

**Canadian Overseas Petroleum Limited  
Unaudited Condensed Interim Consolidated  
Financial Statements  
As at September 30, 2014 and for the three and nine  
month periods ended September 30, 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  
November 11, 2014

Signed "Christopher McLean"

Christopher McLean  
Chief Financial Officer  
November 11, 2014

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

As at	September 30, 2014	December 31, 2013
<b>Assets</b>		
Current		
Cash and cash equivalents <i>(note 3)</i>	\$ 8,112	\$ 2,384
Accounts receivable	153	60
Prepaid expenses	630	306
Loan receivable	12	12
	<u>8,907</u>	<u>2,762</u>
Deposits and prepayments	66	52
Loan receivable	3	12
Exploration and evaluation assets <i>(note 4)</i>	18,231	17,502
Office equipment	150	187
	<u>\$ 27,357</u>	<u>\$ 20,515</u>
<b>Liabilities</b>		
Current		
Accounts payable and accrued liabilities <i>(note 5)</i>	\$ 1,835	\$ 1,859
	<u>1,835</u>	<u>1,859</u>
Derivative liability <i>(note 6)</i>	73	-
	<u>1,908</u>	<u>1,859</u>
<b>Shareholders' Equity</b>		
Share capital <i>(note 6)</i>	119,010	110,020
Warrants <i>(note 7)</i>	2,860	
Contributed capital reserve	47,971	47,971
Deficit	(144,842)	(139,675)
Accumulated other comprehensive income	450	340
	<u>25,449</u>	<u>18,656</u>
	<u>\$ 27,357</u>	<u>\$ 20,515</u>

**Nature of operations (note 1)**

**Basis of preparation and going concern (note 2)**

**Commitments and contractual obligations (note 8)**

See accompanying notes to the condensed 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)

	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
<b>Operations</b>				
Exploration	-	-	-	72
Pre-license costs	(129)	-	(453)	(433)
Derecognition of exploration & evaluation assets <i>(note 4)</i>	(748)	-	(748)	-
Administrative	(2,006)	(1,351)	(4,734)	(5,234)
Depreciation	(18)	(16)	(52)	(46)
	<u>(2,901)</u>	<u>(1,367)</u>	<u>(5,987)</u>	<u>(5,641)</u>
<b>Finance income and costs</b>				
Interest income	7	5	14	12
Derivative gain <i>(note 6)</i>	6	-	23	-
Foreign exchange gain/(loss)	689	(244)	783	343
	<u>702</u>	<u>(239)</u>	<u>820</u>	<u>355</u>
Loss	(2,199)	(1,606)	(5,167)	(5,286)
Gain/(loss) on translation of foreign subsidiaries <sup>(1)</sup>	149	(171)	110	97
Comprehensive loss	<u>\$ (2,050)</u>	<u>\$ (1,777)</u>	<u>\$ (5,057)</u>	<u>\$ (5,189)</u>
Loss per share (basic and diluted)	<u>\$(0.01)</u>	<u>\$(0.01)</u>	<u>\$(0.01)</u>	<u>\$(0.02)</u>
Weighted average number of shares outstanding	<u>373,475,932</u>	<u>310,280,667</u>	<u>352,846,657</u>	<u>292,867,719</u>

<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/(Loss) <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>	-	-	-	(5,286)	97	(5,189)
<b>Transactions with owners, recorded directly to equity</b>						
Issue of common shares - net of issue costs	7,461	-	-	-	-	7,461
<b>Balance at September 30, 2013</b>	<b>\$ 108,229</b>	<b>\$ 37,359</b>	<b>\$ 9,113</b>	<b>\$ (135,888)</b>	<b>\$ 279</b>	<b>\$ 19,092</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) / gain for the period</b>	-	-	-	(5,167)	110	(5,057)
<b>Transactions with owners, recorded directly to equity</b>						
Issue of common shares - net of issue costs ( <i>note 6</i> )	8,990	-	-	-	-	8,990
Issue of share purchase warrants ( <i>note 6</i> )	-	2,860	-	-	-	2,860
<b>Balance at September 30, 2014</b>	<b>\$ 119,010</b>	<b>\$ 2,860</b>	<b>\$ 47,971</b>	<b>\$ (144,842)</b>	<b>\$ 450</b>	<b>\$ 25,449</b>

<sup>(1)</sup>As at September 30, 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 nine months ended September 30</b>	<b>2014</b>	<b>2013</b>
<b>Cash Used In Operating Activities</b>		
Loss	\$ (5,167)	\$ (5,286)
Interest income	(14)	(12)
Add (deduct) non-cash items:		
Depreciation	52	45
Exploration & Evaluation write off ( <i>note 4</i> )	748	-
Unrealized foreign exchange gain	(794)	(313)
Funds used in operations	(5,175)	(5,566)
Net change in non-cash working capital ( <i>note 10</i> )	(454)	(293)
	<u>(5,629)</u>	<u>(5,859)</u>
<b>Financing Activities</b>		
Issuance of common shares, net of issue costs	11,922	7,461
Decrease in loan receivable	9	-
	<u>11,931</u>	<u>7,461</u>
<b>Investing Activities</b>		
Additions to office equipment	(15)	(14)
Additions to exploration and evaluation assets	(613)	(890)
Interest income	14	12
Net change in non-cash working capital ( <i>note 10</i> )	-	83
	<u>(614)</u>	<u>(809)</u>
<b>Increase in cash and cash equivalents during the period</b>	<b>5,688</b>	<b>793</b>
<b>Effect of foreign exchange on cash and cash equivalents held in foreign currencies</b>	<b>40</b>	<b>2</b>
Cash and cash equivalents, beginning of period	<u>2,384</u>	<u>4,374</u>
Cash and cash equivalents, end of period	<u>\$ 8,112</u>	<u>\$ 5,169</u>

See accompanying notes to the condensed consolidated financial statements.

**Canadian Overseas Petroleum Limited**  
**Notes to the Condensed Consolidated Financial Statements**  
**For the three and nine months ended September 30, 2014 and 2013**  
**(in thousands of Canadian dollars)**

**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. As at September 30, 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 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 November 11, 2014.

**Canadian Overseas Petroleum Limited**  
**Notes to the Condensed Consolidated Financial Statements**  
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**(in thousands of Canadian dollars)**

**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 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)	<b>September 30, 2014</b>	December 31, 2013
Cash	\$ 8,022	\$ 2,114
Credit card deposits	90	270
	<b>\$ 8,112</b>	<b>\$ 2,384</b>

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 \$8.1 million as at September 30, 2014 (\$2.4 million as at December 31, 2013). The Company deposits its cash with reputable Canadian and Bermudian banks. The Company did not have any overdraft facilities in place as at September 30, 2014 and December 31, 2013.



**Canadian Overseas Petroleum Limited**  
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**(in thousands of Canadian dollars)**

**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	462	151	613
Net effect of foreign exchange	917	(53)	864
Derecognition	-	(748)	(748)
<b>As at September 30, 2014</b>	<b>\$ 18,231</b>	<b>\$ -</b>	<b>\$ 18,231</b>

*New Zealand*

As at September 30, 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. There are no further financial penalties or commitments relative to this asset after that date. Thus, as at September 30, 2014, previously capitalized evaluation and exploration assets of \$748,000 were derecognized.

**5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

(\$ 000's)	September 30, 2014	December 31, 2013
Trade payables	1,239	1,307
Joint interest payables	299	292
Accrued liabilities	278	238
Other	19	22
<b>Total</b>	<b>1,835</b>	<b>1,859</b>

**Canadian Overseas Petroleum Limited**  
**Notes to the Condensed Consolidated Financial Statements**  
**For the three and nine months ended September 30, 2014 and 2013**  
**(in thousands of Canadian dollars)**

**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>
Issued pursuant to public offering on April 3 <sup>rd</sup>	17,777,777	4,392
Issued pursuant to public offering on August 21 <sup>st</sup>	50,555,000	7,251
Share issue costs	-	(2,653)
<b>Balance, September 30, 2014</b>	<b>402,050,497</b>	<b>\$ 119,010</b>

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%

**Canadian Overseas Petroleum Limited**  
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**6. SHARE CAPITAL (continued)**

**a) Authorized and Issued Common Shares (continued)**

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 September 30, 2014, the previously recorded derivative liability of \$0.1 million was revalued and a derivative gain of \$23,000 was recognized. The estimated derivative liability as at September 30, 2014, is valued at \$73,000, using a Black-Scholes option pricing model with the following assumptions:

	2014
Risk-free interest rate	1.13%
Weighted average life (years)	1.50
Expected volatility	70%
Expected dividend yield	0%

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 \$0.5 million representing 5.0% of the gross proceeds. Other expenses related to the offering of Units amounted to approximately \$0.5 million.

The fair value of the Warrants issued was net 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 status of the Company's Warrants as at September 30, 2014 is as follows:

	2014		2013	
	Number of Warrants	Wt. Avg. Exercise Price	Number of Warrants	Wt. Avg. Exercise Price
Balance, beginning of year	-	\$ -	-	\$ -
Issued	<b>51,443,889</b>	<b>0.40</b>	-	-
Balance, September 30, 2014	<b>51,443,889</b>	<b>\$ 0.40</b>	-	\$ -

**Canadian Overseas Petroleum Limited**  
**Notes to the Condensed Consolidated Financial Statements**  
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**(in thousands of Canadian dollars)**

**6. SHARE CAPITAL (continued)**

**c) Incentive Stock Options**

As at September 30, 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 2.4 years. Changes to the Company's stock options are summarized as follows:

	Nine months ended September 30, 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	(3,255,000)	0.68	(270,000)	0.77
Balance, end of period	28,065,000	\$ 0.49	31,320,000	\$ 0.51
Exercisable, end of period	28,065,000	\$ 0.49	31,320,000	\$ 0.51

**7. WARRANTS**

(\$ 000's)	September 30, 2014	December 31, 2013
Balance, beginning of year	\$ -	\$ -
Fair value of warrants issued (note 6(b))	2,860	-
Warrants exercised	-	-
Balance, end of period	\$ 2,860	\$ -

**8. COMMITMENTS AND CONTRACTUAL OBLIGATIONS**

As at September 30, 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	3,513	683	1,367	1,367	95

The Company is committed under operating lease agreements for the rental of office space in Calgary, Canada. The approximate total lease payments are \$3.5 million and are payable over the next six years.

**Canadian Overseas Petroleum Limited**  
**Notes to the Condensed Consolidated Financial Statements**  
**For the three and nine months ended September 30, 2014 and 2013**  
**(in thousands of Canadian dollars)**

**9. FINANCIAL INSTRUMENTS**

**a) Fair values**

As at September 30, 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>September 30, 2014</b>	<b>December 31, 2013</b>
British Pounds	<b>154</b>	188
U.S. Dollars	<b>289</b>	123

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

	<b>Nine months ended September 30, 2014</b>	Nine months ended September 30, 2013
(Increase) / decrease in accounts receivable	\$ (92)	\$ (3)
(Increase) / decrease in prepaid expenses	(339)	(165)
Increase in operating accounts payable and accrued Liabilities	(23)	(23)
Non-cash transaction:		
Net effect of foreign exchange	-	(102)
<b>Net change in operating non-cash working capital</b>	<b>\$ (454)</b>	<b>\$ (293)</b>
Increase in accounts payable related to exploration assets	\$ -	\$ 82
Non-cash transaction:		
Net effect of foreign exchange	-	1
<b>Net change in investing non-cash working capital</b>	<b>\$ -</b>	<b>\$ 83</b>