# CANADIAN OVERSEAS PETROLEUM LIMITED

## SECOND QUARTER

## MANAGEMENT'S DISCUSSION AND ANALYSIS
## AS AT AND FOR THE THREE AND SIX MONTHS ENDED
## JUNE 30, 2023

## 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 August 14, 2023 is with respect to the three and six months ended June 30, 2023 (the "**Reporting Periods**") as compared to the three and six months ended June 30, 2022 (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 unaudited interim condensed consolidated financial statements as at and for the three and six months ended June 30, 2023 and 2022 (the "**Financial Statements**"), the annual audited consolidated financial statements and related notes as at and for the year ended December 31, 2022 both of which have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") and the the Annual Information Form dated March 31, 2023 (the "**AIF**"), which are available on the Company's website at www.canoverseas.com and on the System for Electronic Document Analysis and Retrieval ("**SEDAR+**") at www.sedarplus.ca.

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 focused in the United States of America ("**US**").

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 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 (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 SEDAR+ at www.sedarplus.ca 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 the 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 the first half of 2023, management focused on recovering from production interruptions due to severe winter storms and construction of infrastructure upgrades to its assets in Wyoming. The Company continues to identify, evaluate and pursue exploration and development opportunities with these assets and is also reviewing other value enhancing asset acquisitions in and around Wyoming, US.

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

### *US Operations*

The Company's assets are located in the Powder River Basin, Wyoming, US, which include an oil exploration unit consisting of a 96.1% working interest in the Cole Creek area (the "**CCU**") as well as an 85.7% working interest in a secondary recovery unit for the Shannon formation in the Barron Flats area (the "**BFSU**") and other non-unitized lands complimentary to the assets. In March 2023, the Barron Flats Deep Unit (the "**BFDU**"**)** lapsed as a result of missed drilling obligations within the unit. At the time the BFDU dissolved, 2,693 net acres of undeveloped land were lost, which consisted of leases that were not producing at the time of dissolution and/or did not overlap with the BFSU. However, the Company does continue to hold an additional 4,750 net acres of term leases in the Barron Flats Deep (the "**BFD**") area that will expire in the first quarter of 2024 unless additional development is conducted in this area perpetuating the leases. The lost acreage in the BFDU did not affect the book value of the assets as no value was attributed to these lands on the acquisition of the assets.

The total gross lease oil sales for the Wyoming assets averaged 1,281 bbls/d for the three months ended June 30, 2023, with 1,194 bbls/d in the BFSU, 72 bbls/d in the CCU and 15 bbls/d in the BFD area. Other than a marginal increase in the three months ended June 30, 2023 as compared to March 31, 2023, oil sales volumes have progressively decreased quarter over quarter from the three months ended March 31, 2022 due mainly to operational interruptions at certain high impact wells and record breaking severe winter weather conditions. The interruptions were associated with the miscible flood program, which involves the injection of high pressure solvent leading to increased reservoir pressure and mobilization of the oil in place. The efficacy of the scheme was revealed by increased surface flowing pressure, flow rate and the arrival of the high pressure miscible bank at certain producing wells. A bottleneck became apparent, which has negatively impacted production. The bottleneck is due to the field's originally undersized low pressure gas gathering system ("**GGS**"), which was constructed with high density polyethylene ("**HDPE**") plastic material. The existing GGS is not capable of accommodating the high pressure and volume of gas arriving at the producing wells and delivering it back to the gas plant for recycle. This circumstance led to the requirement to restrict the wells and modify the well configurations. 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 as a temporary measure to bring down the working pressures to mitigate unsafe operations. 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. This work included: well conversions from pumping to flowing configurations, condensate treatments alongside hot oiling and chemicals treatments to address paraffin deposition in the flow stream, 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 has led 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 to ease the high pressures and gas volumes at certain producing wells. These high pressures have caused safety concerns during workovers, at well-site production facilities and with the current GGS, which contributed to the oil production curtailments. Temporary gas flaring at some or all of these wells is intended to improve productivity and safety until a field wide solution is engineered and implemented. The design phase of this GGS debottlenecking project is complete and installation of phase 1 commenced in the second quarter of 2023. Completion of this phase of the project and commissioning of new wellsite equipment and gathering system lines will occur very early in the third quarter of 2023, which will eliminate the requirement to flare excess gas.

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 at a reduced volume of 450 Mmcf (2,500 mcf/d). 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 oil wells. Since then, the wells have been incrementally brought back on-line in parallel with the commissioning of vapour management 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 upon completion of the first phase of the GGS/wellsite debottlenecking project. The flared gas volumes have averaged approximately 985 mcf/d since the WOGCC approved the Application, which is well below the permitted volume of 2,500 mcf/d and in keeping with management's desire to minimize flaring of solvent inventory.

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 certain 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 several months, much has been learned about the BFSU miscible flood project. Average daily oil production was constrained in 2022 and early 2023 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 HDPE pipes. 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 installed in response to increases to 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. The reservoir model is being deployed to assess potential for rearranging injection patterns, converting wells from producing to injecting configurations and the utility of implementing a "Water Alternating Gas" ("**WAG**") strategy. All of these initiatives are intended to identify areas where improved sweep efficiency can be achieved. Once the first phase of the infrastructure upgrade and debottlenecking is complete in the third quarter of 2023, management anticipate to be positioned to increase enriched gas injection and manage the returning gas for recycle, thus lifting overall production from the BFSU.

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

- a phase 1 GGS upgrade, which commenced in April 2023 and is anticipated to be completed in the third quarter of 2023 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 preliminary design of a central processing facility, which will address single/multi-well battery limitations and oil gathering lines paralleling the GGS upgrades.

The latter projects in the foregoing list would be timed to complement 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 BFD area 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 facilities. Additional development activities anticipated in late 2023 and 2024 will further delineate the major discovery announced in January 2022.

The Company has initiated two of the six recompletion operations in the CCU to evaluate the light oil potential of the Frontier 1 reservoir sands. The recompletion has established the presence of oil in the Frontier 1 sands at this elevation and evaluation of these initiatives is ongoing.

## OUTLOOK

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

The Company's short-term operations, subject to financing, will focus on:

- continuing and increasing oil production of its Wyoming assets;
- 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 and the CCU areas;
- negotiating a possible joint venture with a large oil company with operations in Wyoming to appraise and develop the Company's deep oil discovery;
- refinancing the Senior Credit Facility ("**SCF**") to reduce the Company's cost of capital (see *"Capital Resources and Liquidity – Indebtedness")*; and
- maintaining the Company's environmental, social and governance ("**ESG**") operating credentials.

The Company has also commenced a review of its overall cost structure and it intends to take steps to wind-up its subsidiary structures related to sub-Saharan Africa opportunities over the course of 2023. The Company reduced its annual G&A costs by $1.0 million in the second quarter of 2023 and is taking further steps to reduce its costs by at least $1.5 million in further annualized reductions by the end of the third quarter of 2023. The Company will focus its resources on the development of its Wyoming assets.

## CURRENT OPERATING ENVIRONMENT

Since Russia's invasion of Ukraine in early 2022, there have 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, with costs rising since 2021. In response to increasing inflation, central banks around the globe began increasing interest rates in 2022, which has continued in 2023. 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.

## OPERATIONAL AND FINANCIAL SUMMARY

| US$ thousands, except unit and per unit amounts, shares and per share amounts | Three months ended June 30, 2023 | Three months ended June 30, 2022 | Six months ended June 30, 2023 | Six months ended June 30, 2022 |
|---|---|---|---|---|
| **OPERATING** | | | | |
| Average net daily production | | | | |
| Light oil (bbls/d) | **1,103** | 961 | **1,039** | 1,037 |
| Natural gas (mcf/d)[1] | **2,127** | 1,220 | **2,100** | 1,237 |
| Total (boe/d)[1] | **1,458** | 1,164 | **1,389** | 1,243 |
| Netback (US$/bbl) | | | | |
| Realized sales price | **71.75** | 104.74 | **73.23** | 97.49 |
| Realized loss on crude oil derivatives | **-** | (53.87) | **-** | (43.58) |
| Royalties | **(16.39)** | (23.67) | **(16.17)** | (22.02) |
| Production taxes | **(6.94)** | (10.27) | **(7.13)** | (9.55) |
| Operating expenses | **(27.49)** | (15.08) | **(30.74)** | (14.04) |
| Realized gain on butane derivatives | **1.16** | 23.70 | **3.06** | 24.78 |
| Operating netback[2] | **22.09** | 25.55 | **22.25** | 33.08 |
| **FINANCIAL** | | | | |
| Petroleum sales, net of royalties | **5,559** | 7,087 | **10,733** | 14,160 |
| Realized loss on crude oil derivatives | **-** | (4,709) | **-** | (8,177) |
| Unrealized gain (loss) on crude oil derivatives | **785** | 667 | **1,840** | (8,943) |
| Production taxes | **(697)** | (898) | **(1,341)** | (1,791) |
| Operating expenses | **(2,760)** | (1,318) | **(5,782)** | (2,634) |
| Realized gain on butane derivatives | **116** | 2,072 | **576** | 4,649 |
| Unrealized gain (loss) on butane derivatives | **(1,557)** | (3,081) | **(2,176)** | 1,015 |
| Operating income (loss)[2] | **1,446** | (180) | **3,850** | (1,721) |
| Depletion, depreciation and amortization | **(1,408)** | (1,064) | **(2,626)** | (2,318) |
| General and administrative | **(1,855)** | (2,342) | **(4,127)** | (4,404) |
| Share-based compensation | **-** | (124) | **(35)** | (3,453) |
| Expected credit loss | **(2)** | - | **(85)** | - |
| Finance costs, net | **(4,221)** | (2,100) | **(7,783)** | (6,147) |
| Change in fair value of convertible bonds | **167** | - | **21,098** | - |
| Loss on conversion of convertible bonds | **(2,472)** | - | **(2,472)** | - |
| Net loss on extinguishment of convertible bonds | **-** | - | **(18,220)** | - |
| Gain on derivative liabilities | **6,250** | 3,698 | **16,220** | 2,108 |
| Other | **59** | (652) | **40** | (841) |
| Net income (loss) | **(2,036)** | (2,764) | **5,860** | (16,776) |
| Per share – basic ($) | **-** | (0.01) | **0.02** | (0.08) |
| Per share – diluted ($) | **-** | (0.01) | **-** | (0.08) |
| Weighted average Common Shares (000s) - basic | **423,314** | 232,927 | **360,891** | 213,829 |
| Weighted average Common Shares (000s) - diluted | **423,314** | 232,927 | **580,291** | 213,829 |
| End of period Common Shares (000s) | **489,749** | 244,449 | **489,749** | 244,449 |
| Capital expenditures | **3,974** | 1,690 | **5,611** | 4,695 |
| Cash and cash equivalents | | | **5,193** | 11,520 |
| Current assets | | | **7,062** | 17,419 |
| Total assets | | | **118,364** | 100,595 |
| Indebtedness | | | **54,821** | 34,478 |
| Derivative liabilities related to indebtedness | | | **3,655** | 3,260 |
| Shareholders' equity | | | **31,369** | 32,764 |

Notes:

(1) All of the Company's natural gas production is recycled and 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) Operating netback and operating income (loss) 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 unit amounts and royalty rate | Three months ended June 30, 2023 | Three months ended June 30, 2022 | Six months ended June 30, 2023 | Six months ended June 30, 2022 |
|---|---|---|---|---|
| Average net daily crude oil production (bbls/d) | **1,103** | 961 | **1,039** | 1,037 |
| Petroleum sales, net of royalties | **5,559** | 7,087 | **10,733** | 14,160 |
| WTI (US$/bbl) | **73.78** | 108.41 | **74.96** | 101.35 |
| Realized sales price, before royalties (US$/bbl) | **71.75** | 104.74 | **73.23** | 97.49 |
| Realized sales price, after royalties (US$/bbl) | **55.36** | 81.07 | **57.06** | 75.47 |
| Royalty rate | **22.8%** | 22.6% | **22.1%** | 22.6% |

Petroleum sales, net of royalties totalled $5.6 million and $10.7 million for the three and six month Reporting Periods, respectively as compared to $7.1 million and $14.2 million in the Comparable Prior Periods.

The Company's revenue relates to oil production in Wyoming, US that is currently sold under a contract 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.

The Company working interest oil production for the three month Reporting Period averaged 1,103 bbls/d at an average realized price before royalties of $71.75/bbl as compared to 961 bbls/d at $104.74/bbl in the Comparable Prior Period. The Company working interest oil production for the six month Reporting Period averaged 1,039 bbls/d net to the Company at an average realized price before royalties of $73.23/bbl as compared to 1,037 bbls/d at $97.49/bbl in the Comparable Prior Period. Oil production remained relatively consistent in the three and six month Reporting Periods as compared to the Comparative Prior Periods. The average realized price the Company received for its crude oil production decreased significantly in the three and six month Reporting Periods due primarily to a 32% and 26% reduction in WTI respectively, as compared to the Comparable Prior Periods.

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 was 22.8% and 22.1% in the three and six month Reporting Periods, respectively, as compared to 22.6% in the three and six month Comparable Prior Periods.

### 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 periodically by the Board.

#### *Commodity derivatives*

Effective March 15, 2021, in anticipation of the closing of the Wyoming asset acquisition and as a condition of its lender, the Company entered into a master risk management agreement with a third-party institution. In December 2022, the Company restructured its commodity derivatives to unwind certain positions. The restructuring had increased exposure to WTI upside in the first half of 2023.

As at June 30, 2023, 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[(1)(2)] |
|---|---|---|---|---|---|
| Crude oil | WTI Futures | 231,218 bbls | Jul 1/23 to Feb 29/24 | $52.87 | (3,711) |
| Crude oil | WTI Futures | 306,000 bbls | Mar 1/24 to Dec 31/24 | $52.88 | (3,683) |
| | | | | **Commodity derivative liability** | **(7,394)** |
| Butane | Normal (NC4) | 5,451,678 gallons | Jul 1/23 to Feb 29/24 | $0.67 | 177 |
| | | | | **Commodity derivative asset** | **177** |
| | | | | **Net derivative liability** | **(7,217)** |
| Current - commodity derivative liability | | | | | **(5,160)** |
| Non-current - commodity derivative liability | | | | | **(2,057)** |

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

(2) 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 June 30, 2023.

*Realized and unrealized gain (loss) on commodity derivatives*

| US$ thousands, except per unit amounts | Three months ended June 30, 2023 | Three months ended June 30, 2022 | Six months ended June 30, 2023 | Six months ended June 30, 2022 |
|---|---|---|---|---|
| Realized loss on crude oil derivatives | **-** | (4,709) | **-** | (8,177) |
| Realized gain on butane derivatives | **116** | 2,072 | **576** | 4,649 |
| | **116** | (2,637) | **576** | (3,528) |
| Realized loss on crude oil derivatives (US$/bbl) | **-** | (53.87) | **-** | (43.58) |
| Realized gain on butane derivatives (US$/bbl) | **1.16** | 23.70 | **3.06** | 24.78 |
| | **1.16** | (30.17) | **3.06** | (18.80) |
| Unrealized gain (loss) on crude oil derivatives | **785** | 667 | **1,840** | (8,943) |
| Unrealized gain (loss) on butane derivatives | **(1,557)** | (3,081) | **(2,176)** | 1,015 |
| | **(772)** | (2,414) | **(336)** | (7,928) |

For the three and six month Reporting Periods, the Company recorded a realized loss on crude oil derivatives of $NIL because there were no crude oil derivatives in place as compared to $4.7 million and $8.2 million in the Comparable Prior Periods. For the three and six month Reporting Periods, the Company recorded a realized gain on butane derivatives of $0.1 million and $0.6 million respectively as compared to $2.1 million and $4.6 million in the Comparable Prior Periods related to the purchase of butane used for the miscible flood recovery program in the BFSU. The decrease in the realized gains for butane derivatives in the Reporting Periods relates to the decrease in benchmark prices.

For the three month Reporting Period, the Company recorded an unrealized gain on crude oil derivatives of $0.8 million as compared to of $0.7 million in the Comparable Prior Period, and an unrealized loss on butane derivatives of $1.6 million as compared to $3.1 million in the Comparable Prior Period. For the six month Reporting Period, the Company recorded an unrealized gain on crude oil derivatives of $1.8 million as compared to an unrealized loss of $8.9 million in the Comparable Prior Period, and an unrealized loss on butane derivatives of $2.2 million as compared to an unrealized gain of $1.0 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 unit amounts | Three months ended June 30, 2023 | 2022 | Six months ended June 30, 2023 | 2022 |
|---|---|---|---|---|
| Production taxes | **697** | 898 | **1,341** | 1,791 |
| Production taxes US$/bbl | **6.94** | 10.27 | **7.13** | 9.55 |

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 by activity level and the relative commodity price. For the three and six month Reporting Periods, the production taxes amounted to $0.7 million ($6.94/bbl) and $1.3 million ($7.13/bbl) respectively as compared to $0.9 million ($10.27/bbl) and $1.8 million ($9.55/bbl) in the Comparable Prior Periods. The decrease in production taxes is due primarily to the decrease in petroleum sales in the Reporting Periods.

### Operating expenses

| US$ thousands, except per unit amounts | Three months ended June 30, 2023 | 2022 | Six months ended June 30, 2023 | 2022 |
|---|---|---|---|---|
| Lifting costs | **1,924** | 721 | **4,036** | 1,538 |
| Non-lifting costs | **405** | 501 | **840** | 800 |
| Workovers | **431** | 96 | **906** | 296 |
| Total operating expenses | **2,760** | 1,318 | **5,782** | 2,634 |
| | | | | |
| Lifting costs US$/bbl | **19.16** | 8.25 | **21.46** | 8.20 |
| Non-lifting costs US$/bbl | **4.03** | 5.73 | **4.46** | 4.27 |
| Workovers US$/bbl | **4.30** | 1.10 | **4.82** | 1.57 |
| Total operating expenses US$/bbl | **27.49** | 15.08 | **30.74** | 14.04 |

Operating expenses related to the oil production in Wyoming, US for the three and six month Reporting Periods amounted to $2.8 million ($27.49/bbl) and $5.8 million ($30.74/bbl) respectively as compared to $1.3 million ($15.08/bbl) and $2.6 million ($14.04/bbl) in the Comparable Prior Periods. The increase in aggregate operating expenses in the Reporting Periods is due partially to the increased working interest of about 27% in the Wyoming assets obtained in an asset acquisition in July 2022.

The lifting costs, for the three and six month Reporting Periods, which represent the costs to operate and maintain the wells, related equipment and facilities amounted to $1.9 million ($19.16/bbl) and $4.0 million ($21.46/bbl) respectively, as compared to $0.7 million ($8.25/bbl) and $1.5 million ($8.20/bbl) in the Comparable Prior Periods. The increase of per unit lifting costs in the Reporting Periods were due mainly to the following:

- a series of severe winter storms commencing in late December 2022 through to the first week of April 2023. These frequent storms caused temperatures to drop to near record lows, accompanied by high snow fall and high winds resulting in large accumulations and drifting of snow up to 8 feet in the CCU and BFSU fields. This caused field wide shut-ins multiple times due to road closures to the fields and blockages within the fields restricting access for crude oil offtake. These issues caused a substantial increase in operating costs due to heavy equipment required for snow removal and hot oiling required to break emulsions in the produced crude from storage tanks in order to meet requirements and specifications for sales. The difficult winter conditions also 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.
- Higher than average spring precipitation, along with the high snow melt and frost from spring break-up led to significant damage related to the roads and lease locations.
- the changing reservoir conditions from the BFSU miscible flood activities during the Reporting Periods 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.
- hauling and transportation costs increased due to increased produced water volumes from CCU.

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 six month Reporting Periods

amounted to $0.4 million ($4.03/bbl) and $0.8 million ($4.46/bbl) respectively, which was consistent to $0.5 million ($5.73/bbl) and $0.8 million ($4.27/bbl) in the Comparable Prior Periods.

The workover costs related primarily to paraffin mitigation with a coil tubing rig, routine paraffin remediation, wellhead equipment repairs, pump changes and tubing repair amounted to $0.4 million ($4.30/bbl) and $0.9 million ($4.82/bbl) in the three and six month Reporting Periods respectively, as compared to $0.1 million ($1.10/bbl) and $0.3 million ($1.57/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 June 30,** | | **Six months ended June 30,** | |
|---|---|---|---|---|
| US$ thousands, except per unit amounts | **2023** | 2022 | **2023** | 2022 |
| DD&A | **1,408** | 1,064 | **2,626** | 2,318 |
| DD&A per bbl | **14.02** | 12.17 | **13.96** | 12.35 |

DD&A for the three and six month Reporting Periods was $1.4 million ($14.02/bbl) and $2.6 million ($13.96/bbl), respectively as compared to $1.1 million ($12.17/bbl) and $2.3 million ($12.35/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 per unit DD&A costs is due primarily to a reduction in reserves.

### General and administrative ("G&A") expenses

| | **Three months ended June 30,** | | **Six months ended June 30,** | |
|---|---|---|---|---|
| US$ thousands | **2023** | 2022 | **2023** | 2022 |
| Salaries, benefits and consultants | **1,287** | 1,701 | **2,857** | 3,337 |
| Other | **568** | 641 | **1,270** | 1,067 |
| | **1,855** | 2,342 | **4,127** | 4,404 |

G&A expenses amounted to $1.9 million and $4.1 million for the three and six month Reporting Periods, respectively as compared to $2.3 million and $4.4 million in the Comparable Prior Periods. The decrease in G&A expenses in the Reporting Periods is due primarily to some staff departures and an effort by the Company to reduce costs.

### 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 expiring five years from the date of grant. The related share-based compensation expense of $35,000 (June 30, 2022 - $3.5 million) was recognized in net earnings for the six months ended June 30, 2023 and as an addition to the contributed capital reserve. The decrease is due mainly to the recognition of the majority of the expense in the Comparative Prior Period due to immediate vesting of a significant portion of the stock option grant. The fair value of each stock option granted was estimated on the date of grant using a Black-Scholes option pricing model.

As at June 30, 2023, the total outstanding stock options to purchase Common Shares are as follows:

| | **Number of Options** | **Weighted Avg. Exercise Price (US$)** |
|---|---|---|
| Balance, January 1, 2022 | 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 and June 30, 2023 | 18,020,796 | 0.43 |

### Finance costs

Finance costs amounted to $4.2 million and $7.8 million for the three and six month Reporting Periods respectively, as compared to $2.1 million and $6.1 million in the Comparable Prior Periods. The following table provides details of finance costs.

| US$ thousands | Three months ended June 30, 2023 | Three months ended June 30, 2022 | Six months ended June 30, 2023 | Six months ended June 30, 2022 |
|---|---|---|---|---|
| Interest expense on the SCF | **1,659** | 1,422 | **3,247** | 2,976 |
| Financing costs | **389** | 303 | **1,704** | 2,437 |
| Interest on lease liabilities | **1** | 2 | **2** | 4 |
| Interest income | **(10)** | (175) | **(13)** | (334) |
| Accretion of the convertible bonds | **1,589** | - | **1,723** | - |
| Accretion of the SCF | **547** | 510 | **1,028** | 989 |
| Accretion of asset retirement obligation | **46** | 38 | **92** | 75 |
| | **4,221** | 2,100 | **7,783** | 6,147 |

The finance costs incurred in the Reporting Periods and the Comparable Prior Periods relate primarily to the SCF and the convertible bonds. Additional financing costs incurred in the first half of 2023 relate primarily to professional fees and $0.7 million related to an additional 2.5% of lender warrants issued in March 2023 as discussed in the *"Capital Resources and Liquidity – Indebtedness – Senior Credit Facility"* 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. As discussed in the *"Capital Resources and Liquidity – Indebtedness – Senior Credit Facility"* section, the Company's amended SCF provides for an interest rate of the Secured Overnight Financing Rate ("**SOFR**") plus 0.11448% and 10.5% per annum. Management monitors the SOFR forward curve, which as at June 30, 2023 was anticipated to vary between 3.82% and 5.40% for the remaining monthly periods until maturity of the facility in March 2025. The current maximum interest risk exposure is approximately $0.1 million of additional interest expense per annum, assuming a SOFR rate of 5.40% is applicable for the full year. There were no interest derivative contracts as at or entered into subsequent to June 30, 2023 to manage the interest rate risk.

### Gain on derivative liabilities

For the three and six month Reporting Periods, the Company recorded a gain of $6.3 million and $16.2 million, respectively as compared to $3.7 million and $2.1 million in the Comparable Prior Periods, that related to the remeasurement of the fair value of derivative liabilities as follows:

| US$ thousands | Three months ended June 30, 2023 | Three months ended June 30, 2022 | Six months ended June 30, 2023 | Six months ended June 30, 2022 |
|---|---|---|---|---|
| Lender warrants revaluation | **480** | 2,550 | **6,750** | 208 |
| LIBOR interest rate floor revaluation | **56** | 217 | **47** | 1,015 |
| Bondholders' warrants revaluation | **5,714** | - | **9,423** | - |
| Unit warrants revaluation | **-** | 882 | **-** | 882 |
| 2020 short term loan warrants revaluation | **-** | 49 | **-** | 3 |
| Gain on derivative liabilities | **6,250** | 3,698 | **16,220** | 2,108 |

The lender warrant revaluation and London Interbank Offered Rate ("**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, December 2022 and March 2023 as discussed in the *"Capital Resources and Liquidity - Indebtedness"* section.

## CAPITAL EXPENDITURES

### 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:

| US$ thousands | Three months ended June 30, 2023 | Three months ended June 30, 2022 | Six months ended June 30, 2023 | Six months ended June 30, 2022 |
|---|---|---|---|---|
| Miscible flood injection costs | **731** | 1,183 | **1,939** | 3,863 |
| Exploration costs | **-** | 9 | **-** | 274 |
| Well recompletions | **163** | - | **268** | - |
| Capitalized workovers | **961** | 414 | **1,154** | 414 |
| Facilities | **2,147** | - | **2,147** | - |
| Other | **(28)** | 84 | **103** | 144 |
| | **3,974** | 1,690 | **5,611** | 4,695 |

In the three and six month Reporting Periods, $0.7 million and $1.9 million, respectively of capital expenditures related to natural gas and solvent injections for the miscible flood recovery program in the BFSU as compared to $1.2 million and $3.9 million in the Comparable Prior Periods. The reduction in the Reporting Periods is due to both a reduction in purchased volumes and cost per unit of natural gas and solvent. 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 natural gas and solvent from third parties to inject through seven injector wells.

The Company completed recompletion operations in the CCU to evaluate the light oil potential of the Frontier 1 reservoir sands at a cost of $0.3 million in the six month Reporting Period, which has established the presence of oil at this elevation and evaluation of these initiatives is ongoing. In an effort to reduce paraffin mitigation operations three of the higher impact wells were converted from flowing to pumping/flowing configurations for a cost of $1.2 million in the six month Reporting Period. Finally the Company initiated the phase 1 GGS upgrade in April 2023 to address much of the low-pressure gas gathering line restrictions in the center of the field for a cost of $2.1 million in the six month Reporting Period with future GGS phases to branch out to outlying wells.

### Assets retirement obligations ("ARO")

As at June 30, 2023, the Company has recognized an ARO of $7.7 million for the future abandonment and reclamation of its net ownership interests in oil and gas assets, including well sites and processing facilities. The estimated ARO includes cost assumptions to abandon wells and/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 $22.9 million as at June 30, 2023. The majority of these obligations are anticipated to be incurred 20 to 45 years in the future. As at June 30, 2023, the ARO was calculated using a discount factor of 4.06% 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 increase in cash and cash equivalents of $1.2 million from $4.0 million to $5.2 million during the first six months of 2023 represents cash provided by operating and financing activities of $5.9 million net of cash used in investing activities of $4.7 million.

### Working capital

The Company had a working capital deficiency of $9.2 million as at June 30, 2023, as compared to a working capital deficiency of $6.6 million as at December 31, 2022. As at June 30, 2023, the major components of the Company's current assets were cash and cash equivalents (74%) and accounts receivable (16%) that are comprised primarily of a $0.3 million revenue receivable from one purchaser of the Company's crude oil and $0.8 million from primarily one joint interest partner in the Wyoming assets. The Company considers all of its accounts receivable as at June 30, 2023 to be collectable.

Current liabilities largely consist of trade payables and accrued liabilities (37%), revenue and production taxes payable (16%) related to the Company's operations and commodity derivative liabilities from risk management contracts (32%) 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*

#### *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 for total aggregate proceeds of $19.7 million 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 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 of the Bondholders, 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) a revised maturity date of January 26, 2027 (the "**Changed 2024 Bonds**"). On March 24, 2023, further to certain written extraordinary resolutions of the Bondholders, 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) 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 for total aggregate proceeds of $11.8 million 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 instrument 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:

- 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 Charged 2025 Bonds as may have been changed from time to time (collectively the "**Bonds**"), are held in majority by one institutional shareholder (the "**Lead Investor**") and 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 possible 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 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 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 SCF 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 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 and protection of rights relating to Common 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. Since the initial issuance of the Bonds, the Company has been 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.

### *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 additional compensation to such Bondholders for 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 additional compensation for 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' Warrants and the December 2022 Bondholders' Warrants, the "**Bondholders' Warrants**") as additional compensation for 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 of the Bondholders, 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 British pound sterling ("**GBP**" or "**£**"), 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.

As at June 30, 2023, the fair value of the Bondholders' Warrants issued and outstanding was estimated to be $1.6 million and the Company recognized a gain on the derivative liability of $5.7 million for three months ending June 30, 2023.

### *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, during the first quarter of 2023, 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.

During the second quarter of 2023, the Company received conversion notices from its Bondholders to convert 24 of the 2027 Bonds and 32 of the 2028 Bonds. Further to these conversions the Company issued a total of 93,023,245 Common Shares, along with 44,063,646 Common Shares issued on July 6, 2023 related to the 2027 and 2028 Bonds conversion which occurred on June 29, 2023 and recognized an addition to share capital of $2.6 million and an unissued share liability of $1.3 million.

In addition, during the second quarter of 2023, the Company received notices for the Share Settlement Option exercised by certain Bondholders for their Conversion Payment amounts and related accrued interest due in respect of eight converted 2024 Bonds, three converted 2025 Bonds, eight converted 2027 Bonds and six converted 2028 Bonds. Further to these share settlements, the Company issued 63,719,729 Common Shares for settlement of $2.5 million of total Conversion Payment amounts, along with 67,199,592 Common Shares issued on July 4 to July 12, 2023 related to settlements of $1.7 million of total Conversion Payment amounts, which occurred on June 20 to June 29, 2023 and recognized an addition to share capital of $1.7 million and an unissued share liability of $1.1 million. 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 June 30, 2023, there were in total 63 unconverted 2027 Bonds with a principal amount of $12.6 million and 68 unconverted 2028 Bonds with a principal amount of $13.6 million.

*Reporting*

The Old 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 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 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 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 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.

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.

The following table provides a summary of the deferred losses of various Old Bonds as at December 31, 2022 and June 30, 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 June 30, 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 ($0.6 million before allocation to the conversion rights), the 2028 Bonds of $0.4 million ($0.5 million before allocation to the conversion rights), 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 the 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** |

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, 2024, 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 the change in fair value of these CPLs in total for $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, the 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.

During the second quarter of 2023, further to the conversions of the Bonds, the Company recorded in total an addition to share capital of 2.6 million, a liability for shares to be issued of $1.3 million in relation to shares issued in July 2023, a decrease in conversion rights of $1.3 million, a loss on conversion of $2.5 million and recognized a CPL liability of $5.2 million. In addition, an accretion of $1.5 million was recorded in respect of the Bonds for the three months ended June 30, 2023.

In addition, during the second quarter of 2023, further to the share settlements of some CPL's liabilities, the Company recorded in total an addition to share capital of $1.7 million and a liability for shares to be issued of $1.1 million.

For the three months ended June 30, 2023, total accretion of $1.6 million was recorded in respect of Bonds and CPL liabilities.

The following table provides a summary of the Bonds and related liabilities as at December 31, 2022 and June 30, 2023:

| | 2024 Bonds/CPL FVTPL | 2025 Bonds/CPL FVTPL | December Tap 2025 Bonds' FVTPL | 2027 Bonds Liability | 2028 Bonds Liability | 2027 CPL Liability | 2028 CPL 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 – Conversion Rights | (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 – Conversion Rights (net of transaction cost allocation) | - | - | - | (872) | (700) | - | - | (1,572) | - |
| Allocation of transaction costs | - | - | - | (651) | (521) | - | - | (1,172) | - |
| 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** |
| Conversion - Common Shares | - | - | - | (1,144) | (1,424) | - | - | (2,568) | - |
| Conversion – liability for shares to be issued | - | - | - | (719) | (577) | - | - | (1,296) | - |
| Conversion - portion related to conversion rights | - | - | - | 614 | 662 | - | - | 1,276 | - |
| Loss on conversions | - | - | - | 821 | 1,651 | - | - | 2,472 | - |
| Present value of CPL upon conversion | - | - | - | (2,147) | (3,073) | 2,147 | 3,073 | - | - |
| CPL settlement - Common Shares | (352) | (549) | - | - | - | (275) | (479) | (1,655) | - |
| CPL Settlement – liability for shares to be issued | (538) | - | - | - | - | (462) | (96) | (1,096) | - |
| Net change in fair value | (93) | (13) | - | - | - | (23) | (38) | (167) | (5,714) |
| Accretion | 8 | 2 | - | 728 | 637 | 84 | 130 | 1,589 | - |
| **Balance, June 30, 2023** | **117** | **190** | **-** | **7,060** | **6,150** | **1,471** | **2,590** | **17,578** | **1,615** |

As at June 30, 2023, the Company would be contractually required to pay at maturities a maximum of $31.2 million in respect of the 2027 Bonds and $44.5 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 June 30, 2023*

As at the date of filing the interim MD&A, the Company received additional conversion notices from its Bondholders to convert one of the 2027 Bonds and three of the 2028 Bonds. Further to these conversions the Company issued a total of 7,343,940 Common Shares up to the date of filing and a further 2,447,980 Common Shares will be issued on August 17, 2023.

In addition, the Company issued 88,184,348 Common Shares pursuant to the Share Settlement Option exercised by certain Bondholders for settlement of $2.1 million of the Conversion Payment amounts and related accrued interest due in respect of two converted 2027 Bonds and seven converted 2028 Bonds.

As at the date of filing the interim MD&A, the Company has a total of 127 unconverted Bonds outstanding with a principal amount of $25.4 million.

***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 and the Borrower drew an initial principal loan amount of $45.0 million.

The SCF agreement is subject to an interest rate of 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 also 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 SCF; (b) insurance proceeds greater than $0.15 million and (c) 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 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). 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.

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 $0.01 per share for a combined total warrant coverage of 8.5% of such fully diluted shares (collectively, the "**Lender Warrants**"). The Lender Warrants may be exercised, in whole or in part at any time and from time to time from and after March 16, 2021 until the later of: (a) the 60$^{th}$ day following the date on which the SCF 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 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 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.

The following table provides a summary of the SCF including associated derivative liabilities as at June 30, 2023:

| 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 | (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 revalued as at March 31, 2022 (a) | - | (6,020) | (6,020) |
| LIBOR floor revaluation as at March 31, 2022 (b) | - | (47) | (47) |
| Accretion | 1,028 | - | 1,028 |
| **Balance, June 30, 2023** | **37,243** | **2,040** | **39,283** |

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 $2.8 million to the SCF, $4.9 million to the Lender Warrants and $2.3 million to the LIBOR floor.

(a) As at June 30, 2023, the Lender Warrants were revalued at $2.0 million using 8.5% of the adjusted net asset value of COPLA (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 $6.0 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 SCF and a gain on derivative liabilities of $6.7 million for the six months ended June 30, 2023.

(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 indicates 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 June 30, 2023, the LIBOR floor was revalued at $40,000 (December 31, 2022 - $87,000) and the resulting change in fair value was recognized as a loss on derivative liabilities of $47,000 for the six month Reporting Period.

(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 $2.8 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 24.0% as at June 30, 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 six month Reporting Period, COPLA paid interest on this loan in the amount of $3.2 million.

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 certain conditions, which were satisfied, including payment of a waiver fee of $0.4 million on March 31, 2023. 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 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 certain conditions, which have been satisfied including the increase of Lender Warrants from 6.0% to 8.5% of the common shares in the Borrower. Due to the waiver, the Company was not in default on the Senior Credit Facility and the indebtedness was classified as a non-current liability as at March 31, 2023 and June 30, 2023.

On June 28, 2023, further to the LIBOR benchmark being phased out, the Company signed an eighth amendment to the SCF, that replaces LIBOR with SOFR plus an adjustment of 0.11448% for a one month period. Accordingly, effective July 1, 2023, the Company pays monthly interest at the rate of SOFR plus 0.11448% plus 10.5% per annum.

As the switch to SOFR is a direct consequence of the benchmark reform and the changes result in economically equivalent contractual cash flows, the Company applies a practical expedient under IFRS, that allows the switch to be treated as changes to a floating interest rate, in that the effective interest rate is updated to reflect the change in an interest rate benchmark from LIBOR to SOFR without adjusting the carrying amount of the loan.

## Shareholders' Equity

The shareholders' equity increased from $12.2 million as at December 31, 2022 to $31.4 million as at June 30, 2023. This increase of $19.2 million resulted primarily from the following:

- an increase in share capital of $11.0 million is due mainly to Bond conversions, settlement of conversion payments and debt exchange agreements in the period; and
- a decrease in the deficit as a result of net income of $5.9 million incurred in the six month Reporting Period.

### *Securities outstanding as at June 30, 2023*

As at June 30, 2023, the Company had the following issued and outstanding securities:

- 489,749,382 issued and outstanding Common Shares;
- 139,807,388 Common Share purchase warrants issued and outstanding to purchase Common Shares with a weighted average exercise price of $0.09 per share and a remaining contractual life of about 10 months to 4 years and two 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 2 months to 3 years and six months.

As at the date of this MD&A, the Common Shares increased by 206,791,526 to 696,540,908 pursuant to the Bond conversions and the Share Settlement Option exercised by certain Bondholders for the settlement of the Conversion Payment.

## 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 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 *"Capital Resources and Liquidity – Indebtedness – Convertible Bonds"* the Company closed a financing comprised 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.

## 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 June 30, 2023:

| Calendar year (US$ thousands) | **2023** | **2024-2025** | **2026-2028** | **Thereafter** |
|---|---|---|---|---|
| Accounts payable and accrued liabilities | 8,631 | - | - | - |
| Convertible bonds, if not converted | - | 324 | 75,547 | - |
| Senior Credit Facility | - | 42,117 | - | - |
| Lender Warrants | - | 2,000 | - | - |
| Commodity risk management contracts | 5,160 | 2,057 | - | - |
| NGL purchase agreements(1) | 1,540 | 6,116 | 2,284 | - |
| Ad valorem tax payable(2) | - | 432 | 649 | 1,406 |
| Lease liabilities(3) | 42 | 56 | - | - |
| **Total estimated contractual** | **15,373** | **53,102** | **78,480** | **1,406** |

(1) Includes commitments to purchase mixed NGLs 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).

## SUMMARY OF QUARTERLY RESULTS

The following table provides a summary of quarterly information:

| **Quarters Ended ($US thousands, except unit and per unit amounts, shares and per share amounts)** | **Jun23** | Mar23 | Dec22 | Sep22 | Jun22 | Mar22 | Dec21 | Sep21 |
|---|---|---|---|---|---|---|---|---|
| **OPERATING** | | | | | | | | |
| Average net daily production | | | | | | | | |
| Light oil (bbls/d) | **1,103** | 974 | 1,177 | 1,107 | 961 | 1,114 | 1,094 | 1,071 |
| Natural gas (mcf/d)[1] | **2,127** | 2,072 | 1,905 | 1,899 | 1,220 | 1,255 | 1,283 | 1,068 |
| Total (boe/d)[2] | **1,458** | 1,320 | 1,495 | 1,423 | 1,164 | 1,323 | 1,308 | 1,249 |
| Netback (US$/bbl) | | | | | | | | |
| Realized sales price | **71.75** | 74.94 | 79.84 | 89.26 | 104.74 | 91.14 | 73.91 | 67.52 |
| Realized loss on crude oil derivatives | **-** | - | (24.89) | (33.20) | (53.87) | (34.60) | (13.56) | (6.58) |
| Royalties | **(16.39)** | (15.93) | (17.56) | (19.46) | (23.67) | (20.57) | (16.01) | (14.32) |
| Production taxes | **(6.94)** | (7.35) | (7.89) | (8.37) | (10.27) | (8.91) | (7.39) | (6.65) |
| Operating expenses | **(27.49)** | (34.47) | (31.01) | (23.17) | (15.08) | (13.13) | (9.30) | (23.99) |
| Realized gain on butane derivatives | **1.16** | 5.25 | 4.66 | 10.99 | 23.70 | 25.71 | 16.32 | 10.90 |
| Operating netback[2] | **22.09** | 22.44 | 3.15 | 16.05 | 25.55 | 39.64 | 43.97 | 26.88 |
| **FINANCIAL** | | | | | | | | |
| Petroleum sales, net of royalties | **5,559** | 5,174 | 6,745 | 7,107 | 7,087 | 7,073 | 5,829 | 5,242 |
| Realized loss on crude oil derivatives | **-** | - | (2,695) | (3,380) | (4,709) | (3,468) | (1,365) | (648) |
| Unrealized gain (loss) on crude oil derivatives | **785** | 1,055 | (342) | 10,382 | 667 | (9,610) | (692) | (2,456) |
| Production taxes | **(697)** | (644) | (855) | (852) | (898) | (893) | (744) | (655) |
| Operating costs | **(2,760)** | (3,022) | (3,358) | (2,359) | (1,318) | (1,316) | (936) | (2,364) |
| Realized gain on butane derivatives | **116** | 460 | 505 | 1,119 | 2,072 | 2,577 | 1,643 | 1,074 |
| Unrealized gain (loss) on butane derivatives | **(1,557)** | (619) | (399) | (5,618) | (3,081) | 4,096 | (2,468) | 3,718 |
| Operating income (loss)[2] | **1,446** | 2,404 | (399) | 6,399 | (180) | (1,541) | 1,267 | 3,911 |
| Depletion, depreciation and amortization | **(1,408)** | (1,218) | (1,564) | (1,192) | (1,064) | (1,254) | (1,252) | (1,291) |
| General and administrative | **(1,855)** | (2,272) | (1,721) | (2,062) | (2,342) | (2,062) | (2,484) | (2,453) |
| Share-based compensation | **-** | (35) | (116) | (101) | (124) | (3,329) | - | - |
| Expected credit loss | **(2)** | (83) | (307) | - | - | - | (1) | - |
| Finance costs | **(4,221)** | (3,562) | (3,480) | (5,224) | (2,100) | (4,047) | (2,110) | (1,868) |
| Change in fair value of convertible bonds | **167** | 20,931 | (13,957) | 325 | - | - | - | - |
| Loss on conversion of convertible bonds | **(2,472)** | - | - | - | - | - | - | - |
| Net loss on extinguishment of convertible bonds | **-** | (18,220) | - | - | - | - | - | - |
| Gain (loss) on derivative liabilities | **6,250** | 9,970 | (6,847) | 2,090 | 3,698 | (1,590) | 3,022 | 8,937 |
| Other | **59** | (19) | 198 | (701) | (652) | (189) | 47 | 232 |
| Net income (loss) | **(2,036)** | 7,896 | (28,193) | (466) | (2,764) | (14,012) | (1,511) | 7,468 |
| Net income (loss) per share – basic (US$) | **-** | 0.03 | (0.10) | - | (0.01) | (0.07) | (0.01) | 0.05 |
| Net income (loss) per share – diluted (US$) | **-** | (0.16) | (0.16) | - | (0.01) | (0.07) | (0.01) | 0.05 |
| Weighted average Common Shares (000s) – basic | **423,314** | 297,774 | 272,572 | 256,222 | 232,927 | 194,519 | 173,805 | 159,108 |
| Weighted average Common Shares (000s) – diluted | **423,314** | 336,292 | 395,258 | 256,222 | 232,927 | 194,519 | 173,805 | 159,108 |
| End of period Common Shares (000s) | **489,749** | 345,419 | 275,332 | 266,336 | 244,449 | 194,519 | 194,519 | 164,269 |
| Capital expenditures | **3,974** | 1,637 | 2,295 | 21,632 | 1,690 | 3,005 | 10,718 | 5,904 |
| Cash and cash equivalents | **5,193** | 10,725 | 4,011 | 5,664 | 11,520 | 6,858 | 7,841 | 11,497 |
| Current assets | **7,062** | 12,430 | 6,066 | 8,031 | 17,419 | 13,132 | 15,390 | 17,637 |
| Total assets | **118,364** | 121,627 | 114,323 | 114,849 | 100,595 | 96,992 | 98,778 | 86,603 |
| Indebtedness | **54,821** | 55,719 | 57,936 | 46,282 | 34,478 | 36,851 | 36,372 | 35,908 |
| Derivative liabilities related to indebtedness | **3,655** | 9,905 | 16,284 | 6,545 | 3,260 | 6,027 | 3,565 | 5,634 |
| Shareholders' equity | **31,369** | 30,346 | 12,227 | 37,307 | 32,764 | 24,409 | 35,011 | 29,247 |

Notes:

(1) All of the Company's natural gas production is recycled and 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) Operating netback and operating income are 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.

## 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.

During the three and six month Reporting Periods, there were no material related party transactions.

## ACCOUNTING PRONOUNCEMENTS AND SIGNIFICANT ACCOUNTING 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 audited financial statements as at December 31, 2022 which are available on the Company's website at www.canoverseas.com and on SEDAR+ at www.sedarplus.ca 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.sedarplus.ca 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 Corporation'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 controls over financial reporting ("**ICFR**") as defined in NI 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 six 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
Robert Chenery
John Cowan
Thomas Richardson

## OFFICERS AND EXECUTIVES

Arthur S. Millholland, P.Geol. – 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