

## **CANADIAN OVERSEAS PETROLEUM LIMITED**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013**

The following is Management's Discussion and Analysis ("MD&A") of the operating and financial results of Canadian Overseas Petroleum Limited, and its wholly owned subsidiaries COPL Technical Services Limited, Canadian Overseas Petroleum (UK) Limited ("COPL UK"), Canadian Overseas Petroleum (Bermuda Holdings) Limited ("COPL Bermuda Holdings"), Canadian Overseas Petroleum (Bermuda) Limited ("COPL Bermuda"), and COPL New Zealand Limited ("COPL New Zealand") (collectively "COPL" or the "Company") as at and for the three and six month periods ended June 30, 2013. The information is provided as of August 9, 2013. The results for the three and six month periods ended June 30, 2013 have been compared to the same periods of 2012. This discussion and analysis should be read in conjunction with the Company's audited consolidated financial statements as at and for the years ended December 31, 2012 and 2011, together with the accompanying notes and the Annual Information Form dated March 28, 2013. These documents and additional information about COPL are available on the Company's website at [www.canoverseas.com](http://www.canoverseas.com) and on SEDAR at [www.sedar.com](http://www.sedar.com).

All amounts are presented in Canadian dollars unless otherwise noted.

#### **BUSINESS OF THE COMPANY**

Canadian Overseas Petroleum Limited is a publicly traded oil and gas company listed on the TSX Venture Exchange (TSX-V) under the symbol "XOP".

COPL is an international oil and gas exploration and development company focused on oil and gas exploration activities offshore of the Republic of Liberia and onshore New Zealand. In 2013, the Company acquired an interest in a production sharing contract from the government of the Republic of Liberia that includes a world class exploration project in the West Africa Transform margin and provides the partners the exclusive right to explore for and develop the resources within. COPL also has acquired exploration acreage with shale oil potential on the north island of New Zealand.

Senior management and strategic corporate functions are performed by COPL's head office in Calgary, and geological, geophysical, engineering, accounting and administrative functions are performed by COPL Technical Services Limited. Drilling oversight and some geological functions are provided by COPL UK. COPL Bermuda was incorporated in May 2011 for operations offshore Liberia. On November 8, 2012, COPL New Zealand was incorporated to participate in an exploration licence in New Zealand.

#### **FORWARD-LOOKING INFORMATION**

This MD&A contains forward-looking statements relating to future events or future performance. In some cases, forward-looking statements can be identified by terminology such as "may", "will", "should", "expects", "projects", "plans", "anticipates", "potential", "intend", "believe" and similar expressions. These statements represent management's expectations or beliefs concerning, among other things, future operating results and various components thereof or the economic performance of Canadian Overseas Petroleum Limited. The projections, estimates and beliefs contained in such forward-looking statements necessarily involve known and unknown risks and uncertainties, including the business risks discussed in MD&A as at and for the twelve months ended December 31, 2012, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or results expressed or implied by such forward-looking statements. Operating conditions and weather can have a significant effect on the timing of events. Accordingly, readers are cautioned that events or circumstances could cause results to differ materially from those predicted.

**FORWARD-LOOKING INFORMATION (CONTINUED)**

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

- the Company's current strategy to establish and grow an oil and gas business (the "Business of the Company", "Overview", "Outlook", and "Liquidity and Capital Resources" sections);
- the Company's ability to raise capital and obtain the financing necessary to develop profitable oil operations (the "Overview", "Outlook" and "Liquidity and Capital Resources" sections); and
- the Company's ability to manage its financial and operational risks (the "Overview", "Financial Instruments" and "Liquidity and Capital Resources" sections).

The Company's MD&A and AIF for the year ended December 31, 2012 describe major risks, material assumptions and other factors related to forward-looking statements that could influence actual results and are incorporated herein by reference. These risks, assumptions and other factors have been provided for readers to gain a more complete perspective on COPL's future operations. However, readers should be cautioned that the list of factors is not exhaustive and that this information may not be appropriate for other purposes. Forward-looking statements included or incorporated by reference in this MD&A are valid only as at the date of this MD&A, and the Company does not intend to update or revise these forward-looking statements except as required by applicable securities laws. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

**OVERVIEW \***

In the second quarter of 2013, the Company completed transactions related to the offshore interest in Liberia, performed some geological analysis in respect of its exploration project in New Zealand and evaluated other oil and gas prospects.

***Liberia***

On April 5, 2013, the closing and completion of previously announced transactions between the Company's subsidiary COPL Bermuda occurred; first with Peppercoast Petroleum plc ("Peppercoast"), and second with ExxonMobil Exploration and Production Liberia Limited ("ExxonMobil"). The closing of the transactions followed the ratification of the Production Sharing Contract ("PSC"), governing Block LB-13 offshore Liberia, by the Liberian Legislature. The Company was obliged to repay USD\$7.2 million to ExxonMobil within 75 days of closing in respect of closing payments made by ExxonMobil to the Government of Liberia on behalf of COPL Bermuda. In June the Company did not make the payment of USD\$7.2 million to ExxonMobil. As a result, the Company holds a 17% working interest in Block LB-13, with the remaining 83% being held by ExxonMobil, who is also the operator under this license.

***Financing***

On July 25, 2013, the Company closed a short form prospectus offering of 30,000,000 common shares issued at \$0.20 per share for gross proceeds of \$6.0 million. The agents' commission was 6.5% of the gross proceeds of the offering. Other expenses related to the offering are estimated at \$0.3 million. The net proceeds of approximately \$5.3 million will be used mainly to finance the Company's general and administrative costs.

*\* This section contains forward-looking information. Please see the "Forward-looking Information" section (at the beginning of this document) for a discussion of risks and uncertainties relating to such information.*

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**FINANCIAL SUMMARY**

During the second quarter of 2013, the Company finalized the Liberia transactions, performed some geological analysis in respect of its exploration project in New Zealand and evaluated other oil and gas prospects. Pre-licence costs relating to the Liberia project were approximately \$67,000 and \$0.4 million for the three and six month periods ended June 30, 2013 compared to \$0.9 million and \$1.3 million for the three and six month periods ended June 30, 2012, respectively. The exploration recovery of approximately \$51,000 and \$72,000 for the three and six month periods ended June 30, 2013 relates to recovery of prior year exploration expenses related to the UK Bluebell prospect, compared to approximately \$0.2 million and \$8.4 million recorded as exploration expenses in the same period in 2012, respectively.

General and administrative costs were consistent with prior periods at \$2.0 million and \$3.9 million for the three and six month periods ended June 30, 2013 (net of \$0.1 million and \$0.3 million of costs allocated to exploration projects, respectively) compared to \$2.1 million and \$3.7 million for the three and six month periods ended June 30, 2012 (net of \$0.2 million and \$0.6 million of costs allocated to exploration projects, respectively). The Company recognized interest income of \$2,000 and \$7,000 for the three and six month periods ended June 30, 2013, compared to \$13,000 and \$32,000 for the three and six month periods ended June 30, 2012, respectively. There was nil interest expenses for the first half of 2013, compared to \$6,000 for the three month period and \$10,000 for the six month period ended June 30, 2012. A foreign exchange gain of \$0.3 million and \$0.6 million were recorded for the three and six month periods ended June 30, 2013, compared to a \$77,000 and \$38,000 foreign exchange gain for the same periods ended June 30, 2012, respectively. As a result, the Company's loss amounted to \$1.6 million and \$3.7 million for the three and six month periods ended June 30, 2013 compared to losses of \$3.1 million and \$13.3 million for the same periods in 2012.

As at June 30, 2013, the Company's cash and cash equivalents amounted to \$0.7 million. Cash used in investing activities amounted \$0.4 million for the six months ended June 30, 2013 compared to \$0.5 million received for the six months ended June 30, 2012. Cash used in operating activities amounted to \$3.3 million for the six months ended June 30, 2013 compared to \$45.9 million for the same period in 2012.

**OUTLOOK \***

The Company's strategy is to establish and grow its oil and gas business by farming into, and/or acquiring interests in, exploration, unappraised and/or undeveloped assets.

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

- working with ExxonMobil to share COPL's geological work;
- evaluating the New Zealand property; and
- evaluating opportunities in West Africa and elsewhere.

Currently the Company does not have material cash inflows and/or adequate financing to develop profitable operations. The Company is pursuing exploration projects that, if successful, will require substantial additional financing before they are able to generate positive cash flows. Accordingly, the Company's continued successful operation is dependent on its ability to obtain additional financing. No assurance can be provided that the Company will raise the required levels of financing.

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## SELECTED ANNUAL INFORMATION

## NET INCOME AND CASH FLOWS FROM OPERATING ACTIVITIES

The following table summarizes the Company's financial results for the three and six month periods ended June 30, 2013 and 2012:

(\$ 000's) except per share	Three months ended June 30, 2013	Three months ended June 30, 2012	Six months ended June 30, 2013	Six months ended June 30, 2012
Services to third parties	\$ -	\$ 63	\$ -	\$ 110
Administrative expenses	1,931	2,144	3,883	3,682
Exploration (recovery)/expense	(51)	221	(72)	8,444
Pre-license costs	67	889	433	1,346
Interest income	2	13	7	32
Foreign exchange gain	319	77	587	38
Loss	(1,641)	(3,131)	(3,680)	(13,339)
Per share loss	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.05)
Cash used in operating activities	\$ (1,566)	\$ (11,460)	\$ (3,349)	\$ (45,855)
Outstanding common shares at				
June 30	284,016,939	284,016,939	284,016,939	284,016,939
Weighted average - basic	284,016,939	284,016,939	284,016,939	284,016,939

For the three and six month periods ended June 30, 2013, the Company recovered \$51,000 and \$72,000 of its 2012 exploration expenses as compared to spending \$0.2 million and \$8.4 million in exploration expenses recorded for the same periods in 2012, respectively. These exploration expenses and cost recovery relate to the UK prospect Bluebell for which an exploration well was drilled in March 2012 and commercial reserves were not discovered.

Pre-licence costs of \$67,000 and \$0.4 million for the three and six month periods ended June 30, 2013 (\$0.9 million and \$1.3 million for the same periods in 2012) relate to the Liberia project for which transactions were completed in April of 2013.

## COMPARATIVE FINANCIAL POSITION ITEMS

The following table summarizes the Company's financial position as at June 30, 2013, March 31, 2013 and December 31, 2012:

(\$ 000's) except per share	June 30, 2013	March 31, 2013	December 31, 2012
Cash and cash equivalents	\$ 654	\$ 2,321	\$ 4,374
Current assets	870	2,630	4,823
Exploration and evaluation assets	16,463	251	-
Deposit for seismic data	-	15,234	14,924
Current liabilities	4,175	3,437	3,194
Share capital	100,768	100,768	100,768
Shareholders' equity	\$ 13,408	\$ 14,935	\$ 16,820

Exploration and evaluation assets of \$0.2 million relate to the New Zealand project and \$16.2 million relate to the Liberia project as at June 30, 2013 (which as at March 31, 2013 and December 31, 2012 was classified as a deposit for seismic data of \$15.2 million and \$14.9 million, respectively).

**ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE**

The Company is a TSX Venture issuer that has not had significant revenue from operations in either of its last two financial years. In accordance with National Instrument 51-102, additional disclosure on material costs is presented below.

(\$ 000's)	Three months ended June 30, 2013	Three months ended June 30, 2012	Six months ended June 30, 2013	Six months ended June 30, 2012
Administrative:				
Payroll and related costs	\$ 688	\$ 680	\$ 1,344	\$ 1,353
External directors' fees and related costs	171	198	399	345
Consulting services	177	237	303	459
Professional services	550	749	1,277	1,218
Travel expenses	162	128	296	262
Office expenses	239	252	460	509
Stock exchange and transfer agent fees	30	3	67	50
Other general and administrative	47	53	82	102
Costs allocated to exploration projects	(133)	(156)	(345)	(616)
<b>Total administrative</b>	<b>\$ 1,931</b>	<b>\$ 2,144</b>	<b>\$ 3,883</b>	<b>\$ 3,682</b>
Capitalized exploration and evaluation costs	\$ 16,212	\$ 49	\$ 16,463	\$ 122

**FINANCIAL INSTRUMENTS\***

The Company's financial instruments consist of cash, short-term deposits, bankers' acceptances, credit card and other deposits, loans, accounts receivable, as well as accounts payable and accrued liabilities. It is management's opinion that the Company is not currently exposed to significant interest and/or credit risks arising from these financial instruments and that the fair value of these financial instruments approximates their carrying value.

As the Company's current activities are carried out in Liberia, New Zealand and the UK, significant amounts are transacted in or referenced to currencies other than the Canadian dollar, including the British Pound, U.S. dollar and NZ dollar. As a result, fluctuations in the exchange rates between the Canadian dollar, British Pound, U.S. dollar and NZ dollar can have a significant effect on the Company's financial position and its reported results. 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 commitments. No assurance can be given that such management of risk exposure will offset and/or eliminate the foreign exchange fluctuations.

**LIQUIDITY AND CAPITAL RESOURCES \***

As of June 30, 2013, the Company had a working capital deficit of approximately \$3.3 million, shareholders' equity of \$13.4 million and cash of \$0.7 million.

For the three and six months ended June 30, 2013, the Company's cash used in operating activities amounted to \$1.6 million and \$3.3 million, and related mainly to administrative costs.

On July 25, 2013, the Company closed a short form prospectus offering of 30,000,000 common shares issued at \$0.20 per share for gross proceeds of \$6.0 million. The agents' commission was 6.5% of the gross proceeds of the offering. Other expenses related to the offering are estimated at \$0.3 million. The net proceeds of approximately \$5.3 million will be used mainly to finance the Company's general and administrative costs.

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**LIQUIDITY AND CAPITAL RESOURCES \* (CONTINUED)**

Currently, the Company does not have material cash inflows and/or adequate financing to develop profitable operations. The Company is pursuing exploration projects that, if successful, will require substantial additional financing before they are able to generate positive cash flows. Accordingly, the Company's continued successful operations are dependent on its ability to obtain additional financing. No assurance can be provided that the Company will raise the required levels of financing.

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**SELECTED QUARTERLY INFORMATION**

Eight Most Recent Quarters:

(\$ 000's)	June 30, 2013	March 31, 2013	December 31, 2012	September 30, 2012
Revenue	2	5	10	34
Loss	(1,641)	(2,039)	(3,562)	(39,737)
Loss per share - basic & diluted	(0.01)	(0.01)	(0.01)	(0.14)

(\$ 000's)	June 30, 2012	March 31, 2012	December 31, 2011	September 30, 2011
Revenue	76	66	159	125
Loss	(3,131)	(10,208)	(42,097)	(2,208)
Loss per share - basic & diluted	(0.01)	(0.04)	(0.15)	(0.01)

**ACCOUNTING PRONOUNCEMENTS*****Future Accounting Changes***

Changes to future accounting policies, standards and interpretations, as described in Note 3 of the audited consolidated financial statements as at and for the years ended December 31, 2012 and 2011 as well as Note 2 of the unaudited consolidated financial statements as at and for the three and six month periods ended June 30, 2013 and 2012, have not materially changed since December 31, 2012.

***Critical Accounting Estimates***

Management is required to make judgements, assumptions and estimates in applying the Company's accounting policies and practices, which may have a significant impact on the financial results reported by the Company. The amounts recorded in respect of stock options and share purchase warrants granted are based on the Company's estimation of their fair value, calculated using assumptions regarding the life of the option/warrant, interest rates and volatility. By their nature, these estimates and assumptions are subject to uncertainty, and the actual fair value of option/warrant may differ at any time.

**DIRECTORS**

Arthur S. Millholland - President and Chief Executive Officer  
Christopher McLean - Chief Financial Officer  
Harald Ludwig - Director  
Massimo Carello - Director  
Rick Schmitt - Director  
Viscount William Astor - Director

**OFFICERS**

Arthur S. Millholland, P.Geol. - President and Chief Executive Officer  
Christopher McLean - Chief Financial Officer  
Aleksandra Owad, CGA, FCCA (UK) - Chief Accounting Officer  
Rod Christensen, P.Geol. - Vice President, Exploration and Exploitation  
  
Faralee A. Chanin, LL.B., M.B.A. - Corporate Secretary