

**Canadian Overseas Petroleum Limited  
Unaudited Condensed Interim Consolidated  
Financial Statements  
As at March 31, 2014 and for the three month  
periods ended March 31, 2014 and 2013**

## **Management's Responsibility for Consolidated Financial Statements**

The information provided in these unaudited condensed interim consolidated financial statements is the responsibility of management. In the preparation of the statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying unaudited condensed interim consolidated financial statements.

Management maintains a system of internal controls to provide reasonable assurance that the Company's assets are safeguarded and to facilitate the preparation of relevant and timely information.

The audit committee has reviewed the unaudited condensed interim consolidated financial statements with management and the auditors, and has reported to the Board of Directors. The Board of Directors has approved the unaudited consolidated interim financial statements as presented.

Signed "Arthur S. Millholland"

Arthur S. Millholland  
President and Chief Executive Officer  
May 27, 2014

Signed "Christopher McLean"

Christopher McLean  
Chief Financial Officer  
May 27, 2014

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

As at	March 31, 2014	December 31, 2013
<b>Assets</b>		
Current		
Cash and cash equivalents <i>(note 3)</i>	\$ 996	\$ 2,384
Accounts receivable	58	60
Prepaid expenses	999	306
Loan receivable	12	12
	2,065	2,762
Deposits and prepayments	52	52
Loan receivable	9	12
Exploration and evaluation assets <i>(note 4)</i>	18,398	17,502
Office equipment	177	187
	\$ 20,701	\$ 20,515
<b>Liabilities</b>		
Current		
Accounts payable and accrued liabilities <i>(note 5)</i>	\$ 3,004	\$ 1,859
	3,004	1,859
<b>Shareholders' Equity</b>		
Share capital <i>(note 6)</i>	110,020	110,020
Contributed capital reserve	47,971	47,971
Deficit	(140,667)	(139,675)
Accumulated other comprehensive income	373	340
	17,697	18,656
	\$ 20,701	\$ 20,515

**Nature of operations (note 1)**  
**Commitments and contractual obligations (note 7)**  
**Subsequent events (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**  
**Condensed Consolidated Statements of Comprehensive Loss (unaudited)**  
(in thousands of Canadian dollars, except per share amounts)

For the three months ended March 31	2014	2013
<b>Operations</b>		
Exploration	-	21
Pre-license costs	(282)	(366)
Administrative	(1,337)	(1,952)
Depreciation	(17)	(15)
	(1,636)	(2,312)
<b>Finance income and costs</b>		
Interest income	6	5
Foreign exchange gain	638	268
	644	273
Loss	(992)	(2,039)
Gain on translation of foreign subsidiaries <sup>(1)</sup>	33	154
	\$ (959)	\$ (1,885)
Comprehensive loss		
Loss per share (basic and diluted)	\$(0.00)	\$(0.01)
Weighted average number of shares outstanding	333,717,720	284,016,939

<sup>(1)</sup>Other comprehensive income includes items that will be subsequently reclassified into profit and loss.

See accompanying notes to the condensed 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 <sup>(1)</sup>	Total Equity
<b>Balance at December 31, 2012</b>	<b>\$ 100,768</b>	<b>\$ 37,359</b>	<b>\$ 9,113</b>	<b>\$ (130,602)</b>	<b>\$ 182</b>	<b>\$ 16,820</b>
<b>Comprehensive (loss) / income for the period</b>				(2,039)	154	(1,885)
<b>Balance at March 31, 2013</b>	<b>\$ 100,768</b>	<b>\$ 37,359</b>	<b>\$ 9,113</b>	<b>\$ (132,641)</b>	<b>\$ 336</b>	<b>\$ 14,935</b>
<b>Balance at December 31, 2013</b>	<b>\$ 110,020</b>	<b>\$ -</b>	<b>\$ 47,971</b>	<b>\$ (139,675)</b>	<b>\$ 340</b>	<b>\$ 18,656</b>
<b>Comprehensive (loss) / income for the period</b>				(992)	33	(959)
<b>Balance at March 31, 2014</b>	<b>\$ 110,020</b>	<b>\$ -</b>	<b>\$ 47,971</b>	<b>\$ (140,667)</b>	<b>\$ 373</b>	<b>\$ 17,697</b>

<sup>(1)</sup>As at March 31, 2014 the accumulated other comprehensive income balance consists of unrealized foreign exchange on translation of foreign subsidiaries.

See accompanying notes to the condensed consolidated financial statements.

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

<b>For the three months ended March 31</b>	<b>2014</b>	<b>2013</b>
<b>Cash Used In Operating Activities</b>		
Loss	\$ (992)	\$ (2,039)
Interest income	(6)	(5)
Add (deduct) non-cash items:		
Depreciation	17	15
Unrealized foreign exchange gain	(821)	(291)
Funds used in operations	(1,802)	(2,320)
Net change in non-cash working capital ( <i>note 9</i> )	1,015	537
	<u>(787)</u>	<u>(1,783)</u>
<b>Financing Activities</b>		
Net change in non-cash working capital ( <i>note 9</i> )	(477)	-
	<u>(477)</u>	<u>-</u>
<b>Investing Activities</b>		
Additions to office equipment	(7)	(5)
Additions to exploration and evaluation assets	(209)	(251)
Interest income	6	5
Net change in non-cash working capital ( <i>note 9</i> )	82	-
	<u>(128)</u>	<u>(251)</u>
<b>Decrease in cash and cash equivalents during the period</b>	<b>(1,392)</b>	<b>(2,034)</b>
<b>Effect of foreign exchange on cash and cash equivalents held in foreign currencies</b>	<b>4</b>	<b>(19)</b>
Cash and cash equivalents, beginning of period	2,384	4,374
Cash and cash equivalents, end of period	<u>\$ 996</u>	<u>\$ 2,321</u>

See accompanying notes to the condensed consolidated financial statements.

**Canadian Overseas Petroleum Limited**  
**Notes to the Condensed Consolidated Financial Statements**  
**For the three months ended March 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 – 1<sup>st</sup> 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 unaudited condensed interim consolidated financial statements (“financial statements”) have been prepared in accordance with International Accounting Standard (“IAS”) 34, “Interim Financial Reporting” following acceptable accounting policies under International Financial Reporting Standards (“IFRS”) and are reported in thousands of Canadian dollars (“\$”). The Company’s financial statements should be read in conjunction with the Company’s audited annual consolidated financial statements as at and for the years ended December 31, 2013 and 2012, 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.

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 will be 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.

These financial statements were approved for issuance by the Board of Directors on May 27, 2014.

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

*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 2014, there is significant doubt 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.

**3. CASH AND CASH EQUIVALENTS**

(\$ 000's)	March 31, 2014	December 31, 2013
Cash	\$ 823	\$ 2,114
Credit card deposits	173	270
	\$ 996	\$ 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 \$1.0 million as at March 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 March 31, 2014 and December 31, 2013.

**4. EXPLORATION AND EVALUATION ASSETS**

(\$ 000's)	Liberia	New Zealand	TOTAL
<b>As at December 31, 2012</b>	\$ -	\$ -	\$ -
Additions	872	633	1,505
Transfer of deposit for seismic data	15,287	-	15,287
Net effect of foreign exchange	693	17	710
<b>As at December 31, 2013</b>	<b>\$ 16,852</b>	<b>\$ 650</b>	<b>\$ 17,502</b>
Additions	119	90	209
Net effect of foreign exchange	661	26	687
<b>As at March 31, 2014</b>	<b>\$ 17,632</b>	<b>\$ 766</b>	<b>\$ 18,398</b>



**Canadian Overseas Petroleum Limited**  
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**5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

(\$ 000's)	2014	2013
Trade payables	1,896	1,307
Joint venture payables	302	292
Accrued liabilities	788	238
Other	18	22
<b>Total</b>	<b>3,004</b>	<b>1,859</b>

**6. 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
<b>Balance, December 31, 2012</b>	<b>284,016,939</b>	<b>\$ 100,768</b>
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 3 <sup>rd</sup>	7,389,781	1,810
Share issue costs	-	(1,020)
<b>Balance, December 31, 2013</b>	<b>333,717,720</b>	<b>\$ 110,020</b>
<b>Balance, March 31, 2014</b>	<b>333,717,720</b>	<b>\$ 110,020</b>

**b) Warrants**

There were no warrants issued and/or exercised during the quarter ended March 31, 2014 and the year ended December 31, 2013. A summary of the Company's share purchase warrants outstanding at December 31, 2013 is as follows:

	Three months ended March 31, 2014		Year ended December 31, 2013	
	Number of Warrants	Wt. Avg. Exercise Price	Number of Warrants	Wt. Avg. Exercise Price
Balance, beginning of period	-	\$ -	129,949,000	\$ 0.65
Issued	-	-	-	-
Expired	-	-	(129,949,000)	0.65
<b>Balance, end of period</b>	<b>-</b>	<b>\$ -</b>	<b>-</b>	<b>\$ -</b>
Exercisable, end of period	-	\$ -	-	\$ -

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**6. SHARE CAPITAL (continued)**

**c) Incentive Stock Options**

As at March 31, 2014, a total of 29,532,500 stock options to purchase common shares are outstanding, having a weighted average exercise price of \$0.50 per share with a remaining weighted average contractual life of 2.83 years. Changes to the Company's stock options are summarized as follows:

	Year ended March 31, 2014		Year ended December 31, 2013	
	Number of Options	Wt. Avg. Exercise Price	Number of Options	Wt. Avg. Exercise Price
Balance, beginning of period	31,320,000	\$ 0.51	20,565,000	\$ 0.67
Granted	-	-	11,025,000	0.23
Forfeited	(1,787,500)	0.67	(270,000)	0.77
Balance, end of period	29,532,500	\$ 0.50	31,320,000	\$ 0.51
Exercisable, end of period	29,532,500	\$ 0.50	31,320,000	\$ 0.51

**7. COMMITMENTS AND CONTRACTUAL OBLIGATIONS**

As at March 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
NZ exploration commitments	1,700	1,700	-	-	-
Office lease	3,225	572	1,137	1,137	379
	4,925	2,272	1,137	1,137	379

NZ exploration commitments of \$1.7 million as at March 31, 2014 relate to a minimum work programme to be carried out by October 31, 2014, 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. In the event that the acquisition of seismic data does not occur in accordance with the work programme, there is no financial penalty to the Company. Instead, the Company's interest in the license is subject to forfeiture on November 1, 2014. The Company has capitalized costs in New Zealand of \$766,000 as at March 31, 2014 (December 31, 2013 - \$650,000).

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 \$3.2 million and are payable over the next six years.

**Canadian Overseas Petroleum Limited**  
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**8. FINANCIAL INSTRUMENTS**

**a) Fair values**

As at March 31, 2014 and December 31, 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**

Cash and cash equivalents includes amounts denominated in foreign currencies:

	<b>March 31, 2014</b>	<b>December 31, 2013</b>
British Pounds	57	188
U.S. Dollars	8	123

**9. NET CHANGE IN NON-CASH WORKING CAPITAL**

	<b>Three months ended March 31, 2014</b>	Three month ended March 31, 2013
Decrease in accounts receivable	\$ 2	\$ 148
Decrease/(increase) in prepaid expenses	15	(9)
Decrease in loan receivable	3	-
Increase in operating accounts payable and accrued Liabilities	832	243
Non-cash transaction:		
Net effect of foreign exchange	163	155
<b>Net change in operating non-cash working capital</b>	<b>\$ 1,015</b>	<b>\$ 537</b>
Increase in prepaids related to financing activities	\$ (708)	\$ -
Increase in accounts payable related to financing Activities	231	-
Non-cash transaction:		
Net effect of foreign exchange	-	-
<b>Net change in financing non-cash working capital</b>	<b>\$ (477)</b>	<b>\$ -</b>
Increase in accounts payable related to exploration assets	\$ 82	\$ -
<b>Net change in investing non-cash working capital</b>	<b>\$ 82</b>	<b>\$ -</b>

**Canadian Overseas Petroleum Limited**  
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**10. SUBSEQUENT EVENTS**

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 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 (\$0.247). Other expenses related to the public offering amounted to approximately GBP 0.2 million (\$0.4 million).