

**Canadian Overseas Petroleum Limited**  
**Unaudited Condensed Interim Consolidated**  
**Financial Statements**  
**As at September 30, 2015 and the for the three and**  
**nine month periods ended September 30, 2015 and**  
**2014**

## **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 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 10, 2015

Signed "Kristin Obreiter"

Kristin Obreiter  
Interim Chief Financial Officer  
November 10, 2015

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

As at	September 30, 2015	December 31, 2014 <i>(note 12)</i>	January 1, 2014 <i>(note 12)</i>
<b>Assets</b>			
Current			
Cash and cash equivalents <i>(note 4)</i>	\$ 3,542	\$ 4,705	\$ 2,241
Accounts receivable	441	134	57
Prepaid expenses	206	354	290
Loan receivable	3	10	11
	<u>4,192</u>	<u>5,203</u>	<u>2,599</u>
Deposits and prepayments	51	63	50
Investment in joint venture <i>(note 5)</i>	291	-	-
Loan receivable	-	-	12
Exploration and evaluation assets <i>(note 6)</i>	16,418	16,305	16,456
Office equipment	124	134	175
	<u>\$ 21,076</u>	<u>\$ 21,705</u>	<u>\$ 19,292</u>
<b>Liabilities</b>			
Current			
Accounts payable and accrued liabilities <i>(note 7)</i>	\$ 1,607	\$ 1,380	\$ 1,747
	<u>1,607</u>	<u>1,380</u>	<u>1,747</u>
Derivative liability <i>(note 8(a))</i>	401	57	-
	<u>2,008</u>	<u>1,437</u>	<u>1,747</u>
<b>Shareholders' Equity</b>			
Share capital <i>(note 8)</i>	120,730	117,247	109,101
Warrants <i>(note 8(b))</i>	2,612	2,612	-
Contributed capital reserve <i>(note 8(c))</i>	48,014	48,014	48,014
Deficit	(149,743)	(145,002)	(138,449)
Accumulated other comprehensive income	(2,545)	(2,603)	(1,121)
	<u>19,068</u>	<u>20,268</u>	<u>17,545</u>
	<u>\$ 21,076</u>	<u>\$ 21,705</u>	<u>\$ 19,292</u>

**Nature of operations** *(note 1)*

**Going concern** *(note 2)*

**Commitments and contractual obligations** *(note 9)*

See accompanying notes to the condensed consolidated financial statements.

**Approved on behalf of the Board:**

Signed "Arthur S. Millholland"

Director

Signed "John F. Cowan"

Director

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

	<b>Three months ended September 30, 2015</b>	Three months ended September 30, 2014 (note 12)	<b>Nine months ended September 30, 2015</b>	Nine months ended September 30, 2014 (note 12)
<b>Operations</b>				
Pre-license (costs) / recovery (note 6)	\$ 26	\$ (120)	\$ (114)	\$ (413)
Derecognition of exploration & evaluation assets	-	(667)	-	(667)
Administrative	(1,795)	(1,857)	(4,856)	(4,344)
Depreciation	(15)	(16)	(45)	(48)
	<u>(1,784)</u>	<u>(2,660)</u>	<u>(5,015)</u>	<u>(5,472)</u>
<b>Finance income and costs</b>				
Interest income	9	6	20	12
Derivative gain	1,060	6	1,074	21
Foreign exchange gain / (loss)	(236)	631	(447)	733
	<u>833</u>	<u>643</u>	<u>647</u>	<u>766</u>
Loss before investments in joint ventures	(951)	(2,017)	(4,368)	(4,706)
Loss on investment in joint venture (note 5)	(29)	-	(373)	-
Net loss	<u>(980)</u>	<u>(2,017)</u>	<u>(4,741)</u>	<u>(4,706)</u>
(Loss) gain on translation of foreign subsidiaries	<u>110</u>	<u>(817)</u>	<u>58</u>	<u>(942)</u>
Comprehensive loss	<u>\$ (870)</u>	<u>\$ (2,834)</u>	<u>\$ (4,683)</u>	<u>\$ (5,648)</u>
Loss per share (basic and diluted)	<u>\$ (0.00)</u>	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>
Weighted average number of shares outstanding	<u>474,484,867</u>	<u>373,475,932</u>	<u>426,460,614</u>	<u>352,846,657</u>

See accompanying notes to the condensed consolidated financial statements.

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

	Share Capital	Warrants	Contributed Capital Reserve	Deficit	Accumulated Other Comprehensive Loss	Total Equity
<b>Balance at December 31, 2013</b>	<b>\$ 109,101</b>	<b>\$ -</b>	<b>\$ 48,014</b>	<b>\$ (138,449)</b>	<b>\$ (1,121)</b>	<b>\$ 17,545</b>
Comprehensive loss for the period	-	-	-	(4,706)	(942)	(5,648)
<b>Transactions with owners, recorded directly to equity</b>						
Issue of common shares - net of issue costs	8,203	2,612	-	-	-	10,815
<b>Balance at September 30, 2014</b>	<b>\$ 117,304</b>	<b>\$ 2,612</b>	<b>\$ 48,014</b>	<b>\$ (143,155)</b>	<b>\$ (2,063)</b>	<b>\$ 22,712</b>
<b>Balance at December 31, 2014</b>	<b>\$ 117,247</b>	<b>\$ 2,612</b>	<b>\$ 48,014</b>	<b>\$ (145,002)</b>	<b>\$ (2,603)</b>	<b>\$ 20,268</b>
<b>Comprehensive (loss) / income for the period</b>	-	-	-	(4,741)	58	(4,683)
<b>Transactions with owners, recorded directly to equity</b>						
Issue of common shares - net of issue costs	3,483	-	-	-	-	3,483
<b>Balance at September 30, 2015</b>	<b>\$ 120,730</b>	<b>\$ 2,612</b>	<b>\$ 48,014</b>	<b>\$ (149,743)</b>	<b>\$ (2,545)</b>	<b>\$ 19,068</b>

<sup>(1)</sup>As at September 30, 2015, 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 United States dollars)

<b>For the nine months ended September 30</b>	<b>2015</b>	<b>2014</b>
<b>Cash Used In Operating Activities</b>		
Net loss	\$ (4,741)	\$ (4,706)
Interest income	(20)	(12)
Add (deduct) non-cash items:		
Derivative gain ( <i>note 8</i> )	(1,074)	-
Depreciation	45	47
Exploration & Evaluation write off	-	667
Loss on investment in joint venture ( <i>note 5</i> )	373	-
Unrealized foreign exchange gain/(loss)	483	(742)
	<u>(4,934)</u>	<u>(4,746)</u>
Net change in non-cash working capital ( <i>note 11</i> )	88	(474)
	<u>(4,846)</u>	<u>(5,220)</u>
<b>Financing Activities</b>		
Issuance of common shares, net of issue costs	4,952	10,880
Decrease in loan receivable	-	9
	<u>4,952</u>	<u>10,889</u>
<b>Investing Activities</b>		
Additions to office equipment	(41)	(6)
Additions to exploration and evaluation assets ( <i>note 6</i> )	(113)	(521)
Additions to investment in joint venture ( <i>note 5</i> )	(664)	-
Interest income	20	12
	<u>(798)</u>	<u>(515)</u>
<b>(Decrease) increase in cash and cash equivalents during the period</b>	<b>(692)</b>	<b>5,154</b>
Effect of foreign exchange on cash and cash equivalents held in foreign currencies	(471)	(157)
Cash and cash equivalents, beginning of period	4,705	2,241
<b>Cash and cash equivalents, end of period</b>	<b>\$ 3,542</b>	<b>\$ 7,238</b>

See accompanying notes to the condensed consolidated financial statements.

**Canadian Overseas Petroleum Limited**  
**Notes to the Condensed Consolidated Financial Statements**  
**As at September 30, 2015, and for the three and nine months ended September 30, 2015 and 2014**

**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, 2015, 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”);
- Canadian Overseas Petroleum (Bermuda Holdings) Limited and Canadian Overseas Petroleum (Bermuda) Limited (“COPL B”), which were incorporated to conduct operations offshore Liberia; 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.

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 (Bermuda).

On October 5, 2015, COPL New Zealand Limited was dissolved and removed 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 (New Zealand).

**2. BASIS OF PREPARATION AND GOING CONCERN**

***Basis of Preparation and Compliance***

The Company’s unaudited condensed interim consolidated financial statements (“financial statements”) have been prepared in accordance with International Accounting Standard (“IAS”) 34, “Interim Financial Reporting” following acceptable accounting policies under International Financial Reporting Standards (“IFRS”) and are reported in thousands of United States 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 year ended December 31, 2014, 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.

**Canadian Overseas Petroleum Limited**  
**Notes to the Condensed Consolidated Financial Statements**  
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**2. BASIS OF PREPARATION AND GOING CONCERN (continued)**

***Going Concern***

These 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 additional financing will be obtained in 2016, there may be 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.

The financial statements were authorized for issue by the Company's Board of Directors on November 10, 2015.

**3. SIGNIFICANT ACCOUNTING POLICY CHANGES**

***Change in functional and presentation currency***

Effective January 1, 2015 the functional currency was changed from the Canadian dollar to the United States dollar for the Company. The measurement change is due to the focus of the Company in sub-Saharan Africa, for which costs are denominated in United States dollars ("USD"). As a result of the Company's focus in areas with USD functional currencies, the Company has also re-denominated the intercompany debt agreements to USD.

Effective January 1, 2015, the Company's presentation currency was changed from the Canadian dollar ("CAD") to the USD. The change in presentation currency is to better reflect the Company's business activities and to improve investors' ability to compare the Company's financial results. This change has been applied retrospectively as if the new presentation currency had always been the Company's presentation currency. For comparative balances, assets and liabilities are translated at the rate prevailing at the reporting date. The statements of comprehensive income (loss) were translated at the average exchange rates for the reporting period or at the exchange rate prevailing at the date of the transaction. Exchange differences arising on translation were taken into cumulative translation adjustment in shareholder's equity. See Note 12 for the resulting change in presentation currency on comparative figures.



**Canadian Overseas Petroleum Limited**  
**Notes to the Condensed Consolidated Financial Statements**  
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**4. CASH AND CASH EQUIVALENTS**

(\$ 000's)	<b>September 30, 2015</b>	December 31, 2014	January 1, 2014
Cash	<b>\$ 3,452</b>	\$ 4,601	\$ 1,987
Credit card deposits	<b>90</b>	104	254
	<b>\$ 3,542</b>	\$ 4,705	\$ 2,241

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 \$3.5 million as at September 30, 2015 (\$4.7 million as at December 31, 2014 and \$2.2 million as at January 1, 2014). The Company deposits its cash with reputable Canadian, UK and Bermuda banks. The Company did not have any overdraft facilities in place as at September 30, 2015, December 31, 2014 and January 1, 2014.

**5. INVESTMENT IN JOINT VENTURE**

The Company currently holds a 50% interest in a jointly controlled entity, ShoreCan, to focus on acquisitions of upstream oil and gas exploration, development and producing assets in sub-Saharan Africa. The determination of ShoreCan as a joint venture was based on ShoreCan's structure through a separate legal entity whereby neither the legal form nor the contractual arrangement give the rights to the owners to the assets and obligations for the liabilities within the normal course of business, nor does it give the rights to the economic benefits of the assets or responsibility for settling liabilities associated with the arrangement.

On February 20, 2015, ShoreCan entered into a commercial acquisition, ratified by the Ministry of Energy in Namibia, of an 80% interest in three blocks offshore Namibia. The blocks are defined as 1708, 1709 and 1808.

On March 4, 2015, 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. On August 11, 2015, ShoreCan amended the farm-in option agreement to include only the Latham offshore block. On exercise of the option and receipt of approval from the Tanzanian authorities, ShoreCan will assume operatorship of the offshore block.

On August 17, 2015 ShoreCan has agreed to an acquisition in Nigeria subject to the approvals of the Nigerian regulatory authorities to acquire 80% of the issued share capital of a company with 100% of the equity and titled interest of an oil appraisal and development project offering near term oil production. The transaction also provides that ShoreCan will take over management and operatorship of the asset.

As at September 30, 2015, ShoreCan has commitments of \$0.2 million for annual license fees due in the fourth quarter of 2016 and \$7.0 million which relate to a minimum work programme to be carried out by the second quarter of 2017, under its exploration license in Namibia. In the event that the acquisition of seismic data does not occur in accordance with the work programme, there is no financial penalty to ShoreCan and the license is subject to forfeiture after that date. ShoreCan is currently exploring alternatives for raising sufficient capital to complete the minimum work programme, and plans to proceed under the terms of the exploration license. ShoreCan has capitalized costs in Namibia of \$0.3 million as at September 30, 2015 (December 31, 2014 - \$nil).

**Canadian Overseas Petroleum Limited**  
**Notes to the Condensed Consolidated Financial Statements**  
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**5. INVESTMENT IN JOINT VENTURE (continued)**

Summarized below is the financial information for ShoreCan accounted for using the equity method.

<b>Results of Operations</b> (\$ 000's)	<b>Three months ended September 30, 2015</b>	Three months ended September 30, 2014	<b>Nine months ended September 30, 2015</b>	Nine months ended September 30, 2014
Revenues	\$ -	\$ -	\$ -	\$ -
Expenses	<b>59</b>	-	<b>746</b>	-
Net Loss	<b>(59)</b>	-	<b>(746)</b>	-
Share of equity investment (percent)	<b>50%</b>	50%	<b>50%</b>	50%
<b>Loss on investment in joint venture</b>	<b>\$ (29)</b>	\$ -	<b>\$ (373)</b>	\$ -

  

<b>Balance Sheets</b> (\$ 000's)	<b>September 30, 2015</b>	As at January 1, 2014 and December 31, 2014
Current Assets	<b>\$ 250</b>	\$ -
Non-current assets	<b>349</b>	-
Current liabilities	<b>(17)</b>	-
Non-current liabilities	-	-
Net Assets	<b>582</b>	-
Share of net assets (percent)	<b>50%</b>	50%
<b>Carrying amount in statement of financial position</b>	<b>\$ 291</b>	\$ -

**6. EXPLORATION AND EVALUATION ASSETS**

(\$ 000's)	<b>Liberia</b>	<b>New Zealand</b>	<b>TOTAL</b>
<b>As at January 1, 2014</b>	<b>\$ 15,844</b>	<b>\$ 612</b>	<b>\$ 16,456</b>
Additions	461	98	559
Recovery	-	(73)	(73)
Net effect of foreign exchange	-	(43)	(43)
Derecognition	-	(594)	(594)
<b>As at December 31, 2014</b>	<b>\$ 16,305</b>	<b>\$ -</b>	<b>\$ 16,305</b>
Additions	<b>113</b>	-	<b>113</b>
<b>As at September 30, 2015</b>	<b>\$ 16,418</b>	<b>\$ -</b>	<b>\$ 16,418</b>

***Liberia***

The Company holds a 17% working interest in Block LB-13 offshore Liberia, with the remaining 83% being held by ExxonMobil Exploration and Production Liberia Limited, who is the operator under this license.

At September 30, 2015, the \$16.4 million recognized as exploration and evaluation assets consists mainly of 3D seismic and capitalized geological evaluation work conducted on Block LB-13.

***Pre-license costs***

During the three months ended September 30, 2015, the Company recovered approximately \$26,000 (three months ended September 30, 2014 - \$120,000) of pre-license costs related to areas in sub-Saharan Africa. During the nine months ended September 30, 2015, the Company incurred approximately \$0.1 million (nine months ended September 30, 2014 - \$0.4 million) net of pre-license costs related to areas in sub-Saharan Africa.

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

(\$ 000's)	September 30, 2015	December 31, 2014	January 1, 2014
Trade payables	\$ 1,130	\$ 940	\$ 1,228
Joint interest payables	178	184	275
Accrued liabilities	289	238	223
Other	10	18	21
<b>Total</b>	<b>\$ 1,607</b>	<b>\$ 1,380</b>	<b>\$ 1,747</b>

**8. 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, January 1, 2014</b>	<b>333,717,720</b>	<b>\$ 109,101</b>
Issued pursuant to public offering on April 3rd (i)	17,777,777	6,623
Issued pursuant to public offering on August 21st (ii)	50,555,000	3,990
Share issue costs	-	(2,467)
<b>Balance, December 31, 2014</b>	<b>402,050,497</b>	<b>\$ 117,247</b>
Issued pursuant to public offering on July 9th (iii)	80,288,699	5,677
Warrants issued from the offering		(1,372)
Share issue costs		(822)
<b>Balance, September 30, 2015</b>	<b>482,339,196</b>	<b>\$ 120,730</b>

- (i) 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 Great British Pounds (“GBP”) 0.135 (\$0.224) for gross proceeds of GBP 2.4 million (\$4.0 million). The agents were paid cash commission and fees of GBP 0.3 million (\$0.4 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 Common 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 the Company for the period until April 4, 2016, at an exercise price of GBP 0.135 (\$0.224). 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**  
**Notes to the Condensed Consolidated Financial Statements**  
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**8. SHARE CAPITAL**

**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 USD. As there is variability in these exchange rates, the Warrants are classified as a derivative financial instrument. As at September 30, 2015, the derivative liability was \$nil and a derivative gain of \$57,000 on the derivative liability was recognized, using a Black-Scholes option pricing model with the following assumptions:

	2015
Risk-free interest rate	0.52%
Weighted average life (years)	0.5
Expected volatility	85%
Expected dividend yield	0%

- (ii) On August 21, 2014, the Company closed a short form prospectus in connection with a marketed offering of units of the Company ("2014 Offering"). A unit ("Unit") consisted of one Common Share in the capital of the Company and one share purchase warrant. Each share purchase warrant of the 2014 Offering ("2014 Offering Warrant") entitles the holder thereof to purchase one Common Share at an exercise price of CAD \$0.40 (\$0.37) 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 CAD \$0.20 (\$0.18) per Unit, for aggregate proceeds of approximately \$9.2 million pursuant to the 2014 Offering. The agents were paid a cash commission of \$0.2 million as well as \$0.5 million representing 5.0% of the gross proceeds. Other expenses related to the 2014 Offering of Units amounted to approximately \$0.3 million.

The fair value of the 2014 Offering Warrants issued was netted against proceeds from share capital and estimated at \$2.6 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%

- (iii) On July 9, 2015, the Company closed a short form prospectus in connection with a marketed offering of Units of the Company ("2015 Offering"). Each Unit consisted of one Common Share in the capital of the Company and one share purchase warrant. Each share purchase warrant ("2015 Offering Warrant") entitles the holder thereof to purchase one Common Share at an exercise price of CAD \$0.12 (\$0.09) per Common Share on or before the date that is 24 months following the closing date. The Company issued 80,288,699 Units at a price of CAD \$0.09 (\$0.07) for gross proceeds of CAD \$7.2 million (\$5.7 million). The agents were paid a cash commission of CAD \$0.4 million (\$0.3 million) representing 6.0% of the gross proceeds of the 2015 Offering. Other expenses related to the 2015 Offering of Units amounted to approximately CAD \$0.5 million (\$0.4 million).

**Canadian Overseas Petroleum Limited**  
**Notes to the Condensed Consolidated Financial Statements**  
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**8. SHARE CAPITAL**

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

The fair value of the 2015 Offering Warrants issued was netted against proceeds from share capital and estimated at \$1.4 million using a Black-Scholes option pricing model with the following assumptions:

	2015
Risk-free interest rate	0.39%
Weighted average life (years)	2.0
Expected volatility	85%
Expected dividend yield	0%

On July 9, 2015 a derivative liability of \$1.4 million was also recognized in relation to the 2015 Offering Warrants issued. The 2015 Offering Warrants' exercise price is in CAD, and the Company's functional currency is in USD. As there is variability in these exchange rates, the 2015 Offering Warrants are classified as a derivative financial instrument. As at September 30, 2015, the derivative liability was revalued and a derivative gain of \$1 million on the derivative liability was recognized. The estimated derivative liability as at September 30, 2015, is valued at \$0.4 million, using a Black-Scholes option pricing model with the following assumptions:

	2015
Risk-free interest rate	0.53%
Weighted average life (years)	1.75
Expected volatility	85%
Expected dividend yield	0%

The Company also issued 4,548,380 share purchase warrants ("2015 Offering Agent Warrants") to its agents as compensation warrants in an amount equal to 6.0% of 75,806,333 of the Common Shares issued pursuant to the 2015 Offering. Each 2015 Offering Agent Warrant entitles the holder to purchase one Common Share of the Company that is 24 months following the closing date, at an exercise price of CAD \$0.09 (\$0.07). The fair value of the 2015 Offering Agent 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:

	2015
Risk-free interest rate	0.39%
Weighted average life (years)	2.0
Expected volatility	85%
Expected dividend yield	0%

On July 9, 2015 a derivative liability of \$0.1 million was also recognized in relation to the 2015 Offering Agent Warrants issued. The 2015 Offering Agent Warrants' exercise price is in CAD, and the Company's functional currency is in USD. As there is variability in these exchange rates, the 2015 Offering Agent Warrants are classified as a derivative financial instrument. As at September 30, 2015, the derivative liability was revalued and a derivative gain of \$64,000 on the derivative liability was recognized. The estimated derivative liability as at September 30, 2015, is valued at \$29,000, using a Black-Scholes option pricing model with the following assumptions:

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**8. SHARE CAPITAL**

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

	2015
Risk-free interest rate	0.53%
Weighted average life (years)	1.75
Expected volatility	85%
Expected dividend yield	0%

**b) Warrants**

A summary of the Company's share purchase warrants outstanding at September 30, 2015 is as follows:

(\$ 000's)	Number of Warrants	Weighted Avg. Exercise Price	Fair Value of Warrants
<b>Balance, January 1, 2014</b>	-	\$ -	\$ -
Issued pursuant to public offering (note 8 (a) (i))	888,889	0.22	-
Issued pursuant to public offering (note 8 (a)(ii))	50,555,000	0.37	2,612
<b>Balance, December 31, 2014</b>	<b>51,443,889</b>	<b>\$ 0.36</b>	<b>\$ 2,612</b>
Issued pursuant to public offering (note 8 (a)(iii))	80,288,699	0.09	-
Issued pursuant to public offering (note 8 (a)(iii))	4,548,380	0.07	-
<b>Balance, September 30, 2015</b>	<b>136,280,968</b>	<b>\$ 0.19</b>	<b>\$ 2,612</b>

**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.

(\$ 000's)	Number of Options	Weighted Avg. Exercise Price*	Contributed Capital Reserve
<b>Balance, January 1, 2014</b>	<b>31,320,000</b>	<b>\$ 0.51</b>	<b>\$ 48,014</b>
Forfeited	(3,255,000)	0.66	-
<b>Balance and exercisable December 31, 2014</b>	<b>28,065,000</b>	<b>\$ 0.49</b>	<b>\$ 48,014</b>
Expired	(550,000)	1.15	-
<b>Balance and exercisable September 30, 2015</b>	<b>27,515,000</b>	<b>\$ 0.48</b>	<b>\$ 48,014</b>

\*The weighted average exercise price has been converted in USD based on the foreign exchange rate in effect at the date of issuance

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**8. SHARE CAPITAL**

**c) Incentive Stock Options (continued)**

During the nine months ended September 30, 2015, 550,000 stock options expired unexercised. No stock options were exercised during the nine months ended September 30, 2015 and the year ended December 31, 2014.

As September 30, 2015, a total of 27,515,000 stock options to purchase Common Shares are outstanding, having a weighted average exercise price of \$0.48 (per share with a remaining weighted average contractual life of 1.43 years).

**9. COMMITMENTS AND CONTRACTUAL OBLIGATIONS**

As at September 30, 2015, 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	\$ 2,306	553	1,107	646	-

The Company is committed under operating lease agreements for the rental of office space in Calgary, Canada. The approximate total lease payments are \$2.3 million and are payable over the next five years.

**10. FINANCIAL INSTRUMENTS**

The Company has classified its cash and cash equivalents, other deposits and derivative liability as financial assets and liabilities at fair value through profit and loss 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 September 30, 2015 and December 31, 2014, 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**

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:

	September 30, 2015	December 31, 2014
Great British Pounds	35	1
Canadian Dollars	4,630	5,062

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

(\$ 000's)	September 30, 2015	September 30, 2014
Increase in accounts receivable	\$ (307)	\$ (79)
Decrease (increase) in prepaid expenses	148	(272)
Decrease (increase) in deposits and prepayments	13	(13)
Decrease in loan receivable	7	-
Increase (decrease) in operating accounts payable and accrued liabilities	227	(110)
<b>Net change in operating non-cash working capital</b>	<b>\$ 88</b>	<b>\$ (474)</b>

**12. ADJUSTMENT OF PREVIOUSLY REPORTED FINANCIAL INFORMATION DUE TO CHANGE IN PRESENTATION CURRENCY**

For comparative purposes, the condensed statement of financial position as at December 31, 2014 and January 1, 2014 includes adjustments to reflect the change in accounting policy resulting from the change in presentation currency to USD. The amounts previously reported in CAD as shown below have been translated into USD at the December 31, 2014 and January 1, 2014 exchange rate. The effect of the translation is as follows:

As at January 1, 2014 (\$ 000's)	As previously reported CAD	As translated into USD
Current assets	\$ 2,762	\$ 2,599
Non-current assets	17,753	16,693
<b>TOTAL ASSETS</b>	<b>\$ 20,515</b>	<b>\$ 19,292</b>
Current liabilities	1,859	1,747
Non-current liabilities	-	-
<b>TOTAL LIABILITIES</b>	<b>\$ 1,859</b>	<b>\$ 1,747</b>
<b>As at December 31, 2014</b>		
Current assets	\$ 6,035	\$ 5,203
Non-current assets	19,137	16,502
<b>TOTAL ASSETS</b>	<b>\$ 25,172</b>	<b>\$ 21,705</b>
Current liabilities	1,601	1,380
Non-current liabilities	66	57
<b>TOTAL LIABILITIES</b>	<b>\$ 1,667</b>	<b>\$ 1,437</b>



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**12. ADJUSTMENT OF PREVIOUSLY REPORTED FINANCIAL INFORMATION DUE TO CHANGE IN PRESENTATION CURRENCY (continued)**

For comparative purposes, the condensed consolidated statements of comprehensive loss for the period ended September 30, 2014 includes adjustments to reflect the change in accounting policy resulting from the change in presentation currency to USD. The amounts previously reported in CAD as shown below have been translated into USD at the 2014 average exchange rate or the rate in effect at the date of the transaction. The effect of the translation is as follows:

<b>For the three months ended September 30, 2014 (\$ 000's)</b>	<b>As previously reported CAD</b>	<b>As translated into USD</b>
Pre-license costs	\$ (129)	\$ (120)
Derecognition of exploration & evaluation assets	(748)	(667)
Administrative	(2,006)	(1,857)
Depreciation	(18)	(16)
Interest income	7	6
Derivative gain	6	6
Foreign exchange gain	689	631
Net loss	(2,199)	(2,017)
Gain (loss) due to presentation currency	149	(817)
<b>Comprehensive loss for the period</b>	<b>\$ (2,050)</b>	<b>\$ (2,834)</b>
<b>Loss per share (basic and diluted)</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>
<b>Comprehensive loss per share (basic and diluted)</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>

<b>For the nine months ended September 30, 2014 (\$ 000's)</b>	<b>As previously reported CAD</b>	<b>As translated into USD</b>
Pre-license costs	\$ (453)	\$ (413)
Derecognition of exploration & evaluation assets	(748)	(667)
Administrative	(4,734)	(4,344)
Depreciation	(52)	(48)
Interest income	14	12
Derivative gain	23	21
Foreign exchange gain	783	733
Net loss	(5,167)	(4,706)
Loss due to presentation currency	110	(942)
<b>Comprehensive loss for the period</b>	<b>\$ (5,057)</b>	<b>\$ (5,648)</b>
<b>Loss per share (basic and diluted)</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>
<b>Comprehensive loss per share (basic and diluted)</b>	<b>\$ (0.01)</b>	<b>\$ (0.02)</b>