Canadian Overseas Petroleum Limited
Unaudited Condensed Interim Consolidated Financial Statements
As at September 30, 2016 and the for the three and nine month periods ended September 30, 2016 and 2015

Management's Responsibility for Consolidated Financial Statements

The information provided in these unaudited condensed interim 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 the auditors, 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
November 10, 2016

Signed "Aleksandra Owad"
Aleksandra Owad
Chief Financial Officer
November 10, 2016

Canadian Overseas Petroleum Limited
Condensed Consolidated Statements of Financial Position (unaudited)
(in thousands of United States dollars)

As at	**September 30, 2016**	December 31, 2015
Assets		
Current		
Cash and cash equivalents *(note 3)*	**$ 3,712**	$ 2,015
Accounts receivable	**296**	149
Prepaid expenses	**288**	219
	4,296	2,383
Deposits and prepayments	**49**	51
Exploration and evaluation assets *(note 5)*	**16,615**	16,455
Office equipment	**73**	109
	$ 21,033	$ 18,998
Liabilities		
Current		
Accounts payable and accrued liabilities *(note 6)*	**$ 1,264**	$ 1,424
	1,264	1,424

Derivative liability (*note 7a*)	**8,176**	367
	9,440	1,791
Shareholders' Equity		
Share capital *(note 7(a))*	**123,991**	120,730
Warrants *(note 7(b))*	**2,612**	2,612
Contributed capital reserve (*note 7(c))*	**49,543**	48,014
Deficit	**(162,420)**	(151,687)
Accumulated other comprehensive income	**(2,133)**	(2,462)
	11,593	17,207
	$ 21,033	$ 18,998

Nature of operations *(note 1)*
Going concern *(note 2)*
Commitments and contractual obligations *(note 8)*

See accompanying notes to the condensed 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 September 30, 2016	Three months ended September 30, 2015	**Nine months ended September 30, 2016**	Nine months ended September 30, 2015
Operations				
Pre-license costs	**$ -**	$ 26	**$ -**	$ (114)
Administrative	**(1,363)**	(1,795)	**(3,791)**	(4,856)
Depreciation	**(7)**	(15)	**(34)**	(45)
Stock based compensation	**(261)**	-	**(1,529)**	-
	(1,631)	(1,784)	**(5,354)**	(5,015)
Finance income and costs				
Interest income	**9**	9	**19**	20
Derivative (loss)/gain *(note 7)*	**(4,814)**	1,060	**(5,073)**	1,074
Foreign exchange gain/(loss)	**2**	(236)	**(246)**	(447)
	(4,803)	833	**(5,300)**	647

Loss before investments in joint ventures	**(6,434)**	(951)	**(10,654)**	(4,368)
Loss on investment in joint venture *(note 4)*	**(77)**	(29)	**(79)**	(373)
Net loss	**(6,511)**	(980)	**(10,733)**	(4,741)
Gain on translation of foreign subsidiaries	**47**	110	**329**	58
Comprehensive loss	**$ (6,464)**	$ (870)	**$ (10,404)**	$ (4,683)
Loss per share (basic and diluted)	**$ (0.01)**	$ (0.00)	**$ (0.02)**	$ (0.01)
Weighted average number of shares outstanding	**607,114,077**	474,484,867	**550,883,602**	426,460,614

See accompanying notes to the condensed consolidated financial statements.

Canadian Overseas Petroleum Limited

Condensed Consolidated Statements of Changes in Equity (unaudited)

(in thousands of United States dollars)

	Share Capital	**Warrants**	**Contributed Capital Reserve**	**Deficit**	**Accumulated Other Comprehensive Income/(Loss)[1]**	**Total Equity**
Balance at January 1, 2015	**$ 117,247**	**$ 2,612**	**$ 48,014**	**$(145,002)**	**$ (2,603)**	**$ 20,268**
Comprehensive (loss) / income for the period	-	-	-	(4,741)	58	(4,683)
Issue of common shares - Net of issue costs	3,483	-	-	-	-	3,483
Balance at September 30, 2015	**$ 120,730**	**$ 2,612**	**$ 48,014**	**$(149,743)**	**$ (2,545)**	**$ 19,068**
Balance at	**$ 120,73**	**$ 2,61**	**$ 48,014**	**$(151,68**	**$ (2,462)**	**$ 17,207**

December 31, 2015	**0**	**2**		**7)**		
Issued further to Offerings - net of issue cost and valuation of warrants classified as derivatives	2,889	-	-	-	-	**2,889**
Issued further to exercise of Warrants - including valuation of warrants exercised	372	-	-	-	-	**372**
Stock Options granted	-	-	1,529	-	-	**1,529**
Comprehensive (loss) / income for the period	-	-	-	(10,733)	329	**(10,404)**
Balance at September 30, 2016	**$ 123,991**	**$ 2,612**	**$ 49,543**	**$(162,420)**	**$ (2,133)**	**$ 11,593**

(1)As at September 30, 2016 and 2015, the accumulated other comprehensive income balance consists of unrealized foreign exchange on translation of foreign subsidiaries.

See accompanying notes to the condensed consolidated financial statements.

Canadian Overseas Petroleum Limited

Condensed Consolidated Statements of Cash Flows (unaudited)

(in thousands of United States dollars)

For the nine months ended September 30	2016	2015
Cash Used In Operating Activities		
Loss	**$ (10,733)**	$ (4,741)
Interest income	**(19)**	(20)
Add (deduct) non-cash items:		
Derivative loss /(gain) *(note 7(a))*	**5,073**	(1,074)
Depreciation	**34**	45
Stock-based compensation *(note 7 (c))*	**1,529**	-
Unrealized foreign exchange loss	**342**	483

Loss on investment in joint venture *(note 4)*	**79**	373
Funds used in operations	**(3,695)**	(4,934)
Net change in non-cash working capital *(note 10)*	**(589)**	88
	(4,284)	(4,846)
Financing Activities		
Issuance of common shares, net of issue costs	**6,090**	4,952
Net change in non-cash working capital *(note 10)*	**215**	-
	6,305	4,952
Investing Activities		
Additions to office equipment	**-**	(41)
Additions to exploration and evaluation assets *(note 5)*	**(160)**	(113)
Additions to investment in joint venture *(note 4)*	**(79)**	(664)
Interest income	**19**	20
	(220)	(798)
Increase /(Decrease) in cash and cash equivalents during the period	**1,801**	(692)
Effect of foreign exchange on cash and cash equivalents held in foreign currencies	**(104)**	(471)
Cash and cash equivalents, beginning of period	**2,015**	4,705
Cash and cash equivalents, end of period	**$ 3,712**	$ 3,542

See accompanying notes to the condensed consolidated financial statements.

Canadian Overseas Petroleum Limited
Notes to the Condensed Consolidated Financial Statements
As at September 30, 2016, and for the three and nine months ended September 30, 2016 and 2015
All amounts in United States dollars, except otherwise stated

1. NATURE OF OPERATIONS

Canadian Overseas Petroleum Limited ("COPL" or the "Company"), is a widely-held publicly traded company incorporated and domiciled in Canada. The Company's common shares are traded on the TSX Venture Exchange in Canada and the London Stock Exchange in the UK. The Company's registered office is in Calgary, Alberta at 400, 604 - 1st Street SW.

COPL and its subsidiaries are involved in the identification, acquisition, exploration and development of oil and natural gas offshore reserves. As at September 30, 2016, the Company has 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") is providing technical and projects related services to the COPL group of companies;
- Canadian Overseas Petroleum (Bermuda Holdings) Limited, Canadian Overseas Petroleum (Bermuda) Limited ("COPL B") and Canadian Overseas Petroleum (Namibia) Limited, which were incorporated to conduct operations in offshore Liberia and elsewhere in Africa.

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 sub-Saharan Africa. Both partners hold a 50% interest in the joint venture.

2. BASIS OF PREPARATION AND GOING CONCERN

Basis of Preparation and Compliance

The Company's unaudited condensed interim consolidated financial statements ("financial statements") have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting" following acceptable accounting policies under International Financial Reporting Standards ("IFRS") and are reported in thousands of United States dollars ("$"). 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, 2015 and 2014, which outline the Company's significant accounting policies in Note 3 thereto, which have been applied consistently in these financial statements, as well as the Company's critical accounting judgments and key sources of estimation uncertainty which are also set out in Note 3 thereto.

Going Concern

These financial statements are prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business.

Currently, the Company does not have material cash inflows and/or adequate financing to develop profitable operations. The Company is pursuing exploration projects and contracts that will require substantial additional financing before they are able to generate positive operating cash flows. Accordingly, the Company's continued successful operations are dependent on its ability to obtain additional financing. There is no assurance that the Company will be able to obtain adequate financing in the future or that such financing will be obtained on terms advantageous to the Company. With no assurance such financing will be obtained in future, there may be significant doubt the Company will be able to continue as a going concern. These financial statements do not give effect to adjustments that would be necessary to the carrying values and classifications of assets and liabilities should the Company be unable to continue as a going concern.

The financial statements were authorized for issue by the Company's Board of Directors on November 10, 2016.

3. CASH AND CASH EQUIVALENTS

($ 000's)	**September 30, 2016**	December 31, 2015
Cash	**$ 3,620**	$ 1,928
Credit card deposits	**92**	87
	$ 3,712	$ 2,015

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

Credit card deposits are bank deposits that cover the maximum credit limit available for corporate credit cards.

The fair value of cash and cash equivalents was $3.7 million as at September 30, 2016 ($2.0 million as at December 31, 2015). The Company deposits its cash with reputable Canadian and Bermuda banks. The Company did not have any overdraft facilities in place as at September 30, 2016 and December 31, 2015.

4. 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. The determination of ShoreCan as a joint venture was based on ShoreCan's structure through a separate legal entity whereby neither the legal form nor the contractual arrangement give the owners rights to the assets and obligations for the liabilities within the normal course of business, nor does it give the rights to the economic benefits of the assets or responsibility for settling liabilities associated with the arrangement.

The Company and its joint venture partner signed a funding agreement, effective October 24, 2014 (the "Funding Agreement") providing financial support as needed in proportion to its interest (50% each) in ShoreCan for ShoreCan's expenses and obligations. Amounts advanced to ShoreCan under the terms of the Funding Agreement are unsecured and payable on or before October 24, 2017 contingent upon ShoreCan generating its own cashflows. Interest is charged monthly at an annual rate of 3.0% above 12 month USD LIBOR. The Funding Agreement does not impose any obligation on the Company and/or its joint venture partner to contribute financially to ShoreCan.

On September 13, 2016, ShoreCan closed an acquisition of 80% of the issued share capital of Essar Exploration and Production Limited (Nigeria) ("Essar Nigeria"), a company which sole asset is a 100% interest in exploration license OPL 226 offshore Nigeria. As part of the shareholder agreement, ShoreCan has agreed to cover the funding of Essar Nigeria's operations. As a party to a Production Sharing Contract ("PSC") for OPL 226, Essar Nigeria is required to seek Nigerian Government ministerial consent for the transaction. The respective application has been made and the parties to the transaction are awaiting its approval.

ShoreCan has assessed that the transaction does not meet criteria of a business acquisition as Essar Nigeria is in exploration/development stage and as at September 30, 2016, ShoreCan did not have an effective control over Essar Nigeria. The $0.25 million representing the cash consideration paid, was recognized as an investment in ShoreCan's books as at September 30, 2016. In addition, ShoreCan has committed to invest up to a maximum of $80 million into Essar Nigeria in the form of an interest-free shareholder loan. The funds will be used for Essar Nigeria operations and in particular, to cover work program obligations, including the costs of drilling one well under Phase-1 of the PSC; the Phase-1 period was recently extended to November 30, 2017. Upon receiving final approval, Shorecan will finalize the recording of this investment based on the fair values of Essar Nigeria's assets and liabilities. As at December 31, 2015, as per Essar Nigeria's audited financial statements, Essar Nigeria had total assets of $69.8 million and total liabilities of $69.7 million, including a loan to its parent of $64.7 million. The agreement provides for the repayment of this amount from future production.

As at the date of filing this interim consolidated financial statements, COPL did not provide any guarantee in respect of obligations, commitments and/or losses of either ShoreCan or Essar Nigeria.

4. INVESTMENT IN JOINT VENTURE (continued)

During the third quarter of 2016, as a result of geological evaluation, ShoreCan decided to terminate its exploration project in Namibia and to relinquish its 80% interest in three offshore blocks in Namibe Basin. Accordingly, $0.5 million of ShoreCan's E&E assets related to Namibia project were written off as at September 30, 2016.

Summarized statement of comprehensive loss for investment in joint venture under equity accounting:

	Three months ended	Three months ended	**Nine months ended**	Nine months ended

($ 000's)	**September 30, 2016**	September 30, 2015	**September 30, 2016**	September 30, 2015
Revenues	**$ -**	$ -	**$ -**	$ -
Expenses				
Pre-licence costs	**(14)**	(54)	**(80)**	(465)
Derecognition of E&E assets	**(495)**	-	**(495)**	-
General and administration	**(779)**	(5)	**(2,940)**	(281)
	(1,288)	(59)	**(3,515)**	(746)
Finance income				
Foreign exchange gain	**1**	-	**11**	-
Interest expense	**(130)**	-	**(255)**	-
	(129)	-	**(244)**	-
Net Loss	**(1,417)**	(59)	**(3,759)**	(746)
Share of equity investment (percent)	**50%**	50%	**50%**	50%
Company's share of net loss	**$ (708)**	$ (29)	**$ (1,879)**	$ (373)

Included in ShoreCan's expenses for the nine months ended September 30, 2016, is $1.4 million (2015 - $nil) of management and technical services and $0.1 million (2015 - $nil) of interest expense charged by the Company and its subsidiaries.

Carrying value of investment in joint venture under equity accounting:

Statement of financial position ($ 000's)	**September 30, 2016**	December 31, 2015
Assets		
Non-current Assets	**$ -**	$ 250
Exploration and evaluation assets	**-**	495
Investment in Nigeria	**250**	-
	$ 250	$ 745
Liabilities		
Current liabilities	**(175)**	(151)
Non-current liabilities	**(9,959)**	(6,719)
	$ (10,134)	$ (6,870)

Reconciliation of carrying amount of net investment in joint venture:

Carrying amount - Opening	**$ -**	$ -
Increases in net investment in joint venture during the period	**79**	729
Loss recognized on investment in joint venture	**(79)**	(729)
Carrying amount - Ending	**$ -**	$ -

4. INVESTMENT IN JOINT VENTURE (continued)

As at September 30, 2016, ShoreCan's non-current liabilities included $5.0 million due to the Company under the terms of the Funding Agreement (December 31, 2015 - $3.4 million).

For the nine months ended September 30, 2016, the Company's share of ShoreCan's losses of $1.9 million (nine months ended September 30, 2015 - $0.4 million) exceed the Company's Net Investment of $79,000 for this period ($0.4 million for nine months ended September 30, 2015). Accordingly, under the equity method, the Company recognized its share of ShoreCan's losses of $79,000 for the nine months ended September 30, 2016 ($0.4 million for nine months ended September 30, 2015).

As at September 30, 2016, the Company's share in ShoreCan's accumulated losses is $4.9 million (December 31, 2015 - $3.1 million). Unrecognized accumulated losses on the investment as of

September 30, 2016 are $4.1 million including $1.9 million of unrecognized losses for nine months ended September 30, 2016.

5. EXPLORATION AND EVALUATION ASSETS

($ 000's)	TOTAL
As at January 1, 2015	**$ 16,305**
Additions	150
As at December 31, 2015	$ 16,455
Additions	**160**
As at September 30, 2016	**$ 16,615**

Liberia
The Company holds a 17% working interest in Block LB-13 offshore Liberia, with the remaining 83% being held by ExxonMobil Exploration and Production Liberia Limited, who is the operator under this license.

At September 30, 2016, the $16.6 million recognized as exploration and evaluation assets consists mainly of 3D seismic and capitalized geological evaluation work conducted on Block LB-13.

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

($ 000's)	**September 30, 2016**	December 31, 2015
Trade payables	**$ 874**	$ 939
Accrued liabilities	**225**	473
Other	**165**	12
Total	**$ 1,264**	$ 1,424

7. 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
Balance, January 1, 2015	**402,050,497**	**$ 117,247**
Issued pursuant to public offering on July 9th (i)	80,288,699	5,677
Warrants issued from the offering	-	(1,372)
Share issue costs	-	(822)
Balance, December 31, 2015	**482,339,196**	**$ 120,730**
Issued pursuant to Non-Brokered Offering (ii)	22,857,143	**1,163**
Issued pursuant to Brokered Offering (iii)	101,066,868	**5,576**
Issued pursuant to exercise of Warrants (ii & iii)	3,474,286	**226**
Valuation of Warrants issued from the Offerings (ii &	**-**	**(2,800)**

iii)		
Valuation of Warrants exercised (ii & iii)	-	**146**
Share issue costs	-	**(1,050)**
Balance, September 30, 2016	**609,737,493**	**$ 123,991**

Subsequent to September 30, 2016, 5,617,857 Common Shares were issued pursuant to exercise of Warrants. Accordingly, a total number of Common Shares issued and outstanding amounted to 615,355,350 as at November 9, 2016.

(i) On July 9, 2015, the Company closed a short form prospectus in connection with a marketed offering of Units of the Company ("2015 Offering"). Each Unit consisted of one Common Share in the capital of the Company and one share purchase warrant. Each share purchase warrant ("2015 Offering Warrant") entitles the holder thereof to purchase one Common Share at an exercise price of CAD $0.12 ($0.09) per Common Share on or before the date that is 24 months following the closing date.

The Company issued 80,288,699 Units at a price of CAD $0.09 ($0.07) for gross proceeds of CAD $7.2 million ($5.7 million). The agents were paid a cash commission of CAD $0.4 million ($0.3 million) representing 6.0% of the gross proceeds of the 2015 Offering. Other expenses related to the 2015 Offering of Units amounted to approximately CAD $0.5 million ($0.4 million).

The fair value of the 2015 Offering Warrants estimated at $1.4 million (using a Black-Scholes option pricing model with assumptions as noted in below table) was netted against proceeds from share capital and a derivative liability of $1.4 million was recognized as at July 9, 2015. The 2015 Offering Warrants' exercise price is in CAD, and the Company's functional currency is in USD. As there is variability in these exchange rates, the 2015 Offering Warrants are classified as a derivative financial instrument.

As at September 30, 2016, the derivative liability was revalued and a derivative loss of $2.0 million on the derivative liability was recognized for the nine months ended September 30, 2016. The derivative liability in respect of the 2015 Offering Warrants as at September 30, 2016, was estimated at $2.4 million (December 31, 2015 - $0.3 million), using a Black-Scholes option pricing model with the assumptions as noted in a table below.

7. SHARE CAPITAL (continued)

a) Authorized and Issued Common Shares (continued)

The Company also issued 4,548,380 share purchase warrants ("2015 Offering Agent Warrants") to its agents as compensation warrants in an amount equal to 6.0% of 75,806,333 of the Common Shares issued pursuant to the 2015 Offering. Each 2015 Offering Agent Warrant entitles the holder to purchase one Common Share of the Company on or before the date that is 24 months following the closing date, at an exercise price of CAD $0.09 ($0.07).

The fair value of the 2015 Offering Agent Warrants estimated at $0.1 million (using a Black-Scholes option pricing model with assumptions as noted in the table below) was netted against proceeds from share capital and a derivative liability of $0.1 million was recognized as at July 9, 2015.

As at September 30, 2016, the derivative liability was revalued and a derivative loss of $155,000 on the derivative liability was recognized for the nine months ended September 30, 2016. The derivative liability in respect of the 2015 Offering Agent Warrants as at September 30, 2016, was estimated at $186,000 (December 31, 2015 - $27,000), using a Black-Scholes option pricing model.

The following assumptions were used for Black-Scholes option pricing model to estimate a fair value of the 2015 Offering Warrants and 2015 Offering Agent Warrants as at the date of issue and as at September 30, 2016:

	July 9, 2015	September 30, 2016
Risk-free interest rate	0.39%	0.52%
Weighted average life (years)	2.0	0.6
Expected volatility	85%	90%
Expected dividend yield	0%	0%

7. SHARE CAPITAL (continued)

a) Authorized and Issued Common Shares (continued)

(ii) On April 28, 2016, further to the first tranche of a private placement to investors in the United Kingdom and on a non-brokered basis ("Non-Brokered Offering"), the Company issued 22,857,143 units at a price of GBP 0.035 ($0.051) for gross proceeds of GBP $0.8 million ($1.2 million). Each unit consists of one common share in the capital of the Company and one share purchase warrant ("Non-Brokered Offering Warrant"). Each Non-Brokered Offering Warrant entitles the holder thereof to purchase one Common Share at an exercise price of GBP $0.0475 ($0.0695) per Common Share on or before the date that is 24 months following the closing date.

The fair value of the Non-Brokered Offering Warrants estimated at $0.6 million (using a Black-Scholes option pricing model with assumptions as noted in a table below) was netted against proceeds from share capital and a derivative liability of $0.6 million was recognized as at April 28, 2016. The Non-Brokered Offering Warrants' exercise price is in GBP, and the Company's functional currency is in USD. As there is variability in these exchange rates, the Non-Brokered Offering Warrants are classified as a derivative financial instrument.

During September 2016, further to an exercise of Non-Brokered Offering Warrants, the Company issued 2,774,286 Common Shares for a proceeds of $176,000. The fair value of the exercised Warrants estimated at $120,000 (using a Black-Scholes option pricing model with assumptions as noted in a table below) was recognized as an addition to the share capital and respective decrease in the derivative liability.

As at September 30, 2016, the derivative liability of the Non-Brokered Offering Warrants outstanding as at that date was revalued and a derivative loss of $0.5 million on the derivative liability was recognized for the nine months ended September 30, 2016. The derivative liability in respect of the Non-Brokered Offering Warrants as at September 30, 2016, was estimated at $0.9 million, using a Black-Scholes option pricing model with the assumptions as noted in the table below.

In connection with the Non-Brokered Offering, the Company paid a cash finder's fee of GBP $0.1 million ($0.2 million) and issued 1,177,114 warrants (the Finder's Warrants") as compensation warrants. Each Finder's Warrant entitles the holder thereof to purchase one Common Share of the Company at an exercise price of GBP 0.035 ($0.051) per Common Share on or before the date that is 24 months following the closing date. Other expenses related to the Non-Brokered Offering of Units amounted to $0.2 million.

The fair value of the Finder's Warrants estimated at $35,000 (using a Black-Scholes option pricing model with assumptions as noted in the table below) was netted against proceeds from share capital (as share issue costs) and a derivative liability of $35,000 was recognized as at April 28, 2016.

As at September 30, 2016, the derivative liability was revalued and a derivative loss of $33,000 on the derivative liability was recognized for the nine months ended September 30, 2016. The derivative liability in respect of the Finder's Warrants as at September 30, 2016, was estimated at $65,000, using a Black-Scholes option pricing model.

The following assumptions were used for Black-Scholes option pricing model to estimate a fair value of the Non-Brokered Offering Warrants and the Finder's Warrants as at the date of issue and as at September 30, 2016:

	All Warrants	Non-Brokered Warrants	Finder's Warrants
	April 28, 2016	September 30, 2016	September 30, 2016
Risk-free interest rate	0.54%	0.15%	0.30%
Weighted average life (years)	2.0	0.8	0.6
Expected volatility	90%	90%	90%
Expected dividend yield	0%	0%	0%

7. SHARE CAPITAL (continued)

a) Authorized and Issued Common Shares (continued)

(iii) On May 3, 2016, further to a brokered portion of the private placement in Canada ("Brokered Offering"), the Company issued 101,066,868 units at a price of CAD 0.07 ($0.055) for gross proceeds of CAD $7.1 million ($5.6 million). Each unit consists of one common share in the capital of the Company ("Common Share") and one share purchase warrant ("Brokered Offering Warrant"). Each Brokered Offering Warrant entitles the holder thereof to purchase one Common Share at an exercise price of CAD 0.095 ($0.075) per Common Share on or before the date that is 24 months following the closing date.

The fair value of the Brokered Offering Warrants estimated at $2.2 million (using a Black-Scholes option pricing model with assumptions as noted in a table below) was netted against proceeds from share capital and a derivative liability of $2.2 million was recognized as at May 3, 2016. The Brokered Offering Warrants' exercise price is in CAD, and the Company's functional currency is in USD. As there is variability in these exchange rates, the Brokered Offering Warrants are classified as a derivative financial instrument.

During September 2016, further to an exercise of Brokered Offering Warrants, the Company issued 700,000 Common Shares for a proceeds of $50,000. The fair value of the exercised Warrants estimated at $26,000 (using a Black-Scholes option pricing model with assumptions as noted in a table below) was recognized as an addition to the share capital and respective decrease in the derivative liability.

As at September 30, 2016, the derivative liability of the Brokered Offering Warrants outstanding as at that date was revalued and a derivative loss of $2.2 million on the derivative liability was recognized for the nine months ended September 30, 2016. The derivative liability in respect of the Brokered Offering Warrants as at September 30, 2016, was estimated at $4.3 million, using a Black-Scholes option pricing model with the assumptions as noted in the table below.

In connection with the Brokered Offering, the Company paid a cash commission to its Agents of CAD 0.4 million ($0.3 million) and issued 5,233,206 warrants (the "Agents' Warrants") as compensation warrants. Each Agents' Warrant entitles the holder thereof to purchase one Common Share of the Company at an exercise price of CAD 0.07 ($0.055) per Common Share on or before the date that is 24 months following the closing date. Other expenses related to the Brokered Offering of units amounted to $0.2 million.

The fair value of the Agents' Warrants estimated at $138,000 (using a Black-Scholes option pricing model with assumptions as noted in the table below) was netted against proceeds from share capital (as share issue costs) and a derivative liability of $138,000 was recognized as at May 3, 2016.

As at September 30, 2016, the derivative liability was revalued and a derivative loss of $131,000 on the derivative liability was recognized for the nine months ended September 30, 2016. The derivative liability in respect of the Agents' Warrants as at September 30, 2016, was estimated at $265,000, using a Black-Scholes option pricing model.

The following assumptions were used for Black-Scholes option pricing model to estimate a fair value of the Brokered Offering Warrants and the Agents' Warrants as at the date of issue and as at September 30, 2016:

	All Warrants May 3, 2016	Brokered Warrants September 30, 2016	Agents' Warrants September 30, 2016
Risk-free interest rate	0.54%	0.51%	0.52%
Weighted average life (years)	2.0	0.8	0.6
Expected volatility	90%	90%	90%
Expected dividend yield	0%	0%	0%

7. SHARE CAPITAL (continued)

b) Warrants

A summary of the Company's share purchase warrants outstanding at September 30, 2016 is as follows:

($ 000's)	**Number of Warrants**	**Weighted Average Exercise Price***	**Fair Value of Warrants**	**Expiry Date**
Balance, January 1, 2015	**51,443,889**	**$ 0.36**	**$ 2,612**	
Issued pursuant to public offering (note 7 (a) (i))	80,288,699	0.09	-	July 9, 2017
Issued pursuant to public offering (note 7 (a) (i))	4,548,380	0.07	-	July 9, 2017
Balance, December 31, 2015	**136,280,968**	**$ 0.19**	**$ 2,612**	
Issued Non-Brokered Warrants (note 7 (a) (ii))	**22,857,143**	**0.07**	**-**	April 28, 2018
Issued Finder's Warrants (note 7 (a) (ii))	**1,177,114**	**0.05**	**-**	April 28, 2018
Issued Brokered Warrants (note 7 (a) (iii))	**101,066,868**	**0.07**	**-**	May 3, 2018
Issued Agents' Warrants (note 7 (a) (iii))	**5,233,206**	**0.06**	**-**	May 3, 2018
Warrants exercised (note 7 (a) (ii and iii))	**(3,474,286)**	**0.07**	**-**	
Expired 2014 Offering Agent Warrants	**(888,889)**	**$0.22**	**-**	
Balance, September 30, 2016	**262,252,124**	**$ 0.13**	**$ 2,612**	

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

On April 4, 2016, a total of 888,889 Common Share purchase warrants issued to the Company's agent (further to a 2014 public offering), expired unexercised.

All Warrants issued during 2015 and 2016 have exercise price is in CAD or GBP; as the Company's functional currency is USD, these Warrants are classified as a derivative financial instruments and their fair value is netted against proceeds from share capital.

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.

On May 12, 2016, the Company granted to its directors, officers, employees and consultants 40,780,000 stock options to acquire the Company's common shares at an exercise price of CAD 0.10 ($0.08). The options vest immediately and expire five years from the date of grant. The related stock-based compensation expense of $1.3 million has been recognized in the statement of comprehensive loss and as an addition to contributed capital reserve.

On August 12, 2016, the Company granted to its directors, officers and employees 4, 400,000 stock options to acquire the Company's common shares at an exercise price of CAD 0.115 ($0.088). The options vest immediately and expire five years from the date of grant. The related stock-based compensation expense of $0.3 million has been recognized in the statement of comprehensive loss and as addition to contributed capital reserve.

7. SHARE CAPITAL (continued)

c) Incentive Stock Options (continued)

The fair value of each option granted was estimated on the date of grant using a Black-Scholes option pricing model with the following assumptions:

	May 12, 2016	August 12, 2016
Risk-free interest rate	0.64%	0.58%
Weighted average life (years)	4.0	4.0
Expected volatility	90%	90%
Expected div idend yield	0%	0%

During the nine months ended September 30, 2016, 9,490,000 stock options expired unexercised and 1,100,000 stock options were forfeited. No stock options were exercised during the nine months ended September 30, 2016 and the year ended December 31, 2015.

As at September 30, 2016, a total of 53,905,000 stock options to purchase Common Shares are outstanding, having a weighted average exercise price of $0.10 per share and a remaining weighted average contractual life of 4.2 years.

($ 000's)	Number of Options	Weighted Avg. Exercise Price*	Contributed Capital Reserve
Balance, January 1, 2015	**28,065,000**	**$ 0.49**	**$ 48,014**
Expired	(6,950,000)	0.63	-
Forfeited	(1,800,000)	0.33	-
Balance and exercisable December 31, 2015	**19,315,000**	**$ 0.46**	**$ 48,014**
Granted	45,180,000	0.08	1,529
Expired	(9,490,000)	0.68	-
Forfeited	(1,100,000)	0.39	-

Balance and exercisable September 30, 2016	**53,905,000**	**$ 0.10**	**$ 49,543**

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

8. COMMITMENTS AND CONTRACTUAL OBLIGATIONS

As at September 30, 2016, the Company has the following commitments:

($ 000's)	**Total**	**Less than One Year**	**One to Three Years**	**Four to Five Years**	**After Five Years**
Office lease	**$ 1,593**	503	1,006	84	-

The Company is committed under operating lease agreements for the rental of office space in Calgary, Canada. The approximate total lease payments are $1.6 million and are payable over the next four years.

9. FINANCIAL INSTRUMENTS

The Company has classified its cash and cash equivalents, other deposits and derivative liability as financial assets and liabilities at fair value through profit and loss and has measured them at fair value. Accounts receivable and loan receivable are classified as loans and receivables; accounts payable and accrued liabilities are classified as other liabilities; these items are measured at amortized cost.

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments depending on the observability of the inputs employed in the measurement:

Level 1: fair value measurements are based on unadjusted quoted prices in active markets for identical assets or liabilities. An active market for an asset or liability is considered to be a market where transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis. At September 30, 2016, cash and cash equivalents, are valued using Level 1 inputs.

Level 2: fair value measurements are based on valuation models and techniques where the significant inputs are derived from quoted indices. Level 2 valuations are based on inputs including quoted forward prices, time value, volatility factors and broker quotes that can be observed or corroborated in the market for the entire duration of the derivative instrument. At September 30, 2016, the derivative liability is valued using Level 2 inputs.

Level 3: fair value measurements are based on unobservable information or where the observable data does not support a significant portion of the instrument's fair value. At September 30, 2016 the Company did not have any financial assets or liabilities valued using Level 3, and there were no transfers in and out of Level 3 during the nine months ended September 30, 2016.

a) Fair values

As at September 30, 2016 and December 31, 2015, the fair values of all financial instruments not carried at fair value approximated their carrying values due to their short-term maturity.

b) 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:

	September 30, 2016	December 31, 2015
Great British Pounds	**212**	42
Canadian Dollars	**4,339**	2,649

10. NET CHANGE IN NON-CASH WORKING CAPITAL

($ 000's)	**September 30, 2016**	September 30, 2015
(Increase) in accounts receivable	**$ (147)**	$ (307)
(Increase)/decrease in prepaid expenses	**(69)**	148
Decrease in deposits and prepayments	**2**	13
Decrease in loan receivable	**-**	7
(Decrease)/increase in operating accounts payable and accrued liabilities	**(375)**	227
Net change in operating non-cash working capital	**$ (589)**	$ 88
Increase in accounts payable and accrued liabilities due to share issue costs	**$ 215**	$ -
Net change in operating non-cash working capital	**$ 215**	$ -