CANADIAN OVERSEAS PETROLEUM LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2010

The following is the Management's Discussion and Analysis ("MD&A") of the operating and financial results of Canadian Overseas Petroleum Limited, formerly Velo Energy Inc. and its subsidiaries North Sea Oil Ltd. and Canadian Overseas Petroleum (UK) Limited, formerly North Sea Oil Exploration Limited (collectively "COPL" or the "Company") as at and for the year ended December 31, 2010. The information is provided as of March 31, 2011. 2010 results have been compared to the same period of 2009. 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, 2010 and 2009, together with the accompanying notes, and the Annual Information Form dated March 31, 2011. These documents and additional information about COPL are available on SEDAR at www.sedar.com.

BUSINESS OF THE COMPANY

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

In August 2009, the Company's management and Board of Directors were replaced and COPL's focus was changed to oil exploration and development in the UK North Sea and elsewhere, building on the experience and success that its senior management experienced in the region previously. The Company's strategy is to grow its oil and gas business initially in the UK North Sea by farming into or acquiring interests in unappraised single-well discoveries, and exploration properties that are in close proximity to, and share geological traits with, existing discoveries and/or producing fields.

Effective August 3, 2010, the Company's name was changed to Canadian Overseas Petroleum Limited and the Company's common shares were consolidated on a four-old-for-one-new basis (as discussed further in the "Share Capital" section). Common share numbers have been retroactively adjusted to reflect the share consolidation.

On December 1, 2010, the Company successfully closed a public offering of $130 million subscription receipts all of which have now been exchanged for common shares and share purchase warrants.

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 this MD&A as at and for the twelve months ended December 31, 2010, 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 statements included or incorporated by reference in this document include statements with respect to:

- the Company's strategy to establish and grow an oil and gas business in the UK North Sea and elsewhere (the "Business of the Company", "Overview", " Outlook", "Liquidity and Capital Resources" sections);
- the Company's ability to raise capital and obtain the financing necessary to develop profitable oil operations in the UK (the "Business of the Company", "Overview", "Outlook", "Liquidity and Capital Resources" and "Commitments and Contractual Obligations" sections);
- the Company's assumptions in respect of the calculation of stock-based compensation and valuation of warrants (the "Stock-based Compensation Expense", "Interest and Financing Charges", "Share Capital" sections);
- the Company's ability to manage its financial risks (the "Financial Instruments" and "Liquidity and Capital Resources" sections).

The Company's actual results may differ materially from those anticipated in these forward-looking statements as a result of the following risk factors:

- failure to complete the signed farm-in agreements; in particular, failure to obtain necessary licenses, including approvals from the UK Department of Energy and Climate Change;
- the uncertainty of realizing anticipated benefits from existing farm-in transactions, including uncertainty regarding reserve estimates;
- industry conditions: in particular, volatility in oil prices, the availability of drilling and production equipment, and changes in capital and operating costs;
- risks inherent to offshore operations and subsea development, including but not limited to drilling hazards, environmental damage, health and safety, unexpected geological and technical problems, extreme weather conditions, insufficient storage and transportation capacity;
- competition for drilling rigs, subsea equipment, professional services and skilled personnel;
- fluctuations in foreign exchange and interest rates;
- volatility and competition in the capital and debt markets, which causes uncertainty in terms of adequate financing being available to the Company on acceptable terms;
- governmental regulations in respect of the oil and gas industry, including environmental regulations, the corporate income tax regime, the consents and approvals necessary for offshore operations in the UK, and decommissioning liabilities;
- risks associated with being a non-operator, including dependence on the operator's skills to keep costs and timetables within a budget and dependence on the operator's industry preferences, choices and priorities (which may not be in line with the Company's);
- general economic conditions in Canada, the United Kingdom and globally.

For the purpose of forward-looking statements included or incorporated by reference in this MD&A, the Company has made assumptions regarding:

- general economic conditions and financial markets, including costs of raising capital and cost of debt;
- the availability of financing on acceptable terms;
- the availability of farm-in prospects;
- the energy market and future oil prices;
- the availability of drilling, development and production equipment and respective professional services and skilled personnel;
- current technology and future costs of equipment and operation for offshore oil production in the UK;
- governmental consents and environmental and tax laws;
- future exchange rates and interest rates;
- cooperation with partners and field operators.

The above summary of major risks and assumptions, related to forward-looking statements included or incorporated by reference in this MD&A has been provided for readers to gain a more complete perspective on COPL's future operation. However, readers should be cautioned that the above 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 2010, COPL made significant progress as a junior oil and gas company. Despite some difficulties in the first half of the year, by the end of 2010, the Company had closed a $130 million equity financing, signed two farm-in agreements and was working to complete a third farm-in agreement for multiple prospects in the UK North Sea.

On January 6, 2010, the Company received a letter from the UK Department of Energy and Climate Change ("DECC") advising that DECC had refused to consent to the proposed transfers of interest in Caledonia, Sheryl and Catcher licences in UK Central North Sea blocks. DECC advised that it had not formed a view on the Company's financial capacity but was not satisfied with several aspects of the Company, including its technical capacity and its corporate structure in relation to specific needs for operation in the UK offshore basin.

Under UK regulations, DECC must consent to any proposed transfers of interest in offshore licenses. Accordingly, the Company was unable to close a public offering under a prospectus issued in December 2009, and the purchase agreement and letter of intent to acquire properties in the UK, signed in September 2009 by its subsidiary, Canadian Overseas Petroleum (UK) Limited ("COPL UK"), formerly North Sea Oil Exploration Ltd. were terminated.

After a number of meetings and correspondence with DECC, on February 23, 2010, the Company received clarification from DECC that it would consider transfers of non-operating license interests in the UK Central North Sea to the Company. Accordingly, the Company restructured its business plan and reduced its team of professionals, as the status of non-operator generally requires fewer resources; non-operators are involved in all major decisions in respect of the particular field, however, their involvement and responsibilities for daily operations are limited.

On May 14, 2010 and May 21, 2010, the Company closed private placements of 6,872,582 units at $1.20 per unit (27,490,315 pre-consolidation units at $0.30 per unit), each unit consisting of one common share and one half of a share purchase warrant. Each whole warrant entitles the holder to acquire an additional common share at an exercise price of $2.00 (pre-consolidation exercise price of $0.50) expiring November 14, 2011. The total gross proceeds amounted to approximately $8.2 million and were used to finance the Company's short term working capital requirements, including payment of accrued liabilities incurred with respect to potential prospects in the UK North Sea, repayment of a bridge loan and for general corporate purposes.

At COPL's Annual and Special Meeting held June 14, 2010, shareholders approved a special resolution to amend the articles of the Company, including changing the Company's name from "Velo Energy Inc." to "Canadian Overseas Petroleum Limited", and also to consolidate the common shares at a ratio to be determined by the directors. After the meeting, the directors determined the ratio to be 1 post-consolidation common share for every 4 pre-consolidation common shares. The change in the Company's name to COPL and the share consolidation took effect on August 3, 2010.

On August 16, 2010, the Company (through its UK subsidiary) entered into a Letter of Intent ("LOI") with a third party for the Freya appraisal prospect and the Fulla exploration prospect in Blocks 206/5a and 206/10a, respectively, in the UK North Sea. According to the LOI, COPL would pay 60% of the drilling costs to earn a 50% equity interest in the blocks.

In September 2010, COPL made a proposal to a third party to farm-in to certain prospects in Blocks 23/21 and 22/15. The third party responded to the proposal by issuing to COPL a letter granting COPL a period of exclusivity whereby the third party agreed not to engage in discussions with other parties about the blocks for a period of time so that COPL could seek financing.

In October 2010, COPL signed an LOI with a third party to farm-into the Bluebell exploration prospect in Blocks 15/24c and 15/25f. According to the LOI, COPL would earn a 40% equity interest in the prospect by paying 66.67% of the drilling costs. COPL also filed a preliminary prospectus with the intention of raising a minimum of $60 million in equity financing to finalize farm-in agreements with the third parties.

In November 2010, COPL filed a final prospectus for $130 million by issuing 260,000,000 subscription receipts at $0.50 each. Each subscription receipt entitled the holder to one (1) common share and one-half of one (0.5) common share purchase warrant (each whole warrant, a “warrant”). Each whole warrant entitles the holder to purchase one common share at a price of $0.65 for a period up to 36 months after the closing date, provided that the warrants will expire and be of no further force or effect if not exercised within 10 days of receipt of notice from COPL that the 20 day volume weighted average price of common shares on the TSX Venture Exchange is greater than $1.25. The prospectus outlined COPL’s drilling plans for the Freya/Fulla prospects, the Bluebell exploration prospect and the prospects in Blocks 23/21 and 22/15.

On December 1, 2010, COPL closed its equity offering for $130 million. The gross proceeds from the sale of 260,000,000 Subscription Receipts were held in escrow by the Company’s transfer agent pending satisfaction of the Release Conditions. Upon the execution of definitive farm-in agreements in respect of each of the Fulla and Bluebell letters of intent (as defined in the prospectus – First Release Condition), 78,000,000 Subscription Receipts would be converted into Common Shares and Warrants and the funds of approximately $36.6 million (being $39 million of gross proceeds, net of respective Agent’s Fee) would be released to the Company. Upon the execution of a definitive agreement in respect of the exclusivity letter (as defined in the prospectus – Second Release Condition), 182,000,000 Subscription Receipts would be converted into Common Shares and Warrants and funds of approximately $85.5 million (being $91 million of gross proceeds, net of respective Agent’s Fee) would be released to the Company. The issued subscription receipts were listed for trading on the TSX Venture Exchange under the symbol “XOP.R”.

COPL (via its subsidiary COPL UK) signed farm-in agreements for Freya/Fulla prospects on December 6, 2010 and the Bluebell exploration prospect on December 9, 2010. Accordingly 78,000,000 Subscription Receipts were converted into 78,000,000 Common Shares and 39,000,000 Warrants, and funds of approximately $36.6 million were released to the Company.

In January 2011, the DECC consented to transferring to COPL UK the 50% equity interest for the Freya and Fulla prospects in Blocks 206/5a and 206/10a.

On February 22, 2011, the Second Release Condition was met as the Company signed farm-in agreements in respect of North Sea prospects in Block 23/21 and Block 22/15. Accordingly 182,000,000 Subscription Receipts were converted into 182,000,000 Common Shares and 91,000,000 Warrants, and funds of approximately $85.5 million were released to the Company, representing the net proceeds of the balance of the offering after payment of agent’s commissions and expenses.

The completion of farm-in agreements in respect of Freya/Fulla , Bluebell and prospects in Blocks 23/21 and 22/15 is subject to certain conditions and regulatory approvals.

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FINANCIAL SUMMARY

The Company’s general and administrative costs were higher in 2010 than in 2009 due to a change in management in August 2009 and an increase in the Company’s activities. General and administrative costs amounted to $5.6 million in 2010 compared to $2.4 million in 2009. Interest and financing charges amounted to $461 thousand in 2010, compared to $22 thousand in 2009 and relate to a short term loan that was repaid in June 2010. The stock-based compensation expense of $3.2 million for stock options granted was recognized in 2010, compared to $785 thousand recognized in 2009. As a result, the Company’s net loss amounted to $9.3 million for the year ended December 31, 2010, compared to a net loss of $3.2 million for 2009.

In the second quarter of 2010, the Company closed a private placement for gross proceeds of $8.2 million. The funds were used for the repayment of a bridge loan and outstanding accounts payable as well as general corporate purposes.

In the last quarter of 2010, the Company obtained gross proceeds of $39 million as it met the first release condition of the Company's public offering that closed in December 2010. Accordingly, the Company's current liabilities were reduced from $3.7 million as at December 31, 2009 to $989 thousand as at December 31, 2010 and the cash balance increased from $1.4 million as at December 31, 2009 to $37 million as at December 31, 2010.

Net cash generated from financing activities amounted to $42.3 million in 2010, compared to $2 million in 2009. Cash used in operating activities amounted to $5.7 million in 2010, compared to $2.4 million in 2009.

OUTLOOK *

The Company's current strategy is to establish and grow its oil and gas business by farming into and/or acquiring interests in unappraised and/or undeveloped assets. Later in 2011, the Company intends to seek the approval of the DECC to grant operatorship status to the Company in the UK.

With the financing obtained from the Company's 2010 public offering, the Company's short-term operations will focus on:

- fulfilling existing farm-in obligations (as discussed in the "Overview" and "Commitments and Contractual Obligations" sections) i.e. participating in its partners' 2011 drilling programs on a non-operator basis;
- evaluating other opportunities, prospects and farm-in potentials in the UK North Sea and elsewhere.

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 years ended December 31, 2010, 2009 and 2008:

($ 000's) except per share	2010	2009	2008
Revenue	**$ 6**	$ 5	$ -
General and administrative expenses	**5,590**	$ 2,420	$ 114
Stock-based compensation	**3,243**	785	-
Net income (loss)	**(9,321)**	(3,190)	847
Per share income (loss)	**$ (0.32)**	$ (0.20)	$ 0.02
Cash used in operating activities	**$ (5,732)**	$ (2,390)	$ (96)
Outstanding common shares at December 31	***101,965,939***	*16,652,222*	*16,402,222*
Weighted average - basic	***29,290,398***	*16,402,222*	*11,209,021*

Comparative Balance Sheet Items

The following table summarizes the Company's financial position as at December 31, 2010, 2009 and 2008:

($ 000's) except per share	2010	2009	2008
Cash and cash equivalents	**$ 37,373**	$ 1,409	$ 1,351
Current assets	**37,508**	1,791	1,357
Bridge Loan	**-**	1,802	-
Current liabilities	**988**	3,703	198
Share capital	**41,833**	8,063	7,463
Shareholders' equity (deficiency)	**$ 36,621**	$(1,772)	$ 1,159

Purchase of NSO and COPL UK

On October 6, 2009, the Company signed a share purchase agreement to acquire 100% of the outstanding common shares of each of North Sea Oil Ltd. ("NSO"), a private company incorporated in Alberta, Canada and 100% of the outstanding common shares of Canadian Overseas Petroleum (UK) Limited ("COPL UK") formerly North Sea Oil Exploration Limited ("NSOE"), in a non-arm's length transaction for a purchase price of $600 thousand, payable by the issue of 250,000 (1,000,000 pre-consolidation) common shares of COPL at a market price of $2.40 ($0.60 pre-consolidation) per share. The senior management team of COPL was either registered or beneficial shareholders of NSO and COPL UK prior to the acquisition.

At the time of acquisition, COPL UK had a Sale and Purchase Agreement signed to acquire various interests in three oil and gas exploration and development properties located in the UK Central North Sea, however, neither COPL UK and COPL had financing available to close these transactions. Accordingly, the purchase of NSO and COPL UK by COPL was approved by the TSX-V on the condition that the 250,000 (1,000,000 pre-consolidation) shares issued were placed in escrow until the Company closed a financing and completed the UK North Sea acquisition. On December 7, 2009 the Company issued 250,000 (1,000,000 pre-consolidation) common shares as consideration for the above transaction and these shares were held in escrow until COPL obtained financing in December 2010 and TSX-V approval to the release of the shares from escrow on February 3, 2011.

As a result of the above transaction, the Company's statement of operations includes the operating results of NSO and COPL UK from December 7, 2009.

Repayment of Bridge Loan

On December 11, 2009, the Company signed a Bridge Loan agreement for $2,000,000 with Endeavour Financial Corporation ("Endeavour") to finance the Company's working capital needs. The Bridge Loan maturity was December 14, 2010 and the loan bore interest at a rate of 10% per annum, payable at maturity or an earlier repayment date. The loan agreement also included a provision that in the event the Company completed any financing, the proceeds should be used to first repay the Bridge Loan together with accrued interest. Accordingly, on June 7, 2010, subsequent to the Private Placement (discussed further in the "Share Capital" section) the Company repaid the Bridge Loan in full, together with $96 thousand of accrued interest.

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)	**2010**	**2009**
General and administrative:		
Payroll, external directors' fees and related costs	**$ 1,272**	**$ 204**
Consulting services	**2,207**	**897**
Professional services	**359**	**305**
Travel expenses	**549**	**235**
Office expenses	**959**	**352**
Stock exchange and transfer agent fees	**152**	**53**
Financing and prospectus costs	**34**	**361**
Other general and administrative	**58**	**13**
Total general and administrative	**$ 5,590**	**$ 2,420**
Capitalized exploration and development costs	**$0**	$0

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses amounted to $5,590 thousand for the year ended December 31, 2010, compared to $2,420 thousand for 2009. The increase in expenditures reflects the increase in the size of the Company's team and its activities in 2010. Effective June 1, 2010 and as at December 31, 2010, the Company had eight full-time employees in management, accounting and administration functions, compared to nil as at December 31, 2009.

INTEREST AND FINANCING CHARGES*

Interest and financing charges amounted to $461 thousand for the year ended December 31, 2010 compared to $22 thousand for 2009, and related entirely to the Bridge Loan with Endeavour. Interest and financing charges for the year ended December 31, 2010 included:

- $87 thousand of interest from January 1, 2010 to June 7, 2010, when the loan was repaid in full ($13 thousand in 2009),
- $167 thousand of additional fees paid via issuance of the Company's shares (discussed further in the "Share Capital" section), and
- $207 thousand representing amortisation of the fair value of 300,000 (1,200,000 pre-consolidation) share purchase warrants issued to Endeavour in 2009 further to a Bridge Loan agreement ($9 thousand in 2009).

**** 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.***

STOCK-BASED COMPENSATION EXPENSE*

The Company has a stock option plan where the number of common shares reserved under the plan shall not exceed 10% of 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.

During 2010, the Company granted to its directors, officers, employees and consultants the following stock options, which vest immediately and expire in five years from date of grant:

- On June 1, 2010 - 662,500 stock options (2,650,000 pre-consolidation stock options) to acquire common shares at an exercise price of $1.20 ($0.30 pre-consolidation exercise price). A respective stock-based compensation expense of $583 thousand has been recognized in the income statement.

- On December 10, 2010 – 7,600,000 stock options to acquire common shares at an exercise price of $0.59. A respective stock-based compensation expense of $2,660 thousand has been recognized in the income statement.

The fair value of each option granted is estimated on the date of grant using a Black-Scholes option pricing model (the assumptions used for the model are discussed in the notes accompanying the Company's audited consolidated financial statements as at and for the years ended December 31, 2010).

Stock-based compensation expense was $785 thousand for the year ended December 31, 2009.

Further to the provisions of the Company's stock option plan, 72,500 stock options expired in 2010 as they were granted to consultants no longer providing services to the Company; 112,500 stock options expired in 2009 as they were granted to former directors.

No stock options were exercised during the years ended December 31, 2010 and 2009.

Subsequent to year end, on February 23, 2011, the Company granted 12,415,000 stock options to its directors, officers, employees and consultants to acquire common shares at an exercise price of $0.68. The stock options vest immediately and expire in five years from date of grant.

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TRANSACTIONS WITH RELATED PARTIES

Transactions with the Company's directors and officers in the form of consulting services totalled $622 thousand for the year ended December 31, 2010, compared to $789 thousand for 2009. These transactions occurred in the normal course of business and have been recorded at exchange amounts based on commercial rates and terms agreed to in the related consulting contracts.

As at December 31, 2010, $31 thousand was payable to related parties in respect of consulting fees, as compared to $701 thousand of accrued consulting fees as at December 31, 2009.

In addition, in 2009 the Company acquired 100% of the outstanding common shares of NSO and COPL UK in a non-arm's length transaction as discussed in the "Purchase of NSO and COPL UK" section.

FINANCIAL INSTRUMENTS*

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

In the future, once the Company commences exploration activities, significant amounts of the proposed activities will be transacted in or referenced to currencies other than the Canadian dollar, including British Pounds, US Dollars and Euros. As a result, fluctuations in currencies could result in an increase in foreign currency risk exposure and in unanticipated fluctuations in financial results. The Company will manage a portion of its exposure to fluctuations in exchange rates, however, no assurances can be given that such management will fully offset the fluctuations.

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SHARE CAPITAL

The Company is authorized to issue an unlimited number of common and preferred shares.

Further to shareholders' and board of directors' approvals and effective August 3, 2010, the Company's common shares were consolidated on a four-for-one basis, that is, four pre-consolidation common shares for one post-consolidation common share. Common share numbers and earnings per share amounts have been retroactively adjusted to reflect the share consolidation.

As at December 31, 2010, there were 101,965,939 common shares issued, including 250,000 shares (1,000,000 pre-consolidation shares) held in escrow. The shares held in escrow are accounted for as contingently returnable shares at December 31, 2010, which were not considered outstanding and are not included in the computation of basic loss per share until they are released from escrow. The transaction was approved by the TSX-V on February 3, 2011 and subsequently, the common shares were released to beneficial holders.

The Company issued the following common shares during the twelve month period ended December 31, 2010:

- On May 5, 2010, the Company issued to Endeavour 180,424 common shares (721,694 pre-consolidation common shares) as payment for a fee of $167 thousand in respect of a Bridge Loan, which was due, pursuant to the loan agreement, if the loan was not repaid in full by April 1, 2010. The number of common shares was calculated based on the five-day volume weighted average closing price of the Company's shares immediately before April 1, 2010.

- On May 14, 2010 and May 21, 2010, the Company closed a private placement of 6,872,579 units at $1.20 per unit (27,490,315 pre-consolidation units at $0.30 per unit) for total gross proceeds of $8,247 thousand. Each unit consists of one common share and one half of a share purchase warrant. Each whole warrant entitles the holder to acquire an additional common share at an exercise price of $2.00 ($0.50 pre-consolidation) expiring November 14, 2011. The fair value of the share purchase warrants issued was estimated at $1,292 thousand using a Black-Scholes option pricing model (the assumptions used for the model are discussed in the notes accompanying the Company's audited consolidated financial statements as at and for the year ended December 31, 2010).

- In respect of the private placement, the Company paid, whenever applicable, a finder's fee by issuing subscription units equivalent to 5% of the units subscribed via a particular broker. As a result, there were 260,711 units (1,042,841 pre-consolidation units) issued as finder's fees, with an exercise price and expiry date of the share purchase warrants consistent with the warrants issued as part of the private placement. The value of $313 thousand, representing the subscription value of the units issued as finder's fees together with legal fees of $63 thousand, was recognized as share issue costs. The fair value of share purchase warrants issued as finder's fee was estimated at $49 thousand using a Black-Scholes option pricing model with the same assumptions as noted above.

- On November 23, 2010, the Company filed a prospectus for the sale of 260,000,000 subscription receipts ("Subscription Receipts") at a price of $0.50 per Subscription Receipt. Each Subscription Receipt entitled the holder to receive one common share of COPL ("Common Share") and one half of one (0.5) common share purchase warrant of COPL ("Warrant"), upon the satisfaction of certain Release Conditions (as defined in the prospectus). Each Warrant entitles the holder to purchase one Common Share at $0.65 within 36 months from the closing date, provided that the Warrants expire if not exercised within 10 days of notice from COPL that the 20 day volume weighted average trading price of Common shares is greater than $1.25.

  The closing of the Offering occurred on December 1, 2010. The gross proceeds from the sale of Subscription Receipts of $130 million were held in escrow pending satisfaction of the First and Second Release Conditions (as defined in the prospectus). The agent was entitled to a cash commission equal to 6% of the gross proceeds of the Offering ("Agent's Fee"), payable at 30% on satisfaction of the First Release Condition and 70% on satisfaction of the Second Release Condition. In addition, upon satisfaction of both Release Conditions, the agent would receive compensation warrants in an amount equal to 6% of the aggregate number of Subscription Receipts sold pursuant to the offering. Each agent's warrant entitles the holder to purchase one Common Share of COPL for the period of 24 months from the closing date at an exercise price of $0.50.

On December 10, 2010, the First Release Condition was met as the Company signed farm-in agreements in respect of the Fulla/Freya and Bluebell projects (as defined in the prospectus). Accordingly 78,000,000 Subscription Receipts were converted into 78,000,000 Common Shares and 39,000,000 Warrants, and funds of approximately $36.6 million were released to the Company ($39.0 million gross proceeds, net of Agent's Fee and expenses). The fair value of the Warrants issued further to the First Release was estimated at $9.4 million using a Black-Scholes option pricing model (the assumptions used for the model are discussed in the notes accompanying the Company's audited consolidated financial statements as at and for the year ended December 31, 2010).

As at December 31, 2010, the Company also had the following outstanding securities other than common shares:

- A total of 42,566,646 share purchase warrants issued and outstanding, each warrant carrying the right to acquire one common share; 3,566,646 warrants issued in relation to the private placements that have an exercise price of $2.00 and an expiry date of December 14, 2011 and 39,000,000 warrants issued in relation to the First Release Condition of the public offering that closed December 2010, which have an exercise price of $0.65 and an expiry date of December 1, 2013.

- 9,592,500 stock options issued and outstanding to purchase common shares with an exercise price of $0.59 - $1.20 per share and a remaining contractual life of four to five years.

Subsequent to December 31, 2010, on February 22, 2011, the Second Release Condition was met as the Company signed agreements in respect of North Sea prospects in Block 23/21 and Block 22/15 (as defined in the prospectus). Accordingly, 182,000,000 Subscription Receipts were converted into 182,000,000 Common Shares and 91,000,000 Warrants, and funds of approximately $85.5 million were released to the Company ($91.0 million gross proceeds, net of Agent's Fee and expenses). In addition, 15,600,000 agent's warrants were issued, each warrant entitling the holder to purchase one Common Share of COPL for the period until December 1, 2012 at an exercise price of $0.50.

LIQUIDITY AND CAPITAL RESOURCES *

As of December 31, 2010, the Company had working capital of approximately $36.5 million, shareholders' equity of $36.6 million and cash of $37.4 million.

As discussed in the "Share Capital" section, subsequent to December 31, 2010, the Company obtained the remaining funds from its public offering closed in December 2010 in the amount of approximately $85.5 million. The Company will use the proceeds from this offering to finance its operations in the UK North Sea, in particular to cover capital commitments related to farm-in transactions (as discussed in the "Overview" section). As at the date of this Management's Discussion and Analysis, the Company has working capital of approximately $121 million.

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.

**** 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.***

COMMITMENTS AND CONTRACTUAL OBLIGATIONS*

As at December 31, 2010, the Company has the following contractual obligations:

In $ 000's	Total	Less than One Year	One to Three Years	Four to Five Years	After Five Years
Farm-in commitments	**22,000**	22,000	-	-	-
Office lease	**4,321**	535	1,069	1,069	1,648
Financial advisory services	**75**	75	-	-	-
	26,396	22,610	1,069	1,069	1,648

Further to two farm-in agreements signed in December 2010 in respect of exploration prospects in the UK North Sea (as discussed in the "Overview" section), the Company is committed to participate in the drilling of two exploration wells in 2011 at an estimated cost of $22 million net to the Company.

The Company is committed under an operating lease agreement for the rental of office space in Calgary. The approximate lease payments total $4.3 million and are payable over the next 9 years.

The obligation in respect of financial advisory services relates to an agreement with Endeavour International. The agreement is in effect until June 10, 2011, with an option to extend, if agreed by both parties.

Subsequent to December 31, 2010, the Company has signed a third farm-in agreement in respect of exploration prospects in the UK North Sea (as discussed in the "Overview" section). As a result, the Company is committed to participate in drilling a minimum of three exploration wells in 2011 at an estimated cost of $44.6 million net to the Company. Subject to positive results of these commitment wells, the Company has contingent obligations to participate in well testing and in the drilling of two contingent wells.

Currently, the Company has enough funds to cover the immediate commitments discussed above. However, the Company is pursuing contracts that if successful, will require additional financing.

***** 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.***

SELECTED QUARTERLY INFORMATION

Eight Most Recent Quarters:

($ 000's)	December 31, 2010	September 30, 2010	June 30, 2010	March 31, 2010
Revenue	0	0	0	6
Net loss	(4,492)	(1,148)	(1,974)	(1,707)
Post-consolidated net loss per share - basic & diluted	(0.07)	(0.05)	(0.10)	(0.10)
Pre-consolidated net loss per share - basic & diluted	(0.02)	(0.01)	(0.02)	(0.03)

($ 000's)	December 31, 2009	September 30, 2009	June 30, 2009	March 31, 2009
Revenue	5	0	0	0
Net loss	(1,896)	(1,276)	(16)	(2)
Post-consolidated net loss per share - basic & diluted	(0.12)	(0.08)	(0.00)	(0.00)
Pre-consolidated net los per share - basic & diluted	(0.03)	(0.02)	(0.00)	(0.00)

ACCOUNTING PRONOUNCEMENTS

Status of Transition to International Financial Reporting Standards (IFRS)

On February 13, 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises will be required to adopt IFRS in place of Canadian Generally Accepted Accounting Principles (GAAP) for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. The eventual changeover to IFRS represents a change due to new accounting standards. Although IFRS is principles-based and uses a conceptual framework similar to Canadian GAAP, there are significant differences and choices in accounting policies, as well as increased disclosure requirements under IFRS.

The Company has completed the diagnostic phase and does not expect implementation of IFRS to have a significant impact on the Company's results of operation and financial position mainly due to the Company's current limited operations and lack of assets. The Company will elect to apply certain exemptions available under IFRS 1 for first-time adoption (specifically in respect of IFRS 3 Business Combinations and IFRS 2 Share-based Payments), which will relieve the Company from retrospective application of IFRS and as a result the changeover to IFRS is not expected to result in significant changes to the Company's past results or the value of the Company's equity, with the exception of the accounting for flow-through shares which have been issued by the Company historically.

For all future transactions, the Company will consider the IFRS impact on any accounting policy decisions and the implementation of any new IT systems, accounting processes and internal controls over financial reporting. The switch to IFRS is not currently anticipated to have a material impact on the accounting policies and/or internal controls over the financial reporting currently in use. Throughout 2010, the Company was focused on IFRS disclosure requirements and on gaining the required IFRS expertise that will be required once the Company develops its operations.

Future Accounting Changes

There are three recent accounting pronouncements noted below, which the Company is required to adopt as of January 1, 2011. All of these standards are substantially converged with IFRS.

"Business Combinations", Section 1582, which replaces the previous Business Combinations standard. The standard requires assets and liabilities acquired in a business combination, contingent consideration and certain acquired contingencies to be measured at their fair values as of the date of acquisition. In addition, acquisition-related and restructuring costs are to be recognized separately from the business combination and included in the statement of operations. The adoption of this standard will affect the accounting treatment of future business combinations.

"Consolidated Financial Statements", Section 1601, which together with Section 1602 below, replace the former consolidated financial statement standard. Section 1601 establishes the requirements for the preparation of consolidated financial statements. The adoption of this standard should not have a material impact on the Company's consolidated financial statements.

"Non-controlling Interests", Section 1602, which establishes the accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The standard requires a non-controlling interest to be classified as a separate component of equity. In addition, net earnings and components of other comprehensive income are attributed to both the parent and non-controlling interest. The adoption of this standard should not have a material impact on the consolidated financial statements.

Critical Accounting Estimates

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, P.Geol. - President and Chief Executive Officer
Harald Ludwig - Director
Massimo Carrello - Director
Christopher McLean - Director
Rick Schmitt - Director

OFFICERS

Arthur S. Millholland, P.Geol. - President and Chief Executive Officer
Gerald Roe – Chief Operating Officer
Aleksandra Owad, CGA, FCCA (UK) – Chief Financial Officer

Faralee A. Chanin, LL.B., M.B.A. – Corporate Secretary