this MD&A are expressly qualified by this cautionary statement.

ABBREVIATIONS

Crude Oil and Natural Gas Liquids

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

Natural Gas

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

Other

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

OVERVIEW AND OVERALL PERFORMANCE

In 2022, management focused on increasing oil production and negotiating the acquisition and financing of additional working interests in the Wyoming assets. The Company continues to identify, evaluate and pursue exploration and development opportunities with respect to these assets and is also reviewing other value enhancing asset acquisitions in and around Wyoming, US.

The Company continues reviewing other opportunities that its seasoned technical team has strength in evaluating and developing.

Business Combination

On March 16, 2021, COPL's affiliate, COPL America Inc. ("**COPLA**") closed the acquisition of the Atomic Group ("**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 included 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 was the operator of all the above mentioned oil and gas assets.

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 Company financed the Atomic Purchase Price partially using the net proceeds from a non-brokered placing and external debt of $45.0 million from a US based global investment firm repayable within a four-year term (the "**Senior Credit Facility**" or the "**SCF**").

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 were non-operating interests in the BFSU (27.0% WI), the CCU (33.3% WI) and the BFDU (28.0%) and 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 financed with the issuance of convertible bonds as discussed in the *"Capital Resources and Liquidity - Indebtedness"* section. The Cuda Asset Acquisition, resulted in a material increase to its proved reserves and proved plus probable reserves and discounted net revenue before tax.

US Operations

The total gross lease oil sales in the Wyoming assets averaged 1,373 bbls/d and 1,559 bbls/d for the three and twelve months ended December 31, 2022, respectively. Oil sales volumes in 2022 have progressively decreased quarter over quarter due to operational interruptions at certain high impact wells. The interruptions were as a consequence of the miscible flood program, which involves the injection of high pressure solvent which both raises the reservoir pressure and mobilizes the oil in place. The efficacy of the scheme was revealed by increased flowing pressure and the arrival of the high pressure miscible bank at certain producing wells. A bottleneck which has negatively impacted production is the field's originally undersized low pressure gas gathering system ("**GGS**") constructed with high density polyethylene plastic material. The existing GGS is not capable of accommodating the high pressure and volume of gas arriving at the producing wells and delivering to the gas plant for recycle. This circumstance led to the requirement to restrict the wells and modify the well configuration. To handle high pressures and volumes, upgraded surface facilities were installed at certain wells to ensure safe operating practices. The Company's engineers have reduced and redistributed the gas injection volumes to bring down the working pressures to partially mitigate production restrictions at certain wells. Oil production is expected to increase as wells are optimized and operating pressures are managed. The issues faced by the Company due to the infrastructure bottlenecks were not considered in the reservoir modelling work and the performance of the overall pool prior to encountering the infrastructure constraints met or exceeded the reservoir model predictions at the time.

Primarily, field level work has concentrated on solutions to resolve the constraints on oil production, including: well conversions from pumping to flowing configurations, condensate treatments in lieu of hot oiling and chemicals to resolve paraffin build up from the perforations to the well head, partial flaring of produced gas volumes at certain wells, and direct gas line tie back to the BFSU gas plant of individual wells that are in close proximity. Three wells were converted from pumping to flowing configurations during 2022. Throughout these endeavors, the Company’s understanding of the dynamic changes throughout the field resulting from various injection strategies (both in terms of

injectant volume and composition) and the incidence of severe paraffin precipitation has continued to evolve. Plans for paraffin mitigation and management may lead to the change back to pumping configurations alongside more robust wellhead equipment to address higher wellhead pressures.

The Company made an application (the "**Application**") to the Wyoming Oil and Gas Conservation Commission (the "**WOGCC**") to temporarily flare additional gas at its operated BFSU miscible flood project. The issues facing the Company are high pressures and gas volumes at certain producing wells. These high pressures have caused safety issues during workovers, at well-site production facilities and with the current GGS alongside oil production curtailments. Temporary gas flaring at some or all of these wells would improve productivity until a field wide solution is engineered and implemented. The design phase of this GGS project is complete and installation is expected to be completed in 2023. Gas production from two wells has recently been tied directly into the gas plant to reduce the load on the GGS and avoid flaring.

On October 11, 2022, the Company received official verbal approval from the WOGCC to flare up to 540 Mmcf (3,000 mcf/d) for 180 days on a group of 20 wells in the BFSU, which was recently extended on March 14, 2023 for an additional 180 days ending in October 2023. Flaring more gas from this group of wells will help to alleviate some of the gas gathering system constraints while the GGS debottlenecking project is underway. This will enable the Company to relieve production restrictions at certain high pressure flowing oil wells. Since then, the wells have been incrementally brought back on line in parallel with the commissioning of well-site facilities to recover the vapours from the produced volatile oil. The process has been designed for safety and efficiency considerations as these wells have been restricted for several months. Oil production from these wells is not yet stable as the process is continuing, but is expected to increase once complete. The flared gas volumes have averaged approximately 900 mcf/d since WOGCC approved the Application, which is well below the permitted volume of 3,000 mcf/d.

From February 2022 to September 2022, the injectant composition was changed to a leaner blend of solvent and natural gas. Reservoir modeling has suggested that sufficient NGLs have been injected into certain patterns in the reservoir to date such that there will be miscible flooding effects as long as reservoir pressure and voidage replacement is maintained with a leaner injectant comprised of purchased natural gas and recycled produced gas. On October 1, 2022, enriched gas injection recommenced on the western injection patterns with leaner gas injection continuing on the eastern injection patterns to continue to move the miscible bank in the more mature eastern patterns. As new injection wells are drilled, or when existing producing wells are converted to injection wells, additional volumes of natural gas and solvent will be purchased and injected in these new patterns in order to build miscibility in new areas of the reservoir.

The overall effect of this strategy is to ensure the economic viability of the project by reducing the purchased products costs, while minimizing the effect on reserves recovery overall. It is expected that the injection rates will generally be kept below 10.0 Mmcf/d, and simulation work suggests that more meaningful gains in production and recovery will result from converting more and more producers to gas injectors to access unswept areas of the reservoir. Simulation work will be a continuous process as new data comes in from the field response, and plans will be shifted as appropriate. All of the purchased gas and liquids will eventually be recovered and sold to market, as the miscible flood acts as a storage mechanism until that point.

In the past year, much has been learned about the BFSU miscible flood project. Average daily oil production was constrained in 2022 due to the previously mentioned bottlenecks in the BFSU surface infrastructure. The Company's ability to optimize the field production rates and take advantage of the oil production response to the enriched gas injection is currently significantly impacted by the low pressure infrastructure at the well sites which include treaters, tanks and vapor recovery units and the local GGS constructed with plastic pipes, which now clearly reveals that infrastructure decisions by the previous owner of the assets were extremely short sighted. The Company has implemented several measures to mitigate the circumstances and is currently observing increased production rates, however the overall operation continues to be unstable. Once stable, the Company will be in a better position to forecast its production going forward. Upgrades to the GGS are being re-engineered in response to increases to predicted flowing pressures and production of enriched gas volumes along with crude oil. Concurrently, the reservoir simulation model is evolving to better match well performance history and overall pool performance which is also expected to lead to better predictability. Until the infrastructure upgrade and debottlenecking is complete, there will continue to be take away constraints at certain wells.

Key capital items addressing the above-noted restrictions being proposed for 2023 and beyond are as follows:

- a phase 1 GGS upgrade which will address much of the low-pressure gas gathering line restrictions in the center of the field, with future phases to branch out to outlying wells;
- a gas plant start-up, which will capture liquids from the produced gas stream to improve control of the recycle of NGLs and target specific patterns for higher levels of enrichment;
- a second compressor installation for the gas plant, which would increase produced gas processing capacity from 3.0 Mmcf/d to 10.0 Mmcf/d;

- a third compressor installation, which will increase gas injection compression capacity to 12.0 Mmcf/d; and
- a phase 1 surface facility upgrade regarding the central procession facility, which will address single/multi-well battery limitations and oil gathering lines mirroring the GGS upgrades.

The latter projects in the foregoing list would be timed to compliment future development wells/patterns which will be necessary to fully exploit the BFSU pool.

The drilling of a discovery well in the Frontier 2 and Dakota formations in the BFDU late in 2021, the three well recompletion campaign in the Frontier 2 formation in the CCU in 2021 and an upcoming campaign to recomplete six wells in the CCU to evaluate the Frontier 1, will potentially expand a new oil field development project close to the Company's existing oil production facilities, will be the focus in a delineation and development program that is anticipated to commence in 2023, assuming successful financing activities.

The Company net oil sales at the CCU and BFDU were approximately 66 bbls/d and 19 bbls/d respectively in 2022. Stimulation of the BFDU Dakota discovery well drilled in 2021 was not possible due to pressure limitations in the production casing up hole due to prior completions in the Frontier 1 and Frontier 2 sands. Performance of this well is encouraging for enhanced production from future stimulated horizontal wells.

In the last week of December 2022, the Company initiated recompletion operations on the Cole Creek 11-27 well to evaluate the light oil potential of the Frontier 1 reservoir sands. Well clean-up is continuing with near well-bore damage caused by invasion of significant volumes of light fresh water drilling mud during drilling 10.5 years ago. The Company anticipates conversion of Frontier 1 prospective resources to contingent resources and ultimately reserves as additional producing wells come online. The reservoir data collected in this campaign will be crucial to the Company's understanding of the reservoir characteristics of the Frontier 1 sands.

African Portfolio

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

Nigeria

On September 13, 2016, ShoreCan completed the acquisition of 80% of the share capital of Essar Exploration and Production Limited (Nigeria) ("**Essar Nigeria**"). Essar Nigeria's sole asset is a 100% interest and operatorship of an oil prospecting license, located about 50 km offshore in the central area of the Niger Delta ("**OPL 226**"). On October 2, 2018, the Nigerian National Petroleum Corporation ("**NNPC**") granted a conditional approval of an extension of 24 months for the phase-1 exploration period until September 30, 2020, but an additional extension has not been granted beyond September 30, 2020 at this time. However, Essar Nigeria has not received a notice of termination from the NNPC, which under the terms of the OPL 226 production sharing contract ("**PSC**") would need to have been issued sixty days before the September 30, 2020 expiry date. The two previous extensions to the oil prospecting license at OPL 226 from the NNPC were also received by Essar Nigeria following the previous expiration dates, but as the expiry date occurred approximately 18 months ago, there is significant risk the OPL 226 PSC will not be extended.

On August 4, 2020, the Company announced that ShoreCan and Essar Exploration and Production Limited, Mauritius ("**Essar Mauritius**"), the company that owns 20% of Essar Nigeria shares, entered into a sale and purchase agreement, and other definitive agreements with each other concerning, among other things, their respective obligations under a shareholders agreement. ShoreCan and Essar Mauritius have agreed to extend the completion date of the definitive agreements on various occasions, most recently to December 31, 2021. Since that time there have been no further developments with the project or formal communication from the authorities in Nigeria. Accordingly, the Company’s efforts in Nigeria are currently on hold.

OUTLOOK

The Company's operational strategy is to increase oil production of its Wyoming assets including the following: (i) increased natural gas and NGL injections at the BFSU; (ii) recompletions of a limited number of existing cased wells at the CCU for Frontier 1 oil production; and (iii) drilling and development programs in the BFSU, CCU and BFDU areas.

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

- continuing and increasing production of its Wyoming assets;
- refinancing the SCF to reduce the Company's cost of capital;
- further developing the facilities to handle gas injection and increased production capacity at the BFSU;
- recompleting up to 6 existing cased wells in the Cole Creek Frontier 1 sands to increase oil production;
- drilling new wells in the BFSU, CCU and BFDU pools;
- concluding a joint venture with a large oil company with operations in Wyoming to appraise and develop the Company's deep oil discovery; and
- maintaining the Company's environmental, social and governance ("**ESG**") operating credentials.

CURRENT ENVIRONMENT

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 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 investors, insurance providers, or other 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.

OPERATIONAL AND FINANCIAL SUMMARY

The following table sets forth a summary of the Company's fourth quarter results for 2022 and 2021 and annual results for the three most recently completed financial years.

US$ thousands, except unit and per unit amounts, shares and per share amounts	Three months ended December 31, 2022	2021	Twelve months ended December 31, 2022	2021[2]	2020
OPERATING					
Average net daily production					
Light oil (bbls/d)	**1,177**	1,094	**1,090**	972	-
Natural gas (mcf/d)[1]	**1,905**	1,283	**1,573**	922	-
Total (boe/d)[2]	**1,495**	1,308	**1,352**	1,126	-
Netback (US$/bbl)					
Realized sales price	**79.84**	73.91	**91.70**	67.69	-
Realized loss on crude oil derivatives	**(24.89)**	(13.56)	**(35.83)**	(8.04)	-
Royalties	**(17.56)**	(16.01)	**(21.27)**	(14.66)	-
Production taxes	**(7.89)**	(7.39)	**(8.79)**	(6.72)	-
Operating expenses	**(31.01)**	(9.30)	**(21.00)**	(15.13)	-
Realized gain on butane derivatives	**4.66**	16.32	**15.77**	9.96	-
Operating netback[3]	**3.15**	43.97	**20.58**	33.10	-
FINANCIAL					
Petroleum sales, net of royalties	**6,745**	5,829	**28,012**	15,003	-
Realized loss on crude oil derivatives	**(2,695)**	(1,365)	**(14,252)**	(2,274)	-
Unrealized gain (loss) on crude oil derivatives	**(342)**	(692)	**1,097**	(10,331)	-
Production taxes	**(855)**	(744)	**(3,498)**	(1,900)	-
Operating expenses	**(3,358)**	(936)	**(8,351)**	(4,279)	-
Realized gain on butane derivatives	**505**	1,643	**6,273**	2,816	-
Unrealized gain (loss) on butane derivatives	**(399)**	(2,468)	**(5,002)**	7,355	-
Operating income (loss)[3]	**(399)**	1,267	**4,279**	6,390	-
Depletion, depreciation and amortization	**(1,564)**	(1,252)	**(5,074)**	(3,682)	(70)
General and administrative	**(1,721)**	(2,484)	**(8,187)**	(8,302)	(2,719)
Share-based compensation	**(116)**	-	**(3,670)**	-	(973)
Expected credit loss	**(307)**	(1)	**(307)**	(1)	(385)
Finance costs, net	**(3,480)**	(2,110)	**(14,851)**	(6,898)	(372)
Change in fair value of convertible bonds	**(13,957)**	-	**(13,632)**	-	-
Gain (loss) on derivative liabilities	**(6,847)**	3,022	**(2,649)**	1,091	87
Other	**198**	47	**(1,344)**	(2,134)	(529)
Net (loss) income	**(28,193)**	(1,511)	**(45,435)**	(13,536)	(4,961)
Per share – basic ($)	**(0.10)**	(0.01)	**(0.19)**	(0.09)	(0.12)
Per share – diluted ($)	**(0.16)**	(0.01)	**(0.27)**	(0.09)	(0.12)
Weighted average Common Shares (000s) - basic	**272,572**	173,805	**239,321**	145,595	41,080
Weighted average Common Shares (000s) - diluted	**395,258**	173,805	**303,207**	145,595	41,080
End of period Common Shares (000s)	**275,332**	194,519	**275,332**	194,519	48,722
Capital expenditures	**2,295**	10,718	**28,622**	67,368	5,177
Cash and cash equivalents			**4,011**	7,841	1,401
Current assets			**6,066**	15,390	1,658
Total assets			**114,323**	98,778	6,992
Indebtedness			**57,936**	36,372	683
Derivative liabilities related to indebtedness			**16,284**	3,565	91
Shareholders' equity (deficit)			**12,227**	35,011	(595)

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

(2) The December 31, 2021 twelve month Comparable Prior Period includes only 291 days of operations from the Atomic Group Acquisition which closed on March 16, 2021.

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

RESULTS OF OPERATIONS

Petroleum sales, net of royalties

US$ thousands, except volumes, per bbl and royalty rate	Three months ended December 31, 2022	Three months ended December 31, 2021	Twelve months ended December 31, 2022	Twelve months ended December 31, 2021
Average net daily crude oil production (bbls/d)	**1,177**	1,094	**1,090**	972
Petroleum sales, net of royalties	**6,745**	5,829	**28,012**	15,003
WTI (US$/bbl)	**82.65**	77.19	**94.23**	70.38
Realized sales price, before royalties (US$/bbl)	**79.84**	73.91	**91.70**	67.69
Realized sales price, after royalties (US$/bbl)	**62.28**	57.90	**70.43**	53.03
Royalty rate	**22.0%**	21.7%	**23.2%**	21.7%

Petroleum sales, net of royalties totalled $6.7 million and $28.0 million for the three and twelve month Reporting Periods, respectively as compared to $5.8 million and $15.0 million in the Comparable Prior Periods. The increase in petroleum sales in the Reporting Periods is due primarily to increased oil volumes from the Cuda Asset Acquisition, increased commodity prices and the twelve month Comparable Prior Period only includes 291 days of operations from the Atomic Group Acquisition that closed on March 16, 2021.

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

Oil production for the three month Reporting Period averaged 1,177 bbls/d net to the Company at an average realized price before royalties of $79.84/bbl as compared to 1,094 bbls/d at $73.91/bbl in the Comparable Prior Period. Oil production for the twelve month Reporting Period averaged 1,090 bbls/d net to the Company at an average realized price before royalties of $91.70/bbl as compared to 972 bbls/d at $67.69/bbl in the Comparable Prior Period. The increase in oil production in the Reporting Periods is due primarily to the Cuda Asset Acquisition partially offset by operational interruptions at certain high impact wells. The Company's average realized sales price, before royalties increased by 8% and 35% from the three and twelve month Comparable Prior Periods, primarily due to significant increases in benchmark oil prices which positively impacted the sales price the Company received for its production in the Reporting Periods. The average realized price the Company receives for its crude oil production depends on several factors, including the average benchmark prices for crude oil, transportation and product quality differentials.

Royalties are paid to the state of Wyoming and other land and mineral rights owners. The effective royalty rate, which is calculated by dividing the royalties into gross sales in the period increased to 22.0% and 23.2% in the three and twelve month Reporting Periods respectively as compared to 21.7% in the Comparable Prior Periods, due mainly to the increase in benchmark prices.

Risk Management

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

Commodity derivatives

Effective March 15, 2021, in anticipation of the closing of the Atomic Group Acquisition and as a condition to the SCF, the Company entered into a master risk management agreement with a third-party institution. In December 2022, the company was able to restructure its commodity derivation position with the counterparty without a cash cost to unwind certain positions and in a manner that will minimize near term hedge losses that have constrained the Company's pace of development. The restructuring has increased exposure to WTI upside and stabilized operating cash flow in the first half of 2023. It also provides for a level of revenue protection and maintains cost protection for butane injections in the BFSU.

As at December 31, 2022, the Company had in place the following commodity risk management contracts with respect to the sale of its crude oil production and the purchase of NGLs used for the miscible flood recovery program in the BFSU.

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)**
Current - commodity derivative liability					**(1,649)**
Non-current - commodity derivative liability					**(5,232)**

(1) WTI refers to 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.

There were no commodity derivative contracts entered into subsequent to December 31, 2022.

Realized and unrealized gain (loss) on commodity derivatives

US$ thousands, except per bbl	Three months ended December 31, **2022**	2021	Twelve months ended December 31, **2022**	2021
Realized loss on crude oil derivatives	**(2,695)**	(1,365)	**(14,252)**	(2,274)
Realized gain on butane derivatives	**505**	1,643	**6,273**	2,816
	(2,190)	278	**(7,979)**	542
Realized loss on crude oil derivatives (US$/bbl)	**(24.89)**	(13.56)	**(35.83)**	(8.04)
Realized gain on butane derivatives (US$/bbl)	**4.66**	16.32	**15.77**	9.95
	(20.23)	2.76	**(20.06)**	1.91
Unrealized gain (loss) on crude oil derivatives	**(342)**	(692)	**1,097**	(10,331)
Unrealized (loss) gain on butane derivatives	**(399)**	(2,468)	**(5,002)**	7,355
	(741)	(3,160)	**(3,905)**	(2,976)

For the three and twelve month Reporting Periods, the Company recorded a realized loss on crude oil derivatives of $2.7 million and $14.3 million as compared to $1.4 million and $2.3 million in the Comparable Prior Periods. For the three and twelve month Reporting Periods, the Company recorded a realized gain on butane derivatives of $0.5 million and $6.3 million as compared to $1.6 million and $2.8 million in the Comparable Prior Periods related to the purchase of NGLs used for the miscible flood recovery program in the BFSU. The increase in the realized gains and losses in the Reporting Periods relates to the increase in benchmark prices of the applicable commodity in the Reporting Periods.

For the three month Reporting Period, the Company recorded an unrealized loss on crude oil derivatives of $0.3 million as compared to $0.7 million in the Comparable Prior Period, and an unrealized loss on butane derivatives of $0.4 million as compared to $2.5 million in the Comparable Prior Period. For the twelve month Reporting Period, the Company recorded an unrealized gain on crude oil derivatives of $1.1 million as compared to an unrealized loss of $10.3 million in the Comparable Prior Period, and an unrealized loss on butane derivatives of $5.0 million as compared to an unrealized gain of $7.4 million in the Comparable Prior Period. These variances are due to the significant change in future commodity price curves in the Reporting Periods and the Comparable Prior Periods.

Production taxes

US$ thousands, except per bbl	Three months ended December 31, 2022	2021	Twelve months ended December 31, 2022	2021
Production taxes	**855**	744	**3,498**	1,900
Production taxes US$/bbl	**7.89**	7.39	**8.79**	6.72

The production taxes are comprised mainly of severance tax and ad valorem tax imposed in Wyoming, US directly related to crude oil sales and are generally assessed as a percentage of petroleum sales. From time to time, there are adjustments to the statutory rates for these taxes based upon certain credits that are determined based upon activity levels and relative commodity prices. For the three and twelve month Reporting Periods, the production taxes amounted to $0.9 million ($7.89/bbl) and $3.5 million ($8.79/bbl) respectively as compared to $0.7 million ($7.39/bbl) and $1.9 million ($6.72/bbl) in the Comparable Prior Periods. The increase in production taxes is due primarily to the increase in petroleum sales in the Reporting Periods, mainly from the Cuda Asset Acquisition and the twelve month Comparable Prior Period only includes 291 days of operations from the Atomic Group Acquisition that closed on March 16, 2021.

Operating expenses

US$ thousands, except per bbl	Three months ended December 31, 2022	2021	Twelve months ended December 31, 2022	2021
Lifting costs	**2,057**	624	**4,749**	2,399
Non-lifting costs	**585**	91	**2,175**	216
Workovers	**716**	221	**1,427**	1,664
Total operating expenses	**3,358**	936	**8,351**	4,279
Lifting costs US$/bbl	**18.99**	6.20	**11.94**	8.48
Non-lifting costs US$/bbl	**5.40**	0.91	**5.47**	0.76
Workovers US$/bbl	**6.62**	2.19	**3.59**	5.88
Total operating expenses US$/bbl	**31.01**	9.30	**21.00**	15.12

Operating expenses related to the oil production in Wyoming for the three and twelve month Reporting Periods amounted to $3.4 million ($31.01/bbl) and $8.4 million ($21.00/bbl), respectively as compared to $0.9 million ($9.30/bbl) and $4.3 million ($15.12/bbl) in the Comparable Prior Periods. The increase in aggregate operating expenses in the Reporting Periods is due partially to the increased working interest in the Wyoming assets obtained in the Cuda Asset Acquisition and the twelve month Comparable Prior Period includes only 291 days of operations from the Atomic Group Acquisition that closed on March 16, 2021.

The lifting costs, for the three and twelve month Reporting Periods, which represent the costs to operate and maintain the wells, related equipment and facilities amounted to $2.1 million ($18.99/bbl) and $4.7 million ($11.94/bbl), respectively as compared to $0.6 million ($6.20/bbl) and $2.4 million ($8.48/bbl) in the Comparable Prior Periods. The increase of per unit lifting costs in the Reporting Periods were due mainly to the following:

- the changing reservoir conditions from the BFSU miscible flood activities during the Reporting Period significantly increased operating pressures at the wellheads, which created the necessity to add field personnel for 24 hour supervision of the assets to ensure safe operations;
- extreme cold weather in December 2022 increased general repair and maintenance activities and caused high impact producing wells to go offline due to paraffin issues and the mitigation techniques were delayed due to a lack of services in the area; and
- the Company initiated condensate treatments in the second half of 2022 in an effort to significantly improve the paraffin mitigation techniques and the condensate treatment volumes were recovered in its oil production. The Company incurred $0.3 million ($2.50/bbl) and $0.8 million ($1.89/bbl) in additional operating expenses in the three and twelve month Reporting Period respectively related to the condensate treatments, and the offsetting recovered condensate from the treatments of $0.2 million ($1.84/bbl) and $0.6 million ($1.48/bbl) was recorded in petroleum sales.

The non-lifting costs represent the costs unrelated to production activities, which include regulatory fees, lease rentals, property insurance and a deficiency fee on the mixed NGL purchase commitments (see *"Contractual obligations and commitments"* section). The non-lifting costs for the three and twelve month Reporting Periods amounted to $0.6 million ($5.40/bbl) and $2.2 million ($5.47/bbl), respectively as compared to $0.1 million ($0.91/bbl) and $0.2 million

($0.76/bbl) in the Comparable Prior Periods. The increase of per unit non-lifting costs in the Reporting Periods were due mainly to the following:

- a deficiency fee of $0.2 million ($1.70/bbl) and $1.2 million ($2.95/bbl) in the three and twelve month Reporting Period respectively as compared to $NIL in the Comparable Prior Period related to the committed mixed NGLs, not purchased at a time when the Company has reduced the liquids portion of its miscible flood injection program in the BFSU; and
- a surface land settlement of approximately $0.4 million ($0.91/bbl) in the twelve month Reporting Period to a large landholder in the BFSU related to activities prior to the Atomic Group Acquisition.

The workover costs related primarily to paraffin mitigation with a coil tubing rig, pump changes and tubing repair amounted to $0.7 million ($6.62/bbl) and $1.4 million ($3.59/bbl), respectively as compared to $0.2 million ($2.19/bbl) and $1.7 million ($5.88/bbl) in the Comparable Prior Periods. The required workover activity is difficult to predict and can vary significantly quarter over quarter.

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

	Three months ended December 31,		Twelve months ended December 31,	
US$ thousands, except per bbl	**2022**	2021	**2022**	2021
DD&A	**1,564**	1,252	**5,074**	3,682
DD&A US/bbl	**14.44**	12.43	**12.76**	13.01

DD&A for the three and twelve month Reporting Periods was $1.6 million ($14.44/bbl) and $5.1 million ($12.76/bbl), respectively as compared to $1.3 million ($12.43/bbl) and $3.7 million ($13.01/bbl) in the Comparable Prior Periods. Depletion is calculated based on unit of production, estimates of proved and probable reserves, and future development costs to bring those reserves into production. The increase in aggregate DD&A in the three month Reporting Period is due primarily to the increase in future development costs in the December 31, 2022 reserve report.

General and administrative ("G&A") expense

	Three months ended December 31,		Twelve months ended December 31,	
US$ thousands	**2022**	2021	**2022**	2021
Salaries, benefits and consultants	**1,618**	1,701	**6,426**	6,039
Other	**103**	783	**1,761**	2,263
	1,721	2,484	**8,187**	8,302

G&A expenses amounted to $1.7 million and $8.2 million for the three and twelve month Reporting Periods, respectively as compared to $2.5 million and $8.3 million in the Comparable Prior Periods. The reduction in G&A expenses in the Reporting Periods is due primarily to an effort to reduce advisory fees and travel costs in the period partially offset by employee, office expenditures and advisory services with respect to the US operations only including 291 days in the Comparable Prior Period as the Atomic Group Acquisition closed on March 16, 2021.

Share-based compensation expense

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

On January 29, 2022, the Company granted to its directors, officers and employees 15,430,000 stock options to acquire the Company's Common Shares at an exercise price of $0.42 (CAD$0.54) per share, with 13,380,000 options vesting immediately and 2,050,000 vesting after the first anniversary of the date of grant and all options expire five years from the date of grant. The related share-based compensation expense of $0.1 million and $3.7 million in the three and twelve month Reporting Periods has been recognized in net earnings and as an addition to the contributed capital reserve. The fair value of each stock option granted was estimated on the date of grant using a Black-Scholes option pricing model.

As at December 31, 2022, the total outstanding stock options to purchase Common Shares are as follows:

	Number of Options	Weighted Avg. Exercise Price (US$)
Balance, January 1, 2021	4,490,139	1.41
Expired	(474,400)	8.64
Balance, December 31, 2021	4,015,739	0.56
Granted	15,430,000	0.42
Forfeited	(898,293)	0.50
Expired	(526,650)	1.18
Balance, December 31, 2022	**18,020,796**	**0.43**

Finance costs

Finance costs amounted to $3.5 million and $14.9 million respectively for the three and twelve month Reporting Periods, as compared to $2.1 million and $6.9 million in the Comparable Prior Periods. The following table provides details of finance costs.

	Three months ended December 31,		**Twelve months ended December 31,**	
US$ thousands	**2022**	2021	**2022**	2021
Interest expense on the SCF	**1,529**	1,549	**5,886**	4,643
Loss on loan modification on partial repayment of the SCF	**489**	-	**489**	-
Financing costs related to SCF	**325**	83	**3,588**	860
Financing costs related to convertible bonds	**535**	-	**2,847**	-
Interest on lease liabilities	**2**	2	**7**	9
Interest income	**(3)**	(83)	**(389)**	(152)
Accretion of the SCF	**545**	464	**2,237**	1,409
Accretion of asset retirement obligation	**58**	95	**186**	129
	3,480	2,110	**14,851**	6,898

The finance costs incurred in the Reporting Periods and the Comparable Prior Periods relate primarily to the SCF and the convertible bonds issued in July 2022. The increase in interest expense in the twelve month Reporting Period is due to the initial draw of $45.0 million from the SCF occurring on March 16, 2021. A principal repayment of $2.9 million in the Reporting Period resulted in a loss on the loan modification of the SCF of $0.5 million. Additional financing costs incurred in the year related to the SCF were due primarily to $2.2 million in charges for obtaining waivers from its lender and $0.9 million related to an additional 1% lender warrants issued on April 6, 2022 as discussed in the *"Capital Resources and Liquidity - Indebtedness"* section.

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company's SCF provides for an interest rate at the London Interbank Offered Rate ("**LIBOR**"), with a floor of 2.0% plus 10.5% per annum. Management monitors the LIBOR forward curve, which 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. There were no interest derivative contracts as at or entered into subsequent to December 31, 2022 to manage the interest rate risk.

(Gain) loss on derivative liabilities

For the three and twelve month Reporting Periods, the Company recorded a loss of $6.8 million and $2.6 million, respectively as compared to a gain of $3.0 million and $1.1 million in the Comparable Prior Periods, that related to the remeasurement of the fair value of derivative liabilities as follows:

	Three months ended December 31,		Twelve months ended December 31,	
US$ thousands	**2022**	2021	**2022**	2021
Lender warrants revaluation	**4,830**	(1,520)	**4,852**	(2,650)
LIBOR interest rate floor revaluation	**(39)**	(549)	**(1,228)**	(937)
Bondholders' warrants revaluation	**2,055**	-	**199**	-
Unit warrants revaluation	**-**	(859)	**(1,172)**	2,574
2020 short term loan warrants revaluation	**1**	(94)	**(2)**	(78)
(Gain) loss on derivative liabilities	**6,847**	(3,022)	**2,649**	(1,091)

The lender warrant revaluation and LIBOR interest rate floor revaluation relates to the SCF issued on March 16, 2021 and the bondholders' warrants revaluation relates to the convertible bonds issued in July 2022 and December 2022 as discussed in the *"Capital Resources and Liquidity - Indebtedness"* section and the unit warrants revaluation in 2022 relates to the brokered placing that closed on April 22, 2022 as discussed in the *"Capital Resources and Liquidity – Shareholders' Equity"* section.

CAPITAL EXPENDITURES

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

	Three months ended December 31,		Twelve months ended December 31,	
US$ thousands	**2022**	2021	**2022**	2021
Acquisitions	**98**	-	**19,392**	45,079
Miscible flood injection costs	**1,598**	7,745	**6,826**	16,366
Exploration costs	**-**	2,323	**274**	3,285
Well recompletions	**140**	280	**140**	1,112
Capitalized workovers	**342**	-	**1,474**	-
Facilities	**-**	-	**-**	871
Other	**117**	370	**516**	655
	2,295	10,718	**28,622**	67,368

On July 26, 2022, COPLA closed the Cuda Asset Acquisition for cash consideration of $19.3 million including $0.1 million in acquisition costs (see *"Overview and Overall Performance – Asset Acquisition"* section) and in October 2022 closed a minor acquisition for $0.1 million. In the three and twelve month Reporting Periods, $1.6 million and $6.8 million, respectively related to dry natural gas and NGL injections for the miscible flood recovery program in the BFSU as compared to $7.7 million and $16.4 million in the Comparable Prior Periods. All natural gas production in the BFSU is recycled and reinjected into the BFSU reservoir, however to maximize the effectiveness of the miscible flood the Company acquires additional dry natural gas and NGLs from third parties to inject through seven injector wells. In an effort to reduce costs from February 2022 to September 2022 due to higher commodity prices, the reservoir modeling suggested sufficient NGLs had been injected into certain patterns in the reservoir to date, such that there will be miscible flooding effects as long as reservoir pressure and voidage replacement is maintained with dry natural gas injection. On October 1, 2022, enriched gas injection recommenced on the western injection patterns with dry gas injection continuing on the eastern injection patterns to continue to move the miscible bank in the eastern area.

In an effort to resolve constraints of oil production, due to increased wellhead working pressures, three of the higher impact wells were converted from pumping to flowing configurations for $1.5 million. In the last week of December 2022, the Company also initiated recompletion operations on the Cole Creek 11-27 well for $0.1 million to evaluate the light oil potential of the Frontier 1 reservoir sands.

In 2021, the Company closed the Atomic Group Acquisition for $50.0 million cash and the issuance of $4.0 million in Common Shares, drilled and completed a discovery well in the BFDU for $3.3 million, which has identified several follow-up drill locations in the BFDU and CCU areas and conducted three recompletions in the CCU for $1.1 million. Additionally, the Company spent $0.9 million on an overhead stabilizer tower to the existing truck rack at a

third party owned and operated plant to facilitate the delivery of NGLs to the Company to meet the future requirements of the miscible flood.

Assets Retirement Obligations ("ARO")

As at December 31, 2022, the Company recognized an ARO of $7.5 million for the future abandonment and reclamation of its net ownership interests in oil and gas assets, including well sites and processing facilities that were acquired in the Atomic Group Acquisition and the Cuda Asset Acquisition. The estimated ARO includes cost assumptions to abandon wells or reclaim the property, the time frame in which such costs will be incurred as well as annual inflation factors to calculate the undiscounted and inflation adjusted estimated future liability of $22.3 million as at December 31, 2022. 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% being the risk-free rate based on US long-term bonds and an inflation rate of 2.0% per annum. Abandonment spending estimates are derived from both third-party cost indications and operational knowledge of the properties.

CAPITAL RESOURCES AND LIQUIDITY

Cash and cash equivalents

The decrease in cash and cash equivalents of $3.8 million from $7.8 million to $4.0 million during 2022 represents cash provided by operating and financing activities of $25.5 million net of cash used in investing activities of $29.3 million.

Working Capital

The Company had a working capital deficiency of $6.6 million as at December 31, 2022, as compared to a working capital deficiency of $40.0 million as at December 31, 2021. The decrease in the working capital deficiency is due mainly to the SCF, derivative liabilities, and commodity derivative liabilities being reclassified to non-current liabilities as at December 31, 2022 (see *"Capital Resources and Liquidity - Indebtedness"*). As at December 31, 2022, the major components of the Company's current assets were cash and cash equivalents (66%) and accounts receivable (17%) that are comprised primarily of a $0.3 million revenue receivable from one purchaser of the Company's crude oil and $0.7 million from primarily one joint interest partner in the Wyoming assets. The Company considers all of its accounts receivable as at December 31, 2022 to be collectable.

The Company recognized an expected credit loss provision for $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.

Current liabilities largely consist of trade payables and accrued liabilities (58%), revenue and production taxes payable (26%) related to the Company's operations and commodity derivative liabilities from risk management contracts (13%) with respect to its risk management program. The Company will manage its working capital using its cash flow from operating activities and funds from equity or debt issuances, if any. The Company invests its excess cash in short-term interest-bearing accounts with its financial institutions.

Indebtedness

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**").

An ability to issue further Bonds on the same terms and comprised in the same series as the relevant Bonds allows the Company to draw further funds, should it require, with the aim of increasing production or future development programs, subject to mutual agreement with the Lead Investor.

The Company used proceeds from the Bonds issuance to finance the Cuda Asset Acquisition as discussed in the *"Overview and Overall Performance – Asset Acquisition"* section.

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 SCF, 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 SCF 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 SCF 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 (a)(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.

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 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 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.

Costs related to the issue of Bonds

In connection with the issue of the Bonds, the Company incurred brokers' fees for a total of $1.2 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 "**Bond Brokers' Warrants**"), as an additional compensation. Each 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.

The fair value of the 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.

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 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 fair value through profit and loss ("**FVTPL**"). The Company made this election on the basis that recognizing the hybrid instruments at FVTPL provides more relevant information. In assessing the appropriateness of electing the fair value option, the Company considered that the Embedded Derivatives shared risks related to credit worthiness of the Company, market interest rates and share price volatility. The Bonds also measured at FVTPL, as opposed to amortized cost, also share such risks with the Embedded Derivatives. By recognizing the entire hybrid instrument at FVTPL, the Company is of the view that it eliminates the mismatch that would otherwise be created by bifurcating each of the Embedded Derivatives.

As at July 26, 2022, the FVTPL liability (the "**Bonds' FVTPL**") was estimated to be $24.5 million for the 2024 Bonds and $29.1 million for the 2025 Bonds, by the Company's external valuators. 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. 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 the statement of 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 three and twelve month Reporting Periods, 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. The Company records the adjustment to recognize the Bonds at fair value as a gain or loss, along with the corresponding amortization of the Deferred Loss. Further, upon conversion of the Bonds the remaining amortization of the respective amount of the Deferred Loss and the Tap 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.

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 2024 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 remaining Bonds are 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.

Subsequent Bond issuance

On March 24, 2023, the Company issued the following supplemental Bonds and warrants 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 MD&A, 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 MD&A, the Company has a total of 187 unconverted Bonds outstanding with a principal amount of $37.4 million.

Senior Credit Facility

The Atomic Group Acquisition was funded in part with the SCF between a US based global investment firm (the "**Lender**") and COPLA (the "**Borrower**") repayable within a four-year term. To fund the Atomic Group Acquisition, the Borrower drew an initial principal loan amount of $45.0 million. The amount funded to 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 SCF is secured with all the assets of COPLA.

The SCF agreement is subject to an interest rate at 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 SCF includes mandatory prepayments toward amounts outstanding for any COPLA transactions that are: (i) assets sales greater than $0.15 million per transaction or $0.25 million in aggregate over the term of the SCF; (ii) insurance proceeds greater than $0.15 million and (iii) issuance of indebtedness, extraordinary receipts and equity issuances by COPLA.

The SCF includes the following covenants: spending on capital expenditures subject to lender approval, and the maintenance of certain financial ratios for asset coverage (1.5:1), a leverage ratio (2.5:1) and liquidity (45-day minimum average balance of unrestricted cash must be at least $2.5 million). Financial ratio covenants are applicable for the periods commencing after the first anniversary of the SCF, which was March 31, 2022. The SCF did not require security or guarantees to be provided by the Company or its wider group outside of the US and all financial ratios are calculated with reference to only COPLA and its US subsidiaries.

The SCF has an accordion feature whereby the Borrower may draw upon up to a maximum of $20.0 million for future development, at the sole discretion of the Lender. As at December 31, 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 SCF 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 SCF 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 SCF and are part of the cost of debt and factored into overall determination of the effective interest rate for the facility. As the Lender Warrants are 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 SCF was $42.1 million as at December 31, 2022.

The following table provides a summary of the SCF including associated derivative liabilities as at December 31, 2022:

US$ thousands	**Senior Credit Facility**	**Derivative Liabilities**	**Total**
Principal amount	45,000	-	45,000
Lender's closing and legal costs (c)	(1,870)	-	(1,870)
Borrower's closing and legal costs (c)	(1,560)	-	(1,560)
Initial valuation of Lender Warrants (a)	(4,900)	4,900	-
Initial valuation of LIBOR floor (b)	(2,252)	2,252	-
Financing costs expensed upon initial valuation (c)	545	-	545
Lender Warrants revaluation (a)	-	(2,650)	(2,650)
LIBOR floor revaluation (b)	-	(937)	(937)
Accretion	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	2,237	-	2,237
Balance, December 31, 2022	**36,215**	**8,107**	**44,322**

As at March 16, 2021, the fair value of the SCF of $45.0 million was assigned as follows: $35.0 million, net of financing costs of $2.9 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, 2022 - $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 SCF and a loss on derivative liabilities of $4.9 million for the year ended December 31, 2022.

(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 SCF. Therefore, the LIBOR floor is not closely related to the host debt contract of $45.0 million, and is recognized as a derivative liability that is revalued at each reporting period end with resulting changes in fair value recognized in net 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.

(c) Aggregate financing costs associated with the SCF of $3.4 million were allocated to the three components of the SCF based on the relative fair value of each component. The costs 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 SCF 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 (see *"Overview and Overall Performance – Asset Acquisition"* sections); and
- failure to notify the Lender of material events involving Cuda.

Due to these defaults, the Company had classified the SCF 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 SCF 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, 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 SCF 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 has been satisfied. Due to the waiver, the Company was not in default on the SCF 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 COPLA 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 SCF 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 the preceding 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:

- 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 will contribute $8.0 million to COPLA no later than March 21, 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 *"Capital Resources and Liquidity – Indebtedness – Convertible Bonds"* section) in exchange for future interest payments.

Shareholders' Equity (Deficit)

The shareholders' equity decreased from $35.0 million as at December 31, 2021 to $26.2 million as at December 31, 2022. This decrease of $8.8 million resulted primarily from the following:

- an increase in share capital of $17.5 million due mainly to a brokered placing that closed in the UK on April 22, 2022 in which 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 for a total of 24,965,000 unit warrants. Each 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 increase is also due to the issuance of 24,987,502 Common Shares due to Bond conversions with a fair value of $5.1 million and the issuance of 5,895,000 Common Shares as a brokers' fee for the Bonds (see *"Capital Resources and Liquidity - Indebtedness" section "* section);
- an increase in the contributed capital reserve of $3.7 million representing the fair value of 15,430,000 stock options granted on January 29, 2022 (see *"Results of Operations – Share-based compensation expense"* section); and
- an increase in the deficit as a result of a net loss of $30.0 million incurred in the twelve month Reporting Period.

Securities outstanding as at December 31, 2022

As at December 31, 2022, the Company had the following issued and outstanding securities:

- 275,331,966 issued and outstanding Common Shares;
- 72,175,362 Common Share purchase warrants issued and outstanding to purchase Common Shares with a weighted average exercise price of $0.21 per share and a remaining contractual life of 67 days to approximately 30 months; and
- 18,020,796 stock options issued and outstanding to purchase Common Shares with a weighted average exercise price of $0.43 per Common Share and a remaining contractual life of approximately two years and nine months to four years and one month.

As at the date of this MD&A, the Company's issued and outstanding Common Shares increased by 70,086,739 to 345,418,705 pursuant to the Bond conversions and the Share Settlement Options exercised by certain Bondholders for settlement of the Conversion Payment amounts and share settlement debt exchange arrangements in lieu of cash payments for outstanding accounts payables. The Company's issued and outstanding Common Share purchase warrants increased to 139,807,388 as the Company issued 70,257,026 new Bondholders' Warrants and 2,625,000 Brokers' Warrants expired unexercised.

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 the *"Capital Resources and Liquidity"*, the Company closed financings comprising of the 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.

Contractual Obligations and Commitments

The Company enters into various contractual obligations and commitments in the normal course of operations. The following table lists the Company's estimated material contractual obligations and commitments as at December 31, 2022:

Calendar year (US$ thousands)	**2023**	**2024-2025**	**2026-2028**	**Thereafter**
Accounts payable and accrued liabilities	10,614	-	-	-
Bonds if not converted	-	42,251	-	
Senior Credit Facility	-	42,117	-	-
Lender Warrants	-	8,020	-	-
Commodity risk management contracts	1,649	5,232	-	-
NGL purchase agreements[(1)]	3,054	6,116	2,284	-
Ad valorem taxes[(2)]	-	432	649	1,406
Lease liabilities[(3)]	83	55	-	-
Total estimated contractual commitments[(4)]	**15,400**	**104,223**	**2,933**	**1,406**

(1) Includes commitments to purchase mixed natural gas liquids until September 2026, consisting primarily of propane and butane for the miscible flood recovery program in the BFSU**.** In the event the Company purchases less than its commitment in any month of the term of the agreements, the Company is required to pay an additional deficiency fee for the cost incurred by the counter-party to sell the NGLs to another party.

(2) 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.

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

(4) Contractual obligations and commitments that are not material to the Company are excluded from the above table. The Company's ARO are excluded from the table as these obligations arose from a regulatory requirement rather than from a contractual arrangement (see *"Capital Expenditures - Assets retirement obligations"* section).

ShoreCan's Commitments

The Company currently holds a 50% interest in a jointly controlled entity, ShoreCan, focusing on acquisitions of upstream oil and gas exploration, development and producing assets in sub-Saharan Africa. ShoreCan had initially committed to invest up to a maximum of $80.0 million into Essar Nigeria in the form of an interest-free shareholder loan. As at the date of filing this MD&A, COPL has not provided any guarantee in respect of obligations, commitments and/or losses of either ShoreCan or Essar Nigeria and there is uncertainty that any commitments continue to exist as there is significant risk the OPL 226 PSC will not be extended (see *"Overview and Overall Performance – African Portfolio"*).

SUMMARY OF QUARTERLY RESULTS

The following table provides a summary of quarterly information:

Quarters Ended ($US thousands, except unit and per unit amounts, shares and per share amounts)	Dec22	Sep22	Jun22	Mar22	Dec21	Sep21	Jun21	Mar21[2]
OPERATING								
Average net daily production								
Light oil (bbls/d)	**1,177**	1,107	961	1,114	1,094	1,071	796	706
Natural gas (mcf/d)[1]	**1,905**	1,899	1,220	1,255	1,283	1,068	497	428
Total (boe/d)[2]	**1,495**	1,423	1,164	1,323	1,308	1,249	878	777
Netback (US$/bbl)								
Realized sales price	**79.84**	89.26	104.74	91.14	73.91	67.52	61.39	56.33
Realized loss on crude oil derivatives	**(24.89)**	(33.20)	(53.87)	(34.60)	(13.56)	(6.58)	(3.61)	-
Royalties	**(17.56)**	(19.46)	(23.67)	(20.57)	(16.01)	(14.32)	(13.94)	(12.34)
Production taxes	**(7.89)**	(8.37)	(10.27)	(8.91)	(7.39)	(6.65)	(6.06)	(5.49)
Operating expenses	**(31.01)**	(23.17)	(15.08)	(13.13)	(9.30)	(23.99)	(12.04)	(9.47)
Realized gain on butane derivatives	**4.66**	10.99	23.70	25.71	16.32	10.90	1.37	-
Operating netback[3]	**3.15**	16.05	25.55	39.64	43.97	26.88	27.11	29.03
FINANCIAL								
Petroleum sales, net of royalties	**6,745**	7,107	7,087	7,073	5,829	5,242	3,435	497
Realized loss on crude oil derivatives	**(2,695)**	(3,380)	(4,709)	(3,468)	(1,365)	(648)	(261)	-
Unrealized gain (loss) on crude oil derivatives	**(342)**	10,382	667	(9,610)	(692)	(2,456)	(9,437)	2,254
Production taxes	**(855)**	(852)	(898)	(893)	(744)	(655)	(439)	(62)
Operating costs	**(3,358)**	(2,359)	(1,318)	(1,316)	(936)	(2,364)	(872)	(107)
Realized gain on butane derivatives	**505**	1,119	2,072	2,577	1,643	1,074	99	-
Unrealized gain (loss) on butane derivatives	**(399)**	(5,618)	(3,081)	4,096	(2,468)	3,718	7,165	(1,060)
Operating income (loss)[3]	**(399)**	6,399	(180)	(1,541)	1,267	3,911	(310)	1,522
Depletion, depreciation and amortization	**(1,564)**	(1,192)	(1,064)	(1,254)	(1,252)	(1,291)	(975)	(164)
General and administrative	**(1,721)**	(2,062)	(2,342)	(2,062)	(2,484)	(2,453)	(1,942)	(1,423)
Share-based compensation	**(116)**	(101)	(124)	(3,329)	-	-	-	-
Expected credit loss	**(307)**	-	-	-	(1)	-	-	-
Finance costs	**(3,480)**	(5,224)	(2,100)	(4,047)	(2,110)	(1,868)	(2,047)	(873)
Change in fair value of convertible bonds	**(13,957)**	325	-	-	-	-	-	-
Gain (loss) on derivative liabilities	**(6,847)**	2,090	3,698	(1,590)	3,022	8,937	(155)	(10,713)
Other	**198**	(701)	(652)	(189)	47	232	(298)	(2,115)
Net (loss) income	**(28,193)**	(466)	(2,764)	(14,012)	(1,511)	7,468	(5,727)	(13,766)
Net (loss) income per share – basic (US$)	**(0.10)**	-	(0.01)	(0.07)	(0.01)	0.05	(0.04)	(0.14)
Net (loss) income per share – diluted (US$)	**(0.16)**	-	(0.01)	(0.07)	(0.01)	0.05	(0.04)	(0.14)
Weighted average Common Shares (000s) – basic	**272,572**	256,222	232,927	194,519	173,805	159,108	149,536	98,960
Weighted average Common Shares (000s) – diluted	**395,258**	256,222	232,927	194,519	173,805	159,108	149,536	98,960
End of period Common Shares (000s)	**275,332**	266,336	244,449	194,519	194,519	164,269	149,786	149,511
Capital expenditures	**2,295**	21,632	1,690	3,005	10,718	5,904	10,419	40,327
Cash and cash equivalents	**4,011**	5,664	11,520	6,858	7,841	11,497	15,552	28,996
Current assets	**6,066**	8,031	17,419	13,132	15,390	17,637	20,341	32,617
Total assets	**114,323**	114,849	100,595	96,992	98,778	86,603	84,281	92,580
Indebtedness	**57,936**	46,282	34,478	36,851	36,372	35,908	35,798	35,384
Derivative liabilities related to indebtedness	**16,284**	6,545	3,260	6,027	3,565	5,634	9,395	9,428
Shareholders' equity (deficit)	**12,227**	37,307	32,764	24,409	35,011	29,247	13,062	18,571

Notes:

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

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

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

The significant change in the Company's quarterly net results since March 2021 relates primarily to the Atomic Group Acquisition and the 3 month Reporting Periods of September 30, 2022 and December 31, 2022 include the Cuda Asset Acquisition (see *"Overview and Overall Performance – US Operations"* section).

OFF BALANCE SHEET ARRANGEMENTS

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

TRANSACTIONS WITH RELATED PARTIES

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

Other transactions with directors and officers

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

- $0.3 million 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.

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.

	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 $0.42 (CAD$0.54) 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.

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 $0.2 million. 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.

Transactions with Joint Venture

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

ACCOUNTING PRONOUNCEMENTS AND SIGNIFICANT ACCOUTING JUDGEMENTS AND ESTIMATES

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

RISK FACTORS

Refer to the AIF dated March 31, 2023, which is available on the Company's website at www.canoverseas.com and on SEDAR at www.sedar.com for a comprehensive discussion of the Company's risk factors.

DISCLOSURE CONTROLS AND PROCEDURES

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

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

No material changes in the Company's ICFR were identified during the twelve month Reporting Period, that have materially affected, or are reasonably likely to materially affect the Company's ICFR. Management will continue to periodically evaluate the Company's DC&P and ICFR and will make any modifications from time to time as deemed necessary.

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

DIRECTORS

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

OFFICERS

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