

Canadian Overseas Petroleum Limited
Unaudited Condensed Interim Consolidated
Financial Statements
As at September 30, 2013 and for the three and nine
month periods ended September 30, 2013 and 2012

Management's Responsibility for Unaudited Condensed Interim 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 unaudited condensed 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 condensed interim consolidated financial statements as presented.

Signed "Arthur S. Millholland"

Arthur S. Millholland
President and Chief Executive Officer
November 15, 2013

Signed "Christopher McLean"

Christopher McLean
Chief Financial Officer
November 15, 2013

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

As at	September 30,	December 31,
	2013	2012
Assets		
Current		
Cash and cash equivalents <i>(note 3)</i>	\$ 5,169	\$ 4,374
Accounts receivable	240	237
Prepaid expenses	375	212
	<u>5,784</u>	<u>4,823</u>
Deposit for seismic data <i>(note 4)</i>	-	14,924
Deposits and prepayments	51	49
Exploration and evaluation assets <i>(note 4)</i>	16,322	-
Office equipment	188	218
	<u>22,345</u>	<u>\$ 20,014</u>
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 3,253	\$ 3,194
	<u>3,253</u>	<u>3,194</u>
Shareholders' Equity		
Share capital <i>(note 5)</i>	108,229	100,768
Warrants	37,359	37,359
Contributed capital reserve	9,113	9,113
Deficit	(135,888)	(130,602)
Accumulated other comprehensive income	279	182
	<u>19,092</u>	<u>16,820</u>
	<u>\$ 22,345</u>	<u>\$ 20,014</u>

Nature of operations (note 1)
Subsequent events (note 8)

See accompanying notes to the consolidated financial statements.

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

	Three months ended September 30, 2013	Three months ended September 30, 2012	Nine months ended September 30, 2013	Nine months ended September 30, 2012
Operations				
Services to third parties	\$ -	\$ 19	\$ -	\$ 129
E&E assets write off	-	(20,908)	-	(20,908)
Derecognition of cash held in escrow	-	(16,101)	-	(16,101)
Loss on UK contracts	-	(103)	-	(114)
Exploration	-	210	72	(8,234)
Pre-license costs	-	(313)	(433)	(1,659)
Administrative	(1,351)	(2,364)	(5,234)	(6,046)
Depreciation	(16)	(13)	(46)	(39)
	<u>(1,367)</u>	<u>(39,573)</u>	<u>(5,641)</u>	<u>(52,972)</u>
Finance income and costs				
Interest income	5	15	12	47
Interest and financing charges	-	-	-	(10)
Foreign exchange (loss) / gain	(244)	(179)	343	(141)
	<u>(239)</u>	<u>(164)</u>	<u>355</u>	<u>(104)</u>
Loss	(1,606)	(39,737)	(5,286)	(53,076)
(Loss) / gain on translation of foreign subsidiaries ⁽¹⁾	(171)	(508)	97	(220)
Comprehensive loss	<u>\$ (1,777)</u>	<u>\$ (40,245)</u>	<u>\$ (5,189)</u>	<u>\$ (53,296)</u>
Loss per share (basic and diluted)	<u>\$ (0.01)</u>	<u>\$(0.14)</u>	<u>\$ (0.02)</u>	<u>\$(0.19)</u>
Weighted average number of shares outstanding	<u>310,280,667</u>	<u>284,016,939</u>	<u>292,867,719</u>	<u>284,016,939</u>

⁽¹⁾Other comprehensive income includes items that may be subsequently reclassified into profit and loss.

See accompanying notes to the consolidated financial statements.

Canadian Overseas Petroleum Limited
Condensed Consolidated Statements of Changes in Equity (unaudited)
(in thousands of Canadian dollars)

	Share Capital	Warrants	Contributed Capital Reserve	Deficit	Accumulated Other Comprehensive Income / (loss) ⁽¹⁾	Total Equity
Balance at January 1, 2012	\$ 100,768	\$ 37,359	\$ 9,113	\$ (73,964)	\$ 328	\$ 73,604
Comprehensive (loss) / income for the period	-	-	-	(53,076)	(220)	(53,296)
Balance at September 30, 2012	\$ 100,768	\$ 37,359	\$ 9,113	\$ (127,040)	\$ 108	\$ 20,308
Balance at January 1, 2013	\$ 100,768	\$ 37,359	\$ 9,113	\$ (130,602)	\$ 182	\$ 16,820
Comprehensive (loss) / income for the period	-	-	-	(5,286)	97	(5,189)
Transactions with owners, recorded directly to equity						
Issue of common shares - net of issue costs	7,461	-	-	-	-	7,461
Balance at September 30, 2013	\$ 108,229	\$ 37,359	\$ 9,113	\$ (135,888)	\$ 279	\$ 19,092

⁽¹⁾As at September 30, 2013 the accumulated other comprehensive income balance consists of unrealized foreign exchange on translation of foreign subsidiaries.

See accompanying notes to the consolidated financial statements.

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

For the nine months ended September 30	2013	2012
Cash Used In Operating Activities		
Loss	\$ (5,286)	\$ (53,076)
Add (subtract) non-cash items:		
Interest income	(12)	(47)
Depreciation	45	39
E&E assets write off	-	20,908
Unrealized foreign exchange gain	(313)	(14)
Funds used in operations	(5,566)	(32,190)
Net change in non-cash working capital (<i>note 7</i>)	(293)	(31,465)
	<u>(5,859)</u>	<u>(63,655)</u>
Financing Activities		
Issuance of common shares, net of issue costs	7,461	-
	<u>7,461</u>	<u>-</u>
Investing Activities		
Additions to office equipment	(14)	(32)
Additions to exploration & evaluation assets (<i>note 4</i>)	(890)	(314)
Interest income	12	47
Net change in non-cash working capital (<i>note 7</i>)	83	(1,125)
	<u>(809)</u>	<u>(1,424)</u>
Increase (decrease) in cash and cash equivalents during the period	793	(65,079)
Effect of foreign exchange on cash and cash equivalents held in foreign currencies	2	150
Cash and cash equivalents, beginning of period	4,374	71,924
Cash and cash equivalents, end of period	<u>\$ 5,169</u>	<u>\$ 6,995</u>

See accompanying notes to the consolidated financial statements.

Canadian Overseas Petroleum Limited
Notes to the Condensed Consolidated Financial Statements
For the three and nine months ended September 30, 2013 and 2012

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. 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 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 Bermuda”), which were created in May 2011 to conduct anticipated operations in offshore Liberia; and
- COPL New Zealand Limited, which was incorporated in New Zealand on November 8, 2012 to participate in an onshore exploration license in New Zealand.

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 Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and are reported in thousands of Canadian dollars (“\$”) in accordance with International Accounting Standard (“IAS”) 34, “Interim Financial Reporting”. 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, 2012 and 2011, which outline the Company’s significant accounting policies in Note 3 thereto, which have been applied consistently in these financial statements, except as noted below, as well as the Company’s critical accounting judgments and key sources of estimation uncertainty which are also set out in Note 3 thereto.

These financial statements were approved for issuance by the Board of Directors on November 15, 2013.

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 (see note 4) 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 (see note 5). 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, there is a significant doubt that the Company will be able to continue as a going concern. These financial statements do not give effect to adjustments to the carrying values and classifications of assets and liabilities that would be necessary should the Company be unable to continue as a going concern.

Canadian Overseas Petroleum Limited
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2. BASIS OF PREPARATION AND GOING CONCERN (continued)

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”.

3. CASH AND CASH EQUIVALENTS

(\$ 000's)	September 30, 2013	December 31, 2012
Cash	\$ 4,904	\$ 2,914
Bankers' Acceptances	-	1,199
Credit card deposits	265	261
	\$ 5,169	\$ 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 \$5.2 million as at September 30, 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 September 30, 2013 and December 31, 2012.

4. EXPLORATION AND EVALUATION ASSETS

(\$ 000's)	Liberia	New Zealand	TOTAL
As at December 31, 2012	\$ -	-	\$ -
Additions at cost	545	345	890
Transfer of deposit for seismic data	14,924	-	14,924
Net effect of foreign exchange	506	2	508
As at September 30, 2013	\$ 15,975	347	\$ 16,322

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4. EXPLORATION AND EVALUATION ASSETS (continued)

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, 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 also the operator under this license.

\$16.0 million recognized as exploration and evaluation assets mainly represent the Canadian dollar equivalent of US\$15.0 million for 3D seismic conducted on of Block LB-13.

Loss on UK Contracts - Dispute with BG

In 2011 and 2012, the Company recognized a loss on UK contracts of approximately \$38.1 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 ("RoB") (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 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. Since then, both parties have been in dispute, with claims and counter-claims being filed with Court.

During the quarter, 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 already included in general and administrative costs for the period ended September 30, 2013.

Canadian Overseas Petroleum Limited
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5. 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:
(\$ 000’s)

	Number of Common Shares	Amount
Balance, January 1, 2012	284,016,939	\$ 100,768
Balance, January 1, 2013	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
Share issue costs	-	(1,001)
Balance, September 30, 2013	326,327,939	\$ 108,229

On July 4, 2013, the Company filed a short form prospectus for 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. The net proceeds of the Offering of approximately \$7.5 million will be used mainly to finance the Company’s general and administrative costs.

b) Warrants

There were no warrants issued and/or exercised during the period of nine months ended September 30, 2013 and the year ended December 31, 2012. The summary of the Company’s share purchase warrants outstanding at September 30, 2013 is as follows:

	Number of Warrants outstanding	Exercise Price	Expiry Date
2010 Public Offering – First Release	38,949,000	\$0.65	December 1, 2013
2010 Public Offering – Second Release	91,000,000	\$0.65	December 1, 2013
	129,949,000	\$0.65	

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5. SHARE CAPITAL (continued)

c) Incentive Stock Options

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

No stock options were issued and/or exercised during the period of nine months ended September 30, 2013 and the year ended December 31, 2012.

As at September 30, 2013, a total of 20,565,000 stock options to purchase common shares are outstanding, having a weighted average exercise price of \$0.67 per share with a remaining weighted average contractual life of 2.23 years. Changes to the Company's stock options are summarized as follows:

	Nine months ended September 30, 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	-	-	-	-
Expired	-	-	(1,500,000)	0.66
Balance, end of period	20,565,000	\$ 0.67	20,565,000	\$ 0.67
Exercisable, end of period	20,565,000	\$ 0.67	20,565,000	\$ 0.67

6. FINANCIAL INSTRUMENTS

a) Fair values

As at September 30, 2013 and December 31, 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

Cash and cash equivalents includes amounts denominated in foreign currencies:

(\$000's)	September 30, 2013	December 31, 2012
British Pounds	206	587
U.S. Dollars	39	317

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7. NET CHANGE IN NON-CASH WORKING CAPITAL

	Nine months ended September 30, 2013	Nine months ended September 30, 2012
(Increase) in accounts receivable	\$ (3)	\$ (641)
(Increase) in prepaid expenses and deposits	(165)	(23)
Increase (decrease) in operating accounts payable and accrued liabilities	(23)	1,539
Settlement of loss on contract with BG	-	(32,477)
Non-cash transaction:		
Net effect of foreign exchange	(102)	137
Net change in operating non-cash working capital	\$ (293)	\$ (31,465)
Decrease 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	\$ 83	\$ (1,125)

8. SUBSEQUENT EVENTS

On October 24, 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 will issue to the Creditor an aggregate of 7,389,781 common shares in the capital of the Company (“Shares”) at a deemed price of \$0.245 per Share, the volume weighted average price on that date. The total amount to be settled by the Agreement is approximately \$1.8 million, which includes the outstanding balance due to the Creditor in accounts payable as at September 30, 2013 of approximately \$1.5 million. The Company decided to satisfy this outstanding indebtedness with common shares to preserve its cash for operations. Shares issued to the Creditor will be subject to a four-month hold period from the settlement date.