Canadian Overseas Petroleum Limited

Consolidated Financial Statements

As at and for the years ended December 31, 2013 and 2012

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.

Deloitte LLP was appointed by the shareholders to serve as the Company's external auditors. They have examined the consolidated financial statements and provided their independent auditor's report. The audit committee has reviewed the consolidated financial statements with management and the auditors, and has reported to the Board of Directors. The Board of Directors has approved the consolidated financial statements as presented.

Signed "Arthur S. Millholland"
Arthur S. Millholland
President and Chief Executive Officer
April 16, 2014

Signed "Christopher McLean"
Christopher McLean
Chief Financial Officer
April 16, 2014

Independent Auditor's Report

To the Shareholders of Canadian Overseas Petroleum Limited

We have audited the accompanying consolidated financial statements of Canadian Overseas Petroleum Limited and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2013 and December 31, 2012, and the consolidated statements of comprehensive loss, consolidated statements of changes in equity, and consolidated statements of cash flows for the years then ended, and the notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Canadian Overseas Petroleum Limited and its subsidiaries as at December 31, 2013 and December 31, 2012, and their financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 to the consolidated financial statements which indicates that Canadian Overseas Petroleum Limited is pursuing exploration projects and contracts that, if successful, will require substantial additional financing. Canadian Overseas Petroleum Limited incurred a loss of $9.1 million during the year ended December 31, 2013 (2012: $56.6 million) and had negative cash flows from operating activities of $8.0 million (2012: $66.3 million). These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that casts significant doubt about Canadian Overseas Petroleum Limited's ability to continue as a going concern.

Signed "Deloitte LLP"

April 16, 2014
Calgary, Alberta

Canadian Overseas Petroleum Limited
Consolidated Statements of Financial Position
(in thousands of Canadian dollars)

As at	**December 31, 2013**	December 31, 2012
Assets		
Current		
Cash and cash equivalents *(note 4)*	**$ 2,384**	$ 4,374
Accounts receivable	**60**	237
Prepaid expenses	**306**	212
Loan receivable *(note 13)*	**12**	-
	2,762	4,823
Deposit for seismic data *(note 5)*	**-**	14,924
Deposits and prepayments	**52**	49
Loan receivable *(note 13)*	**12**	-
Exploration and evaluation assets *(note 6)*	**17,502**	-
Office equipment	**187**	218
	$ 20,515	$ 20,014
Liabilities		
Current		
Accounts payable and accrued liabilities *(note 7)*	**$ 1,859**	$ 3,194
	1,859	3,194
Shareholders' Equity		
Share capital *(note 9)*	**110,020**	100,768
Warrants *(note 10)*	**-**	37,359
Contributed capital reserve *(note 10)*	**47,971**	9,113
Deficit	**(139,675)**	(130,602)
Accumulated other comprehensive income	**340**	182
	18,656	16,820
	$ 20,515	$ 20,014

Nature of operations (note 1)
Commitments and contractual obligations (note 12)
Subsequent events (note 17)

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board:

Signed "Arthur S. Millholland"
Director

Signed "Rick Schmitt"
Director

Canadian Overseas Petroleum Limited
Consolidated Statements of Comprehensive Loss
(in thousands of Canadian dollars, except per share amounts)

For the years ended December 31	**2013**	2012
Operations		
Services to third parties	**$ -**	$ 129
Loss on UK contracts *(note 8)*	**-**	(182)
Exploration *(note 6)*	**72**	(8,455)
Exploration and Evaluation write off *(note 6)*	**-**	(20,954)
Derecognition of cash held in escrow *(note 8)*	**-**	(16,101)
Pre-license costs *(note 5)*	**(529)**	(2,170)
Administrative	**(7,858)**	(8,825)
Depreciation	**(63)**	(54)
Stock-based compensation *(note 9)*	**(1,499)**	-
	(9,877)	(56,612)
Finance income and costs		
Interest income	**25**	57
Interest and financing charges	**-**	(11)
Foreign exchange gain / (loss)	**779**	(72)
	804	(26)
Loss	**(9,073)**	(56,638)
Gain / (loss) on translation of foreign subsidiaries	**158**	(146)
Comprehensive loss	**$ (8,915)**	$ (56,784)
Loss per share (basic and diluted)	**$(0.03)**	$(0.20)
Weighted average number of shares outstanding	**301,868,415**	284,016,939

See accompanying notes to the consolidated financial statements.

Canadian Overseas Petroleum Limited

Consolidated Statements of Changes in Equity

(in thousands of Canadian dollars)

	Share Capital	Warrants	Contributed Capital Reserve	Deficit	Accumulated Other Comprehensive (Loss) / Income	Total Equity
Balance at January 1, 2012	**$ 100,768**	**$ 37,359**	**$ 9,113**	**$ (73,964)**	**$ 328**	**$ 73,604**
Comprehensive loss for the year				(56,638)	(146)	**(56,784)**
Balance at December 31, 2012	**$ 100,768**	**$ 37,359**	**$ 9,113**	**$ (130,602)**	**$ 182**	**$ 16,820**
Comprehensive (loss) / income for the year				**(9,073)**	**158**	**(8,915)**
Transactions with owners, recorded directly to equity						
Issue of common shares - net of issue costs	**9,252**	**-**	**-**	**-**	**-**	**9,252**
Stock options granted			**1,499**			**1,499**
Warrants expired		**(37,359)**	**37,359**			**-**
Balance at December 31, 2013	**$ 110,020**	**$ -**	**$ 47,971**	**$ (139,675)**	**$ 340**	**$ 18,656**

See accompanying notes to the consolidated financial statements.

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

For the years ended December 31		2013		2012
Cash Used In Operating Activities				
Loss	**$**	**(9,073)**	$	(56,638)
Subtract interest income		**(25)**		(57)
Add (subtract) non-cash items:				
Stock-based compensation		**1,499**		-
Depreciation		**63**		54
Exploration and Evaluation write off *(note 6)*		**-**		20,954
Unrealized foreign exchange gain		**(780)**		(106)
Funds used in operations		**(8,316)**		(35,793)
Net change in non-cash working capital *(note 16)*		**304**		(30,458)
		(8,012)		(66,251)
Financing Activities				
Issuance of common shares, net of issue costs		**7,443**		-
		7,443		-
Investing Activities				
Additions to office equipment		**(30)**		(45)
Additions to Exploration and Evaluation assets		**(1,505)**		(360)
Interest income		**25**		57
Net change in non-cash working capital *(note 16)*		**81**		(1,125)
		(1,429)		(1,473)
Decrease in cash and cash equivalents during the year		**(1,998)**		(67,724)
Effect of foreign exchange on cash and cash equivalents held in foreign currencies		**8**		174
Cash and cash equivalents, beginning of year		**4,374**		71,924
Cash and cash equivalents, end of year	**$**	**2,384**	$	4,374

See accompanying notes to the 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 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. Currently the Company has the following subsidiaries, all of which are wholly-owned:

- COPL Technical Services Limited, which is involved in providing technical services to the COPL group of companies;
- Canadian Overseas Petroleum (UK) Limited ("COPL UK"), which conducts the Company's operations in the United Kingdom ("UK") North Sea;
- Canadian Overseas Petroleum (Bermuda Holdings) Limited and Canadian Overseas Petroleum (Bermuda) Limited ("COPL B"), which were created in May 2011 to conduct anticipated operations in offshore Liberia;
- COPL New Zealand Limited, which was incorporated in New Zealand ("NZ") on November 8, 2012; and
- Canadian Overseas Petroleum (Nigeria) Limited, which was incorporated in Bermuda on October 17, 2013.

2. BASIS OF PREPARATION AND GOING CONCERN

Basis of Preparation and Compliance
The Company's consolidated financial statements for the years ended December 31, 2013 and 2012 have been prepared in accordance with International Financial Reporting Standards ("IFRS").

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

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. All financial information presented in tables has been rounded to the nearest thousand Canadian dollars except where otherwise indicated.

Going Concern
These consolidated 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 (notes 6 & 12) 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 2014, there is a significant doubt that the Company will be able to continue as a going concern. These consolidated 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.

2. BASIS OF PREPARATION AND GOING CONCERN (continued)

The consolidated financial statements were authorized for issue by the Company's Board of Directors on April 16, 2014.

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.

Cash and Cash Equivalents
Cash and cash equivalents include cash held at banks, bankers' acceptances, short-term deposits with a maturity of three months or less, and credit card deposits.

Office Equipment
Office furniture and equipment are recognized at purchase price net of depreciation, which is calculated on a straight line basis over estimated useful life.

Foreign Currency Translation
The consolidated financial statements are presented in Canadian dollars, which is currently the Company's functional and reporting currency.

Transactions denominated in foreign currencies are translated at the exchange rate prevailing on the transaction date. At each period end, monetary assets and liabilities denominated in a foreign currency are translated at the exchange rate prevailing at the period end date. All differences are recognized in net earnings. Non-monetary assets, liabilities and transactions denominated in a foreign currency and measured at historical cost are translated at the exchange rate in effect at the transaction date. Non-monetary items measured at fair value are translated using the exchange rates at the date when the fair value was determined.

For the purpose of consolidation, assets and liabilities of foreign subsidiaries are translated using the exchange rate prevailing at the period end date. The statements of comprehensive loss and cash flows are translated using the average exchange rates for the period. Foreign exchange differences resulting from such transactions are recorded in Shareholders' Equity as accumulated other comprehensive income. As at December 31, 2013, accumulated other comprehensive income is composed solely of foreign currency translation adjustments.

Revenue Recognition
Third party service revenue is recognized at contractual amounts as the related services are provided. The Company recognizes interest income as it is earned.

Pre-License Costs
The Company expenses amounts incurred in the evaluation and development of potential business ventures until the related business arrangements are consummated. The costs incurred prior to the award of oil and gas licenses, concessions and other exploration rights are recognized as an expense in the period incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Exploration and Evaluation ("E&E")

The cost of exploring, appraising and evaluating oil and gas properties, including costs of farming into or acquiring the rights to explore, geological and geophysical studies, seismic data and modeling, exploration and/or appraisal drilling and directly related overheads are capitalized and classified as intangible E&E assets. These costs are accumulated in cost centers by field or project in anticipation of future allocation to Cash Generating Units.

E&E assets are not amortized prior to the conclusion of appraisal activities. Once active exploration is completed, commercial reserves are discovered and the project is approved for development, E&E assets related to particular projects will be reclassified to development and production assets and the carrying amounts will be assessed for impairment and adjusted (if appropriate) to their estimated recoverable amounts. If commercial reserves are not discovered, the E&E asset is written off to exploration expenses in the statement of comprehensive loss.

The E&E phase of a particular project is completed when either the technical feasibility and commercial viability of extracting oil or gas are demonstrable for the project or there is no prospect of a positive outcome for the project.

Jointly Controlled Assets and Operations

The Company's oil and gas activities are carried out jointly with other partners through farm-in agreements and joint operating agreements. The Company accounts for its proportionate share of the results, assets and liabilities related to these operations.

Stock-Based Compensation

The Company issues equity-settled stock options to its employees, directors and consultants and follows the fair value method of accounting. A Black-Scholes option-pricing model is used to determine the fair value of the award at the time the options are granted. The related expense is charged to the statement of comprehensive loss with a corresponding increase in equity as contributed capital reserve over the vesting term. Consideration received on the exercise of an option is credited to share capital, along with the related stock-based compensation previously recognized in contributed capital reserve.

Leases

Rent payable for assets under operating lease is charged to the statement of comprehensive loss on a straight-line basis over the lease term.

Per Share Data

Basic net income (loss) per share is calculated using the weighted average number of shares outstanding during the year. The treasury stock method is used to calculate diluted earnings per share. This method assumes that only in-the-money stock options and warrants are exercised and that any proceeds would be used to purchase common shares at the average market price during the year.

Financial Instruments

All financial instruments are initially recognized at fair value on the statement of financial position. The Company has classified each financial instrument into one of the following categories: financial assets and liabilities at Fair Value Through Profit and Loss ("FVTPL"), loans and receivables, financial assets available-for-sale, financial assets held-to-maturity and other financial liabilities. Subsequent measurement of financial instruments is based on their classification.

Financial assets and liabilities at FVTPL are subsequently measured at fair value with changes in those fair values recognized in net earnings. Financial assets "available-for-sale" are subsequently measured at fair value with changes in fair value recognized in other comprehensive income, net of tax.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)
Financial assets "held-to-maturity", "loans and receivables" and "other financial liabilities" are subsequently measured at amortized cost using the effective interest method.

The Company determines the classification of its financial instruments at initial recognition and where allowed and appropriate, re–evaluates this designation at each financial year end.

Deferred Income Tax
The Company uses the liability method of accounting for income taxes, whereby deferred income tax assets and liabilities are recognized based on temporary differences between the tax basis of assets and liabilities and their carrying amount in the consolidated financial statements, and for unused tax loss carry-forwards.

Deferred tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted at the statement of financial position date.

Deferred income tax assets are recognized only to the extent it is probable that taxable profit will be available to utilize the associated tax deductions.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to offset current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same tax jurisdiction.

Significant accounting judgments and estimates
The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions and to use judgment that affects the reported amounts of assets, liabilities, revenues and expenses. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accordingly, actual results may differ from those estimated amounts and differences may be material.

In particular, significant areas of estimation uncertainty considered by management in preparing the consolidated financial statements are:

- Stock-based compensation and warrants – 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 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;
- Deferred income tax – management assesses the likelihood that deferred income tax assets will be realized from future taxable earnings, the amount of which is subject to measurement uncertainty; and
- 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.

Significant judgments are involved in the determination of the functional currency of the subsidiaries and the time when exploration and evaluation assets are expected to be used for commercial production.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Recently Adopted Accounting Standards

As at January 1, 2013 the Company adopted the following standards for which the Company has assessed and determined there was no material impact on its financial results and financial position:

- IFRS 10, “Consolidated Financial Statements” which supersedes IAS 27 “Consolidation and Separate Financial Statements” and SIC-12 “Consolidation – Special Purpose Entities”;
- IFRS 11, “Joint Arrangements”;
- IFRS 12, “Disclosure of Interests in Other Entities”; and
- IFRS 13, “Fair Value Measurement”.

Future Accounting Standards

IFRS 9, “Financial Instruments” replaces IAS 39 “Financial Instruments: Recognition and Measurement”, which replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classifications: amortized cost and fair value. In November 2013, the IASB amended IFRS 9 to include the new general hedge accounting model which remains optional and allows more opportunities to apply hedge accounting. The full impact from adoption will not be known until completion of the standard and may have an impact on the Company’s accounting for financial assets and liabilities. This standard has an effective date of January 1, 2018.

IAS 32 “Financial Instruments: Presentation” has been amended to clarify certain requirements for offsetting financial assets and liabilities. IAS 32 relates to presentation and disclosure and is not expected to have a material impact on the Company’s consolidated financial statements.

4. CASH AND CASH EQUIVALENTS

($ 000’s)	**December 31, 2013**	December 31, 2012
Cash	**$ 2,114**	$ 2,914
Bankers’ Acceptances	**-**	1,199
Credit card deposits	**270**	261
	$ 2,384	$ 4,374

Cash balances earn interest, whenever possible, at floating rates based on daily bank deposit rates. Bankers’ Acceptances are made for periods varying between one and three months, depending on immediate cash requirements and earn interest at the respective Bankers’ Acceptance 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 $2.4 million as at December 31, 2013 ($4.4 million as at December 31, 2012). The Company deposits its cash with reputable Canadian and UK banks. The Company did not have any overdraft facilities in place as at December 31, 2013 and 2012.

5. DEPOSIT FOR SEISMIC DATA

In May 2011, the Company (via its Bermuda subsidiary, COPL B) signed a Sale and Purchase Agreement ("PSPA") with Peppercoast Petroleum plc ("Peppercoast") to acquire a 100% interest in Block LB-13 offshore Liberia, for which closure was subject to several conditions, including approval from the Liberian government. As part of this transaction, the Company also entered into a number of contractual arrangements in respect of a 3D seismic survey for Block LB-13. A deposit of US$15.0 million (approximately $14.5 million at the time of payment and approximately $14.9 million as at December 31, 2012) was made by the Company to settle Peppercoast's account payable for acquisition and processing of the 3D seismic survey, thereby satisfying Peppercoast's work obligations for the first phase of the Production Sharing Contract ("PSC") for Block LB-13. The Company also received a license agreement from TGS-Nopac Geological Company for a copy of the 3D seismic survey covering the 2,023 square kilometers of Block LB-13.

In addition, during the year ended December 31, 2013, the Company incurred $0.5 million (2012 -$2.2 million) of costs related to the transaction with Peppercoast, which are recognized as pre-license costs and expensed as incurred.

During 2013 the US$15.0 million deposit has been reclassified as an addition to exploration and evaluation assets upon the completion of the PSPA transaction (discussed further in note 6).

6. EXPLORATION AND EVALUATION ASSETS

($ 000's)	UK	Liberia	New Zealand	TOTAL
As at December 31, 2011	**$ 20,594**	**$ -**	**$ -**	**$ -**
Additions	**360**	**-**	**-**	**-**
Writeoffs	**(20,954)**	**-**	**-**	**-**
As at December 31, 2012	**$ -**	**$ -**	**$ -**	**$ -**
Additions	**-**	**872**	**633**	**1,505**
Transfer of deposit for seismic data	**-**	**15,287**	**-**	**15,287**
Net effect of foreign exchange	**-**	**693**	**17**	**710**
As at December 31, 2013	**$ -**	**$ 16,852**	**$ 650**	**$ 17,502**

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 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, failing which an interest in the license was to be transferred to ExxonMobil. The Company did not make the payment of USD$7.2 million to ExxonMobil and as a result, the Company holds a 17% working interest in Block LB-13, with the remaining 83% being held by ExxonMobil, who is the operator under this license.

$16.9 million recognized as exploration and evaluation assets mainly represent the Canadian dollar equivalent of US$15.0 million for 3D seismic conducted on Block LB-13.

6. EXPLORATION AND EVALUATION ASSETS (continued)

UK

In 2012, the Company wrote off exploration and evaluation assets of $21.0 million related to the Fulla exploration project of Block 206/5a in the UK North Sea. Although the Fulla exploration well drilled in late 2011 encountered an oil column, further analysis revealed that a development of the existing discovery is not commercially viable and that there is insufficient upside potential to conduct further exploration/appraisal work. In October 2012, the operator confirmed its intent to relinquish the license.

Costs of $8.5 million in 2012 and a recovery of $72,000 in 2013 related to the Bluebell prospect were recorded as exploration expenses as the well drilled in March 2012 was not successful.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

($ 000's)	**2013**	2012
Trade payables	**1,307**	1,774
Joint venture payables	**292**	944
Accrued liabilities	**238**	462
Other	**22**	14
Total	**1,859**	3,194

8. LOSS ON UK CONTRACTS

In 2012, the Company recognized a loss on UK contracts of approximately $0.2 million related to a termination of a Sale and Purchase Agreement ("SPA") with BG International Limited ("BG") in respect of Block 23/21 Rest of Block Shallow (Newt, Lower Toad, West Columbus and Upper Toad prospects) and Block 22/15 (the Esperanza prospect and Banks discovery). In addition in 2012, the Company had written-off cash held in escrow with BG (as part of the SPA with BG) of approximately $16.1 million, further to the UK High Court of Justice ruling for the escrow agent to release the funds to BG.

During the third quarter of 2013, the Company and BG signed a Settlement Deed and Release agreement which confirmed that the parties had reached a full and final settlement of the dispute and agreed to dismiss legal proceedings. As a result, the Company has no further costs/losses to be recognized in respect of the dispute with BG, other than the Company's legal expenses related to the dispute and the settlements, which are included in general and administrative costs for the period ended December 31, 2013.

9. 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, December 31, 2012 and 2011	**284,016,939**	**$ 100,768**
Issued pursuant to public offering on July 25th	30,000,000	6,000
Issued pursuant to public offering on August 28th	12,311,000	2,462
Issued pursuant to settlement of debt on December 3rd	7,389,781	1,810
Share issue costs	-	(1,020)
Balance, December 31, 2013	**333,717,720**	**$ 110,020**

On July 4, 2013, the Company filed a short form prospectus for a public offering (the "Offering") of its common shares at a price of $0.20 per share to raise a minimum of $6.0 million and up to maximum of $10.0 million of gross proceeds. The closing of the Offering took place in two parts, as follows:

- on July 25, 2013, the Company closed the offering of 30,000,000 common shares issued at $0.20 per share for gross proceeds of $6.0 million, and

- on August 28, 2013, the Company closed the offering of 12,311,000 common shares issued at $0.20 per share for gross proceeds of approximately $2.5 million.

The agents were paid cash commission of approximately $0.6 million, representing 6.5% of the gross proceeds of the Offering. Other expenses related to the Offering amounted to approximately $0.4 million.

On December 3, 2013 the Company entered into a shares for debt agreement (the "Agreement") with a service provider/creditor (the "Creditor"). Pursuant to the Agreement the Company issued to the Creditor an aggregate of 7,389,781 common shares at a deemed price of $0.245 per common share. The total amount settled by the Agreement was $1.81 million. The Company decided to satisfy this outstanding indebtedness with common shares to preserve its cash for operations. Common shares issued to the Creditor are subject to a four-month hold period from the settlement date.

9. SHARE CAPITAL (continued)

b) Warrants

There were no warrants issued and/or exercised during the year ended December 31, 2013 and the year ended December 31, 2012. A summary of the Company's share purchase warrants outstanding at December 31, 2013 is as follows:

	2013			2012		
	Number of Warrants		**Wt. Avg. Exercise Price**	**Number of Warrants**		**Wt. Avg. Exercise Price**
Balance, beginning of year	**129,949,000**	**$**	**0.65**	**145,549,000**	**$**	**0.63**
Issued	-		-	-		-
Exercised	-		-	-		-
Expired	**(129,949,000)**		**0.65**	**(15,600,000)**		**0.50**
Balance, end of year	**-**	**$**	**-**	**129,949,000**	**$**	**0.65**

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.

During 2013, the Company granted to its directors, officers, employees and consultants the following stock options, which vest immediately and expire five years from date of grant:

- On November 19, 2013 – 11,025,000 stock options to acquire common shares at an exercise price of $0.23. The related stock-based compensation expense of $1.5 million has been recognized in the statement of comprehensive loss.

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:

	2013
Risk-free interest rate	1.2%
Weighted average life (years)	4.0
Expected volatility	81%
Expected dividend yield	0%

During the year ended December 31, 2013, 270,000 stock options granted to employees forfeited (during the year ended December 31, 2012 – 1,500,000), as they no longer provide services to the Company.

No stock options were exercised during the years ended December 31, 2013 and 2012.

9. SHARE CAPITAL (continued)

c) Incentive Stock Options (continued)

As at December 31, 2013, a total of 31,320,000 stock options to purchase common shares are outstanding, having a weighted average exercise price of $0.51 per share with a remaining weighted average contractual life of 3.01 years. Changes to the Company's stock options are summarized as follows:

	Year ended December 31, 2013			**Year ended December 31, 2012**		
	Number of Options		**Wt. Avg. Exercise Price**	**Number of Options**		**Wt. Avg. Exercise Price**
Balance, beginning of year	**20,565,000**	**$**	**0.67**	22,065,000	$	0.67
Granted	**11,025,000**		**0.23**	-		-
Forfeited	**(270,000)**		**0.77**	(1,500,000)		0.66
Balance, end of year	**31,320,000**	**$**	**0.51**	20,565,000	$	0.67
Exercisable, end of year	**31,320,000**	**$**	**0.51**	20,565,000	$	0.67

10. CONTRIBUTED CAPITAL RESERVE AND WARRANTS

($ 000's)		**December 31, 2013**		December 31, 2012
Contributed capital reserve:				
Balance, beginning of year	**$**	**9,113**	$	9,113
Stock-based compensation (note 9c)		**1,499**		-
Warrants expired		**37,359**		-
Balance, end of year	**$**	**47,971**	$	9,113
Warrants:				
Balance, beginning of year	**$**	**37,359**	$	37,359
Warrants expired		**(37,359)**		-
Balance, end of year	**$**	**-**	$	37,359

11. DEFERRED INCOME TAX

The tax effects of the temporary differences on deferred income tax assets (liabilities) are as follows:

($ 000's)	**2013**	2012
Non-capital income tax losses	**$ 6,236**	$ 4,752
Pre-trading expenses - UK	**2,687**	30,874
Capital losses	**632**	632
Share issue costs	**910**	1,140
Exploration and Evaluation assets	**21,590**	136
Office equipment	**77**	46
	32,132	37,580
Unrecognized tax benefits	**(32,132)**	(37,580)
Deferred income tax assets (liabilities)	**$ -**	$ -

The Company did not recognize a deferred tax asset as at December 31, 2013 or 2012, as currently, it is not expected that the assets will be recoverable in the foreseeable future.

The temporary differences associated with investments in subsidiaries, for which a deferred tax liability was not recognized amounted to $26.3 million as at December 31, 2013 (2012 - $26.3 million).

11. DEFERRED INCOME TAX (continued)

The provision for income taxes (recoveries) differs from the expected amounts using statutory income tax rates as follows:

($ 000's)		**2013**		2012
Loss	**$**	**(9,073)**	$	(56,638)
Income tax rates		**25.0%**		25.0%
Provision at statutory rates		**(2,268)**		(14,160)
Tax rate differential (UK and Bermuda)		**207**		(14,985)
Non-deductible items:				
Stock-based compensation		**415**		-
Items ineligible for supplementary charges		**18**		-
Other		**285**		236
Share issue costs		**(484)**		(434)
Effect of tax rates changes (Canada and UK)		**-**		(1,292)
Change in previously estimated tax pools		**9,217**		24,160
Change in unrecognized tax benefits		**(5,450)**		7,473
Effect of foreign exchange		**(1,940)**		(998)
Deferred income tax provision (recovery)	**$**	**-**	$	-

As at December 31, 2013, the Company had approximately $25.0 million (2012 - $19.0 million) of non-capital losses, which can be applied against taxable income earned in Canada with the following expiry dates:

- $4,000 on December 31, 2014
- $238,000 on December 31, 2026
- $253,000 on December 31, 2027
- $130,000 on December 31, 2028
- $3,158,000 on December 31, 2029
- $5,710,000 on December 31, 2030
- $4,643,000 on December 31, 2031
- $4,873,000 on December 31, 2032; and
- $5,933,000 on December 31, 2033.

As at December 31, 2013, the Company also had capital losses of approximately $5.1 million (2012 - $5.1 million), which will carry forward indefinitely to reduce capital gains taxed in Canada.

In addition, the Company had cumulative pre-trading expenses in the UK as at December 31, 2013 of approximately $4.3 million or GBP 2.5 million (2012 - $49.8 million or GBP 30.8 million). These amounts will become non-capital losses within the next seven years if the Company obtains trading status in the UK, and these losses can be carried forward indefinitely against future income earned in the UK. If the Company does not obtain trading status the amounts will expire after seven years.

12. COMMITMENTS AND CONTRACTUAL OBLIGATIONS

As at December 31, 2013, the Company has the following commitments:

($ 000's)	**Total**	**Less than One Year**	**One to Three Years**	**Four to Five Years**	**After Five Years**
NZ exploration commitments	**1,700**	1,700	-	-	-
Office lease	**3,372**	577	1,137	1,137	521
	5,072	2,277	1,137	1,137	521

NZ exploration commitments of $1.7 million as at December 31, 2013 relate to a minimum work programme to be carried out under a 50% exploration license in New Zealand. In addition, the Company acts as a guarantor of its partner's commitments (the remaining 50%) in this New Zealand license.

The Company is committed under operating lease agreements for the rental of office space in Calgary, Canada and Aberdeen, UK. The approximate total lease payments are $3.4 million and are payable over the next six years.

13. RELATED PARTY TRANSACTIONS

a) Transactions with Directors and Officers

Transactions with the Company's directors and officers in the form of consulting services occurred in the normal course of business and have been recorded at exchange amounts based on commercial rates and terms agreed to in the related consulting contracts. The expense, receivables and payables related to consulting services provided by directors and officers during the year ended December 31 are as follows:

($ 000's)	**2013**	2012
Consulting fees	**$ 29**	$ 119

As at December 31, 2013, accounts due from related parties amounted to $35,000 (December 31, 2012 - $26,000), which represented travel advances, with $3,000 payable to related parties (December 31, 2012 - $nil) for outstanding travel expenses.

13. RELATED PARTY TRANSACTIONS (continued)

b) Remuneration of Directors and Other Key Management Personnel

The key management personnel of the Company are comprised of executives of the Company and members of its board of directors. The remuneration of directors and key management personnel during the years ended December 31 are as follows:

($ 000's)	**2013**	2012
Short-term benefits	**$ 2,453**	$ 1,812
Stock-based compensation	**1,191**	-
	$ 3,644	$ 1,812

Short-term benefits include annual salaries, directors' fees and health and other taxable benefits. The 2012 and 2013 amounts also include the consulting fees (note 13 (a)).

Stock-based compensation relates to stock options granted during the year and represent the fair value of options granted using a Black-Scholes option pricing model as at the date of grant.

c) Loan to Key Management Personnel

During the year ended December 31, 2013 the Company provided a non-recourse interest bearing loan to a member of key management personnel. The balance receivable at December 31 is as follows:

($ 000's)	**2013**	2012
Loan receivable	**$ 24**	$ -

The loan receivable is payable in twenty four equal monthly instalments bearing interest at the prescribed Canada Revenue Agency rates, which ranged from 1% to 2% during the year ended December 31, 2013.

14. FINANCIAL INSTRUMENTS

The Company has classified its cash and cash equivalents and other deposits as financial assets at FVTPL 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.

a) Fair values

As at December 31, 2013 and 2012, 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

With the Company's current exploration activities carried out in the UK and Africa, significant amounts are transacted in or referenced to currencies other than the Canadian dollar, including the British Pound and U.S. dollar. As a result, fluctuations in the exchange rates between the Canadian dollar, British Pound and U.S. 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.

14. FINANCIAL INSTRUMENTS (continued)

(b) Foreign exchange risk (continued)

Cash and cash equivalents includes amounts denominated in foreign currencies:

	December 31, 2013	**December 31, 2012**
British Pounds	**188**	587
U.S. Dollars	**123**	317

(c) Credit risk

The Company's accounts receivable are mainly due from the government (Goods and Services Tax in Canada and Value Added Tax in UK) or from its employees in respect of travel advances. The Company's loan receivable is due from an employee (note 13 (c)). The Company believes there is no unusual exposure associated with these receivables. No amounts are considered to be past due and no allowance for doubtful accounts has been recorded in the accounts. As at December 31, 2013, the Company holds $2.4 million of cash and cash equivalents with Canadian and UK chartered banks. Management has assessed the associated credit risk as relatively low.

(d) 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.

15. CAPITAL MANAGEMENT

The Company's objectives when managing capital are:

- to safeguard the Company's ability to continue as a going concern;
- to maintain statement of financial position strength and optimal capital structure, while ensuring the Company's strategic objectives are met; 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 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 may adjust its capital structure by issuing new equity and/or debt, selling and/or acquiring assets, and controlling the capital expenditure program.

The Company is not subject to any external capital requirements. There were no changes in the Company's capital management policies during the year ended December 31, 2013.

16. NET CHANGE IN NON-CASH WORKING CAPITAL

	Year ended December 31, 2013	Year ended December 31, 2012
Decrease/(increase) in accounts receivable	**$ 176**	$ (36)
Increase in prepaid expenses	**(94)**	(49)
Increase in deposits and prepayments	**(3)**	(6)
Increase in loan receivable	**(24)**	-
(Decrease)/increase in operating accounts payable and accrued liabilities	**393**	2,199
Decrease in provision for loss on contract	**-**	(32,641)
Non-cash transaction:		
Net effect of foreign exchange	**(144)**	75
Net change in operating non-cash working capital	**$ 304**	$ (30,458)
Decrease/(increase) in accounts receivable related to exploration assets	**$ -**	$ 247
Increase/(decrease) in accounts payable related to exploration assets	**82**	(1,372)
Non-cash transaction:		
Net effect of foreign exchange	**(1)**	-
Net change in investing non-cash working capital	**$ 81**	$ (1,125)

16. SUBSEQUENT EVENTS

On March 31, 2014, the Company received approval from the UK Listing Authority for the publication of a prospectus relating to its admission to the standard listing segment of the Official List, and to trading on the main market for listed securities of the London Stock Exchange. The Company issued 17,777,777 Common Shares at a price of GBP 0.135 ($0.249) for gross proceeds of GBP 2.4 million ($4.4 million). The agents were paid cash commission of GBP $0.1 million ($0.2 million) representing 5.0% of the gross proceeds of the public offering. The Company also issued 888,889 share purchase warrants to its agent as compensation warrants in an amount equal to 5.0% of the aggregate number of common shares issued pursuant to the offering. Each agent's warrant entitles the holder to purchase one common share of COPL for the period until April 4, 2016 at an exercise price of GBP 0.135 ($0.249). Other expenses related to the public offering amounted to approximately GBP 0.2 million ($0.4 million).