

## CANADIAN OVERSEAS PETROLEUM LIMITED

### MANAGEMENT'S DISCUSSION AND ANALYSIS MARCH 31, 2014

The following is Management's Discussion and Analysis ("MD&A") of the operating and financial results of Canadian Overseas Petroleum Limited, and its wholly owned subsidiaries COPL Technical Services Limited, Canadian Overseas Petroleum (UK) Limited ("COPL UK"), Canadian Overseas Petroleum (Bermuda Holdings) Limited ("COPL Bermuda Holdings"), Canadian Overseas Petroleum (Bermuda) Limited ("COPL Bermuda"), COPL New Zealand Limited ("COPL New Zealand") and Canadian Overseas Petroleum (Nigeria) Limited ("COPL Nigeria"), (collectively "COPL" or the "Company") as at and for the three months ended March 31, 2014. The information is provided as of May 27, 2014. The results for the three month period ended March 31, 2014 have been compared to the same period of 2013. This discussion and analysis should be read in conjunction with the Company's audited consolidated financial statements as at and for the years ended December 31, 2013 and 2012, together with the accompanying notes and the Annual Information Form dated April 16, 2014. These documents and additional information about COPL are available on the Company's website at [www.canoverseas.com](http://www.canoverseas.com) and on SEDAR at [www.sedar.com](http://www.sedar.com).

All amounts are presented in Canadian dollars unless otherwise noted.

#### BUSINESS OF THE COMPANY – MANAGEMENT

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

COPL is an international oil and gas exploration and development company focused in the offshore West Africa. The Company holds a 17% working interest in Block LB-13, offshore Liberia, with ExxonMobil Exploration and Production Liberia Limited ("ExxonMobil"), the operator, holding an 83% working interest. COPL is actively evaluating opportunities in Nigeria as part of its strategy to generate stable cash flow from secure offshore assets. COPL also holds exploration acreage with shale oil potential on the north island of New Zealand.

Senior management and strategic corporate functions are performed by COPL's head office in Calgary, and geological, geophysical, engineering, accounting and administrative functions are performed by COPL Technical Services Limited. Drilling oversight and some geological functions are provided by COPL UK. COPL Bermuda was incorporated in May 2011 for operations offshore Liberia. On November 8, 2012, COPL New Zealand was incorporated to participate in an exploration licence in New Zealand. COPL Nigeria was incorporated October 16, 2013 for the future participation in Nigerian opportunities.

#### FORWARD-LOOKING INFORMATION

This MD&A contains forward-looking statements relating to future events or future performance. In some cases, forward-looking statements can be identified by terminology such as "may", "will", "should", "expects", "projects", "plans", "anticipates", "potential", "intend", "believe" and similar expressions. These statements represent management's expectations or beliefs concerning, among other things, future operating results and various components thereof or the economic performance of Canadian Overseas Petroleum Limited. The projections, estimates and beliefs contained in such forward-looking statements necessarily involve known and unknown risks and uncertainties, including the business risks discussed in MD&A as at and for the twelve months ended December 31, 2013, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or results expressed or implied by such forward-looking statements. Operating conditions and weather can have a significant effect on the timing of events. Accordingly, readers are cautioned that events or circumstances could cause results to differ materially from those predicted.

**FORWARD-LOOKING INFORMATION (CONTINUED)**

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

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

The Company's MD&A and AIF for the year ended December 31, 2013 describe major risks, material assumptions and other factors related to forward-looking statements that could influence actual results and are incorporated herein by reference. These risks, assumptions and other factors have been provided for readers to gain a more complete perspective on COPL's future operations. However, readers should be cautioned that the list of factors is not exhaustive and that this information may not be appropriate for other purposes. Forward-looking statements included or incorporated by reference in this MD&A are valid only as at the date of this MD&A, and the Company does not intend to update or revise these forward-looking statements except as required by applicable securities laws. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

**OVERVIEW \***

In the first quarter of 2014, the Company continued working with its joint venture partners on technical analysis and review related to the offshore interest in Liberia and spent considerable effort identifying, evaluating, and pursuing exploration and development opportunities in Nigeria.

***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. 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 holds a 17% working interest in Block LB-13, with the remaining 83% being held by ExxonMobil, who is the operator under this license.

The Company and ExxonMobil expect to commence their drilling campaign during 2014, as a drilling rig and support services become available. As previously announced, the Company's share of all joint venture costs and the gross drilling costs up to USD \$120 million is carried by Exxon Mobil.

In addition, the Company understands, based on third party sources, that a major International Oil Company ("IOC") operator has commenced a multi-well drilling program in Liberia adjacent to Block LB-13. The company understands the Seadrill "West Telus", has been mobilised and is in country for this drilling campaign.

**OVERVIEW \* (CONTINUED)**

***New Zealand***

The minimum work programme to be carried under the license that remains includes: acquisition and interpretation of new 2D seismic for a minimum 50kms area by October 31, 2014, and depending on the results of the work performed, the license holders have an option to surrender the permit or commit to a third year programme, which would include drilling one exploration well. Accordingly, the Company's commitments related to the New Zealand prospect are estimated at approximately \$1.7 million for 2014. In addition, the Company acts as a guarantor of its partner's commitments (the remaining 50%) in the 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).

***Expansion of West Africa Portfolio***

As part of the Company's stated strategy to expand its interests in West Africa in order to generate stable cash flow from secure offshore assets, the Company continues to assess opportunities in Nigeria. As part of this process, the Company has evaluated assets and held talks with partners and government representatives in country. As a result of this process, the Company has entered into a non-binding option agreement in principle relating to the potential acquisition of an interest in OPL 2010 in the Niger Delta.

OPL 2010 is located 50 km offshore Nigeria between 100 and 400 feet of water and covers an area of 329 sq. km. To date there have been four discoveries made on the block, consisting of three oil discoveries and one gas. As part of the agreement, the Company has access to historic seismic and well data on the block.

OPL 2010 is surrounded by accessible production facilities and offshore infrastructure, with producing fields and discoveries not yet in production surrounding the block. The block was created as the result of an IOC relinquishment on commencement of production and is subject to indigenous partner tax status. There is no requirement for Nigerian National Petroleum Corporation participation.

In addition to this significant opportunity the Company continues to evaluate other offshore assets in Nigeria and is in close discussions regarding future commitments. Further updates will be provided as COPL concludes negotiations in the near future.

***Financing***

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). Proceeds from this fundraising will be used for general working capital purposes.

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

## FINANCIAL SUMMARY

During the first quarter of 2014, the Company performed geological analysis in respect of its exploration projects in Liberia and Nigeria. Pre-licence costs were approximately \$0.3 million for the three months ended March 31, 2014 compared to pre-licence costs of \$0.4 million for three months ended March 31, 2013.

General and administrative costs were lower than the prior period at \$1.3 million for the three months ended March 31, 2014 (net of \$0.2 million of costs allocated to exploration projects) compared to \$2.0 million for the three months ended March 31, 2013 (net of \$0.2 million of costs allocated to exploration projects). The Company recognized interest income of \$6,000 for the three months ended March 31, 2014, compared to \$5,000 for the three months ended March 31, 2013. A foreign exchange gain of \$0.6 million was recorded for the three months ended March 31, 2014, compared to \$0.3 million for the three months ended March 31, 2013. As a result, the Company's loss amounted to \$1.0 million for the quarter ended March 31, 2014 compared to a loss of \$2.0 million for the quarter ended March 31, 2013.

As at March 31, 2014, the Company's cash and cash equivalents amounted to \$1.0 million. Cash used in investing activities amounted \$0.1 million for the three months ended March 31, 2014 compared to \$0.3 million for the three months ended March 31, 2013. Cash used in operating activities amounted to \$0.8 million for the three months ended March 31, 2014 compared to \$1.8 million for the same period in 2013.

## OUTLOOK \*

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

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

- working with ExxonMobil to an expected drill in Liberia during 2014;
- ongoing evaluation of the New Zealand property;
- working to successfully conclude the variety of new opportunities available in Nigeria.

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

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**SELECTED ANNUAL INFORMATION****NET INCOME AND CASH FLOWS FROM OPERATING ACTIVITIES**

The following table summarizes the Company's financial results for the three months period ended March 31 2014 and 2013:

(\$ 000's) except per share	Three months ended March 31, 2014	Three months ended March 31, 2013
Administrative expenses	1,337	1,952
Exploration recovery	-	(21)
Pre-license costs	282	366
Interest income	6	5
Foreign exchange gain	638	268
Loss	(992)	(2,039)
Per share loss	\$ (0.00)	\$ (0.01)
Cash used in operating activities	\$ (100)	\$ (1,783)
Outstanding common shares at		
March 31	333,717,720	284,016,939
Weighted average - basic	333,717,720	284,016,939

Administrative expenses for the three months ended March 31, 2014 were approximately \$0.6 million lower than the comparable period in 2013. This is mostly due to higher professional service fees during the first quarter of 2013 related to dispute with BG International Limited ("BG") in respect of Block 23/21 Rest of Block Shallow and Block 22/15. 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, thus the Company has no similar professional service fees to be recognized in the first quarter of 2014.

For the periods ended March 31, 2014 and March 31, 2013, the Company recovered \$nil and \$21,000 of its 2012 exploration expenses, respectively. These exploration expenses and cost recovery relate to the UK prospect Bluebell for which an exploration well was drilled in March 2012 and commercial reserves were not discovered.

Pre-licence costs of \$0.3 and \$0.4 million for the three month periods ended March 31, 2014 and 2013, respectively, relate to the Liberia project for which transactions were completed in April of 2013 (discussed in the "Liberia" section).

A foreign exchange gain of \$0.6 million was recognized for the three month period ended March 31, 2014 (compared to a \$0.3 million foreign exchange gain for the same period in 2013), and related mainly to gains on translation of capitalized exploration and evaluation costs.

**COMPARATIVE FINANCIAL POSITION ITEMS**

The following table summarizes the Company's financial position as at March 31, 2014, and December 31, 2013:

(\$ 000's) except per share	March 31, 2014	December 31, 2013
Cash and cash equivalents	\$ 996	\$ 2,384
Current assets	2,065	2,762
Exploration and evaluation assets	18,398	17,502
Current liabilities	3,004	1,859
Share capital	110,020	110,020
Shareholders' equity	\$ 17,974	\$ 18,656

Exploration and evaluation assets of \$0.8 million relate to the New Zealand project and \$17.6 million relate to the Liberia project as at March 31, 2014 compared to \$0.6 million related to the New Zealand project and \$16.9 million related to the Liberia project as at December 31, 2013.

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

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

(\$ 000's)	Three months ended March 31, 2014	Three months ended March 31, 2013
Administrative:		
Payroll and related costs	\$ 664	\$ 656
External directors' fees and related costs	126	227
Consulting services	203	126
Professional services	57	727
Travel expenses	148	134
Office expenses	227	222
Stock exchange and transfer agent fees	17	37
Other general and administrative	65	35
Costs allocated to exploration Projects	(170)	(212)
Total administrative	\$ 1,337	\$ 1,952
Capitalized exploration and evaluation costs	\$ 17,001	\$ 251
Net effect of foreign exchange	1,397	-
Total Capitalized exploration and evaluation costs	\$ 18,398	\$ -

## FINANCIAL INSTRUMENTS\*

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

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

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## LIQUIDITY AND CAPITAL RESOURCES \*

As at March 31, 2014, the Company had a working deficit of approximately \$0.9 million, shareholders' equity of \$17.7 million and cash of \$1.0 million.

For the three month period ended March 31, 2014, the Company's cash used in operating activities amounted to \$0.8 million compared to \$1.8 million for administrative costs as well as pre-license costs related to the Liberia project for the three month period ended March 31, 2013.

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). Proceeds from this fundraising will be used for general working capital purposes.

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

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**SELECTED QUARTERLY INFORMATION**

Eight Most Recent Quarters:

(\$ 000's)	March 31, 2014	December 31, 2013	September 30, 2013	June 30, 2013
Revenue	6	13	5	2
Loss	(992)	(3,787)	(1,606)	(1,641)
Loss per share - basic & diluted	(0.00)	(0.01)	(0.01)	(0.01)

(\$ 000's)	March 31, 2013	December 31, 2012	September 30, 2012	June 30, 2012
Revenue	5	10	34	76
Loss	(2,039)	(3,562)	(39,737)	(3,131)
Loss per share - basic & diluted	(0.01)	(0.01)	(0.14)	(0.01)

**ACCOUNTING PRONOUNCEMENTS***Future Accounting Changes*

Changes to future accounting policies, standards and interpretations, as described in Note 3 of the audited consolidated financial statements as at and for the years ended December 31, 2013 and 2012 as well as Note 2 of the unaudited condensed interim consolidated financial statements as at and for the three month periods ended March 31, 2014 and 2013, have not materially changed since December 31, 2013.

*Critical Accounting Estimates*

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

**DIRECTORS**

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

**OFFICERS**

Arthur S. Millholland, P.Geol. - President and Chief Executive Officer  
Christopher McLean - Chief Financial Officer  
Rod Christensen, P.Geol. - Vice President, Exploration and Exploitation  
  
Faralee A. Chanin, LL.B., M.B.A. - Corporate Secretary