Canadian Overseas Petroleum Limited
Unaudited Condensed Interim Consolidated Financial Statements
As at June 30, 2021 and for the three and six month periods ended June 30, 2021 and 2020

Management's Responsibility for Consolidated Financial Statements

The information provided in these consolidated financial statements is the responsibility of management. In the preparation of the statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying consolidated financial statements.

Management maintains a system of internal controls to provide reasonable assurance that the Company's assets are safeguarded and to facilitate the preparation of relevant and timely information.

The audit committee has reviewed the unaudited condensed interim consolidated financial statements with management and has reported to the Board of Directors. The Board of Directors has approved the unaudited consolidated interim financial statements as presented.

Signed "Arthur S. Millholland"
Arthur S. Millholland
President and Chief Executive Officer
August 31, 2021

Signed "Ryan Gaffney"
Ryan Gaffney
Chief Financial Officer
August 31, 2021

Canadian Overseas Petroleum Limited

Condensed Consolidated Statements of Financial Position (unaudited)

(in thousands of United States dollars)

As at	June 30, 2021	December 31, 2020
Assets		
Current		
Cash and cash equivalents *(note 6)*	**$ 15,552**	$ 1,401
Accounts receivable *(note 8)*	**4,197**	40
Deferred share issue costs	**287**	128
Commodity derivative net assets *(note 19a)*	**193**	-
Prepaid expenses	**112**	89
	20,341	1,658
Non-current		
Prepaid purchase price	**-**	5,000
Exploration and evaluation assets *(note 9)*	**1,882**	-
Property, plant and equipment, net *(note 10)*	**61,806**	61
Right-of-use assets	**208**	229
Long-term deposits	**44**	44
	$ 84,281	$ 6,992
Liabilities		
Current		
Accounts payable and accrued liabilities *(note 11)*	**$ 9,515**	$ 1,066
Subscription receipts liability *(note 16a)*	**1,886**	5,472
Short-term loans (*note 12)*	**332**	683
Derivative liabilities *(note 14)*	**10,380**	91
Current portion of lease liabilities	**79**	59
	22,192	7,371
Non-current liabilities		
Senior credit facility *(note 13)*	**35,466**	-
Derivative liabilities *(note 14)*	**9,395**	-
Commodity derivative net liability *(note 19a)*	**1,271**	-
Lease liabilities	**186**	216
Asset retirement obligations *(note 15)*	**2,709**	-
	71,219	7,587
Shareholders' Deficit		
Share capital *(note 16a)*	**174,867**	142,639
Warrants (*note 16b)*	**1,100**	145
Contributed capital reserve (*note 16c)*	**51,260**	51,260
Deficit	**(211,884)**	(192,391)
Accumulated other comprehensive loss	**(2,281)**	(2,248)
	13,062	(595)
	$ 84,281	$ 6,992

Nature of operations *(note 1)*
Commitments and contractual obligations *(note 22)*

See accompanying notes to the unaudited condensed interim consolidated financial statements.

Canadian Overseas Petroleum Limited

Condensed Consolidated Statements of Comprehensive Loss (unaudited)

(in thousands of United States dollars, except per share amounts)

	Three months ended June 2021	Three months ended June 2020	**Six months ended June 2021**	Six months ended June 2020
Revenue				
Petroleum sales	**$ 3,435**	$ -	**$ 3,932**	$ -
Realized loss on commodity derivatives – crude	**(261)**	-	**(261)**	-
Unrealized loss on commodity derivatives – crude *(note 19a)*	**(9,437)**	-	**(7,183)**	-
	(6,263)	-	**(3,512)**	-
Expenses				
Production taxes	**(439)**	-	**(501)**	-
Operating expenses	**(872)**	-	**(979)**	-
Depletion, depreciation and amortization	**(975)**	(17)	**(1,139)**	(35)
Realized gain on commodity derivatives – butane	**99**	-	**99**	-
Unrealized gain on commodity derivatives – butane *(note 19a)*	**7,165**	-	**6,105**	-
Acquisition costs *(note 5)*	**(255)**	-	**(2,112)**	-
Pre-license costs	**(50)**	-	**(200)**	-
General and administrative	**(1,942)**	(627)	**(3,365)**	(879)
	2,731	(644)	**(2,092)**	(914)
Other expenses				
Finance costs, net *(note 17)*	**(2,047)**	(184)	**(2,920)**	(189)
Loss on derivative liabilities *(note 18)*	**(155)**	(47)	**(10,868)**	(47)
Gain on extinguishment of loan	**-**	13	**-**	13
Foreign exchange gain / (loss), net	**7**	(57)	**(100)**	(83)
	(2,195)	(275)	**(13,888)**	(306)
Loss before investments in joint ventures	**(5,727)**	(919)	**(19,492)**	(1,220)
Loss on investment in joint venture	**-**	-	**(1)**	-
Loss	**(5,727)**	(919)	**(19,493)**	(1,220)
Income tax expense	-	-	-	-
Net loss for the period	**(5,727)**	(919)	**(19,493)**	(1,220)
(Loss) Gain on translation of foreign subsidiaries	**(4)**	10	**(33)**	161
Comprehensive loss for the period	**$ (5,731)**	$ (909)	**$ (19,526)**	$ (1,059)
Loss per share (basic and diluted)	**$ (0.00)**	$ (0.00)	**$ (0.00)**	$ (0.00)
Weighted average number of shares outstanding	**14,953,592,318**	3,483,752,463	**12,484,859,300**	3,483,752,463

See accompanying notes to the unaudited condensed interim consolidated financial statements.

Canadian Overseas Petroleum Limited

Consolidated Statements of Changes in Equity (Unaudited)

For the six months ended June 30, 2021 and 2020 (in thousands of United States dollars)

	Share Capital	Warrants	Contributed Capital Reserve	Deficit	Accumulated Other Comprehensive Loss[1]	Total Equity
Balance at December 31, 2019	**$ 138,087**	**$ 107**	**$ 50,394**	**$ (187,430)**	**$ (2,149)**	**$ (991)**
Comprehensive loss for the period	-	-	-	(1,220)	161	(1,059)
Balance at June 30, 2020	**$ 138,087**	**$ 107**	**$ 50,394**	**$ (188,650)**	**$ (1,988)**	**$ (2,050)**
Balance at December 31, 2020	**$ 142,639**	**$ 145**	**$ 51,260**	**$ (192,391)**	**$ (2,248)**	**$ (595)**
Issued further to Placings, net of issue cost *(note 16)*	**26,794**	**-**	**-**	**-**	**-**	**26,794**
Issued further to CEO loan conversion *(note 16a (i))*	**155**	**-**	**-**	**-**	**-**	**155**
Issued further to payment of purchase price of Atomic *(note 5)*	**4,000**	**-**	**-**	**-**	**-**	**4,000**
Issued as payment of Finders' and Broker's Fee *(note 16a)*	**2,313**	**-**	**-**	**-**	**-**	**2,313**
Issued as payment of advisory services *(note 16a(iii))*	**202**	**-**	**-**	**-**	**-**	**202**
Issued further to exercise of Unit Warrants *(note 16a(i))*	**368**	**-**	**-**	**-**	**-**	**368**
Fair value of Unit warrants issued presented as derivative liability *(note 16a (i))*	**(2,132)**	**-**	**-**	**-**	**-**	**(2,132)**
Fair value of Unit warrants exercised *(note 16a (i))*	**528**	**-**	**-**	**-**	**-**	**528**
Fair value of Finders' and Broker's Warrants issued *(note 16b)*	**-**	**955**				**955**
Comprehensive loss for the period	**-**	**-**	**-**	**(19,493)**	**(33)**	**(19,526)**
Balance at June 30, 2021	**$ 174,867**	**$ 1,100**	**$ 51,260**	**$ (211,884)**	**$ (2,281)**	**$ 13,062**

[1] As at June 30, 2021 and 2020, the accumulated other comprehensive loss balance consists of unrealized foreign exchange on translation of foreign subsidiaries.

See accompanying notes to the unaudited condensed interim consolidated financial statements.

Canadian Overseas Petroleum Limited
Consolidated Statements of Cash Flows (Unaudited)
(in thousands of United States dollars)

	Three months ended June 2021	Three months ended June 2020	**Six months ended June 2021**	Six months ended June 2020
Cash Used In Operating Activities				
Net loss	**$ (5,727)**	$ (919)	**$ (19,493)**	$ (1,220)
Add (deduct) non-cash items:				
Gain on waived 2019 directors' fees	**-**	-	**-**	(431)
Depletion, depreciation and amortization	**975**	17	**1,139**	35
Unrealized loss on commodity derivatives – crude *(note 19a)*	**9,437**	-	**7,183**	-
Unrealized gain on commodity derivatives – butane *(note 19a)*	**(7,165)**	-	**(6,105)**	-
Finance costs, net *(note 17)*	**2,047**	184	**2,920**	189
Gain on extinguishment of loan	**-**	(13)	**-**	(13)
Loss on derivative liabilities *(note 18)*	**155**	47	**10,868**	47
Unrealized foreign exchange (gain) / loss	**(18)**	28	**10**	146
	(296)	(656)	**(3,478)**	(1,247)
Net change in non-cash working capital *(note 21)*	**300**	621	**(3,717)**	1,043
	4	(35)	**(7,195)**	(204)
Cash Provided by Financing Activities				
Issuance of common shares, net of issue costs	**9**	-	**25,245**	-
Cash received in advance of shares issue for warrants exercised *(note 16a)*	**1,889**	-	**1,889**	-
Gross proceeds from senior credit facility *(note 13)*	**-**	-	**45,000**	-
Lender's & borrower's fees paid on senior credit facility *(note 13)*	**(15)**	-	**(3,445)**	-
Interest paid on credit facility *(note 17)*	**(1,422)**	-	**(1,656)**	
Proceeds from CEO loan	**-**	-	**-**	153
(Repayment)/proceeds of YARF loan *(note 12)*	**-**	89	**(683)**	89
Payment of lease obligations, net of rent concessions	**(47)**	(17)	**(62)**	(21)
Net change in non-cash working capital *(note 21)*	**(287)**	(20)	**(105)**	(24)
	127	52	**66,183**	197
Cash Used in Investing Activities				
Atomic Group Acquisition cash consideration paid *(note 5)*	**(5,000)**	-	**(45,079)**	-
Atomic Group Acquisition cash acquired *(note 5)*	**-**	-	**9,160**	-
(Additions)/disposals of plant, property and equipment *(note 10)*	**(5,202)**	1	**(5,449)**	1
Additions to exploration and evaluation assets *(note 9)*	**(217)**	-	**(217)**	-
Additions to investment in joint venture *(note 7)*	**-**	-	**(1)**	-
Interest income	**1**	-	**1**	-
Net change in non-cash working capital *(note 21)*	**(3,192)**	-	**(3,267)**	-
	(13,610)	1	**(44,852)**	1
Increase /(decrease) in cash and cash equivalents during the period	**(13,479)**	18	**14,136**	(6)
Effect of foreign exchange on cash and cash equivalents held in foreign currencies	**35**	1	**15**	(5)
Cash and cash equivalents, beginning of period	**28,996**	45	**1,401**	75
Cash and cash equivalents, end of period	**$ 15,552**	$ 64	**$ 15,552**	$ 64

See accompanying notes to the unaudited condensed interim consolidated financial statements.

1. NATURE OF OPERATIONS

Canadian Overseas Petroleum Limited ("COPL" or the "Company"), is a widely-held publicly traded company incorporated and domiciled in Canada. The Company's common shares with no par value (the "Common Shares") are traded on the London Stock Exchange (the "LSE") in the UK under the symbol "COPL" and Canadian Securities Exchange (the "CSE") in Canada under the symbol "XOP"; the Company moved its listing from TSX Venture Exchange to the CSE on October 31, 2018. The Company's registered office is in Calgary, Alberta at 400, 444 – 7th Avenue S.W.

COPL and its subsidiaries are involved in the identification, acquisition, exploration and development of oil and natural gas offshore reserves, and holding interests in petroleum assets. As at June 30, 2021, the Company had the following subsidiaries, all of which are wholly-owned directly or indirectly:

- COPL Technical Services Limited, which is involved in providing technical and administrative services to the COPL group of companies;
- Canadian Overseas Petroleum (UK) Limited ("COPL UK"), incorporated in the United Kingdom ("UK") which provides technical and projects related services to the COPL group of companies;
- Canadian Overseas Petroleum (Bermuda Holdings) Limited, Canadian Overseas Petroleum (Bermuda) Limited and Canadian Overseas Petroleum (Namibia) Limited, which were incorporated to conduct operations in Africa.
- Canadian Overseas Petroleum (Ontario) Limited ("COPL Ontario") which was incorporated on December 15, 2017 for the purpose of an anticipated operation in Ontario, Canada.
- COPL America Holding Inc and COPL America Inc. ("COPL America"), incorporated on February 23, 2021 for the purpose of holding oil and gas operations in the United States of America;
- Atomic Oil & Gas LLC ("Atomic") – an oil and gas company with producing assets in Wyoming, United States, acquired on March 16, 2021.
- PipeCo LLC ("PipeCo") – owns the gas pipeline and infrastructure that service one of the petroleum assets in which Atomic has a working interest; owned 100% by Atomic.
- Southwestern Production Corp. ("SWP") – an operator of oil and gas assets of Atomic and Pipeco; acquired in March 16, 2021.

The Company, along with an unrelated company, Shoreline Energy International Limited, incorporated Shoreline Canoverseas Petroleum Development Corporation Limited ("ShoreCan") in October 2014 in Bermuda to focus on acquisitions of upstream oil and gas exploration, development and producing assets in Africa. Both partners hold a 50% interest in the ShoreCan joint venture.

2. BASIS OF PREPARATION

Basis of Preparation and Compliance

The Company's unaudited condensed interim consolidated financial statements ("financial statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements including IAS 34 "Interim financial reporting". Certain information and disclosures normally included in the notes of the annual consolidated financial statements have been condensed or have been disclosed on an annual basis only.

The Company's financial statements should be read in conjunction with the Company's audited annual consolidated financial statements as at and for the years ended December 31, 2020 and 2019, which outline the Company's significant accounting policies in Note 3 thereto, which have been applied consistently in these financial statements except for the new accounting policies and updates to significant accounting policies applied in preparation of these financial statements following the Atomic Group Acquisition (Note 5) as well as the Company's critical accounting judgments and key sources of estimation uncertainty which are also set out in Note 3 thereto. Certain prior period amounts have been reclassified throughout the financial statements to conform with current period presentation, as the first reporting period to present revenue generating activities.

2. BASIS OF PREPARATION (continued)

Basis of Preparation and Compliance (continued)

These consolidated financial statements are presented in United States dollars ("$"), which is both the functional and presentation currency. All financial information presented in tables has been rounded to the nearest thousand United States dollars except where otherwise indicated.

These financial statements were authorized for issue by the Company's Board of Directors on August 31, 2021.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements include the financial statements of COPL and its subsidiaries.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. All intercompany transactions and balances have been eliminated on consolidation.

Revenue

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

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

Finance costs, net

Net financing costs include interest expenses on borrowings, interest on lease liabilities, accretion of the discount on asset retirement obligation ("ARO"), and finance costs and, accretion of senior credit facility.

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

Interest income is recognized as earned.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Exploration and evaluation assets ("E&E")

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

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

Upon determination of proved plus probable reserves, E&E assets attributable to those reserves are first tested for impairment at the cash-generating unit ("CGU") level, and then reclassified from E&E assets to property, plant and equipment (petroleum asset). E&E costs related to prospects for which no proved or probable reserves exist, and lease expiries, are expensed. If a decision is made by Management not to continue an E&E project, the E&E asset is derecognized, and all associated costs are charged to the net earnings (loss).

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

Property, plant and equipment ("PP&E")

PP&E consists of development and production oil assets ("Petroleum assets"), office equipment and equipment inventory.

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

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

(i) Initial costs

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

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

Other items of property, plant and equipment are carried at cost less accumulated depreciation and net of accumulated impairment.

(ii) Subsequent costs

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

(iii) Asset exchanges and disposals

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

Gains and losses on disposal of property, plant and equipment, including oil and gas interests, are determined by comparing the proceeds from disposal with the carrying value of property, plant and equipment.

(iv) Depletion, depreciation and amortization

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

For plant, drilling equipment, field rental equipment and other assets, depreciation is recognized in net earnings (loss) on a straight-line basis over the estimated useful lives of each item of property, plant and equipment. The depreciation of administrative assets is calculated on a straight-line basis over estimated useful lives that range from 3 to 5 years. The depreciation methods, useful lives and residual values are reviewed at each reporting date.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

Property, plant and equipment

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

E&E assets

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

Provisions

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

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

Offsetting of financial instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Risk Management Contracts

The Company is exposed to commodity price risks resulting from fluctuations in commodity prices in the normal course of its business. The Company may use a variety of instruments to manage this risk. The Company has elected to not apply hedge accounting. Therefore, the Company accounts for such instruments using the fair value method by initially recording an asset or liability and recognizing changes in the fair value of the instruments in net earnings (loss) as unrealized gains or losses on risk management contracts. Upon settlement, realized gains or losses are recognized in net earnings (loss). Fair values of financial instruments are based on third party quotes or valuations provided by independent third parties. Any realized gains or losses on risk management contracts are recognized in net earnings (loss) in the period they occur. The Company's risk management contracts have been assessed on the fair value hierarchy and are all considered Level 2. Commodity derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Segment reporting

Operating segments have been determined based on the nature of the Company's activities and the geographic locations in which the Company operates, and are consistent with the level of information regularly provided to and reviewed by the Company's chief decision makers. As at June 30, 2021 and the three and six months then ended, the Company had only one operating segment in the USA and all net oil sales revenue is from light crude oil.

Significant accounting judgments and estimates

Critical judgments in applying accounting policies

Critical judgments that have the most significant effect on the amounts recognized in the consolidated financial statements include the following:

ARO – Inherent in the calculation of asset retirement obligations are numerous assumptions and judgements including the ultimate settlement amounts, inflation factors, risk-free discount rates, timing of settlement and changes in the legal and regulatory environments. To the extent future revisions to these assumptions impact the measurement of the existing asset retirement obligation liability, a corresponding adjustment is made to the property, plant and equipment balance. The risk-free discount rate is based on the US long-term bond yield for the petroleum assets in the USA.

AROs are determined based on judgments regarding regulatory requirements, estimates of future costs, assumptions on the expected timing of expenditures, and estimates of the underlying risk inherent to the obligation. The ARO carrying value and accretion expense from period-to-period may differ due to changes in laws and regulations, technology, the expected timing of expenditures, and market conditions affecting the discount rate applied.

Determination of the CGU – The Company's property, plant and equipment assets (petroleum assets) are grouped into CGUs based on the ability of these assets to generate separately identifiable independent cash inflows. The classification of assets into CGUs requires significant judgement and interpretation. Management considers factors such as integration among assets, shared infrastructure, common sales points, geography and how management makes decisions about the Company's operations.

Assessment of impairments or reversal of previous impairments – Management applies judgment in assessing the existence of indicators of impairment or impairment reversal at a CGU level quarterly or when indication of impairment exists based on various internal and external factors.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgments and estimates (continued)

Critical judgments in applying accounting policies (continued)

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

Key sources of estimation uncertainty

The following are key estimates and the assumptions made by Management affecting the measurement of balances and transactions in the consolidated financial statements:

Business combinations – Management makes estimates of the fair value of assets acquired and liabilities assumed which includes assessing the value of the oil and gas properties based upon estimation of recoverable quantities of proved and probable reserves being acquired.

Stock-based compensation, warrants and derivative liability – the amounts recorded in respect of stock options granted and share purchase warrants granted are based on the Company's estimation of their fair value, calculated using assumptions regarding the expected life of the option or warrant, interest rates and volatility. By their nature, these estimates and assumptions are subject to uncertainty, and the actual fair value of options or warrants may differ at any time;

Reserves estimation – The Company's oil reserves are evaluated and reported on by independent petroleum engineers and are determined in accordance with Canadian practices and specifically in accordance with National Instrument 51-101, Standards of Disclosure for Oil and Gas Activities ("NI 51-101"), and the Canadian Oil and Gas Evaluation Handbook. The estimation of reserves is a subjective process. Forecasts are based on engineering data, projected future rates of production, commodity prices and the timing of future expenditures, all of which are subject to numerous uncertainties and various interpretations. The Company expects that its estimates of reserves will change to reflect updated information.

Reserve estimates can be revised upward or downward based on actual reservoir performance, the results from capital expenditure programs, revisions to previous estimates, new discoveries and acquisitions and dispositions during the year. By their nature, these estimates are subject to measurement uncertainty, and the impact on the consolidated financial statements from changes in such estimates in future periods could be material. Changes in reserve estimates can affect the impairment of assets, including the reversal of previously recorded impairment, the estimation of AROs, the economic feasibility of exploration and evaluation of assets and the amounts recognized for depletion and depreciation of property, plant and equipment.

Impairment of assets – when indicators of impairment exist, the carrying value of each CGU is compared to its recoverable amount which is defined as the higher of its fair value less cost of disposal ("FVLCD") or its value in use ("VIU"). The VIU is estimated as the present value of the future cash flows expected to arise from the continuing use of the CGU or an asset. The FVLCD is the amount that would be realized form the disposition of the asset or CGU in an arm's length transaction between knowledgeable and willing parties.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgments and estimates (continued)

Key sources of estimation uncertainty (continued)

Impairment of investment in joint venture – After application of the equity method, the net investment in joint venture is assessed for impairment annually and when circumstances suggest that the carrying amount might exceed the recoverable amount. The Company assesses whether it is necessary to recognize any additional impairment loss with respect to its net investment in the joint venture or any other amount that does not constitute part of the net investment. These estimates include the market, economic, legal and political environment in which the joint venture operates, as well as changes in the joint venture's financial condition. Any reversal of impairment losses is recognized to the extent that the recoverable amount of the investment subsequently increases;

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

Provisions, commitments and contingent liabilities – amounts recorded as provisions and amounts disclosed as commitments and contingent liabilities are estimated based on the terms of the related contracts and management's best knowledge at the time of issuing the consolidated financial statements. The actual results ultimately may differ from those estimates as future confirming events occur;

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

Risk Management contracts – estimate of fair value is dependent upon forward commodity prices and the volatility of those prices.

Senior Credit Facility – the amounts assigned to the host contract and the embedded derivative (LIBOR floor) and the warrants associated with this debt are based on the Company's estimation of their fair value, calculated using assumptions e.g. LIBOR forward curves. By nature, these estimates and assumptions are subject to uncertainty, and the actual fair value of the derivative liabilities may differ.

New and amended accounting standards adopted

Interest Rate Benchmark Reform

On January 1, 2021, the Company adopted Interest Rate Benchmark Reform ("IBOR") - Phase 2 issued by the IASB which required amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement", IFRS 7 "Financial Instruments: Disclosures", and IFRS 16 "Leases". The IBOR Phase 2 Amendments primarily relate to the modification of financial instruments, allowing for a practical expedient for modifications required by the reform. The practical expedient for modifications is accounted for by updating the effective interest rate without modification of the financial instrument and is subject to satisfying all qualifying criteria. There was not a material impact to the Company's financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended accounting standards adopted (continued)

Business Combinations

On January 1, 2021, the Company adopted the amendments to IFRS 3 "Business Combinations" that clarified the definition of a business and included an election to use a concentration test. The concentration test provides for a simplified assessment of an acquisition transaction that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets. If an election to use the concentration test is not made, or the test failed, then the assessment focuses on the existence of a substantive process. An asset acquisition does not result in the recognition of goodwill, which can only be recognized as a result of acquiring a business. See Note 5 for the business combination completed during the six months ended June 30, 2021. The concentration test was not elected.

Leases

On January 1, 2021, the Company adopted the amendments to IFRS 16 "Leases" that provides relief to lessees from applying IFRS 16 to lease modification accounting for rent concessions received as a direct consequence of the COVID-19 pandemic. There was no material impact on the Company's financial statements.

4. RECENT DEVELOPMENTS AND IMPACT ON ESTIMATION UNCERTAINTY

On March 11, 2020, the World Health Organization ("WHO") declared a global pandemic following the emergence and rapid spread of a novel strain of the coronavirus (commonly known as COVID-19). The outbreak and subsequent measures intended to limit the pandemic contributed to significant declines and volatility in global financial markets. The pandemic negatively impacted global commercial activity, including the demand for oil and gas.

The full extent of the impact of COVID-19 on the Company's operations and future financial performance is currently unknown. It will depend on future developments that are uncertain and unpredictable, including the duration and spread of COVID-19, its continued impact on capital and financial markets on a macro-scale, any new information that may emerge concerning the severity of the virus and world-wide coverage and effectiveness of vaccination. The Company is taking measures to mitigate the broader public health risks associated with COVID-19 for its business and employees, including ensuring employees self-isolate and/or work from home where possible, in line with the recommendations of relevant health authorities. However, due to the outbreak, there may be short-term impacts on the Company's supply chain and planned work programmes in Nigeria. Similarly, government-imposed travel restrictions may impair the ability of certain of the Company's employees, advisers and contractors to deliver their services to the Company, conduct physical inspections, or undertake planned operations. In addition, a volatility and disruption of financial markets associated with the outbreak may adversely impact the Company's ability to obtain financing.

The COVID-19 pandemic has a direct impact on the Company's joint venture project in Nigeria and the resulting collectability of the long term receivable from the Company's joint venture partner (See Note 7 for further details).

The COVID-19 outbreak presents uncertainty and risk with respect to the Company, its performance, and estimates and assumptions used by management in the preparation of its financial results. This situation may continue for the time being and there can be no assurance that it will not cause a material adverse effect on the Company's planned operations.

5. ATOMIC GROUP ACQUISITION – Business Combination

(a) Summary of the acquisition

On December 16, 2020, COPL announced that it had agreed to acquire Atomic for aggregate consideration of $54 million. The effective date of the transaction is December 1, 2020 as defined in the Stock and Membership Interest Purchase Agreement between the Seller and the Company (the "Atomic SPA"). The opportunity to undertake this acquisition became available to the Company as a result of the COVID-19 environment and the drop in oil prices during 2020. This strategic acquisition represents a step change in the capacity and revenue generating opportunities available to the Company.

On March 16, 2021 (the "Closing"), the Company closed its acquisition of 100% of the membership interests in Atomic and 100% of the shares in Southwestern Production Corp. ("SWP") (entities collectively, the "Atomic Group") (together the "Atomic Group Acquisition"). For accounting purposes, the acquisition date is March 16, 2021, when the Company assumed control. In accordance with the Atomic SPA, certain assets and corresponding liabilities were excluded from the acquisition.

The Atomic Group was a closely-held private oil and gas company incorporated under the laws of the State of Colorado, USA. Atomic's assets are located in the Powder River Basin in the State of Wyoming, USA where it holds operated interests in approximately 47,992 gross acres of contiguous leasehold. There are two oil production Units within the lease block: the Barron Flats Shannon Miscible Flood Unit (57.71% working interest "WI") and the Cole Creek Unit (66.67% WI), as well as one unitized exploration area, the Barron Flats Deep Federal Unit (55.56% WI). Atomic owns a 100% membership interest in PipeCo LLC, a wholly-owned subsidiary of Atomic that holds a 100% interest in a gas pipeline and infrastructure that services the Barron Flats area. SWP is the operator of all above mentioned oil and gas assets.

The Atomic Group Acquisition was accounted for in accordance with IFRS 3, "Business Combinations" using the acquisition method whereby the identifiable assets and liabilities assumed are recognized and measured at their fair value at the date of the acquisition, with the exception of income taxes, lease liabilities and right-of-use assets. The asset retirement obligation ("ARO") associated with the acquired assets is subsequently remeasured at the end of the reporting period using a risk-free discount rate, with any changes recognized in the ARO and associated PP&E balances on the consolidated statement of financial position (see Note 15).

(b) Purchase price allocation

In accordance with the Atomic SPA, the $54 million purchase price is comprised of $50 million in cash and $4 million settled through the issuance of COPL shares (collectively, the "Atomic Purchase Price"). On March 16, 2021, the Company issued 818,873,319 Common Shares to the Seller representing the fixed $4 million of the purchase price consideration that was payable in COPL's shares determined using the weighted average closing price of COPL's common shares on the LSE in the five (5) business days preceding the business day prior to the Closing as prescribed in the Atomic SPA. The Company financed the Purchase Price partially using the net proceeds from the Non-brokered Placing (See Note 16), and external debt of $45 million (See Note 13). Further to the Atomic SPA, the Company made a non-refundable deposit payment of $1 million on December 15, 2020 (due upon signing the Atomic SPA) and a refundable deposit of $4 million on December 31, 2020. Accordingly, $5 million was recognized as a prepaid purchase price in the Company's consolidated statement of financial position as at December 31, 2020. Subsequent to December 31, 2020, the remaining $4 million refundable deposit was paid. At Closing, the Company settled the Atomic Group's external debt of $26.079 million, paid $10 million in cash to the Seller, and withheld $5 million of the Atomic Purchase Price pending the finalization of certain adjustments as agreed between the Seller and the Company. Subsequently, on April 14, 2021, the Company released $5 million to the Seller.

5. ATOMIC GROUP ACQUISITION – Business Combination (continued)

(b) Purchase price allocation (continued)

As of the date of approval of these financial statements, the net debt and working capital adjustment to the Atomic Purchase Price as outlined in accordance with the Atomic SPA had not been finalized and a final settlement has not been reached with the Seller. Accordingly, the Atomic Purchase Price has not been finalized.

The following preliminary purchase price allocation, subject to final settlement of the net debt and working capital adjustment that impacts the final purchase consideration, is based on Management's best estimate of the fair value assigned to the assets acquired and the liabilities assumed. The increase in the cash portion of the Atomic Purchase Price to $50.079 million resulted from the previous debt facility settled on the Closing including interest and additional financing cost of $0.079 million incurred since December 31, 2020. Upon finalizing the Purchase Price, adjustments may be required to the following allocation to the fair value of the net assets acquired.

($ 000's)	**March 16, 2021**
Purchase Consideration	
Cash	50,079
Price of COPL Common Shares	4,000
Total consideration	**54,079**
Identifiable net assets	
Cash	9,160
Working capital, net (excluding cash)	(11,469)
Exploration and evaluation assets (note 9)	1,665
Property, plant and equipment (note 10)	54,716
Right-of-use assets	41
Asset retirement obligation (note 15)	(34)
Total identifiable net assets	**54,079**
Goodwill/Bargain purchase gain	-

The assignment of fair value to the underlying net assets acquired is limited to the total consideration and does not result in recognition of either goodwill or negative goodwill (bargain purchase gain). Best estimates were determined based on available information at the time of preparation of these financial statements. The Company is continuing its review to determine the identification of intangible assets, assumption of liabilities, identification of contingent liabilities and working capital adjustments during the allowable measurement period, which shall not exceed one year from the Closing. Considering the nature of the assets acquired the majority of the fair value is assigned to the petroleum assets. Any future changes to the purchase price allocation may result in adjustments to the property, plant and equipment (i.e. petroleum assets).

As at March 16, 2021, the fair value assigned in preliminary purchase price allocation to accounts receivables was $2.228 million, including joint interest billing receivables of $1.159 million and revenue receivables of $1.069 million. These receivables do not have a significant financing component, as these balances are usually collected within 60 days. As at March 16, 2021, the gross contractual amounts were deemed equal to the fair value assigned, as based on Management's best estimate the cash flows associated with these receivables were deemed collectible.

5. ATOMIC GROUP ACQUISITION – Business Combination (continued)

(b) Purchase price allocation (continued)

Prior to the Atomic Group Acquisition, Atomic and PipeCo were treated as limited liability companies, and SWP as an S corporation, which all are treated as a partnership for U.S. federal, state, and local income tax purposes. Accordingly, members and owners are taxed on their allocable share of taxable income or loss in accordance with the operating agreement. Beginning January 1, 2018, new rules apply to Internal Revenue Service ("IRS") audits of partnerships. Under these rules, adjustments resulting from an IRS audit may be assessed at the partnership level on behalf of its members. Accordingly, no income taxes were payable by these entities. No deferred tax implications were recognized in the preliminary purchase price allocation as for tax purposes the Atomic Group Acquisition is deemed to be an asset acquisition, as a Section 338 (h)(10) of the Internal Revenue Code election was filed with the IRS.

(c) Acquisition costs

Acquisition costs directly attributable to the Atomic Group Acquisition are expensed as incurred. In aggregate, the Company incurred $2.5 million in acquisition costs of which approximately $0.431 million was recognized prior to January 1, 2021 and $0.3 million and $2.1 million during the three and six months ended June 30, 2021, respectively. These acquisition costs exclude share issuance costs that are netted against share capital in the consolidated statement of financial position.

(d) Revenue and net loss

Results of the Atomic Group Acquisition are included in these financial statements as at June 30, 2021 and for the period from the Closing to June 30, 2021. The acquired business contributed net oil sales revenue of $3.9 million and $0.9 million of the net income from the date of acquisition to June 30, 2021.

6. CASH AND CASH EQUIVALENTS

($ 000's)	June 30, 2021	December 31, 2020
Cash	**$ 13,761**	$ 1,381
Escrow accounts	**1,751**	-
Credit card deposits	**40**	20
	$ 15,552	$ 1,401

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

Escrow amounts of $1.75 million as at June 30, 2021 relate to cash held in escrow accounts with respect to a portion of production taxes and some royalty payments due, further to the US legal requirements.

The fair value of cash and cash equivalents was $15.6 million as at June 30, 2021 ($1.4 million as at December 31, 2020). The Company deposits its cash with reputable Canadian, US and Bermuda banks. The Company did not have any overdraft facilities in place as at June 30, 2021, and December 31, 2020.

7. INVESTMENT IN JOINT VENTURE

The Company currently holds a 50% interest in a jointly controlled entity, ShoreCan, focusing on acquisitions of upstream oil and gas exploration, development and producing assets in sub-Saharan Africa. From time to time the Company or its joint venture partner pay for ShoreCan's general and administrative expenses on behalf of the other partner.

As at June 30, 2021, the Company had a receivable from its joint venture partner in respect of overpaid ShoreCan expenses of $386,000. Since December 31, 2020, the Company recognizes a full allowance for the accounts receivable from its joint venture partner. Accordingly, an expected credit loss of $1,000 was recognized as part of general and administrative cost in the Company's consolidated statement of loss and comprehensive loss for the six months ended June 30, 2021 ($nil for six months ended June 30, 2020 and $385,000 for the year ended December 31, 2020).

On August 4, 2020, the Company announced that ShoreCan had executed definitive agreements with Essar Mauritius to resolve their disputes. ShoreCan and Essar Mauritius entered into a Sale and Purchase Agreement (the "Essar SPA Agreement"), and other agreements, with each other concerning, among other things, their respective obligations under the Essar Nigeria Shareholders Agreement (the "Shareholders Agreement"). On February 1, 2021, the Company announced, that ShoreCan and Essar Mauritius had agreed to extend the completion date of the definitive agreements to April 30, 2021. This definitive agreement has been extended to October 31, 2021.

8. ACCOUNTS RECEIVABLE

($ 000's)	**June 30, 2021**	December 31, 2020
Revenue receivable	**$ 804**	$ -
Joint interest billings receivable	**3,344**	-
Other accounts receivable	**49**	40
Total	**$ 4,197**	$ 40

9. EXPLORATION AND EVALUATION ASSETS

($ 000's)	**June 30, 2021**	December 31, 2020
Balance, beginning of the period	**$ -**	$ -
Acquisition – March 16, 2021	**1,665**	-
Additions	**217**	-
Balance, end of the period	**$ 1,882**	$ -

E&E assets relate to the undeveloped area in Barron Flats Deep Federal Unit in which Atomic holds a 55.56% WI, acquired as part of the Atomic Group Acquisition (discussed in Note 5) that will require further exploration work and is pending a determination of proven or probable reserves.

10. PROPERTY, PLANT AND EQUIPMENT

($ 000's)	Petroleum Assets	Administrative Assets	TOTAL
Cost, beginning of the period	**$ -**	**$ 313**	**$ 313**
Acquisition – March 16, 2021	**54,666**	**50**	**54,716**
Additions	**5,296**	**153**	**5,449**
Disposals	**-**	**(2)**	**(2)**
Change in asset retirement obligation	**2,657**	**-**	**2,657**
Cost, end of the period	**62,619**	**514**	**63,133**
Accumulated depletion, depreciation, amortization and impairment, beginning of the period	**-**	**(252)**	**(252)**
Depletion, depreciation and amortization	**(1,061)**	**(16)**	**(1,077)**
Disposals	**-**	**2**	**2**
Accumulated depletion, depreciation, amortization and impairment, end of the period	**(1,061)**	**(266)**	**(1,327)**
Net carrying amount, beginning of the period	**$ -**	**$ 61**	**$ 61**
Net carrying amount, end of the period	**$ 61,558**	**$ 248**	**$ 61,806**

Petroleum assets relate to two oil producing units: the Barron Flats Shannon Miscible Flood Unit ("BFU") and the Cole Creek Unit in the State of Wyoming and gas pipeline that services the BFU unit for the purpose of miscible flood injections, that were acquired further to the Atomic Group Acquisition (as discussed Note 5).

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

($ 000's)	**June 30, 2021**	December 31, 2020
Trade payables and accrued liabilities	**$ 5,355**	$ 1,065
Revenue related payable	**1,935**	-
Production taxes payable	**2,225**	-
Other	**-**	1
Total	**$ 9,515**	$ 1,066

12. SHORT-TERM LOAN

PPP Note - $0.3 million as at June 30, 2021

Further to the Atomic Group Acquisition, the Company assumed a loan entered into by one of the Atomic Group companies. On April 14, 2020, SWP entered into an unsecured promissory note in the amount of $0.33 million under the Paycheck Protection Program (the "PPP Note"). The Paycheck Protection Program was established under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") and is administered by the U.S. Small Business Administration (the "SBA"). The annual interest rate on the PPP Note is 0.98%. Monthly principal and interest payments were deferred for a period of six months after the date of the loan. If the loan is not forgiven, equal monthly payments of principal and interest commence one month after the deferral period and until the maturity on April 13, 2022.

Under the terms of the CARES Act, PPP Note recipients can apply for and be granted forgiveness for all or a portion of the loan granted under the PPP. Under terms of CARES Act, these funds were to be used for payroll and utility payments.

On April 26, 2021 SWP applied for forgiveness of the full promissory note and on July 1, 2021 the SBA approved the full forgiveness of PPP Note.

YARF Loan - $0.7 million as at December 31, 2020

On June 15, 2020, the Company entered into a loan agreement with YA II PN, Ltd ("YA") and Riverfort Global Opportunities PCC ("RF" and, together with YA, the "YARF Lenders" or "YARF") for an unsecured facility (the "Loan Agreement") of £636,000 i.e. approximately $786,000 ("YARF Loan"). Each drawdown was repayable in cash six months from its respective drawdown date.

The total balance of YARF Loan of £500,000 ($683,000) outstanding as at December 31, 2020 was repaid in accordance with YARF Loan Agreement: £100,000 ($136,000) on January 5, 2021 and £400,000 ($547,000) on February 5, 2021.

Further to the Loan Agreement, on July 2, 2020, the Company issued, as additional compensation to YARF Lenders, a total of 100,000,000 common share purchase warrants (the "YARF Warrants") exercisable within 24 months, at an exercise price of £0.0039 ($0.0049) per share. These YARF warrants are still outstanding as at June 30, 2021.

The YARF Warrants' exercise price is in GBP, and the Company's functional currency is in USD. As there is variability in these exchange rates, the YARF Warrants are classified as a derivative financial instrument and subsequently revalued on each balance sheet date. The fair value of YARF Warrants was estimated (using a Black-Scholes option pricing model) at $91,000 as at December 31, 2020 and $390,000 as at June 30, 2021.

Accordingly, the Company recognized a loss on derivative liability of $293,000 and a related foreign exchange loss of $5,000 in its statement of comprehensive loss for the six months ended June 30, 2021.

12. SHORT-TERM LOAN (continued)

YARF Loan - $0.7 million as at December 31, 2020 (continued)

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

	June 30, 2021	December 31, 2020
Risk-free interest rate	0.039%	-0.181%
Weighted average life (years)	1.0	1.5
Expected volatility	90%	90%
Expected dividend yield	0%	0%
COPL's stock price*	$0.0081	$0.0032

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

13. SENIOR CREDIT FACILITY

The Atomic Group Acquisition was funded in part with debt through a loan agreement dated March 16, 2021 between a US based Global Investment Firm (the "Lender") and COPL America Inc. ("COPL America" or the "Borrower") repayable within a 4 year term (collectively, the "Senior Credit Facility" or the "SCF"). To fund the Atomic Group Acquisition, the Company drew an initial principal loan amount of $45 million. The amount funded to COPL America of approximately $43.2 million (net of financing costs and transaction costs) was used to settle Atomic's previously outstanding external debt of $26.079 million, a $10 million payment to the Seller, the $5 million of the Purchase Price initially withheld and paid subsequent to Closing, and the remainder for funding ongoing operations of COPL America (See Note 5).

The Senior Credit Facility agreement is subject to an interest rate of LIBOR (with a floor of 2%) plus 10.5% per annum with such interest to be paid monthly in arrears. From the first anniversary of the Senior Credit Facility the outstanding loan principal will be repaid monthly by COPL America cash resources in excess of $2.5 million, and COPL America may prepay amounts outstanding subject to prepayment premiums from the first anniversary of the loan. The Senior Credit Facility includes the following covenants: spending on capex subject to lender approval, and the maintenance of certain financial ratios for asset coverage (1.50:1.00), a leverage ratio (range of 2.50 to 3.00:1) and liquidity (45-day minimum average balance of unrestricted cash must be at least $2.5 million). Financial ratios covenants are applicable for the periods commencing after the first anniversary of the Senior Credit Facility. The Senior Credit Facility did not require security or guarantees provided by the Company or its wider group outside of the USA and all financial ratios are calculated with reference to COPL America and its US subsidiaries only. The Senior Credit Facility has an accordion feature whereby the Borrower may draw upon up to a further $20 million for future development, at the sole discretion of the Lender. As at June 30, 2021, the accordion feature was not drawn down.

Under a separate warrant agreement dated March 16, 2021, the Lender was granted five (5) warrants representing 5% of the Common Shares of COPL America for $0.01 per Common Share (the "Lender Warrants"). These warrants are not exercisable until the Senior Credit Facility is prepaid or at maturity. On maturity, the Lender would be entitled to redeem such warrants for an amount of cash equal to the greater of approximately 5% of the Company's market capitalization or 5% of the net asset value of COPL America at such time. These warrants were issued as a requirement of the lender for providing the Senior Credit Facility and are part of the cost of debt and factored into overall determination of the effective interest rate for the facility. As the Lender Warrants are a puttable financial instrument at the option of the holder, the Company cannot avoid issuing cash to the holder and they 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 (loss).

13. SENIOR CREDIT FACILITY (continued)

The following table provides a summary of Senior Credit Facility (the "SCF") including associated derivative liabilities as at June 30, 2021:

($ 000's)	Senior Credit Facility	Derivative Liabilities (Note 14)	Total
Principal amount	$ 45,000	-	$ 45,000
Lender's closing and legal costs (c)	(1,870)	-	(1,870)
Borrower's closing and legal costs (c)	(1,560)	-	(1,560)
Initial valuation of Lender Warrants (a)	(4,900)	4,900	-
Initial valuation of LIBOR floor (b)	(2,252)	2,252	-
Financing costs expensed upon initial valuation (c) *(Note 17)*	545	-	545
Lender Warrants revalued as at June 30, 2021 (a)	-	2,480	2,480
LIBOR floor revaluation as at June 30, 2021 (b)	-	(237)	(237)
Accretion *(Note 17)*	504	-	504
Total	$ 35,466	$ 9,395	$ 44,861

As at March 16, 2021, the fair value of the Senior Credit Facility of $45 million was assigned as follows: $35.0 million (net of financing costs of $2.8 million) to the Senior Facility, $4.9 million to the Lender Warrants and $2.3 million to the LIBOR floor.

(a) As at March 16, 2021 (date of issuance), the fair value assigned to the Lender Warrants of $4.9 million was determined using 5% of COPL's market capitalization on a fully diluted basis, which was greater than 5% of the net asset value of COPL America. During the period from date of issuance to June 30, 2021, no Lender Warrants could be exercised. As at June 30, 2021, the Lender Warrants were revalued at $7.4 million using 5% of COPL's market capitalization on a fully diluted basis. The resulting change in fair value of $2.5 million was recognized in the net loss for the six months ended June 30, 2021 *(Note 18)*.

(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 Senior Credit Facility indicates that it will remain in the money for the duration of the Senior Credit Facility. Therefore, the LIBOR floor is not closely related to the host debt contract ($45 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 (loss). As at June 30, 2021, the LIBOR floor was revalued at $2 million and the resulting change in fair value of $0.2 million was recognized as gain on derivative liability for the six months ended June 30, 2021.

(c) Aggregate financing costs associated with the Senior Credit Facility incurred was $3.4 million that was allocated amongst these three components of the Senior Credit Facility based on the relative fair value of each component. The costs associated with the loan portion of $35.0 million form part of the amortized costs of the loan used to determine the effective interest rate of 20.93%. The proportionate financing costs of $0.5 million associated with the derivative liabilities of LIBOR floor with fair value of $2.3 million and the Lender Warrants with fair value of $4.9 million, respectively were expensed on the inception date of the debt.

During the three and six months ended June 30, 2021, the Company paid interest on this loan in the amount of $1.42 million and $1.66 million, respectively.

14. DERIVATIVE LIABILITIES

($ 000's)	**June 30, 2021**	December 31, 2020
Derivative lability – Unit warrants *(Note 16a (i))*	**$ 9,990**	$ -
Derivative liability – YARF Warrants *(Note 12)*	**390**	91
Current derivative liabilities	**$10,380**	**$ 91**
Derivative liability – Lender Warrants *(Note 13 a)*	**7,380**	-
Derivative liability –LIBOR floor *(Note 13 b)*	**2,015**	-
Non-current derivative liabilities	**$ 9,395**	**$ -**

The resulting impact on loss for the three and six months ended June 30, 2021 from the remeasurement of these derivative liabilities at reporting period end is disclosed in Note 18.

15. ASSET RETIREMENT OBLIGATIONS

($ 000's)	**June 30, 2021**
Balance, beginning of the period	**$ -**
Liability acquired – March 16, 2021	**34**
Change in discount rate	**2,657**
Accretion	**18**
Balance, end of the period	**$ 2,709**

The Company's asset retirement obligation relates to net ownership interests in oil and gas assets (including well sites and processing facilities) that were acquired further to the Atomic Group Acquisition (discussed in Note 5). The Company estimates the undiscounted value of its total asset retirement obligations to be $7.9 million as at June 30, 2021. These obligations are expected to be incurred between 2022 and 2075, majority anticipated to be incurred between 2059 and 2075. The asset retirement obligation is calculated using a discount factor being the risk-free rate related to the liability and is based on the US long-term bond rate. As at June 30, 2021, the discount factor was 2.3% based on the risk-free rate based on the US long-term bond rate and an inflation rate of 2.5% per annum.

16. SHARE CAPITAL

a) Authorized and Issued Common Shares

Authorized
An unlimited number of common voting shares (the "Common Shares") without nominal or par value and an unlimited number of preferred shares, issuable in series.

Issued
The issued share capital is as follows:

	Number of Common Shares	Amount (000's)
Balance, January 1, 2020	**3,483,752,463**	**$ 138,087**
Issued pursuant to UK July 2nd 2020 Placing	400,000,000	1,497
Issued as payment in respect of YARF Loan	38,500,000	144
Issued as payment of Finder's Fee	16,000,000	60
Issued pursuant to UK July 23rd 2020 Placing	433,333,334	1,655
Issued pursuant to Debt Exchange	436,917,545	1,771
Issued pursuant to exercise of 2019 Broker's Warrants	9,970,000	19
Fair value of 2019 Broker's Warrants exercised	-	4
Issued pursuant to exercise of 2018 Broker's Warrants	53,731,380	236
Fair value of 2018 Broker's Warrants exercised	-	103
Share issue costs	-	(937)
Balance, December 31, 2020	**4,872,204,722**	**$ 142,639**
Issued pursuant to Non-brokered Placing (i)	4,442,500,000	12,072
Issued pursuant to CEO Loan conversion (i)	57,500,000	155
Fair value of Unit Warrants presented as derivative liability (i)	-	(2,132)
Issued as payment of 2nd Finder's Fee (i)	285,041,750	1,347
Issued pursuant to Brokered Placing (ii)	4,171,562,500	18,652
Issued as payment of Broker's Fee (ii)	203,437,500	966
Issued pursuant to exercise of Unit Warrants (i)	102,500,000	368
Fair value of Unit Warrants exercised (i)	-	528
Issued as payment of purchase price of Atomic (Note 5)	818,873,319	4,000
Issued as payment of advisory services (iii)	25,000,000	202
Share issue costs (iv)	-	(3,930)
Balance, June 30, 2021	**14,978,619,791**	**$ 174,867**

(i) Non-brokered Placing

During first quarter of 2021, further to a non-brokered placing closed in the UK (the "Non-brokered Placing"), the Company issued total of 4,442,500,000 units at a price of £0.002 ($0.0027) per unit for gross proceeds of £8.9 million ($12.1 million). Each unit consists of one Common Share and one half of one common share purchase warrant ("Unit Warrant"). Each Unit Warrant entitles the holder thereof to purchase one Common Share at an exercise price of £0.0026 ($0.0035) per share on or before January 8, 2022.

16. SHARE CAPITAL (continued)

(i) Non-brokered Placing (continued)

The **4,442,500,000** Common Shares related to Non-brokered Placing were issued as follows:

- 1,050,000,000 on January 8, 2021,
- 2,062,500,000 on January 11, 2021,
- 325,000,000 on January 12, 2021,
- 188,586,000 on January 14, 2021,
- 575,000,000 on January 26, 2021,
- 23,589,000 on February 17, 2021,
- 8,300,000 on February 26, 2021,
- 75,000,000 on March 9, 2021 and
- 134,525,000 on March 12, 2021.

In addition, on January 11, 2021, **57,500,000** units with a value of £115,000 ($155,000) at a deemed price £0.002 per unit were issued to the Company's CEO further to the extinguishment of the CEO Loan agreed to be on same terms as the Non-brokered placing (further to a placing agreement signed with the CEO on December 23, 2020).

The fair value of 2,250,000,000 Unit Warrants was estimated at $2.1 million (using a Black-Scholes option pricing model with assumptions as noted in a table below) and was netted against proceeds from share capital and a derivative liability of $2.1 million was recognized as at January 8, 2021 (legal issue date of Unit Warrants). The Unit Warrants' exercise price is denominated in GBP, and the Company's functional currency is USD. Accordingly, due to variability in these exchange rates, the Unit Warrants are classified as a derivative financial instrument.

The derivative liability of the Unit Warrants outstanding (i.e. net of 102,500,000 Unit Warrants that were exercised in March and April 2021, as discussed below) was revalued as at June 30, 2021 and a related derivative loss of $8.3 million (see note 18) on derivative liability was recognized for the six months ended June 30, 2021. The derivative liability in respect of Unit Warrants outstanding as at June 30, 2021 was estimated at $10 million (see note 14), using a Black-Scholes option pricing model with the assumptions as noted in the table below.

In connection with the Non-brokered Placing, the Company paid/issued:

- to a first finder - a cash finder's fee of £35,000 ($47,500) and issued 18,750,000 common share purchase warrants ("1st Finder's Warrants") as additional compensation to the finder;
- to a second finder – on March 9, 2021 the Company issued **285,041,750** Common Shares as a payment for a finder's fee, representing a 7% commission in respect of placings arranged by the second finder. Accordingly, the Company recognized $1.3 million (£1 million), being the fair value of these shares as at the issue date, as an addition to the share capital and an addition to share issue costs related to the Non-brokered Placing. In addition, the Company issued 305,401,875 common share purchase warrants ("2nd Finder's Warrants") as additional compensation for the finder.

Each 1st and 2nd Finder's Warrants entitle the holder thereof to purchase one Common Share at an exercise price of £0.0026 ($0.0035) per Common Share on or before January 8, 2022. The fair value of the finders' warrants, estimated (using a Black-Scholes option pricing model with assumptions as noted in a table below) at $18,000 for the 1st and 2nd Finder's Warrants and $289,000 for the 2nd Finder's Warrants was recognized as equity (warrants) and netted against proceeds from Non-brokered Placing (as share issue costs).

16. SHARE CAPITAL (continued)

(i) Non-brokered Placing (continued)

Proceeds from the Non-brokered Placing that were received in December 2020 (i.e. in advance of the actual issue of respective units in January 2021) in the amount of £3.9 million ($5.3 million) were recognized as subscription receipts liability in current liabilities as at December 31, 2020.

The net proceeds from the Non-brokered Placing were used to make initial, partial payments of the purchase price for the Atomic Group Acquisition (See Note 5) as well as to cover the Company's ongoing general and administrative costs.

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

	January 8, 2021	June 30, 2021
Risk-free interest rate	-0.036%	0.068%
Weighted average life (years)	0.75	0.53
Expected volatility	90%	90%
Expected dividend yield	0%	0%
COPL's stock price*	$0.0033	$0.0081

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

In March and April 2021, further to an exercise of Unit Warrants, the Company received in total $368,000 and issued related **102,500,000** Common Shares as follows:

- 12,500,000 on March 9, 2021,
- 25,000,000 on March 23, 2021,
- 62,500,000 on March 31, 2021 and
- 2,500,000 on April 12, 2021.

The fair value of the exercised Unit Warrants estimated at $0.5 million in total was recognized as an addition to the share capital and respective decrease in the derivative liability. The following assumptions were used for Black-Scholes option pricing model to estimate the fair value of Unit Warrants exercised:

	March 9, 2021	March 23, 2021	March 31, 2021	April 12, 2021
Risk-free interest rate	0.065%	0.054%	0.053%	0.077%
Weighted average life (years)	0.58	0.55	0.52	0.49
Expected volatility	90%	90%	90%	90%
Expected dividend yield	0%	0%	0%	0%
COPL's stock price*	$0.0048	$0.0119	$0.0080	$0.0080

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

(ii) Brokered Placing

On March 11, 2021, further to a brokered placing closed in the UK (the "Brokered Placing"), the Company issued total of **4,171,562,500** Common Shares at a price of £0.0032 ($0.0045) per share for gross proceeds of £13.3 million ($18.7 million).

16. SHARE CAPITAL (continued)

(ii) Brokered Placing (continued)

In connection with the Brokered Placing, on March 11, 2021 the Company issued 203,437,500 Common Shares as a partial payment of a broker's fee and paid in cash a remaining broker's fee of £189,000 ($259,000), representing in total approximately 6% commission in respect of the Brokered Placing. The Company recognized $1.0 million (£0.7 million), being the fair value of these broker's shares as at the issue date, as an addition to the share capital and an addition to share issue costs related to the Brokered Placing.

The Company also issued 262,500,000 common share purchase warrants ("Broker's Warrants") to the broker as additional compensation. Each Broker's Warrant entitles the holder thereof to purchase one Common Share of the Company at an exercise price of £0.0032 ($0.0044) per Common Share on or before March 8, 2023.

The fair value of the Broker's Warrants estimated at $648,000, was recognized as equity (warrants) and netted against proceeds from the Brokered Placing (as share issue costs). The following assumptions were used for Black-Scholes option pricing model to estimate the fair value of Broker's Warrants and Finders' Warrants at valuation date:

	March 8, 2021
Risk-free interest rate	0.018%
Weighted average life (years)	1.5
Expected volatility	90%
Expected dividend yield	0%
COPL's stock price*	$0.0053

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

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

(iii) Share issued as payment for service

On June 30, 2021, the Company issued 25,000,000 Common Shares as a payment for financial advisory service, fair value of $0.2 million.

(iv) Share issue cost

The Company incurred approximately $3.9 million of total costs in connection with the Non-brokered and Brokered Placings, including $128,000 incurred in 2020 and recognized as deferred share issue costs as at December 31, 2020. In addition to finder's and broker's fees paid in cash, the fair value of finder's and broker's fees paid in shares and the fair value of Warrants issued to finders and the broker (as disclosed in (i) and (ii) above), these share issue costs also include legal, LSE, transfer agent, and consulting fees of approximately $0.3 million.

(v) Shares issued subsequent to June 30, 2021

On June 29, 2021, the Company received funds of £1.37 million ($1.89 million) in respect of exercise of 525,000,000 Unit Warrants for which the related Common shares were issued on July 2, 2021. Accordingly, the Company recognized a subscription receipt liability of $1.89 million in its statement of financial position as at June 30, 2021.

16. SHARE CAPITAL (continued)

(v) Shares issued subsequent to June 30, 2021 (continued)

In addition, on July 29, 2021, August 23, 2021 and August 25, 2021, further to the exercise of Unit Warrants the Company issued in total 902,500,000 Common Shares for proceeds of £2.3 million ($3.2 million), and on July 23, 2021 further to exercise of a portion of 2020 3rd Finder's warrants, the Company issued 20,833,333 Common Shares for proceeds of £0.08 million ($0.11 million).

b) Warrants

A summary of the Company's share purchase warrants outstanding at June 30, 2021 is as follows:

($ 000's)	Number of Warrants	Weighted Average Exercise Price*	Warrants in Equity	Expiry Date
Balance, January 1, 2020	**63,701,380**	**$ 0.0040**	**$ 107**	(August 30, 2020 to September 3, 2021)
Issued July 2020 UK Placing – 1st Finder's Warrants	25,000,000	0.0049	40	July 2, 2022
Issued July 2020 UK Placing – YARF Warrants	100,000,000	0.0049	-	July 2, 2022
Issued July 2020 UK Placing – 2nd Finder's Warrants	16,000,000	0.0050	42	July 2, 2022
Issued July 2020 UK Placing – 3rd Finder's Warrants	32,500,000	0.0050	63	July 24, 2021
Exercised 2019 Brokers' Warrants	(9,970,000)	0.0019	(4)	June 4 & Sept. 3, 2021
Exercised 2018 Broker's Warrants	(53,731,380)	0.0043	(103)	August 30, 2020
Balance, December 31, 2020	**173,500,000**	**$ 0.0049**	**$ 145**	(July 24, 2021 to July 2, 2022)
Issued January 2021 – Unit Warrants *(Note 16a (i))*	2,250,000,000	0.0035	-	January 8, 2022
Issued January 2021 – 1st Finder's Warrants *(Note 16a (i))*	18,750,000	0.0035	18	January 8, 2022
Issued January 2021 – 2nd Finder's Warrants *(Note 16a (i))*	305,401,875	0.0035	289	January 8, 2022
Issued March 2021 – Broker's Warrants *(Note 16a (ii))*	262,500,000	0.0044	648	March 8, 2023
Exercised Unit Warrants *(Note 16a (i))*	(102,500,000)	0.0035	-	January 8, 2022
Balance, June 30, 2021	**2,907,651,875**	**$ 0.0037**	**$ 1,100**	(July 24, 2021 to March 8, 2023)

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

Subsequent to June 30, 2021, an unexercised portion of 2020 3rd Finder's warrants of 11,666,667 have expired.

16. SHARE CAPITAL (continued)

c) Incentive Stock Options

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

There were no changes to the Company's stock option plan, no stock options were granted, exercised, and/or forfeited and 37,540,000 stock options expired during the six months ended June 30, 2021.

As at June 30, 2021, a total of 411,474,235 stock options to purchase Common Shares were outstanding, having a weighted average exercise price of $0.0083 per share and a remaining weighted average contractual life of 3.7 years.

($ 000's)	Number of Options	Weighted Avg. Exercise Price*	Contributed Capital Reserve
Balance, January 1, 2020	**107,405,000**	**$ 0.0447**	**$ 50,394**
Granted	341,609,235	0.0045	866
Balance and exercisable, December 31, 2020	**449,014,235**	**$ 0.0141**	**$ 51,260**
Expired	(37,540,000)	**$ 0.0778**	**-**
Balance and exercisable, June 30, 2021	**411,474,235**	**$ 0.0083**	**$ 51,260**

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

Subsequent to June 30, 2021, on August 11, 2021, 3,200,000 stock option expired unexercised.

17. FINANCE COSTS

($ 000's)	**For the three months ended June 30, 2021**	For the three months ended June 30, 2020	**For the six months ended June 30, 2021**	For the six months ended June 30, 2020
Interest expense – SCF *(Note 13)*	**$ 1,422**	$ -	**$ 1,656**	$ -
Interest expense – CEO loan	**-**	4	**-**	6
Interest on lease liabilities	**3**	2	**5**	5
Interest income	**(25)**	-	**(25)**	-
Financing costs	**15**	177	**560**	177
Other financing costs	**202**	-	**202**	-
Accretion of SCF *(Note 13)*	**415**	-	**504**	-
Accretion of CEO loan	**-**	1	**-**	1
Accretion on AROs *(Note 15)*	**15**	-	**18**	-
Finance costs, net	**$ 2,047**	$ 184	**$ 2,920**	$ 189

18. LOSS ON DERIVATIVE LIABILITIES

($ 000's)	**For the three months ended June 30, 2021**	For the three months ended June 30, 2020	**For the six months ended June 30, 2021**	For the six months ended June 30, 2020
Lender Warrants revalued as at June 30, 2021 *(Note 13a)*	**$ 100**	$ -	**$ 2,480**	$ -
LIBOR floor revalued as at June 30, 2021 *(Note 13c)*	**(133)**	-	**(237)**	-
Unit warrants revalued as at June 30, 2021 *(Note 16a (i))*	**203**	-	**8,332**	-
YARF warrants revalued as at June 30, 2021 *(Note 12)*	**(15)**	47	**293**	47
Loss on derivative liabilities	**$ 155**	$ 47	**$ 10,868**	$ 47

19. FINANCIAL INSTRUMENTS

The Company measures financial assets and financial liabilities at fair value on initial recognition, which is typically the transaction price unless a financial instrument contains a significant financing component. Measurement in subsequent periods depends on the financial instrument's classification, as described below.

- Fair value through profit or loss: Financial instruments designated at fair value through profit or loss are initially recognized and subsequently measured at fair value with changes in those fair values immediately charged to the statements of comprehensive loss. Under this classification, the Company included the YARF Warrants (Note 12), the Unit Warrants (Note 16a(i)), the Lender Warrants (Note 13) and the commodity derivatives (Note 19 (a)).

- Amortized cost: Financial instruments designated as amortized cost are initially recognized at fair value, net of directly attributable transaction costs, and are subsequently measured at amortized cost using the effective interest method. Financial instruments under this classification include cash and cash equivalents, accounts receivables, Senior Credit Facility, short-term loans, accounts payable and accrued liabilities.

- Fair value through other comprehensive income: Financial instruments designated as fair value through other comprehensive income are initially recognized at fair value, net of directly attributable transaction costs, and are subsequently measured at fair value with changes in fair value recognized in other comprehensive income, net of tax. The Company does not have any financial instruments under this classification.

Impairment of financial assets

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

19. FINANCIAL INSTRUMENTS (continued)

Fair value

As at June 30, 2021, the carrying values of cash and cash equivalents, accounts receivables, and accounts payable and accrued liabilities, approximate their fair values due to the short-term nature of these financial instruments. The carrying values of the Senior Debt Facility at amortized cost approximates fair value as at June 30, 2021, given the short period lapsed since initially valued on the date of inception of debt on March 16, 2021.

Market risk

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

(a) Commodity Price Risk

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

Effective March 15, 2021, in anticipation of the Closing of the Atomic Group Acquisition and satisfying conditions attached to the Senior Credit Facility, the Company entered into a master risk management agreement with a counter party. These risk management contracts are not entered into for trading nor speculative purposes.

19. FINANCIAL INSTRUMENTS (continued)

(a) Commodity Price Risk (continued)

Commodity	Fixed price SWAP	Total notional quantity (Gallon (GAL); Barrel (BBL))	Term	Contracts price per GAL or BBP/Monthly	Fair Value at June 30, 2021 ($ 000's)
Crude oil	WTI Futures	156,773 BBL	July 1, 2021 to December 31, 2021	$61.28	**(1,474)**
Crude oil	WTI Futures	384,187 BBL	January 1, 2022 to December 31, 2022	$56.58	**(3,146)**
Crude oil	WTI Futures	416,772 BBL	January 1, 2023 to February 29, 2024	$52.87	**(2,563)**
			Commodity derivative liability		**(7,183)**
Butane	Normal Butane (NC4)	5,686,608 GAL	July 1, 2021 to December 31, 2021	$0.930	**1,703**
Butane	Normal Butane (NC4)	11,110,302 GAL	January 1, 2022 to December 31, 2022	$0.768	**2,645**
Butane	Normal Butane (NC4)	9,921,552 GAL	January 1, 2023 to February 29, 2024	$0.670	**1,757**
			Commodity derivative asset		**6,105**
			Net derivative liability		**(1,078)**
Short-term portion - commodity derivative assets					**193**
Long-term portion - commodity derivative liability					**(1,271)**

(1) WTI refers to West Texas Intermediate, a grade of light sweet crude oil used as benchmark pricing in the United States.
(2) Floating Price of the Oil contracts for each contract month is equal to the arithmetic average of the NYMEX Light Sweet Crude Oil Futures first nearby contract settlement price for each business day that it is determined during the contract month.
(3) Floating Price of the Gas contracts for each contract month is equal to the arithmetic average of the OPIS Mt. Belvieu Butane (non-LDH) for each business day during the contract month.

The resulting fair value of these contracts has been recognized in the consolidated statement of financial position as current commodity derivative asset of $0.2 million and long-term commodity derivative liability of $1.3 million as at June 30, 2021. The respective $9.4 million of unrealized loss on crude derivatives and $7.2 million of unrealized gain on butane derivative contracts were recognized in the statement of loss for three months ended June 30, 2021. The respective $7.2 million of unrealized loss on crude derivatives and $6.1 million of unrealized gain on butane derivative contracts were recognized in the statement of loss for six months ended June 30, 2021. The maximum credit exposure of these derivative assets is the carrying value. The Group mitigates this risk by entering into transactions with long-standing, reputable counterparties and partners.

19. FINANCIAL INSTRUMENTS (continued)

(b) Credit risk

Credit risk is the risk that the counterparty to a financial asset will default, resulting in the Company incurring a financial loss. A substantial portion of the Company's accounts receivables are with the purchaser of oil and joint interest owners in the Wyoming assets and are subject to normal industry credit risks. As at June 30, 2021, all the Company's cash was held at five financial institutions with high third-party credit ratings.

The maximum credit risk exposure associated with accounts receivable is the total carrying value. The Company monitors these balances to limit the risk associated with collection. 100% of the Company's revenue receivable as at June 30, 2021, was owing from one company. Of the Company's joint interest billings receivable as at June 30, 2021, approximately 98% was owing from two partners in producing units. The Company considers all of its accounts receivable as at June 30, 2021 to be collectable.

The Company's other accounts receivable include mainly accounts receivable in respect of recoverable GST and VAT. The Company believes there is no unusual exposure associated with these receivables.

No amounts classified as current accounts receivable are considered to be past due and no allowance for doubtful accounts has been recorded in these accounts. As at June 30, 2021, the Company holds $15.6 million of cash and cash equivalents with, Canadian, US and Bermuda chartered banks (December 31, 2020 - $1.4 million).

Long-term receivables

The Company's long-term accounts receivable solely include amounts due from its Nigerian partner in ShoreCan joint venture. Further to a recoverability assessment (See Note 7), the Company recognized a full allowance for expected credit loss as follows:

($ 000's)	**June 30, 2021**	December 31, 2020
Long-term receivable	**$ 386**	$ 385
Allowance for expected credit loss	**(386)**	(385)
	$ -	$ -

(c) Interest rate risk

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

The Company's Senior Credit Facility provides for an interest rate of LIBOR (with a floor of 2%) plus 10.5% per annum. Currently, the management does not believe there is a material interest rate risk associated with this facility as LIBOR's forward curve for next four years is below the floor of 2%; accordingly, the facility is perceived as bearing a fixed interest rate of 12.5% until its maturity in March 2025.

19. FINANCIAL INSTRUMENTS (continued)

(d) Foreign exchange risk

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

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

(000's)	**June 30, 2021**	December 31, 2020
Great British Pounds	**2,350**	50
Canadian Dollars	**907**	188

(e) Liquidity risk

Liquidity risk is the risk the Company will encounter difficulties in meeting its short-term debt obligations. The Company manages its liquidity risk through funds flow and debt management.

The timing of cash outflows relating to financial liabilities (on undiscounted basis) as at June 30, 2021 are outlined in the table below:

($ 000's)	< 1 year	1-2 years	2-5 years	> 5 years
Accounts payables and accrued liabilities	$ 9,515	$ -	$ -	$ -
Lease obligation	86	88	105	-
Assets retirement obligations	-	-	-	7,868
Lender's warrants	-	-	7,380	-
Senior credit facility	-	-	45,000	-
	$ 9,601	$ 88	$ 52,485	$ 7,868

20. CAPITAL MANAGEMENT

The Company's objectives when managing capital are:

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

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

20. CAPITAL MANAGEMENT (continued)

Although, currently the Company is not subject to any external capital requirements, the Company's US operation is subject to financial covenants imposed by Senior Credit Facility (discussed in Note 13). Commencing from March 2022, these financial covenants (including leverage ratio in a range of 2.5:1 to 3.0:1) will have an impact on the Company's overall capital requirements and management of capital requirements.

21. NET CHANGE IN NON-CASH WORKING CAPITAL

($ 000's)	**Three months ended June 2021**	Three months ended June 2020	**Six months ended June 2021**	Six months ended June 2020
(Increase) / decrease in accounts receivable	**$ (155)**	$ 2	**$ (659)**	$ 14
Decrease / (increase) in prepaid expenses	**10**	(7)	**(8)**	24
Increase / (decrease) in operating accounts payable and accrued liabilities	**445**	626	**(3,050)**	1,005
Net change in operating non-cash working capital	**$ 300**	$ 621	**$ (3,717)**	$ 1,043
(Increase) in prepaid expenses	**-**	(304)	**(15)**	(304)
Increase in accounts payable and accrued liabilities related to financing	**-**	282	**197**	282
(Increase) in deferred share issue costs	**(287)**	-	**(287)**	-
Reduction in lease liability	**-**	2	**-**	(2)
Net change in financing non-cash working capital	**$ (287)**	$ (20)	**$ (105)**	$ (24)
(Increase) in accounts receivable related to investing	**(1,246)**	-	**(1,246)**	-
(Decrease) in accounts payable and accrued liabilities related to investing	**(1,946)**	-	**(2,021)**	-
Net change in investing non-cash working capital	**$ (3,192)**	$ -	**$ (3,267)**	$ -

22. COMMITEMENT AND CONTRTACTUAL OBLIGATIONS

On May 18, 2021, the Company entered into a Natural Gas Liquids Purchase Agreement with Tallgrass Midstream, LLC ("Tallgrass") whereby the Company will buy all production of mixed natural gas liquids, consisting primarily of propane and butane, from the overhead of Tallgrass' Douglas Plant stabilizer and facilities at a price equal to the Conway In Well OPIS monthly average by product less $0.10 per gallon, with title to the liquids passing at the Douglas Plant truck rack meter. The Company will reimburse Tallgrass for costs to construct the facilities necessary to accommodate such deliveries, estimated to be $1.5 million, with progress payments of $0.75 million made on the date the agreement was executed, and $0.75 million due 60 days thereafter. Completion of the facilities are expected between four to six months after execution of the agreement, with reimbursement to the Company of all progress payments should Tallgrass not construct the facilities within a 10 month period. The term of the agreement is for five cumulative operational years commencing with the in-service date of the facilities. The amount committed under this contract of $0.75 million as at June 30, 2021, was paid in July 2021.