



CANADIAN OVERSEAS PETROLEUM LIMITED

FIRST QUARTER

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE THREE MONTHS ENDED
MARCH 31, 2023 AND 2022
(UNAUDITED)**

CANADIAN OVERSEAS PETROLEUM LIMITED
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited (US\$ thousands)

As at	Note	March 31, 2023	December 31, 2022
Assets			
Current:			
Cash and cash equivalents		10,725	4,011
Accounts receivable	3	912	1,056
Other current assets	4	793	999
		12,430	6,066
Non-current:			
Exploration and evaluation assets	5	5,362	5,353
Property and equipment, net	6	103,149	102,204
Right-of-use assets, net		88	104
Long-term deposits		598	596
		121,627	114,323
Liabilities			
Current:			
Accounts payable and accrued liabilities	7	8,501	10,614
Unissued share liability		-	298
Commodity derivative net liability	17(a)	2,917	1,649
Current portion of lease liabilities		80	79
		11,498	12,640
Non-current liabilities:			
Convertible bonds	8	19,023	21,721
Senior credit facility	9	36,696	36,215
Derivative liabilities	10	9,905	16,284
Commodity derivative net liability	17(a)	3,527	5,232
Lease liabilities		34	54
Ad valorem tax payable		2,487	2,487
Asset retirement obligations	11	8,111	7,463
		91,281	102,096
Shareholders' Equity			
Share capital	12	216,271	209,661
Conversion rights of bonds	8	4,298	-
Warrants	13(a)	226	873
Contributed capital reserve	13(b)	54,965	54,930
Accumulated deficit		(243,466)	(251,362)
Accumulated other comprehensive loss		(1,948)	(1,875)
		30,346	12,227
		121,627	114,323

Going concern (note 2)
 Commitments (note 20)
 Subsequent events (notes 8 and 21)

See accompanying notes to the unaudited condensed interim consolidated financial statements

Approved on behalf of the Board of Directors:

Signed "Arthur S. Millholland"
 Director

Signed "John F. Cowan"
 Director

CANADIAN OVERSEAS PETROLEUM LIMITED
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF NET INCOME (LOSS) AND
COMPREHENSIVE INCOME (LOSS)

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

For the three months ended March 31,	Note	2023	2022
Revenue			
Petroleum sales, net of royalties		5,174	7,073
Realized loss on commodity derivatives – crude oil		-	(3,468)
Unrealized gain (loss) on commodity derivatives – crude oil	17(a)	1,055	(9,610)
		6,229	(6,005)
Expenses			
Production taxes		(644)	(893)
Operating		(3,022)	(1,316)
Realized gain on commodity derivatives – butane		460	2,577
Unrealized (loss) gain on commodity derivatives – butane	17(a)	(619)	4,096
Depletion, depreciation and amortization		(1,218)	(1,254)
General and administrative	14	(2,272)	(2,062)
Share-based compensation	13(b)	(35)	(3,329)
Expected credit loss	17(b)	(83)	-
Pre-license costs		-	(87)
		(7,433)	(2,268)
Financing expenses			
Finance costs, net	15	(3,562)	(4,047)
Change in fair value of convertible bonds	8	20,931	-
Net loss on extinguishment of convertible bonds	8	(18,220)	-
Gain (loss) on derivative liabilities	16	9,970	(1,590)
Foreign exchange loss, net		64	(101)
		9,183	(5,738)
Income (loss) before investment in joint venture		7,979	(14,011)
Loss on investment in joint venture		(83)	(1)
Income (loss) after investment in joint venture		7,896	(14,012)
Income tax expense		-	-
Net income (loss)		7,896	(14,012)
(Loss) gain on translation of foreign subsidiaries		(73)	81
		7,823	(13,931)
Comprehensive income (loss)			
Net income (loss) per share – basic		0.03	(0.07)
Net loss per share – diluted		(0.16)	(0.07)
Weighted average shares outstanding – basic		297,773,754	194,519,464
Weighted average shares outstanding – diluted		336,292,210	194,519,464

See accompanying notes to the unaudited condensed interim consolidated financial statements

CANADIAN OVERSEAS PETROLEUM LIMITED
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the three months ended March 31, 2023 and 2022

Unaudited (US\$ thousands)

	Note	Share Capital	Conversion Rights	Warrants	Contributed Capital Reserve	Deficit	Accumulated Other Comprehensive Loss ⁽¹⁾	Total Equity
Balance as at December 31, 2021		190,705	-	1,173	51,260	(205,927)	(2,200)	35,011
Expiry of finder's warrants		307	-	(307)	-	-	-	-
Share-based compensation		-	-	-	3,329	-	-	3,329
Net loss and comprehensive loss for the year		-	-	-	-	(14,012)	81	(13,931)
Balance as at March 31, 2022		191,012	-	866	54,589	(219,939)	(2,119)	24,409
Balance as at December 31, 2022		209,661	-	873	54,930	(251,362)	(1,875)	12,227
Issued pursuant to the bond conversions	8	1,305	-	-	-	-	-	1,305
Issued pursuant to the settlement of conversion payments	8	2,623	-	-	-	-	-	2,623
Issued pursuant to the debt exchange agreements	12(b)	2,381	-	-	-	-	-	2,381
Expiry of broker's warrants	12(c)	647	-	(647)	-	-	-	-
Share issue costs	12(d)	(346)	-	-	-	-	-	(346)
Conversion rights pursuant to the bonds	8	-	4,298	-	-	-	-	4,298
Share-based compensation	13(b)	-	-	-	35	-	-	35
Net income and comprehensive income for the year		-	-	-	-	7,896	(73)	7,823
Balance as at March 31, 2023		216,271	4,298	226	54,965	(243,466)	(1,948)	30,346

(1) As at March 31, 2023 and 2022, the accumulated other comprehensive loss balance consists of unrealized foreign exchange on the translation of foreign subsidiaries.

See accompanying notes to the unaudited condensed interim consolidated financial statements

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

For the three months ended March 31,	Note	2023	2022
Cash Flow From (Used In) Operating Activities:			
Net income (loss)		7,896	(14,012)
Add (deduct) non-cash items:			
Depletion, depreciation and amortization		1,218	1,254
Unrealized (gain) loss on commodity derivatives – crude oil	17(a)	(1,055)	9,610
Unrealized loss (gain) on commodity derivatives – butane	17(a)	619	(4,096)
Finance costs, net	15	3,562	4,047
Change in fair value of convertible bonds	8	(20,931)	-
Net loss on extinguishment of convertible bonds	8	18,220	-
(Gain) loss on derivative liabilities	16	(9,970)	1,590
Share-based compensation	13(b)	35	3,329
Unrealized foreign exchange (gain) loss, net		(72)	106
Loss on investment in joint venture		83	1
		(395)	1,829
Net change in non-cash operating working capital	19	582	2,118
		187	3,947
Cash Flow From (Used In) Financing Activities:			
Fees paid on senior credit facility		(436)	(31)
Interest paid on senior credit facility	15	(1,588)	(1,554)
Proceeds from convertible bonds		11,840	-
Fees paid to issue convertible bonds		(897)	-
Share issuance costs	12(d)	(346)	-
Financing expense		(30)	(5)
Payment of lease obligations		(21)	(18)
Net change in non-cash financing working capital	19	(655)	1,349
		7,867	(259)
Cash Flow From (Used In) Investing Activities			
Property and equipment expenditures	6	(1,554)	(2,739)
Exploration and evaluation asset expenditures		-	(265)
Additions to investment in joint venture		(83)	(1)
Interest		2	-
Net change in non-cash investing working capital	19	298	(1,640)
		(1,337)	(4,645)
Increase (decrease) in cash and cash equivalents during the period		6,717	(957)
Effect of foreign exchange held in foreign currencies		(3)	(26)
Cash and cash equivalents, beginning of year		4,011	7,841
Cash and cash equivalents, end of period		10,725	6,858

See accompanying notes to the unaudited condensed interim consolidated financial statements

CANADIAN OVERSEAS PETROLEUM LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the three months ended March 31, 2023 and 2022
Unaudited (all amounts in US\$ thousands, except otherwise stated)

1. NATURE OF OPERATIONS

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

The Company and its subsidiaries are involved in the identification, acquisition, exploration, development and production of oil and natural gas reserves and hold interests in petroleum assets focused in the United States of America (the "**US**"). As at March 31, 2023, the Company had ten subsidiaries, all of which are wholly-owned directly or indirectly.

2. BASIS OF PREPARATION

Basis of Preparation and Compliance

These unaudited condensed interim consolidated financial statements (the "**Financial Statements**") present the Company's financial results of operations and financial position pursuant to International Financial Reporting Standards ("**IFRS**") as at and for the three months ended March 31, 2023 and 2022. The Financial Statements have been prepared in accordance with International Accounting Standard ("**IAS**") 34 "*Interim financial reporting*", as issued by the International Accounting Standards Board ("**IASB**").

The Financial Statements have been prepared following the same IFRS accounting policies and methods of computation as disclosed in the annual audited consolidated financial statements for the year ended December 31, 2022, except as described below for changes in accounting policies. Certain information and disclosures normally required to be included in the notes to the annual audited consolidated financial statements have been condensed, omitted or have been disclosed on an annual basis only. Accordingly, the Financial Statements should be read in conjunction with the annual audited consolidated financial statements and the notes thereto for the year ended December 31, 2022.

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

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

These Financial Statements were authorized for issue by the Company's Board of Directors on May 15, 2023.

Going Concern

The Financial Statements are prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The Company is pursuing exploration and development projects that will require substantial additional financing before they are 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 note 8, the Company closed a financing comprising of convertible bonds issued in March 2023, 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.

CANADIAN OVERSEAS PETROLEUM LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the three months ended March 31, 2023 and 2022
Unaudited (all amounts in US\$ thousands, except otherwise stated)

Current Environment and Estimation Uncertainty

Since Russia's invasion of Ukraine in early 2022 there has been emerging global concerns over oil and natural gas supply, which has resulted in more volatile benchmark commodity prices. Additionally, the conflict contributed to increased inflationary pressures on governments, businesses and communities which have been rising since 2021. In response to increasing inflation central banks around the globe began increasing interest rates. 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.

Changes in Accounting Policies

Convertible Bonds

The Company's convertible bonds currently outstanding are complex financial instruments that include multiple embedded derivatives, warrants issued to bondholders and conversion payment liabilities. Previously, the Company accounted for the entire hybrid bond instruments at fair value through profit and loss ("FVTPL"). On March 24, 2023, the bonds were amended and as a result of the amended terms the Company determined that the amendment constituted a partial extinguishment of the previous bond instruments.

In assessing the amended terms of the bond agreements, the conversion option was considered to have met the 'fixed-for-fixed' criteria under IAS 32 "*Financial Instruments: Presentation*", resulting in the conversion option being classified as an equity instrument. As the amended bonds are now considered compound financial instruments, with both equity and liability components, IFRS requires the equity portion to be accounted for separately. The Company accounts for the liability portion at amortized cost while the equity portion is initially measured using a residual fair value method and not subsequently remeasured. The portion of the original bonds that remain outstanding, pertaining to conversion payment liabilities of previously converted bonds, continue to be accounted for at FVTPL.

Prior to the amendment of the terms, the fair value of the bond instruments were valued at each balance sheet date and upon conversions by the Company using an external professional valuator, that performed calculations using a valuation model base on the finite difference method, the major assumptions and inputs as applicable at each valuation date being: the Company's stock price, expected life of the bonds, expected volatility, implied credit worthiness, expected dilution effect and market risk-free interest rates.

Previously, the Company recognized a deferred loss that was calculated as the fair value of bonds and the fair value of related bondholders' warrants less proceeds from the issue of the bonds. The deferred loss was amortized on a straight-line basis over the life of the respective bond series.

For the amended bonds and the new issue, to estimate the fair value of the bond instruments at initial recognition, the Company used an external professional valuator, which performs the calculation using a net present value method.

As part of the terms of the amendment, the expiry date of the bondholders' warrants was extended to August 26, 2027. The modification of the warrants is recognized in the change in the fair value of the bondholders' warrants. As the exercise price is denominated in British pound sterling ("GBP" or "£") and the functional currency of the Company is US\$, the fair value of bondholders' warrants is recognized as a derivative liability.

On the date of amendment, the new bonds issued were valued at their present value of future cashflows based on the market discount rate for the bonds. The proceeds allocated to the newly issued bonds were allocated to the bonds present value first with the residual being allocated to equity. The modified bonds were also revalued at the present value of future cashflows. The proceeds for bonds were determined by multiplying the outstanding modified bonds by the proceeds per bond allocated to the new bonds, as the new bonds proceeds represent the price the bondholders paid on the date of amendment. As the modified bonds have the same terms as the new bonds, the proceeds were allocated to the present value of the bonds first with the residual being allocated to equity.

CANADIAN OVERSEAS PETROLEUM LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the three months ended March 31, 2023 and 2022
Unaudited (all amounts in US\$ thousands, except otherwise stated)

Due to the bonds being recognized at amortized cost and identified as a compound financial instrument, all of the costs related to issue of the bonds, such as brokers' fees, legal fees and calculation agent fees, representing the transaction costs, are allocated between the bonds, the conversion option and the warrants proportionately. The bond and equity portions are recognized net of transaction costs, while the transaction costs allocated to the warrants are recognized as an expense in net earnings.

At each reporting date the Company records the accretion expense on the bonds which is determined using the effective interest rate calculated at the issuance date. The equity classified conversion option is not remeasured and the fair value of bondholders' warrants is reassessed at each reporting date and a respective gain or loss on the derivative liability is recognized in net earnings.

Upon each conversion date of the bonds, the Company will derecognize the relative portion of amortized cost of the debt and the conversion option, recognize the fair value of the conversion payment liability and the residual amount will be allocated as an equity component constituting the shares issued.

3. ACCOUNTS RECEIVABLE

	March 31, 2023	December 31, 2022
Revenue receivable	180	310
Joint interest receivable	594	686
Other receivables	138	60
Balance, end of the period	912	1,056

4. OTHER CURRENT ASSETS

	March 31, 2023	December 31, 2022
Prepaid expenses	481	507
Deferred share issue costs	-	208
Oil inventory	302	193
Condensate inventory	-	81
Short-term deposits	10	10
Balance, end of the period	793	999

5. EXPLORATION AND EVALUATION ASSETS

	March 31, 2023	December 31, 2022
Balance, beginning of the period	5,353	5,172
Additions	-	274
Change in asset retirement obligations	9	(93)
Balance, end of the period	5,362	5,353

The exploration and evaluation ("E&E") assets relate to an undeveloped land acquisition and a successful discovery well drilled and completed in 2021 in an exploration area. As the discovery well has potentially identified a significant new oil field development project and will be a critical source of knowledge and information to evaluate and plan the operational approach of the future drill program, the costs of the discovery well remain in E&E assets as at March 31, 2023.

Impairment

There are no indicators of impairment as at March 31, 2023.

CANADIAN OVERSEAS PETROLEUM LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the three months ended March 31, 2023 and 2022
Unaudited (all amounts in US\$ thousands, except otherwise stated)

6. PROPERTY AND EQUIPMENT

	Developed & Producing Assets	Administrative Assets	Total
Cost:			
Balance, January 1, 2022	81,202	634	81,836
Acquisition	21,077	-	21,077
Additions	8,786	169	8,955
Disposals	-	(6)	(6)
Change in asset retirement obligations	(822)	-	(822)
Balance, December 31, 2022	110,243	797	111,040
Additions	1,552	2	1,554
Disposals	-	(134)	(134)
Change in asset retirement obligations	593	-	593
Balance, March 31, 2023	112,388	665	113,053
Accumulated depletion and depreciation:			
Balance, January 1, 2022	(3,526)	(304)	(3,830)
Depletion and depreciation	(4,923)	(89)	(5,012)
Disposals	-	6	6
Balance, December 31, 2022	(8,449)	(387)	(8,836)
Depletion and depreciation	(1,176)	(26)	(1,202)
Disposals	-	134	134
Balance, March 31, 2023	(9,625)	(279)	(9,904)
Net carrying amount, December 31, 2022	101,794	410	102,204
Net carrying amount, March 31, 2023	102,763	386	103,149

Developed and producing ("D&P") assets relate primarily to two oil producing units. At March 31, 2023, estimated future development costs of \$425.4 million (December 31, 2022 – \$426.7 million) associated with the development of the Company's proved and probable reserves were added to the Company's net book value in the depletion and depreciation calculation.

Impairment

There are no indicators of impairment as at March 31, 2023.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	March 31, 2023	December 31, 2022
Trade payables and accrued liabilities	5,722	7,330
Revenue related payable	1,865	2,273
Production taxes payable	914	1,011
Balance, end of the period	8,501	10,614

CANADIAN OVERSEAS PETROLEUM LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the three months ended March 31, 2023 and 2022
Unaudited (all amounts in US\$ thousands, except otherwise stated)

8. CONVERTIBLE BONDS

Issue of two series of convertible bonds in 2022

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 an aggregate principal face value amount of \$25.2 million and for total aggregate proceeds of \$19.7 million and having a conversion price of £0.1675 (\$0.2001) per Common Share 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 such definition includes (unless the context requires otherwise) the December 2025 Tap Bonds defined below).

On December 30, 2022, the Company issued to one Bondholder at a 20% discount to the principal face value, 20 additional 2025 Bonds with an aggregate principal face value amount of \$4.0 million and for total aggregate proceeds of \$3.2 million (the "**December Tap 2025 Bonds**" and collectively with the 2024 Bonds and the 2025 Bonds, the "**Old Bonds**"). The December Tap 2025 Bonds, given that they are 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 of bonds with the other 2025 Bonds.

Change in terms of the Old Bonds and issue of further bonds on the same terms as the changed Old Bonds

On March 24, 2023, further to certain written extraordinary resolutions the terms of the 2024 Bonds were changed, including, but not limited to: (a) a revised conversion price of £0.0675 (\$0.0817) per Common Share being applicable to all the 2024 Bonds; and (b) the 2024 Bonds having a revised maturity date of January 26, 2027 (the "**Changed 2024 Bonds**"). On March 24, 2023, further to certain written extraordinary resolutions the terms of the 2025 Bonds were changed, including, but not limited to: (a) a revised conversion price of £0.0675 (\$0.0817) per Common Share being applicable to all the 2025 Bonds; and (b) the 2025 Bonds having a revised maturity date of January 26, 2028 (the "**Changed 2025 Bonds**").

On March 24, 2023, further to various supplemental bond instruments, the Company issued to certain existing Bondholders and some new investors at a 20% discount to the principal face value, further Changed 2024 Bonds and further Changed 2025 Bonds being unsecured convertible bonds with an aggregate principal face value amount of \$14.8 million and for total aggregate proceeds of \$11.8 million and having a conversion price of £0.0675 (\$0.0817) per Common Share as follows:

- 37 bonds at a principal face value of \$0.2 million per bond for an aggregate principal face value of \$7.4 million maturing on January 26, 2027 and having the same terms as and forming a single series of bonds with the Changed 2024 Bonds (the "**2027 Bonds**" which definition includes, unless the context requires otherwise all the Changed 2024 Bonds); and
- 37 bonds at a principal face value of \$0.2 million per bond for an aggregate principal face value of \$7.4 million maturing on January 26, 2028 and having the same terms as and forming a single series of bonds with the Changed 2025 Bonds (the "**2028 Bonds**" which definition includes, unless the context requires otherwise all the Changed 2025 Bonds, and collectively with the 2027 Bonds, the "**New Bonds**").

For the purpose of interest calculations, the New Bonds have a deemed issue date of July 26, 2022, whether or not they were actually issued on such date.

In connection with the issue of the New Bonds, the Company incurred transaction costs of approximately \$1.5 million, which included brokers' fees, legal fees and calculation agent fees.

The net proceeds from the New Bonds will be used to fund production growth in the US and to cover the Company's general and administrative expenses.

In addition, written extraordinary resolutions referred to above and the supplemental bonds instruments relating to the New Bonds include the following provisions in respect of the Conversion Payments discussed in the terms section below. These provisions represent changes to the terms of the Old Bonds:

CANADIAN OVERSEAS PETROLEUM LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the three months ended March 31, 2023 and 2022
Unaudited (all amounts in US\$ thousands, except otherwise stated)

- for Conversion Payment liabilities (the "**CPL**") outstanding and having a related Conversion Date falling prior to March 24, 2023, the maturity dates remain as July 26, 2024 for the converted 2024 Bonds and July 26, 2025 for the converted 2025 Bonds; and
- if a conversion of any 2027 Bonds or any 2028 Bonds occurs before the previously applicable original maturity date of July 26, 2024 or July 26, 2025, a make whole amount for the Conversion Payment will be calculated up to the new applicable maturity date of January 26, 2027 or January 26, 2028, but no further step-up in interest rates will be applied for a period from the applicable original maturity dates to the new applicable maturity date.

The 2027 Bonds and the 2028 Bonds, which by definition includes, unless the context requires otherwise all the Changed 2024 Bonds and the Changed 2025 Bonds as may have been changed from time to time (collectively the "**Bonds**") are anchored by one long-term, UK-based institutional shareholder (the "**Lead Investor**") and participated in by other investors (all investors collectively, the "**Bondholders**").

Terms

The 2027 Bonds and the 2028 Bonds have the same commercial terms, other than in relation to their maturity dates and are currently unsecured. However, upon security interests being granted in relation to a planned reserve based loan ("**RBL**") facility that refinances the senior credit facility (note 9), 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 have a 13.0% interest rate per annum on the principal face value of the Bonds, which increases by 0.75% per annum quarterly, on each three month anniversary from the issue date (each such anniversary an "**Interest Payment Date**") until maturity or, until the Company gives notice to the relevant Bondholders that it shall pay all 2027 Bond interest or as relevant 2028 Bond interest in cash (each a "**Cash Payment Notice**"). A Cash Payment Notice cannot be issued by the Company until the senior credit facility has been repaid and discharged. From the date the Company provides a Cash Payment Notice, the interest rate applicable to the 2027 Bonds or as relevant the 2028 Bonds will decrease by 2.0% per annum and no further quarterly increases of 0.75% per annum will apply.

Unless the Company provides a Cash Payment Notice to the relevant Bondholders, interest with respect to 2027 Bonds or as relevant the 2028 Bonds is accrued and its payment deferred until the earlier of: (a) conversion of the relevant Bonds, at which time such accrued unpaid deferred interest will be included in the Conversion Payment (as defined below); and (b) maturity of the relevant 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 relevant 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 a fixed conversion price of £0.0675 (\$0.0817) per Common Share, which is subject to customary anti-dilution protections and price re-adjustments.

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

CANADIAN OVERSEAS PETROLEUM LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the three months ended March 31, 2023 and 2022
Unaudited (all amounts in US\$ thousands, except otherwise stated)

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 London 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 January 1, 2024, if the parity value applicable to the relevant 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 January 1, 2024. The Issuer Call Early Redemption Amount is comprised of: (a)(i) 114% of the principal face value of the relevant Bonds if the redemption date falls into the period between 6 and 12 months from the issue date; or (ii) 109% of the principal face value of the relevant Bonds if the redemption falls into a period after 12 months from the issue date; (b) the relevant make whole amount calculated as the sum of the present values of all interest payable from, but excluding 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, but excluding the relevant fundamental change event put date or the date the Bond has become due and payable early due to an event of default 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 the aggregate of the Common Shares held by a shareholder or shareholder groups, in each case holding less than 5% of the Company's outstanding share capital, being equal to or 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, 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 and March 31, 2023, the Company was in

CANADIAN OVERSEAS PETROLEUM LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the three months ended March 31, 2023 and 2022
Unaudited (all amounts in US\$ thousands, except otherwise stated)

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.

Bondholders' Warrants

On July 26, 2022, the Company issued to the Bondholders as at that date a total of 54,792,590 Common Share purchase warrants (the "**July 2022 Bondholders' Warrants**") as an additional compensation to such Bondholders for its participation in the issue of the 2024 Bonds and the 2025 Bonds. Each July 2022 Bondholders' Warrant originally entitled 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.

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**") as an additional compensation to such Bondholders for its participation in the issue of the December Tap 2025 Bonds. Each December 2022 Bondholders' Warrant originally entitled the holder to purchase one Common Share at an exercise price of £0.135 (\$0.1627) on or before June 30, 2025.

On March 24, 2023, the Company issued 70,257,026 Common Share purchase warrants to the Bondholders of the New Bonds issued on such date (the "**March 2023 Bondholders' Warrants**" and collectively with the July 2022 Bondholders' Warrant and the December 2022 Bondholders' Warrant the "**Bondholders' Warrants**") as an additional compensation to such Bondholders for its participation in the issue of the New Bonds. Each March 2023 Bondholders' Warrant entitles the holder to purchase one Common Share at an exercise price of £0.0675 (\$0.0817) on or before August 26, 2027.

In addition, various written extraordinary resolutions provide for some changes to the terms of the July 2022 Bondholders' Warrants and the December 2022 Bondholders' Warrants that were outstanding and unexercised as at March 24, 2023. The major changes include:

- a change in the conversion price for all the Bondholders' Warrants to £0.0675 (\$0.0817) per Common Share; and
- an extension of the expiry date for all Bondholders' Warrants to August 26, 2027.

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

The fair value of the March 2023 Bondholders' Warrants as March 24, 2023, estimated at \$2.9 million, using a Black-Scholes option pricing model, was recognized as a derivative liability as at the date of issue of the March 2023 Bondholders' Warrants.

As at March 31, 2023, the fair value of the Bondholders' Warrants issued and outstanding was estimated to be \$7.3 million and the Company recognized a gain on the derivative liability of \$3.7 million for three months ending March 31, 2023.

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

	March 24, 2023	March 31, 2023
Risk-free interest rate	3.15%	3.38%
Weighted average life (years)	4.43	4.41
Expected volatility	93%	94%
Expected dividend yield	-	-
COPL's share price*	\$0.06	\$0.08

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

CANADIAN OVERSEAS PETROLEUM LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the three months ended March 31, 2023 and 2022
Unaudited (all amounts in US\$ thousands, except otherwise stated)

Conversions and Conversion Payment settlements

During the first quarter of 2023, the Company received 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 and recognized a total addition to share capital of \$1.3 million.

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 calculated based on the lowest 5 day volume weighted average market price following election of the share settlement option for the Conversion Payments.

As at March 31, 2023, there were in total 87 unconverted 2027 Bonds with a principal amount of \$17.4 million and 100 unconverted 2028 Bonds with a principal amount of \$20.0 million.

Reporting

The Bonds included 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 Old Bonds at FVTPL. The Company made this election on the basis that recognizing the hybrid instruments at FVTPL provides more relevant information. In assessing the appropriateness of electing the fair value option, the Company considered that the Embedded Derivatives shared risks related to credit worthiness of the Company, market interest rates and share price volatility. The Old 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 valuers. 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 bond series. The fair value loss is deferred as there are significant unobservable inputs used in the 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 valuers. 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.

As at March 24, 2023, a material change in the original terms of the Old Bonds, resulted in these Old Bonds being derecognized, replaced and accounted for consistently with the New Bonds. The Company determined that based on the amended terms, the Bonds will be recognized as compound financial instruments. The Bonds respective present values will be the liability component, carried at amortized cost and the residual value between the proceeds allocated to the Bondholder Warrants and the respective present value of the 2027 Bonds and the 2028 Bonds will be recorded within equity as conversion rights.

As a result, the deferred losses of \$10.7 million, \$13.9 million and \$7.6 million related to 2024 Bonds, the 2025 Bonds and the December Tap 2025 Bonds, respectively, that were unamortized as at March 24, 2023, were recorded within the net loss on extinguishment of convertible bonds in net earnings.

CANADIAN OVERSEAS PETROLEUM LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the three months ended March 31, 2023 and 2022
Unaudited (all amounts in US\$ thousands, except otherwise stated)

The following table provides a summary of the deferred losses of various Old Bonds as at December 31, 2022 and March 31, 2023:

	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 as at Dec. 31, 2022	13,134	15,491	8,304	36,929
Amortization	(1,852)	(1,353)	(735)	(3,940)
Accelerated amortization on conversions	(548)	(265)	-	(813)
Net loss on extinguishment	(10,734)	(13,873)	(7,569)	(32,176)
Balance as at March 31, 2023	-	-	-	-

On the date of issuance of the New Bonds and the amendment to the Old Bonds, the initial present value of all the Bonds is calculated assuming that the Bonds will not be converted until their respective maturities and using a discount rate of approximately 42% per annum, representing interest rates applicable to similar instruments, but without a conversion option.

For the New Bonds issued on March 24, 2023, as the initial present values are lower than the allocated proceeds, an equity component of \$1.0 million for 2027 Bonds and \$0.8 million for 2028 Bonds was recorded as conversion rights. In addition, due to the recognition of the New Bonds at amortized cost, all of the transaction costs related to issue of the New Bonds of approximately \$1.5 million, were allocated proportionately between the 2027 Bonds of \$0.5 million, the 2028 Bonds of \$0.4 million, the conversion rights in equity related to the New Bonds of \$0.2 million and the March 2023 Bondholders' Warrants of \$0.4 million. The carrying amounts of the New Bonds and respective equity portions are recognized net of these transaction costs, while the transaction costs allocated to the March 2023 Bondholders' Warrants are recognized as a financing expense in net earnings.

In respect of the unconverted Changed Bonds, the Company calculated their deemed proceeds, based on a proportionate proceeds' allocation of the New Bonds, and recognized equity components in the amount of \$1.4 million, \$0.9 million and \$0.4 million for the 2024 Bonds, the 2025 Bonds and the December Tap 2025 Bonds, respectively, representing a difference between the initial present values and the allocated deemed proceeds. In addition, the difference between these Changed Bonds allocated deemed proceeds, under the amortized cost method and their fair value under FVTPL is recognized as a gain in net earnings within the net loss on extinguishment in the amounts of \$3.5 million, \$7.2 million and \$3.3 million for the 2024 Bonds, the 2025 Bonds and the December Tap 2025 Bonds, respectively.

The following table provides a summary of net loss on extinguishment of the Changed Bonds recorded as at March 24, 2023:

	2024 Bonds	2025 Bonds	December Tap 2025 Bonds	Total
Unamortized deferred Loss	10,734	13,873	7,569	32,176
Change in allocated proceeds	(3,454)	(7,167)	(3,335)	(13,956)
Net loss on extinguishment	7,280	6,706	4,234	18,220

CANADIAN OVERSEAS PETROLEUM LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the three months ended March 31, 2023 and 2022
Unaudited (all amounts in US\$ thousands, except otherwise stated)

The following table provides a summary of the conversion rights of the Bonds recognized as at March 24, 2023:

	Changed Bonds	New Bonds	Allocated transaction costs	Total
2024 Bonds	1,356	-	-	1,356
2025 Bonds	935	-	-	935
December Tap 2025 Bonds	435	-	-	435
2027 Bonds	-	1,003	(131)	872
2028 Bonds	-	805	(105)	700
Balance as at March 31, 2023	2,726	1,808	(236)	4,298

Subsequent to March 24, 2023, all the Bonds carrying amounts are subject to amortization over the Bonds respective life, that is calculated using an effective interest rate method. For the three months ended March 31, 2023, total accretion amounted to \$0.1 million and related to the 7-day period from March 24, 2023 to March 31, 2023.

As at March 24, 2023, the Old Bonds fair values under the FVTPL method included fair values of the CPLs of \$1.1 million in respect of converted 2024 Bonds and \$0.7 million in respect of converted 2025 Bonds. These CPLs are not subject to extinguishment as their terms did not change and it continues to be accounted for at FVTPL. As at March 31, 2023, the Company recorded an additional loss due to change in fair value of these CPLs in total of \$0.02 million in respect of the 7-day period from March 24, 2023 to March 31, 2023.

At each conversion date up to March 24, 2023, the value of Common Shares issued further to the conversions were recognized at an approximate amount of the fair value of the converted 2024 Bonds and 2025 Bonds less the fair value of the related Conversion Payment that remained within the fair value of the 2024 Bonds and 2025 Bonds. During three months ended March 31, 2023, Company recorded additional share capital of \$0.9 million in respect of the converted 2024 Bonds and \$0.4 million in respect of the converted 2025 Bonds, including \$0.3 million in respect of one 2024 Bond converted on December 30, 2022 with the respective Common Shares issued on January 6, 2023.

The following major assumptions were used by the Company's external valuers in the valuation model based on the finite difference method to estimate the fair value of the Old Bonds FVTPL at the dates of valuation up to the amendment on March 24, 2023:

	2024 and 2025 Bonds for conversions from Jan. 3, 2023 to Feb. 28, 2023	as at March 24, 2023
Risk-free interest rate	3.94% - 4.58%	3.70-4.13%
Weighted average life	maturity date	maturity date
Implied credit spread	43.92% - 44.66%	45.12%
Expected volatility	77% - 95%	92%
Underlying stock price*	\$0.074 - \$0.194	\$0.063
Expected dividend yield	-	-

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

CANADIAN OVERSEAS PETROLEUM LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the three months ended March 31, 2023 and 2022
Unaudited (all amounts in US\$ thousands, except otherwise stated)

The following table provides a summary of the Bonds and related liabilities as at December 31, 2022 and March 31, 2023:

	2024 Bonds' FVTPL	2025 Bonds' FVTPL	December Tap 2025 Bonds' FVTPL	2027 Bonds Liability	2028 Bonds Liability	Total Bonds' FVTPL/ Liability	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
Conversion to Common Shares	(643)	(364)	-	-	-	(1,007)	-
CPL settled in shares	(401)	(2,222)	-	-	-	(2,623)	-
Net change in fair value to Mar 24/23	(8,992)	(8,425)	(3,532)	-	-	(20,949)	-
Net loss on extinguishment	7,280	6,706	4,234	-	-	18,220	-
Recognized equity component	(1,356)	(935)	(435)	-	-	(2,726)	-
Present value - Old Bonds	(5,377)	(3,710)	(1,725)	5,377	5,435	-	-
Initial present value- New Bonds	-	-	-	4,983	3,996	8,979	2,861
Allocation to equity component	-	-	-	(1,003)	(805)	(1,808)	-
Allocation of transaction costs	-	-	-	(520)	(416)	(936)	-
Net change in fair value	12	6	-	-	-	18	(3,709)
Accretion	-	-	-	70	64	134	-
Balance, March 31, 2023	1,092	750	-	8,907	8,274	19,023	7,329

As at March 31, 2023, the Company would be contractually required to pay at maturities a maximum of \$37.0 million in respect of the 2027 Bonds and \$47.6 million in respect of the 2028 Bonds, assuming that the Bonds are not repaid in cash earlier than at maturity, that all outstanding Bonds are not converted before maturity, and that none of the Bondholders that already converted the Old Bonds elects to receive its Conversion Payment in shares earlier than at maturity.

Conversions subsequent to March 31, 2023

As at the date of filing the interim Financial Statements, the Company received additional conversion notices from its Bondholders to convert 15 of the 2027 Bonds and 18 of the 2028 Bonds. Further to these conversions the Company issued a total of 80,783,334 Common Shares.

In addition, the Company issued 10,561,412 Common Shares pursuant to the Share Settlement Option exercised by certain Bondholders for settlement of \$0.7 million of the Conversion Payment amounts and related accrued interest due in respect of three converted 2027 Bonds and three converted 2028 Bonds.

As at the date of filing the interim Financial Statements, the Company has a total of 154 unconverted Bonds outstanding with a principal amount of \$30.8 million.

CANADIAN OVERSEAS PETROLEUM LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the three months ended March 31, 2023 and 2022
Unaudited (all amounts in US\$ thousands, except otherwise stated)

9. SENIOR CREDIT FACILITY

The loan agreement dated March 16, 2021 is between a US based global investment firm (the "**Lender**") and COPL America Inc. (the "**Borrower**" or "**COPLA**"), a 100% owned subsidiary of the Company, repayable within a four-year term (collectively, the "**Senior Credit Facility**" or the "**SCF**") and the Borrower drew an initial principal loan amount of \$45.0 million.

The Senior Credit Facility agreement is subject to an interest rate at the London Interbank Offered Rate ("**LIBOR**"), with a floor of 2.0% plus 10.5% per annum. The outstanding loan principal is repaid monthly by COPLA's cash resources less expenditures approved by the Lender in excess of \$2.5 million, or COPLA may prepay amounts outstanding subject to prepayment premiums. The Senior Credit Facility includes mandatory prepayments towards amounts outstanding for any COPLA transactions that are: (a) assets sales greater than \$0.15 million per transaction or \$0.25 million in aggregate over the term of the Senior Credit Facility; (b) insurance proceeds greater than \$0.15 million and (c) issuance of indebtedness, extraordinary receipts and equity issuances by COPLA.

The Senior Credit Facility includes the following covenants: spending on capital expenditures subject to lender approval, and the maintenance of certain financial ratios for an asset coverage ratio (1.5 to 1), a leverage ratio (2.5 to 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 Senior Credit Facility did not require security or guarantees to be provided by the Company or its wider group outside of the US and all financial ratios are calculated with reference to only COPLA and its US subsidiaries.

The Senior Credit Facility has an accordion feature whereby the Borrower may draw upon up to a maximum of \$20.0 million for future development, at the sole discretion of the Lender. As at March 31, 2023, 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 as of March 31, 2022 and a sixth amending agreement to the SCF as of March 24, 2023, the Lender was granted an additional 1% and 2.5% respectively of the fully diluted common shares of COPLA for an exercise price of \$0.01 per share for a combined total warrant coverage of 8.5% 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: (a) the 60th day following the date on which the Senior Credit Facility is paid in full and (b) 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 8.5% of the Company's market capitalization on a fully diluted basis or 8.5% of the net asset value of COPLA at such time, subject to certain adjustments. The Lender Warrants were issued as a requirement of the Lender for providing the Senior Credit Facility and are part of the cost of debt and factored into the overall determination of the effective interest rate for the facility. As the Lender Warrants are a puttable financial instrument 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.

CANADIAN OVERSEAS PETROLEUM LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the three months ended March 31, 2023 and 2022
Unaudited (all amounts in US\$ thousands, except otherwise stated)

The following table provides a summary of the Senior Credit Facility including associated derivative liabilities as at March 31, 2023:

	Senior Credit Facility	Derivative Liabilities (note 10)	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	(4,900)	4,900	-
Initial valuation of LIBOR floor	(2,252)	2,252	-
Financing costs expensed upon initial valuation (c)	545	-	545
Lender Warrants revalued as at December 31, 2022	-	3,120	3,120
LIBOR floor revaluation as at December 31, 2022	-	(2,165)	(2,165)
Repayment of principal amount (d)	(2,883)	-	(2,883)
Loss on loan modification on partial repayment of the SCF (d)	489	-	489
Accretion	3,646	-	3,646
Balance, December 31, 2022	36,215	8,107	44,322
Lender Warrants revaluation as at March 31, 2023 (a)	-	(5,540)	(5,540)
LIBOR floor revaluation as at March 31, 2023 (b)	-	9	9
Accretion (note 15)	481	-	481
Balance, March 31, 2023	36,696	2,576	39,272

As at March 16, 2021, the fair value of the Senior Credit Facility of \$45.0 million was assigned as follows: \$35.0 million, net of financing costs of \$2.8 million to the SCF, \$4.9 million to the Lender Warrants and \$2.3 million to the LIBOR floor.

- (a) As at March 31, 2023, the Lender Warrants were revalued at \$2.5 million using 8.5% of COPL's market capitalization on a fully diluted basis (December 31, 2022 - \$8.0 million using 6% of COPL's market capitalization on a fully diluted basis). The resulting change in fair value of \$5.5 million related to an initial valuation of the additional 2.5% Lender Warrants of \$0.7 million recognized in financing costs pursuant to a sixth amending agreement to the Senior Credit Facility and a gain on derivative liabilities of \$6.2 million for the three months ended March 31, 2023 (see note 16).
- (b) The LIBOR floor was assessed to be an embedded derivative. As at March 16, 2021, the LIBOR floor was in-the-money, and the forward curve for 1-month LIBOR over the term of the SCF indicated that it would remain in the money for the duration of the Senior Credit Facility. Therefore, the LIBOR floor is not closely related to the host debt contract of \$45.0 million, and is recognized as a derivative liability that is revalued at each reporting period end with resulting changes in fair value recognized in net earnings. As at March 31, 2023, the LIBOR floor was revalued at \$0.1 million (December 31, 2022 - \$0.1 million) and the resulting change in fair value was recognized as a loss on derivative liabilities of \$9,000 for the three months ended March 31, 2023 (see note 16).
- (c) Aggregate financing costs associated with the Senior Credit Facility of \$3.4 million were allocated to the three components of the Senior Credit Facility based on the relative fair value of each component. The costs of \$2.8 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 23.1% as at March 31, 2023, 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 June 2022 resulted in a loss on the loan modification of the SCF of \$0.5 million recognized in net earnings for the year ended December 31, 2022.

During the three months ended March 31, 2023, COPLA paid interest on this loan in the amount of \$1.6 million (see note 15).

CANADIAN OVERSEAS PETROLEUM LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the three months ended March 31, 2023 and 2022
Unaudited (all amounts in US\$ thousands, except otherwise stated)

On December 30, 2022, the Borrower received a waiver from the Lender for not meeting the requirements of the leverage ratio of 2.5 to 1 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, which have been satisfied:

- the Borrower provided an approved plan of development ("APOD") acceptable to the Lender on or before March 31, 2023 that related to anticipated spending from April 1, 2023 to June 30, 2023;
- the Company contributed \$2.0 million to COPLA before January 2, 2023; and
- the Borrower paid a waiver fee of \$0.4 million on March 31, 2023.

Due to the waiver, the Company was not in default on the Senior Credit Facility and the indebtedness was classified as a non-current liability as at December 31, 2022.

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

- the Borrower provided an APOD acceptable to the Lender that related to anticipated spending for the 2023 calendar period;
- the Company contributed \$8.0 million to COPLA on March 24, 2023; and
- the Lender Warrants were increased from 6.0% to 8.5% of the common shares in the Borrower.

The Lender also has an option to receive Bonds on economic terms no less favorable than the Bonds issued in March 2023 (see note 8) in exchange for future interest.

10. DERIVATIVE LIABILITIES

	March 31, 2023	December 31, 2022
Bondholders' Warrants (note 8)	7,329	8,177
Lender Warrants (note 9a)	2,480	8,020
LIBOR floor (note 9b)	96	87
Non-current derivative liabilities	9,905	16,284

11. ASSET RETIREMENT OBLIGATIONS

	March 31, 2023	December 31, 2022
Balance, beginning of the period	7,463	8,191
Obligations acquired	-	2,351
Change in estimates	602	(3,265)
Accretion	46	186
Balance, end of the period	8,111	7,463

The Company's asset retirement obligations ("ARO") relates to the net ownership interests in oil and gas assets, including well sites and processing facilities. The Company estimates the undiscounted and inflation adjusted value of total ARO to be \$22.9 million as at March 31, 2023 (December 31, 2022 - \$22.3 million). The majority of these obligations are anticipated to be incurred 20 to 45 years in the future. As at March 31, 2023, the ARO was calculated using a discount factor of 3.81% (December 31, 2022 – 4.14%) being the risk-free rate based on US long-term bonds and an inflation rate of 2.0% per annum (December 31, 2022 – 2.0%).

CANADIAN OVERSEAS PETROLEUM LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the three months ended March 31, 2023 and 2022
Unaudited (all amounts in US\$ thousands, except otherwise stated)

12. SHARE CAPITAL

(a) Authorized and Issued Common Shares

Authorized

An unlimited number of common voting shares without nominal or par value and an unlimited number of preferred shares, issuable in series.

Issued

The issued share capital is as follows:

	Number of Common Shares	Amount
Balance, January 1, 2022	194,519,464	190,705
Fair value of expired January 2021 finders' warrants	-	307
Fair value of expired July 2020 finders' warrants	-	82
Fair value of April 2022 unit warrants	-	(1,269)
Fair value of expired July 2022 bond brokers' warrants	-	245
Fair value of expired December 2021 brokers' warrants	-	137
Issued pursuant to April 2022 brokered placing	49,930,000	12,834
Issued pursuant to 2024 Bond conversion	6,996,500	1,617
Issued pursuant to 2025 Bond conversion	17,991,002	4,874
Issued as payment of July 2022 bonds brokers' fee	5,895,000	1,179
2022 share issue costs	-	(1,050)
Balance, December 31, 2022	275,331,966	209,661
Issued pursuant to 2024 bond conversion (note 8)	7,580,542	941
Issued pursuant to 2025 bond conversion (note 8)	2,526,846	364
Issued pursuant to CPL settlement re 2024 bonds (note 8)	4,744,898	401
Issued pursuant to CPL settlement re 2025 bonds (note 8)	26,100,047	2,222
Issued pursuant to Debt Exchange (note 12b)	29,134,406	2,381
Fair value of expired March 2021 brokers' warrants (note 12c)	-	647
2023 share issue costs (note 12d)	-	(346)
Balance, March 31, 2023	345,418,705	216,271

(b) Debt exchange

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

(c) Expired broker's warrants

On March 8, 2023, broker's warrants of 2,625,000 expired unexercised. The fair value of the unexercised warrants for a total amount of \$0.6 million was recognized as an addition to share capital and a respective decrease in the warrants.

(d) Share issue cost

During the three months ended March 31, 2023, the Company incurred approximately \$0.3 million of share issue costs, mainly in connection with the UK Prospectus published on January 31, 2023, consisting of legal, LSE, transfer agent, and consulting fees.

CANADIAN OVERSEAS PETROLEUM LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the three months ended March 31, 2023 and 2022
Unaudited (all amounts in US\$ thousands, except otherwise stated)

13. SHARE-BASED COMPENSATION

(a) Warrants

A summary of the Company's Common Share purchase warrants outstanding at March 31, 2023 is as follows:

	Number of Warrants	Weighted Average Exercise Price (US\$)*	Amount	Expiry Date
Balance, January 1, 2022	16,291,518	0.38	1,173	(Jan 8/22 to Mar 8/23)
Expired January 2021 unit warrants	(7,200,000)	0.35	-	Jan 8/22
Expired January 2021 1 st finders' warrants	(187,500)	0.35	(18)	Jan 8/22
Expired January 2021 2 nd finders' warrants	(3,054,018)	0.35	(289)	Jan 8/22
Issued April 2022 unit warrants	24,965,000	0.31	-	Oct 22/22
Issued April 2022 brokers' warrants	1,997,200	0.32	226	Apr 22/24
Expired 2020 warrants	(1,000,000)	0.49	-	Jul 2/22
Expired 2020 1 st finders' warrants	(250,000)	0.49	(40)	Jul 2/22
Expired 2020 2 nd finders' warrants	(160,000)	0.50	(42)	Jul 2/22
Issued July 2022 Bondholders' Warrants (note 8)	54,792,590	0.20	-	Jan 26/25
Issued July 2022 bond brokers' warrants	5,895,000	0.20	245	Oct 24/22
Expired April 2022 unit warrants	(24,965,000)	0.31	-	Oct 22/22
Expired July 2022 bond brokers' warrants	(5,895,000)	0.20	(245)	Oct 24/22
Expired December 2021 brokers' warrants	(1,815,000)	0.32	(137)	Dec 3/22
Issued December 2022 Bondholders' Warrants (note 8)	12,760,572	0.16	-	Jun 30/25
Balance, December 31, 2022	72,175,362	0.21	873	(Mar 8/23 to Jun 30/25)
Expired March 2021 brokers' warrants	(2,625,000)	0.44	(647)	Mar 8/23
Revision to July 2022 Bondholders' Warrants (note 8)	(54,792,590)	0.20	-	Jan 26/25
Revision to December 2022 Bondholders' Warrants (note 8)	(12,760,572)	0.16	-	Jun 30/25
Revised Bondholders' Warrants (note 8)	67,553,162	0.08	-	Aug 26/27
Issued March 2023 Bondholders' Warrants (note 8)	70,257,026	0.08	-	Aug 26/27
Balance, March 31, 2023	139,807,388	0.09	226	(Apr 22/24 to Aug 26/27)

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

As at March 31, 2023, the outstanding warrants are as follows:

- 1,997,200 April 2022 brokers' warrants at an exercise price of £0.25 (\$0.32) per Common Share on or before April 22, 2024; and
- 137,810,188 Bondholders' Warrants at an exercise price of £0.0675 (\$0.0817) per Common Share on or before August 26, 2027.

CANADIAN OVERSEAS PETROLEUM LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the three months ended March 31, 2023 and 2022
Unaudited (all amounts in US\$ thousands, except otherwise stated)

(b) Incentive Stock Options

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

On 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 \$35,000 has been recognized in the net earnings for the three months ended March 31, 2023, respectively, and as an addition to the contributed capital reserve.

As at March 31, 2023, a total of 18,020,796 stock options to purchase Common Shares were outstanding, having a weighted average exercise price of \$0.43 per Common Share and a remaining weighted average contractual life of 3.6 years.

	Number of Options	Weighted Avg. Exercise Price (US\$)*	Contributed Capital Reserve Amount
Balance, January 1, 2022	4,015,739	0.56	51,260
Granted	15,430,000	0.42	3,670
Forfeited	(898,293)	0.50	-
Expired	(526,650)	1.18	-
Balance, December 31, 2022	18,020,796	0.43	54,930
Granted	-	-	35
Balance, March 31, 2023	18,020,796	0.43	54,965

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

14. GENERAL & ADMINISTRATIVE EXPENSES

	March 31, 2023	March 31, 2022
Salaries, benefits and consultants	1,570	1,636
Other ⁽¹⁾	702	426
General and administrative	2,272	2,062

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

15. FINANCE COSTS

	March 31, 2023	March 31, 2022
Interest expense on the SCF (note 9)	1,588	1,554
Financing costs related to SCF ⁽¹⁾	941	2,134
Financing costs related to Bondholders' Warrants	374	-
Interest on lease liabilities	1	2
Interest income	(3)	(159)
Accretion of SCF (note 9)	481	479
Accretion of the Bonds (note 8)	134	-
Accretion of ARO (note 11)	46	37
Finance costs, net	3,562	4,047

(1) includes costs such as the additional 2.5% Lender Warrants of \$0.7 million and additional professional fees of \$0.2 million related to the SCF.

CANADIAN OVERSEAS PETROLEUM LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the three months ended March 31, 2023 and 2022
Unaudited (all amounts in US\$ thousands, except otherwise stated)

16. GAIN (LOSS) ON DERIVATIVE LIABILITIES

	March 31, 2023	March 31, 2022
Lender Warrants revaluation (note 9a)	6,270	(2,342)
LIBOR interest rate floor revaluation (note 9b)	(9)	798
Bondholders' Warrants revaluation (note 8)	3,709	-
2020 short-term loan warrants revaluation	-	(46)
Gain (loss) on derivative liabilities	9,970	(1,590)

17. FINANCIAL INSTRUMENTS

Market risk

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

(a) Commodity Price Risk

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

Effective March 15, 2021, as a condition to the Senior Credit Facility, 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 March 31, 2023, the Company has in place the following commodity risk management contracts with respect to the sale of its crude oil production and the purchase of butane used in the miscible flood injection program.

Commodity	Fixed price SWAP ⁽¹⁾	Total notional volumes	Term	Average price (US\$)	Fair Value ^(2,3)
Crude oil	WTI Put option	68,250 barrels	Apr 1/23 to Jun 30/23	\$60.00	29
Crude oil	WTI Futures	231,218 barrels	Jul 1/23 to Feb 29/24	\$52.87	(4,206)
Crude oil	WTI Futures	306,000 barrels	Mar 1/24 to Dec 31/24	\$52.88	(4,001)
Commodity derivative liability					(8,178)
Butane	Normal (NC4)	6,501,678 gallons	Apr 1/23 to Feb 29/24	\$0.67	1,734
Commodity derivative asset					1,734
Net derivative liability					(6,444)
Current - commodity derivative liability					(2,917)
Non-current - commodity derivative liability					(3,527)

(1) WTI refers to West Texas Intermediate, a grade of light sweet crude oil used as benchmark pricing in the US.

(2) The floating price of the crude oil contracts for each contract month is equal to the arithmetic average of the NYMEX light sweet crude oil futures first nearby contract settlement price for each business day during the contract month.

(3) The floating price of the butane contracts for each contract month is equal to the arithmetic average of the OPIS Mont Belvieu butane futures for each business day during the contract month.

As at March 31, 2023, the resulting fair value of these contracts has been recognized in the Financial Statements as a current commodity derivative liability of \$2.9 million (December 31, 2022 - \$1.6 million) and a non-current commodity derivative liability of \$3.5 million (December 31, 2022 - \$5.2 million).

CANADIAN OVERSEAS PETROLEUM LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the three months ended March 31, 2023 and 2022
Unaudited (all amounts in US\$ thousands, except otherwise stated)

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

- an unrealized gain of \$1.1 million on crude oil contracts for the three months ended March 31, 2023 (March 31, 2022 - \$9.6 million unrealized loss); and
- an unrealized loss of \$0.6 million on butane contracts for the three months ended March 31, 2023 (March 31, 2022 - \$4.1 million unrealized gain).

(b) Credit risk

Credit risk is the risk that the counterparty to a financial asset will default, resulting in the Company incurring a financial loss. A substantial portion of the Company's accounts receivable are with one purchaser of the Company's oil and joint interest owners in its oil and natural assets, which are subject to normal industry credit risks. As at March 31, 2023, the Company's cash was held at four financial institutions with high third-party credit ratings.

The maximum credit risk exposure associated with accounts receivable is the total carrying value. The Company monitors these balances to limit the risk associated with collection. The Company's revenue receivable of \$0.2 million as at March 31, 2023, was owing from one company and has been collected subsequent to March 31, 2023 and the majority of joint interest receivables of \$0.6 million as at March 31, 2023, was owing from one joint interest partner. The Company considers all of its accounts receivable as at March 31, 2023 to be collectable.

As at March 31, 2023, the Company holds \$10.7 million of cash and cash equivalents with Canadian, US and Bermudian chartered banks (December 31, 2022 - \$4.0 million).

Long-term receivables

The Company's long-term accounts receivable relate to amounts due from its partner in the Company's 50% interest in a jointly controlled entity, Shoreline Canoverseas Petroleum Development Corporation Limited ("**ShoreCan**"), focusing on the acquisition of upstream oil and gas exploration, development and producing assets in sub-Saharan Africa. The Company recorded an expected credit loss provision of \$0.1 million for the three months ended March 31, 2023. Further to a recoverability assessment, the Company has recognized a full allowance for expected credit loss as follows:

	March 31, 2023	December 31, 2022
Long-term receivable	470	387
Allowance for expected credit loss	(470)	(387)
	-	-

(c) Interest rate risk

The Company's policy is to keep its cash, whenever possible, in interest bearing accounts with its financial institutions. The Company periodically monitors the interest rates offered and is satisfied with the credit ratings of its banks.

The Company's Senior Credit Facility provides for an interest rate of LIBOR, with a floor of 2.0% plus 10.5% per annum. Management monitors the LIBOR forward curve, which has exceeded 2.0% since August 2022 and as at March 31, 2023 was anticipated to vary between 2.94% and 5.04% 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 5.04% is applicable for the full year.

CANADIAN OVERSEAS PETROLEUM LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the three months ended March 31, 2023 and 2022
Unaudited (all amounts in US\$ thousands, except otherwise stated)

(d) Foreign exchange risk

To mitigate a portion of its exposure and to the extent it is feasible, the Company keeps its funds in currencies applicable to its known short-term obligations.

Cash and cash equivalents include amounts denominated in the following foreign currencies:

(000s)	March 31, 2023	December 31, 2022
GBP	201	30
Canadian dollars	150	251

(e) Liquidity risk

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

The timing of cash outflows relating to financial liabilities on an undiscounted basis as at March 31, 2023 are outlined in the table below:

	2023	2024-2025	2026-2028	Thereafter
Accounts payables and accrued liabilities	8,501	-	-	-
Bonds, if not converted (note 8)	-	1,917	82,639	-
Senior Credit Facility (note 9)	-	42,117	-	-
Lender's Warrants (note 9a)	-	2,480	-	-
Commodity risk management contracts	2,917	3,527	-	-
Ad valorem tax payable	-	432	649	1,406
Lease liabilities	62	55	-	-
	11,480	50,528	83,288	1,406

18. CAPITAL MANAGEMENT

The Company's objectives when managing capital are:

- to fund its development and exploration programs;
- to maintain balance sheet strength and optimal capital structure, while executing on the Company's strategic objectives; and
- to provide an appropriate return to shareholders relative to the risk of the Company's underlying assets.

In the management of capital, the Company includes shareholders' equity and interest-bearing indebtedness (defined as long-term loans and short-term loans). Shareholders' equity (deficit) includes share capital, warrants, contributed capital reserve and accumulated deficit. The Company maintains and adjusts its capital structure based on changes in economic conditions and the Company's planned requirements. The Company's capital structure depends on the Company's expected business growth, ability to access financing from equity and debt capital markets and any changes to the business and commodity price environment in which the Company operates. The Company may adjust its capital structure by issuing new equity and/or new debt, repaying its existing debt, selling and/or acquiring assets, and controlling the capital expenditure program.

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

CANADIAN OVERSEAS PETROLEUM LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the three months ended March 31, 2023 and 2022
Unaudited (all amounts in US\$ thousands, except otherwise stated)

Although, currently the Company is not subject to any external capital requirements, the Company's US operation is subject to financial covenants imposed by the Senior Credit Facility (see note 9). These financial covenants will have an impact on the Company's overall capital requirements and management of capital requirements.

19. NET CHANGE IN NON-CASH WORKING CAPITAL

	March 31, 2023	March 31, 2022
Accounts receivable	144	1,324
Prepaid expenses	(11)	130
Oil inventory	(109)	-
Condensate inventory	81	-
Long-term deposit	-	(136)
Accounts payable and accrued liabilities related to operations	477	800
Net change in non-cash operating working capital	582	2,118
Accounts payable and accrued liabilities related to financing	(863)	1,369
Deferred share issue costs	208	(20)
Net change in non-cash financing working capital	(655)	1,349
Prepaid expenses	37	-
Accounts payable and accrued liabilities related to investing	261	(1,640)
Net change in non-cash investing working capital	298	(1,640)

20. COMMITMENTS

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

As at March 31, 2023, the Company estimated the minimum commitment pursuant to the NGL Agreements to be as follows:

- \$2.3 million for the remainder of 2023; and
- \$8.4 million from 2024 to September 2026.

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

21. SUBSEQUENT EVENTS

In April 2023, the Company issued a total of 2,678,124 Common Shares to certain vendors at a deemed price of £0.0675 (\$0.0817) per Common Share, further to executed debt exchange arrangements in lieu of cash payments for outstanding accounts payables due to these vendors of approximately \$0.2 million.