

Canadian Overseas Petroleum Limited
Consolidated Financial Statements
As at and for the years ended December 31, 2014
and 2013

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
March 26, 2015

Signed "Christopher McLean"

Christopher McLean
Chief Financial Officer
March 26, 2015

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, which comprise the consolidated statements of financial position as at December 31, 2014 and December 31, 2013, 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 a summary of significant accounting policies and other explanatory information.

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 as at December 31, 2014 and December 31, 2013, and its 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 \$7.1 million during the year ended December 31, 2014 (2013: \$9.1 million) and had negative cash flows from operating activities of \$8.2 million (2013: \$8.0 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"

March 26, 2015
Calgary, Alberta

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

As at	December 31, 2014	December 31, 2013
Assets		
Current		
Cash and cash equivalents (<i>note 4</i>)	\$ 5,458	\$ 2,384
Accounts receivable	155	60
Prepaid expenses	410	306
Loan receivable (<i>note 11</i>)	12	12
	6,035	2,762
Deposits and prepayments	67	52
Loan receivable (<i>note 11</i>)	-	12
Exploration and evaluation assets (<i>note 5</i>)	18,915	17,502
Office equipment	155	187
	\$ 25,172	\$ 20,515
Liabilities		
Current		
Accounts payable and accrued liabilities (<i>note 6</i>)	\$ 1,601	\$ 1,859
	1,601	1,859
Derivative liability (<i>note 7</i>)	66	-
	1,667	1,859
Shareholders' Equity		
Share capital (<i>note 7</i>)	118,946	110,020
Warrants (<i>note 8</i>)	2,860	-
Contributed capital reserve (<i>note 8</i>)	47,971	47,971
Deficit	(146,823)	(139,675)
Accumulated other comprehensive income	551	340
	23,505	18,656
	\$ 25,172	\$ 20,515

Nature of operations (note 1)

Commitments and contractual obligations (note 10)

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	2014	2013
Operations		
Exploration	\$ 2	\$ 72
Derecognition of exploration and evaluation assets (note 5)	(665)	-
Pre-license costs (note 5)	(607)	(529)
Administrative	(7,180)	(7,858)
Depreciation	(68)	(63)
Stock-based compensation (note 7)	-	(1,499)
	<u>(8,518)</u>	<u>(9,877)</u>
Finance income and costs		
Interest income	32	25
Derivative gain (note 7)	30	-
Foreign exchange gain	1,308	779
	<u>1,370</u>	<u>804</u>
Loss	(7,148)	(9,073)
Gain on translation of foreign subsidiaries	<u>211</u>	<u>158</u>
Comprehensive loss	<u>\$ (6,937)</u>	<u>\$ (8,915)</u>
Loss per share (basic and diluted)	<u>\$ (0.02)</u>	<u>\$ (0.03)</u>
Weighted average number of shares outstanding	<u>365,248,721</u>	<u>301,868,415</u>

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 Income	Total Equity
Balance at January 1, 2013	\$ 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 (<i>note 7</i>)	9,252	-	-	-	-	9,252
Stock options granted (<i>note 7</i>)	-	-	1,499	-	-	1,499
Warrants expired (<i>note 8</i>)	-	(37,359)	37,359	-	-	-
Balance at December 31, 2013	\$ 110,020	\$ -	\$ 47,971	\$ (139,675)	\$ 340	\$ 18,656
Comprehensive (loss) / income for the year	-	-	-	(7,148)	211	(6,937)
Transactions with owners, recorded directly to equity						
Issue of common shares - net of issue costs (<i>note 7</i>)	8,926	-	-	-	-	8,926
Issue of share purchase warrants (<i>note 7</i>)	-	2,860	-	-	-	2,860
Balance at December 31, 2014	\$ 118,946	\$ 2,860	\$ 47,971	\$ (146,823)	\$ 551	\$ 23,505

⁽¹⁾As at December 31, 2014 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
Consolidated Statements of Cash Flows
(in thousands of Canadian dollars)

For the years ended December 31	2014	2013
Cash Used In Operating Activities		
Loss	\$ (7,148)	\$ (9,073)
Interest income	(32)	(25)
Add (deduct) non-cash items:		
Stock-based compensation (<i>note 7</i>)	-	1,499
Derivative gain (<i>note 7</i>)	(30)	-
Depreciation	68	63
Derecognition of exploration and evaluation assets (<i>note 5</i>)	665	-
Unrealized foreign exchange gain	(1,419)	(780)
Funds used in operations	(7,896)	(8,316)
Net change in non-cash working capital (<i>note 14</i>)	(375)	304
	(8,271)	(8,012)
Financing Activities		
Issuance of common shares, net of issue costs (<i>note 7</i>)	11,881	7,443
	11,881	7,443
Investing Activities		
Additions to office equipment	(37)	(30)
Additions to exploration and evaluation assets (<i>note 5</i>)	(484)	(1,505)
Interest income	32	25
Net change in non-cash working capital (<i>note 14</i>)	(82)	81
	(571)	(1,429)
Increase / (decrease) in cash and cash equivalents during the year	3,039	(1,998)
Effect of foreign exchange on cash and cash equivalents held in foreign currencies	35	8
Cash and cash equivalents, beginning of year	2,384	4,374
Cash and cash equivalents, end of year	\$ 5,458	\$ 2,384

See accompanying notes to the consolidated financial statements.

Canadian Overseas Petroleum Limited
Notes to the Consolidated Financial Statements
For the years ended December 31, 2014 and 2013

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 December 31, 2014, 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 incorporated in May 2011 to conduct anticipated operations in offshore Liberia;
- COPL New Zealand Limited, which was incorporated in New Zealand (“NZ”) in November 2012;
- Canadian Overseas Petroleum (Nigeria) Limited, which was incorporated in Bermuda in October 2013; and
- Canadian Overseas Petroleum (Namibia) Limited, which was incorporated in Bermuda in October 2014.

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 consolidated financial statements for the years ended December 31, 2014 and 2013 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 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 2015, there is 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.

Canadian Overseas Petroleum Limited
Notes to the Consolidated Financial Statements
For the years ended December 31, 2014 and 2013

2. BASIS OF PREPARATION AND GOING CONCERN (continued)

Going Concern (continued)

The consolidated financial statements were authorized for issue by the Company's Board of Directors on March 26, 2015.

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 an original maturity of three months or less, and credit card deposits.

Office Equipment

Office furniture and equipment is stated at purchase price net of accumulated impairment losses and accumulated depreciation. Depreciation 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 from their functional currency to Canadian dollars 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.

Revenue Recognition

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.

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. E&E assets with commercial reserves 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.

Joint Arrangements

Certain of the Company’s activities are conducted through joint arrangements in which two or more parties have joint control. A joint arrangement is classified as either a joint operation or a joint venture, depending on the rights and obligations of the parties to the arrangement.

Joint operations arise when the Company has a direct ownership interest in jointly controlled assets and obligations for liabilities. The consolidated financial statements include the Company’s proportionate share of the assets, liabilities, revenues, expenses, and cash flows of this type of arrangement.

Joint ventures arise when the Company has rights to the net assets of the arrangement. For these arrangements the Company uses the equity method of accounting and recognizes initial and subsequent investments at cost, adjusting for the Company’s share of the joint venture’s income or loss, less dividends received thereafter. Joint ventures are tested for impairment whenever objective evidence indicates that the carrying amount of the investment may not be recoverable under the equity method of accounting. The impairment amount is measured as the difference between the carrying amount of the investment and the higher of its fair value less costs of disposal and its value in use. Impairment losses are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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 financial liabilities measured at amortized cost. All financial instruments are initially recognized at fair value on the statement of financial position, except in the case of “financial liabilities measured at amortized cost”, which are initially measured at fair value net of directly attributable transaction costs. 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.

Financial assets “held-to-maturity”, “loans and receivables” and “financial liabilities measured at amortized cost” 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.

Canadian Overseas Petroleum Limited
Notes to the Consolidated Financial Statements
For the years ended December 31, 2014 and 2013

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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, warrants and derivative liability – the amounts recorded in respect of stock options granted, share purchase warrants granted and the derivative liability for warrants issued 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;
- Impairment of assets – E&E assets and office equipment are assessed for impairment annually and when circumstances suggest that the carrying amount might exceed the recoverable amount. These calculations require the use of estimates and assumptions and are subject to change as new information becomes available. Specifically for E&E assets, these estimates include future commodity prices, quantity of reserves and discount rates, as well as future development and operating expenses;
- 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 projects are complete and 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. Determining the type of joint arrangement as either a joint operation or a joint venture is based on management's determination of whether it has joint control over another entity and considerations include assessment of contractual agreements for unanimous consent of the parties on decision making of relevant activities. Once classified as a joint arrangement, management assesses whether it is structured through a separate vehicle and whether the legal form and contractual arrangements give the entity the direct right to the assets and obligations for the liabilities within the normal course of business, as well as the entity's rights to the economic benefit of assets and its involvement and responsibility for settling liabilities associated with the arrangement.

Canadian Overseas Petroleum Limited
Notes to the Consolidated Financial Statements
For the years ended December 31, 2014 and 2013

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Recently Adopted Accounting Standards

As at January 1, 2014, the Company adopted the following standards:

- IAS 36, Impairment of Assets – Amendments to IAS 36 require entities to disclose the recoverable amount of an impaired Cash Generating Unit (“CGU”). The Company assessed the effect of IAS 36 and determined that there is no material impact on the financial statements.
- IFRIC 21, Levies – Interpretation of IAS 37, Provisions, Contingent Liabilities and Assets, sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event. The interpretation clarifies that the obligation that gives rise to the liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The Company assessed the effect of IFRIC 21 on its consolidated statements of financial position and consolidated statements of comprehensive loss and has determined there is no material impact.
- 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 the Company assessed the effect of IAS 23 and determined that there is no material impact on the Company’s consolidated financial statements.

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.

In May 2014, the IASB issued IFRS 15 “Revenue from Contracts with Customers,” which replaces IAS 18 “Revenue,” AS 11 “Construction Contracts,” and related interpretations. The standard is required to be adopted either retrospectively or using a modified transition approach for fiscal years beginning on or after January 1, 2017, with earlier adoption permitted. IFRS 15 will be applied by the Company on January 1, 2017 and the Company is currently evaluating the impact of the standard on the Company’s financial statements.

4. CASH AND CASH EQUIVALENTS

(\$ 000’s)	December 31, 2014	December 31, 2013
Cash	\$ 5,338	\$ 2,114
Bankers’ Acceptances	-	-
Credit card deposits	120	270
	\$ 5,458	\$ 2,384

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 \$5.5 million as at December 31, 2014 (\$2.4 million as at December 31, 2013). 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, 2014 and 2013.

Canadian Overseas Petroleum Limited
Notes to the Consolidated Financial Statements
For the years ended December 31, 2014 and 2013

5. EXPLORATION AND EVALUATION ASSETS

(\$ 000's)	Liberia	New Zealand	TOTAL
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
Additions	505	151	656
Recovery	-	(82)	(82)
Net effect of foreign exchange	1,558	(54)	1,504
Derecognition	-	(665)	(665)
As at December 31, 2014	\$ 18,915	\$ -	\$ 18,915

New Zealand

During 2014, the Company had commitments of \$1.7 million related to a minimum work program to be carried out by October 31, 2014, under a 50% exploration license in New Zealand and acted as a guarantor of its partner's commitments (the remaining 50%) in this New Zealand license. On November 1, 2014, the minimum work commitments on the exploration asset had not been met by the Company or its partner. The Company and its partner entered into a settlement agreement effective August 29, 2014, whereby the Company's license interest share was transferred back to the partner and any and all claims the partner may or may not have arising from the failure of the Company to finance its share of the work programme were settled. There are no further financial penalties or commitments relative to this asset and payables of \$82,000 previously recognized and due to the Company's partner were written off. Thus, the balance of previously capitalized evaluation and exploration assets of \$665,000 were derecognized.

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 the operator under this license.

During 2013, the \$16.9 million recognized as exploration and evaluation assets mainly consisted of the Canadian dollar equivalent of US\$15.0 million for 3D seismic conducted on Block LB-13.

Pre-license costs

During the year ended December 31, 2014, the Company incurred \$0.6 million (2013 - \$0.5 million) of pre-license costs of which \$0.3 million related to the transaction with Peppercoast, and \$0.3 million related to areas in West Africa.

Canadian Overseas Petroleum Limited
Notes to the Consolidated Financial Statements
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6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

(\$ 000's)	December 31, 2014	December 31, 2013
Trade payables	1,096	1,307
Joint venture payables	213	292
Accrued liabilities	271	238
Other	21	22
Total	1,601	1,859

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, December 31, 2012	284,016,939	\$ 100,768
Issued pursuant to public offering on July 25th (i)	30,000,000	6,000
Issued pursuant to public offering on August 28 th (i)	12,311,000	2,462
Issued pursuant to settlement of debt on December 3 rd (i)	7,389,781	1,810
Share issue costs	-	(1,020)
Balance, December 31, 2013	333,717,720	\$ 110,020
Issued pursuant to public offering on April 3rd (ii)	17,777,777	4,392
Issued pursuant to public offering on August 21st (iii)	50,555,000	7,251
Share issue costs	-	(2,717)
Balance, December 31, 2014	402,050,497	\$ 118,946

- (i) 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.

Canadian Overseas Petroleum Limited
Notes to the Consolidated Financial Statements
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7. SHARE CAPITAL

a) Authorized and Issued Common Shares (continued)

- (ii) On April 3, 2014, the Company closed 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 (\$0.247) for gross proceeds of GBP 2.4 million (\$4.4 million). The agents were paid cash commission and fees of GBP \$0.3 million (\$0.5 million) representing 5.0% of the gross proceeds of the public offering. Other expenses related to the public offering amounted to approximately \$1.1 million.

The Company also issued 888,889 share purchase warrants (“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 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 (\$0.247). The fair value of the Warrants issued was recognized as share issue costs and estimated at \$0.1 million using a Black-Scholes option pricing model with the following assumptions:

	2014
Risk-free interest rate	1.1%
Weighted average life (years)	2.0
Expected volatility	81%
Expected dividend yield	0%

On April 3, 2014 a derivative liability of \$0.1 million was also recognized in relation to the Warrants issued. The Warrants’ exercise price is in GBP, and the Company’s functional currency is in CAD. As there is variability in these exchange rates the Warrants are classified as a derivative financial instrument. As at December 31, 2014, the derivative liability was revalued and a derivative gain of \$30,000 was recognized. The estimated derivative liability as at December 31, 2014, is valued at \$66,000, using a Black-Scholes option pricing model with the following assumptions:

	2014
Risk-free interest rate	1.01%
Weighted average life (years)	1.25
Expected volatility	70%
Expected dividend yield	0%

- (iii) On August 21, 2014, the Company closed a short form prospectus in connection with a marketed offering of units of the Company (the “Units”). Each Unit consisted of one Common Share in the capital of the Company and one share purchase warrant. Each Warrant entitles the holder thereof to purchase one Common Share at an exercise price of \$0.40 per Common Share on or before the date that is 36 months following the closing date. The Company issued 50,555,000 Units at a price of \$0.20 per Unit, for aggregate proceeds of approximately \$10.1 million pursuant to the offering. The agents were paid a cash commission of \$0.1 million as well as \$0.5 million representing 5.0% of the gross proceeds. Other expenses related to the offering of Units amounted to approximately \$0.4 million.

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7. SHARE CAPITAL (continued)

a) Authorized and Issued Common Shares (continued)

The fair value of the Warrants issued was netted against proceeds from share capital and estimated at \$2.9 million using a Black-Scholes option pricing model with the following assumptions:

	2014
Risk-free interest rate	1.1%
Weighted average life (years)	3.0
Expected volatility	70%
Expected dividend yield	0%

b) Warrants

A summary of the Company's share purchase warrants outstanding at December 31, 2014 is as follows:

	December 31, 2014		December 31, 2013	
	Number of Warrants	Wt. Avg. Exercise Price	Number of Warrants	Wt. Avg. Exercise Price
Balance, beginning of year	-	\$ -	129,949,000	\$ 0.65
Issued (note 7 (a) (ii))	888,889	0.25	-	-
Issued (note 7 (a) (iii))	50,555,000	0.40	-	-
Expired	-	-	(129,949,000)	0.65
Balance, end of year	51,443,889	\$ 0.40	-	\$ -

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.

	December 31, 2014		December 31, 2013	
	Number of Options	Wt. Avg. Exercise Price	Number of Options	Wt. Avg. Exercise Price
Balance, beginning of year	31,320,000	\$ 0.51	20,565,000	\$ 0.67
Granted	-	-	11,025,000	0.23
Forfeited	(3,255,000)	0.68	(270,000)	0.77
Balance, end of year	28,065,000	\$ 0.49	31,320,000	\$ 0.51
Exercisable, end of year	28,065,000	\$ 0.49	31,320,000	\$ 0.51

During 2013, the Company granted 11,025,000 stock options to acquire common shares at an exercise price of \$0.23 to its directors, officers, employees and consultants the following stock options, which vest immediately and expire five years from date of grant. During the year ended December 31, 2014, 3,255,000 stock options granted to employees forfeited (during the year ended December 31, 2013 – 270,000), as they no longer provide services to the Company.

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7. SHARE CAPITAL (continued)

c) Incentive Stock Options (continued)

No stock options were exercised during the years ended December 31, 2014 and 2013.

As at December 31, 2014, a total of 28,065,000 stock options to purchase common shares are outstanding, having a weighted average exercise price of \$0.49 per share with a remaining weighted average contractual life of 2.15 years.

Stock-based compensation expense of \$nil (2013 - \$1.5 million) has been recognized in the statement of comprehensive loss relating to previously issued stock options.

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%

8. CONTRIBUTED CAPITAL RESERVE AND WARRANTS

(\$ 000's)	December 31, 2014	December 31, 2013
Contributed capital reserve:		
Balance, beginning of year	\$ 47,971	\$ 9,113
Stock-based compensation (<i>note 9c</i>)	-	1,499
Warrants expired	-	37,359
Balance, end of year	\$ 47,971	\$ 47,971
Warrants:		
Balance, beginning of year	\$ -	\$ 37,359
Fair value of warrants issued (<i>note 7(a) (iii)</i>)	2,860	-
Warrants expired	-	(37,359)
Balance, end of year	\$ 2,860	\$ -

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9. DEFERRED INCOME TAX

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

(\$ 000's)	December 31, 2014	December 31, 2013
Non-capital income tax losses	\$ 7,791	\$ 6,236
Pre-trading expenses – UK	2,384	2,687
Capital losses	632	632
Share issue costs	968	910
Exploration and Evaluation assets	21,385	21,590
Office equipment	25	77
	33,185	32,132
Unrecognized tax benefits	(33,185)	(32,132)
Deferred income tax assets (liabilities)	\$ -	\$ -

The Company did not recognize a deferred tax asset as at December 31, 2014 or 2013, 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, 2014 (2013 - \$26.3 million).

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

(\$ 000's)	2014	2013
Loss	\$ (7,147)	\$ (9,073)
Income tax rates	25.0%	25.0%
Provision at statutory rates	(1,787)	(2,268)
Tax rate differential (UK and Bermuda)	261	207
Non-deductible items:		
Stock-based compensation	-	415
Depreciation in excess of capital allowance	32	-
Items ineligible for supplementary charges	-	18
Other	61	285
Share issue costs	(621)	(484)
Effect of tax rates changes (Canada and UK)	9	-
Change in previously estimated tax pools	443	9,217
Change in unrecognized tax benefits	990	(5,450)
Effect of foreign exchange	612	(1,940)
Deferred income tax provision (recovery)	\$ -	\$ -

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9. DEFERRED INCOME TAX (continued)

As at December 31, 2014, the Company had approximately \$31.2 million (2013 - \$25.0 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
- \$5,933,000 on December 31, 2033; and
- \$6,227,000 on December 31, 2034.

As at December 31, 2014, the Company also had capital losses of approximately \$5.1 million (2013 - \$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, 2014 of approximately \$3.6 million or GBP 1.9 million (2013 - \$4.3 million or GBP 2.5 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.

10. COMMITMENTS AND CONTRACTUAL OBLIGATIONS

As at December 31, 2014, 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	3,644	741	1,482	1,421	-

The Company is committed under operating lease agreements for the rental of office space in Calgary, Canada. The approximate total lease payments are \$3.6 million and are payable over the next five years.

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11. 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, and payables related to consulting services provided by directors and officers are as follows:

(\$ 000's)	December 31, 2014	December 31, 2013
Consulting fees	\$ -	\$ 29

As at December 31, 2014, accounts due from related parties amounted to \$74,000 (December 31, 2013 - \$35,000), which represented travel advances, with \$nil payable to related parties (December 31, 2013 - \$3,000) for outstanding travel expenses.

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 are as follows:

(\$ 000's)	December 31, 2014	December 31, 2013
Short-term benefits	\$ 1,986	\$ 2,453
Stock-based compensation	-	1,191
	\$ 1,986	\$ 3,644

Short-term benefits include annual salaries, directors' fees and health and other taxable benefits. The 2013 amounts also include the consulting fees (note 11 (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

The Company has provided a non-recourse interest bearing loan to a member of key management personnel. The balance receivable is as follows:

(\$ 000's)	December 31, 2014	December 31, 2013
Loan receivable	\$ 12	\$ 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, 2014. The loan will be fully repaid in January 2016.

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12. 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, 2014 and 2013, 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 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 obligations.

Cash and cash equivalents includes amounts denominated in foreign currencies:

	December 31, 2014	December 31, 2013
British Pounds	42	188
U.S. Dollars	275	123

(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 11 (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, 2014, the Company holds \$5.5 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.

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13. 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, 2014.

14. NET CHANGE IN NON-CASH WORKING CAPITAL

	December 31, 2014	December 31, 2013
Increase / decrease in accounts receivable	\$ (94)	\$ 176
Increase in prepaid expenses	(104)	(94)
Increase in deposits and prepayments	(14)	(3)
Decrease / increase in loan receivable	12	(24)
Decrease in operating accounts payable and accrued liabilities	(175)	393
Non-cash transaction:		
Net effect of foreign exchange	-	(144)
Net change in operating non-cash working capital	\$ (375)	\$ 304
Decrease in accounts payable related to exploration assets	\$ (82)	\$ 82
Non-cash transaction:		
Net effect of foreign exchange	-	(1)
Net change in investing non-cash working capital	\$ (82)	\$ 81

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15. SUBSEQUENT EVENTS

On February 12, 2015, Canadian Overseas Petroleum (Nigeria) Limited was dissolved and removed from the Register of Companies in Bermuda, as the company ceased to carry on business, had discharged in full the liabilities to all its known creditors, and distributed its surplus assets in accordance with the Companies Act 1981.

On February 20, 2015, the Company's joint venture ShoreCan entered into a farmout agreement to acquire an 80% interest in three blocks offshore Namibia.

On February 23, 2015, the Company resolved to remove COPL New Zealand Limited from the New Zealand Register of Companies as the company ceased to carry on business, had discharged in full the liabilities to all its known creditors, and distributed its surplus assets in accordance with its constitution and section 318(1)(d)(i) of the Companies Act 1993.

On March 4, 2015, the Company's joint venture ShoreCan entered into a farm-in option agreement to acquire a 60% participating interest in the Petroleum Exploration License and Petroleum Agreement with respect to the Kimbiji and Latham offshore Blocks in Tanzania. Identified as the Latham License Area and the Kimbiji License Area, they extend from the shore to offshore depths of approximately 500 to 1000 meters. On exercise of the option and receipt of approval from the Tanzanian authorities, ShoreCan will assume operatorship of the offshore blocks. Currently ShoreCan is evaluating the historic 2D seismic and regional information.