CANADIAN OVERSEAS PETROLEUM LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012

The following is the Management's Discussion and Analysis ("MD&A") of the operating and financial results of Canadian Overseas Petroleum Limited, and its wholly owned subsidiaries COPL Technical Services Limited, Canadian Overseas Petroleum (UK) Limited ("COPL UK"), Canadian Overseas Petroleum (Bermuda Holdings) Limited ("COPL Bermuda Holdings"), Canadian Overseas Petroleum (Bermuda) Limited ("COPL B"), and COPL New Zealand Limited ("COPL NZ") (collectively "COPL" or the "Company") as at and for the year ended December 31, 2012. The information is provided as of March 22, 2013. 2012 results have been compared to the same period of 2011. 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, 2012 and 2011, together with the accompanying notes and the Annual Information Form dated March 28, 2013. These documents and additional information about COPL are available on the Company's website at www.canoverseas.com and on SEDAR at www.sedar.com.

All amounts are presented in Canadian dollars unless otherwise noted.

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".

COPL is an international oil and gas exploration and development company currently active in the UK North Sea, West Africa and New Zealand. Senior management and strategic corporate functions are performed by COPL's head office in Calgary, and geological, geophysical, engineering, accounting and administrative functions are performed by COPL Technical Services Limited. Drilling oversight and some geological and UK accounting functions are provided by COPL UK. COPL B was incorporated in May 2011 in anticipation of operations offshore Liberia. On November 8, 2012, COPL NZ was incorporated to participate in an exploration licence in New Zealand.

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, 2012, 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, West Africa, New Zealand and elsewhere (the "Business of the Company", "Overview", "Outlook", and "Liquidity and Capital Resources" sections);
- the Company's ability to raise capital and obtain the financing necessary to develop profitable oil operations (the "Overview", "Outlook" and "Liquidity and Capital Resources" sections);
- the Company's assumptions in respect of the calculation of stock-based compensation and valuation of warrants;
- the Company's ability to manage its financial and operational risks (the "Overview", "Loss on UK Contracts", "Commitments and Contractual Obligations", "Financial Instruments" and "Liquidity and Capital Resources" sections).

FORWARD-LOOKING INFORMATION (CONTINUED)

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

- the failure by any party for any reason to complete obligations in any material contract, which could result in COPL not acquiring interest in properties for the consideration agreed;
- the uncertainty of realizing anticipated benefits from existing transactions, including uncertainty regarding reserve estimates;
- uncertainties regarding an outcome of a dispute with UK partner;
- 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 onshore and offshore operations and developments, 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, onshore and offshore 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 that adequate financing will be available to the Company on acceptable terms;
- governmental regulations in respect of the oil and gas industry, including environmental regulations, corporate income tax regime, consents and approvals necessary for onshore and offshore operations, and decommissioning liabilities;
- risks associated with being a non-operator, including dependence on the operator's skills to keep costs and timetables within 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 areas of operation 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 interests in oil and natural gas properties;
- 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;
- 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 operations. 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 2012, the Company continued its offshore exploration in the UK North Sea, worked on finalization of transactions related to offshore interest in Liberia, acquired a 50% interest in a large exploration property in New Zealand and evaluated other oil exploration prospects.

Bluebell Prospect - UK

Further to an earn-in agreement signed in December 2010, the Bluebell well, operated by Premier Oil plc, was drilled in February 2012 and it was plugged and abandoned in March 2012 as it did not encounter any commercial volumes of hydrocarbons. Accordingly, in 2012, approximately $8.5 million (2011 - $1.7 million) was recognized as an exploration cost related to the Bluebell well.

Fulla/Freya Prospect - UK

In July and August 2011, Faroe Petroleum (UK) Ltd ("Faroe") and COPL UK were co-venturers in the exploration well drilled at the Fulla offshore prospect in Block 206/5a, West of the Shetland Islands, in the UK (which includes Fulla and Freya). The well encountered a gross oil column of 133 ft. in the Cretaceous-aged Whiting Sands, of which there was a total of 45 ft. net oil pay. Average porosity was estimated at 21% and the oil sampled was measured at 19º API. Although there was a 600 ft. interval with high mud gas readings present, the primary Clair target did not contain significant moveable hydrocarbons and the resulting estimated STOIIP for the Fulla prospect dropped to 25 MMbbl from a pre-drill estimated volume of 119 MMbbl. The oil from the Whiting sand was found to be movable, however there is uncertainty around the commerciality of possible flow rates from this sand that could be expected in a horizontal well when compared to wells in the nearby Clair field.

The reserve volumes on Freya were not impacted by the Fulla results, but the uncertainty has widened. Without the significant investment of a horizontal well into Freya, there is still a question over the flow rates that could be achieved through fractures on a horizontal well. Post-well analysis has determined that there remains sufficient risk in the project such that a further appraisal well is not viable given the likely economics and remaining uncertainties.

In October 2012, the operator informed the Company that they intended to relinquish the licence for Fulla/Freya on the basis that a development of the existing discoveries is not commercially viable and that there is insufficient prospectivity to conduct further exploration/appraisal work. Accordingly, in 2012, the Company has written off the exploration and evaluation assets of approximately $21.0 million related to the Fulla project as non-commercial and abandoned.

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OVERVIEW * (CONTINUED)

Terminated Projects and Dispute with BG - UK

The Company (via its subsidiary COPL UK) had a Sale and Purchase Agreement ("SPA") with BG International Limited ("BG") in respect of Block 23/21 Rest of Block Shallow (that included the Lower Toad, Newt and West Columbus exploration prospects) and Block 22/15 (that included the Esperanza prospect and Banks discovery).

In November 2011, an oil discovery was made at Esperanza. The 22/15-4 well, operated by BG, was drilled by the Ocean Nomad semi-submersible drilling rig to a total depth of 9,427 feet. A reservoir section was encountered in the Paleocene Forties sand at a depth of 8,677 feet, and a minimum total of 52 feet of net pay from a minimum gross section of 73 feet was penetrated by this well. Data obtained from well logs, coring and wireline pressure measurements indicated that the reservoir fluid is light gravity oil. Oil samples were also successfully extracted from the wireline downhole sampler. BG and the Company decided to proceed with drill-stem testing which was completed on December 21, 2011. During a main flow test, the well flowed 39º API oil at an average rate of 1,784 bbls/d through a restricted 36/64 inch choke, with an average gas to oil ratio of 150 scf/bbl and an average flowing tubing pressure of 377 psi. Because of poor weather conditions, the well test was curtailed before a maximum flow rate could be achieved, however all necessary technical information was successfully obtained during the testing operations. There was no water or sand produced during the test. The Company's analysis of wireline logs and fluid samples concluded that in addition to the 52 feet of net pay situated within the uppermost Forties sandstone, there is an additional 30 feet of potential pay extension. A wireline fluid sample yielded free oil, oil emulsion, and formation water from this interval. According to the Company's log analysis, the "free water level" in this well is located at the base of this zone. The well drilling and testing took considerably longer (82 days compared to 50 days as initially planned), resulting in a significant cost overrun. Under the agreement with BG, there was a requirement to deposit additional funds into escrow with BG to cover purchase consideration in respect of testing and cost overruns of the Esperanza well. The Company did not make the deposit but did engage in a discussion with BG on alternatives. On January 4, 2012, a Supplemental Agreement was signed with BG wherein, among other things, BG agreed not to serve a default notice but the deposit amount was increased to $50 million and was required by January 31, 2012. Considering a number of factors, including the state of the capital markets, the dilutive effect on the current and prospective assets values per share, the costs overruns on the Esperanza well, the delay in drilling of three wells in Block 23/21, the funds already in escrow (GBP 30.9 million as at December 31, 2011) being more than sufficient to cover all of BG's out-of-pocket costs, restrictions imposed by BG and other reasons, the Company was not in a position to deposit the funds requested by BG. During the period subsequent to drilling the Esperanza well, the Company and its financial advisors continued to communicate with BG and proposed a number of alternative options to top up the escrow account with BG over a period of time rather than immediately. All of these proposals were rejected by BG. The purchase consideration for the Esperanza project of approximately $33.2 million (GBP 21 million) was released from escrow to BG on January 31, 2012 and a formal termination notice to the Sale and Purchase Agreement ("SPA") with BG was provided to COPL on February 13, 2012.

At the time of the SPA termination, there was approximately GBP 10.1 million (approximately $16.1 million) remaining in escrow with BG which was in dispute as both the Company and BG were claiming the funds. On April 4, 2012, BG filed a claim with the High Court of Justice against COPL UK and the escrow agent seeking an order directing the escrow agent to release the escrow funds to BG. COPL UK filed a counter-claim in May 2012 for a return of the funds.

On October 12, 2012, the High Court of Justice ruled in favour of BG on the narrow grounds of the wording in the escrow agreement and on November 5, 2012 the escrow funds of approximately $16.1 million were transferred to BG. The Court also ruled that the Company is liable to pay legal fees to BG in the amount of GBP 65,000 (approximately $103,000) and legal fees of the escrow agent of approximately GBP 42,000 (approximately $67,000). These legal costs are accounted for as an increase in a loss on UK contracts for the year ended December 31, 2012

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OVERVIEW * (CONTINUED)

Terminated Projects and Dispute with BG – UK (continued)

The October 12, 2012 court ruling does not concern address the underlying dispute between the parties and the Company is pursuing steps to obtain the funds back from BG. In the Company's opinion, BG has no basis to keep the funds as all costs incurred by BG in respect of the terminated SPA were already paid by the Company before the SPA contract was terminated. However, under International Financial Reporting Standards ("IFRS") accounting rules, as the Company lost control over the approximately $16.1 million of cash held in escrow with BG, it therefore is required to derecognize this asset from its assets.

The Company believes that given all payments and obligations for drilling and testing the Esperanza well have been made by COPL, it retains all its rights in Block 22/15 and is currently assessing its legal status vis a vis the termination notice and required additional payment of US$ 15.0 million (due on April 21, 2012) to complete the acquisition of the 50% interest in Block 22/15.

Terminated Farm-in with SSE - UK

Due to the termination of the SPA agreement with BG, the exploration wells in Block 23/21 Rest of Block Shallow will not be drilled. Accordingly, a respective termination agreement of the earn-in agreement has been signed with SSE E&P UK Limited ("SSE') on June 19, 2012. GBP 5.2 million (approximately $8.3 million) of funds in escrow with SSE was returned to the Company, net of GBP 40,000 (approximately $65,000) of termination costs. These termination costs are accounted for as an increase in a loss on UK contracts for the year ended December 31, 2012.

Liberia prospect

On May 18, 2011 the Company (via its Bermuda subsidiary, COPL B) signed a Sale and Purchase Agreement ("PSPA") with Peppercoast Petroleum plc ("Peppercoast") to acquire a 100% interest in Block LB-13 offshore Liberia.

On November 16, 2011, the Company signed an Asset Purchase Agreement with ExxonMobil Exploration and Production Liberia Limited ("ExxonMobil"), a wholly owned subsidiary of the ExxonMobil Corporation, to sell a 70% interest in the Production Sharing Contract ("PSC") governing Block LB-13 immediately following COPL B's acquisition of a 100% interest from Peppercoast.

In April 2012, the National Oil Company of Liberia ("NOCAL") accepted the proposed joint venture between ExxonMobil and COPL B as satisfying in principle the technical and financial competence requirements of the transfer provisions for the PSC governing Block LB-13 subject to agreeing on proposed amendments to the PSC. The negotiations between NOCAL, Exxon, Peppercoast and the Company continued during the rest of 2012.

On March 8, 2013 a Restated and Amended PSC for Block LB-13 offshore Liberia has been agreed and the President of Liberia signed the appropriate paperwork related to the PSC so that it can be sent to the Liberian Legislature for a ratification vote. The terms of the PSC will take effect once ratification has occurred and the PSC is enacted into law. Completion of the transactions contemplated is expected to occur shortly after ratification and remain subject to a number of conditions.

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OVERVIEW * (CONTINUED)

Liberia prospect (continued)

Certain terms of the previously signed purchase agreements between COPL, COPL B and Peppercoast, and between COPL B and ExxonMobil have been amended. COPL B and ExxonMobil have amended the Asset Purchase Agreement such that COPL B will now have a 20% working interest in Block LB-13 and ExxonMobil as operator will have an 80% working interest. ExxonMobil will continue to pay COPL B's working interest portion of drilling expenses for the first $120 million of gross drilling costs committed under the PSC, and COPL B's share of joint venture costs up. In addition, the payment terms as between COPL B and Peppercoast have also changed from the initial PSPA agreement. The new arrangements call for the completion of the acquisition of the original PSC by COPL B to be funded by NOCAL such that NOCAL shall pay the obligations of COPL B to Peppercoast. Following that transfer, ExxonMobil will pay to NOCAL (1) all funds owed to COPL B under the Asset Purchase Agreement, and (2) on behalf of COPL B and ExxonMobil, all amounts owed by COPL B and ExxonMobil to the Government of Liberia on account of the issuance of the PSC. Upon that payment, the PSC shall be owned 20% by COPL B and 80% by ExxonMobil.

As a result of these changes, COPL will no longer issue any shares to Peppercoast to complete the transaction. Further, other than legal costs, usual closing costs and on-going fees under the PSC, COPL and COPL B will have no net cash outlay or cost in connection with the closings other than forgiveness of accounts receivable related to the $15 million 3D seismic license fee owing by Peppercoast to COPL and other inter-company amounts, as well as $7 million of fees payable to the Government of Liberia.

New Zealand prospect

On November 8, 2012, a new subsidiary "COPL New Zealand Limited" was incorporated as the Company was awarded a 50% interest in an onshore exploration licence by the New Zealand government. The licence relates to a Petroleum Exploration Permit for an area of 964.6 square kilometres in the East Coast Basin of New Zealand.

The East Coast Basin onshore New Zealand contains a number of large oil and gas accumulation targets focusing on unconventional resource plays within the Paleocene to Cretaceous aged Whangai and Waipawa shales. These formations exhibit characteristics similar to the productive Bakken Formation in Saskatchewan and North Dakota. Offsetting permit holders in the basin include Tag Oil and New Zealand Energy, both of which have had independent third party evaluators assign shale oil resource potential of 12.6 and 20.9 Billion Barrels Original Oil in Place respectively. The Whangai Formation is the primary unconventional target over PEP 53806, and is naturally fractured and widespread throughout the East Coast Basin.

The current operator of the New Zealand project holds the remaining 50% interest in the license. Based on the information provided by the operator and internal analysis performed by the Company's technical team, the Company estimates a potential gross resource of 4.6 Billion Barrels Original Oil in Place for Whangai Shale and 0.2 Billion Barrels Original Oil in Place for Waipawa Black Shale.

The minimum work programme to be carried under the license includes: interpretation of existing seismic data, geological studies, mapping and modeling during the first year and acquisition and interpretation of a new 2D seismic for minimum 50kms area during a second year. Depending on the results of the work performed, the license holders have an option to surrender the permit or commit to a third year programme, which would include drilling one exploration well. Accordingly, the Company's commitments related to the New Zealand prospect are estimated at approximately $0.2 million for 2013 and $1.5 million for 2014. In addition, the Company acts as a guarantor of its partner's commitments (the remaining 50%) in the New Zealand license.

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FINANCIAL SUMMARY

In 2012, the Company continued its offshore exploration in the UK North Sea, worked on finalization of transactions related to offshore interest in Liberia, acquired a 50% interest in a large exploration property in New Zealand and evaluated other oil exploration prospects.

During 2012, the Company wrote off exploration and evaluation assets of $21.0 million related to the Fulla exploration project of Block 206/5a in the UK, North Sea as the assets were assessed as non-commercial and the operator has decided to relinquish the licence. Costs related to the Bluebell prospect of approximately $8.5 million for the year ended December 31, 2012 (and approximately $1.7 million for the year ended December 31, 2011), were recorded as exploration expenses as the well drilled in March 2012 was not successful. The loss on UK contracts amounted $0.2 million for the year ended December 31, 2012 compared to $37.9 million for the year ended December 31, 2011 and related to termination of agreements with BG and SSE in respect of Block 23/21 Rest of Block Shallow (that included Lower Toad, Newt and West Columbus exploration prospects) and Block 22/15 (that included Esperanza well and Banks discovery). In addition, $16.1 million of funds held in escrow and in dispute with BG were derecognized in 2012 as these funds were transferred by the escrow agent to BG on November 5, 2012 further to a Court ruling. Pre-licence costs of $2.2 million for the year ended December 31, 2012 compared to $1.7 million for the year ended December 31, 2011 related to the Liberia project.

General and administrative costs amounted to $8.8 million in 2012 (net of $0.6 million of costs allocated to exploration projects) compared to $8.4 million in 2011 costs (net of $1.4 million of costs allocated to exploration projects. There was no stock-based compensation expense recorded in 2012 compared to $4.8 million recognized for stock options granted in 2011. The Company recognized interest income of $57,000 for the year ended December 31, 2012, compared to $0.6 million for the year ended December 31, 2011. There was $11,000 in interest expenses for 2012, compared to $40,000 interest and financing charges recognized in 2011. Foreign exchange losses of $72,000 were recorded in 2012, compared to foreign exchange gains of $0.3 million in 2011. As a result, the Company's loss amounted to $56.6 million in 2012, compared to losses of $53.4 million in 2011.

As at December 31, 2012, the Company's cash and cash equivalents amounted to $4.4 million. Cash used in investing activities amounted $1.5 million for the year ended December 31, 2012, compared to $32.9 million in 2011 (related mainly to the additions to explorations assets and the deposit for seismic data). Cash used in operating activities amounted to $66.3 million for the year ended December 31, 2012, compared to $16.8 million for 2011.

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.

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

- completing the transactions in respect of Block LB-13 offshore Liberia;
- working toward resolving the dispute with BG (over $16.1 million of funds taken from escrow by BG and interest in the Esperanza discovery);
- carrying on with the work programme of New Zealand project; and
- evaluating opportunities in the UK North Sea, West Africa 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, 2012, 2011 and 2010:

($ 000's) except per share	2012	2011	2010
Services to third parties	**$ 129**	$ 189	$ 6
Administrative expenses	**8,825**	8,413	5,590
Stock-based compensation	**-**	4,796	3,243
Loss on UK contracts	**182**	37,926	-
Exploration expenses	**8,455**	1,657	-
Pre-license costs	**2,170**	1,694	-
Interest income	**57**	593	17
Foreign exchange gain (loss)	**(72)**	346	(39)
Loss	**56,638**	53,428	9,321
Per share loss	**$ 0.20**	$ 0.21	$ 0.32
Cash used in operating activities	**$ 66,251**	$ 16,764	$ 6,221
Outstanding common shares at December 31	***284,016,939***	*284,016,939*	*101,965,939*
Weighted average - basic	***284,016,939***	*257,332,284*	*29,290,398*

COMPARATIVE FINANCIAL POSITION ITEMS

The following table summarizes the Company's financial position as at December 31, 2012, December 31, 2011 and January 1, 2011:

($ 000's) except per share	December 31, 2012	December 31, 2011	January 1, 2011
Cash and cash equivalents	**$ 4,374**	$ 71,924	$ 37,403
Current assets	**4,823**	72,533	37,508
Exploration and evaluation assets	**-**	20,594	-
Deposit for seismic data	**14,924**	15,255	-
Provision for loss on UK contracts	**-**	32,641	-
Current liabilities	**3,194**	35,048	989
Share capital	**100,768**	100,768	41,833
Shareholders' equity (deficiency)	**$ 16,820**	$ 73,604	$ 36,621

The Company has recognized a provision for loss on UK contracts of $0.2 million as at December 31, 2012 and $37.9 million as at December 31, 2011 in respect of agreements with BG and SSE which were terminated in February 2012 (discussed further in the "Loss on UK Contracts" section).

The decrease in cash of $67.6 million during 2012 relates mainly to the decrease in the provision for the loss on UK contracts of approximately $32.6 million (discussed further in the "Loss on UK Contracts" section), derecognition of cash held in escrow of approximately $16.1 million, exploration expenses related to the Bluebell well of approximately $8.5 million, as well as administrative expenses and pre-licence costs.

Exploration and evaluation assets of $20.6 million as at December 31, 2011 related to the Fulla project in the UK and were written off in 2012 as the project was assessed as non-commercial.

The deposit for seismic data relates to Liberian Block LB-13.

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)	2012	2011
Administrative:		
Payroll, external directors' fees and related costs	**$ 3,442**	$ 3,319
Consulting services	**962**	1,111
Professional services	**3,030**	2,783
Travel expenses	**563**	1,160
Office expenses	**945**	992
Stock exchange and transfer agent fees	**53**	101
Other general and administrative	**473**	385
Costs allocated to exploration projects	**(643)**	(1,438)
Total administrative	**$ 8,825**	$ 8,413
Capitalized exploration and evaluation costs – UK North Sea	**$ -**	$ 20,594
Provision for loss on UK contracts	**$ -**	$ 32,641

LOSS ON UK CONTRACTS *

The Company had a Sale and Purchase Agreement ("SPA") with BG International Limited ("BG") in respect of Block 23/21 Rest of Block Shallow ("RoB') (Newt, Lower Toad, West Columbus and Upper Toad prospects) and Block 22/15 (the Esperanza prospect and Banks discovery). The agreement provided for funds to be kept in an escrow account with BG to cover the purchase consideration, which was dependent on the cost of drilling exploration wells. From October through December 2011 the first well was drilled and tested in the Esperanza prospect and although successful, encountered significant cost overruns. As per the SPA, the Company was required to immediately deposit additional funds into the escrow account. The Company did not make the deposit but did engage in a discussion with BG on alternatives. On January 4, 2012, a Supplemental Agreement was signed with BG wherein, among other things, BG agreed not to serve a default notice but the deposit amount was increased to $50 million and was required by January 31, 2012. Considering a number of factors, including the state of the capital markets, the dilutive effect on the current and prospective assets' values per share, the costs overruns on the Esperanza well, the delay in drilling of three wells in Block 23/21, the funds already in escrow (approximately $49.0 or GBP 30.9 million as at December 31, 2011) being more than sufficient to cover all of BG's out-of-pocket costs, restrictions imposed by BG and other reasons, the Company was not in a position to deposit the funds requested by BG. During the period subsequent to drilling the Esperanza well, the Company and its financial advisors continued to communicate with BG and proposed a number of alternative options to top up the escrow account with BG over a period of time rather than immediately. All of these proposals were rejected by BG. The purchase consideration for the Esperanza project of approximately $33.2 million (GBP 21 million) was released from escrow to BG on January 31, 2012 and a formal SPA termination notice was provided to COPL on February 13, 2012.

In addition, the Company had an Earn-in Agreement with SSE E&P UK Limited ("SSE") pursuant to which COPL would pay 100% of SSE's 16.67% share of the total drilling costs in the Lower Toad, Newt and West Columbus exploration prospects to earn an 8.33% working interest in such prospects. Due to termination of the SPA agreement with BG, the anticipated exploration wells in Block 23/21 RoB are not going to be drilled. Accordingly, a respective termination agreement of the Earn-in Agreement was signed on June 19, 2012 and $8.3 million (GBP 5.2 million) of funds held in escrow with SSE was returned to the Company.

LOSS ON UK CONTRACTS * (CONTINUED)

While reviewing its legal alternatives, the Company has incurred a loss on UK contracts of $0.2 million for the year ended December 31, 2012 (2011 - $37.9 million), which includes costs related to agreements with BG and SSE.

At the time of the SPA termination, there was approximately $16.1 million (GBP 10.1 million) remaining in escrow with BG which was in dispute as both the Company and BG were claiming the funds. On April 4, 2012, BG filed a claim with the High Court of Justice against COPL UK and the escrow agent seeking an order directing the escrow agent to release the escrow funds to BG. COPL UK filed a counter-claim in May 2012 for a return of these funds.

On October 12, 2012, the High Court of Justice ruled that the escrow agent should release the funds held in escrow to BG, but did not rule on the underlying dispute between the parties. The Company is pursuing steps to obtain the funds back from BG. On November 5, 2012 the escrow funds were transferred to BG. As a result the Company has derecognized the cash held in escrow as at September 30, 2012, as the recovery of this amount is uncertain and is subject to the outcome of ongoing litigation between the Company and BG on this and other matters.

The Court also ruled that the Company is liable to pay legal fees to BG in the amount of GBP 65,000 (approximately $103,000) and legal fees of the escrow agent of approximately GBP 42,000 (approximately $67,000). These legal costs are accounted for as an increase in a loss on UK contracts for the year ended December 31, 2012.

**** 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.***

E&E ASSETS WRITE OFF

In 2012 the Company has wrote off exploration and evaluation assets of $21.0 million related to the Fulla exploration project of Block 206/5a in the UK, North Sea. Although the Fulla exploration well drilled in 2011 encountered an oil column, further analysis revealed that a development of the existing discoveries is not commercially viable and that there is insufficient prospectivity to conduct further exploration/appraisal work. Accordingly, the operator confirmed its intent to relinquish the license as non-commercial.

DERECOGNITION OF CASH HELD IN ESCROW

Further to the Court ruling (discussed in the "Overview" and "Loss on UK Contracts" sections), the Company lost control over approximately $16.1 million of funds held in escrow and in dispute with BG. Accordingly, the Company had to derecognize this asset.

EXPLORATION EXPENSES

Exploration expenses of $8.5 million for the year ended December 31, 2012 ($1.7 million in 2011) relate to the UK prospect of Bluebell for which an exploration well was drilled in March 2012 and commercial reserves were not discovered.

PRE-LICENSE COSTS

Pre-licence costs of $2.2 million for the year ended December 31, 2012 ($1.7 million in 2011) relate to the Liberia project for which anticipated transactions have not been completed as at December 31, 2012.

ADMINISTRATIVE EXPENSES

Administrative expenses amounted to $8.8 million for the year ended December 31, 2012, compared to $8.4 million for 2011 and are presented net of costs allocated to exploration projects which amounted to $0.6 million in 2012 and $1.4 million in 2011. The actual decrease in total (i.e. before allocation) administrative expenses of approximately $0.4 million relates mainly to decrease in travel costs in 2012 as compared to 2011.

INTEREST INCOME AND FINANCING CHARGES

Interest income of $57,000 for the year ended December 31, 2012 related to interest earned on cash held at banks and includes $29,000 of interest on cash held in escrow with BG and included in cash transferred to BG (discussed in the "Loss on UK Contracts" section). The interest income for the comparable period ended December 31, 2011, was $0.6 million (mainly on funds from subscription receipts sold further to December 2010 public offering and kept in escrow until the release conditions were met).

Interest and financing charges recognized in the consolidated statement of comprehensive loss of $11,000 for the year ended December 31, 2012, compared to $40,000 for 2011, related to financing fees charged by joint venture partners in the UK in the normal course of operations.

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.

There were no stock options granted in 2012. During 2011, 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 February 23, 2011 - 12,415,000 stock options to acquire common shares at an exercise price of $0.68. The related stock-based compensation expense of $4.7 million has been recognized in the statement of comprehensive loss.
- On July 1, 2011 - 300,000 stock options to acquire common shares at an exercise price of $0.46 per share. The related stock-based compensation expense of $0.1 million has been recognized in the statement of comprehensive loss.

The fair value of each option granted was 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, 2012 and 2011). No stock-based compensation expense was recognized for the year ended December 31, 2012 ($4.8 million in 2011).

Further to the provisions of the Company's stock option plan, 1,500,000 stock options granted to an employee expired in 2012 and 242,500 stock options granted to consultants expired in 2011, as they no longer provide services to the Company.

No stock options were exercised during the years ended December 31, 2012 and 2011.

**** 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.***

FOREIGN EXCHANGE LOSS AND GAIN

A foreign exchange loss of $72,000 was recognized for the year ended December 31, 2012 (compared to $0.3 million foreign exchange gain in 2011), and related mainly to gains on translation of cash and cash equivalents kept in currencies other than Canadian dollars.

TRANSACTIONS WITH RELATED PARTIES

a) Transactions with Directors and Officers

Transactions with the Company's directors and officers in the form of consulting services 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. The expense, receivables and payables related to consulting services provided by directors and officers during the year ended December 31 are as follows:

In $ 000's	**2012**	2011
Consulting fees	**$ 119**	$ 119

As at December 31, 2012, accounts due from related parties amounted to $26,000 (December 31, 2011 - $19,000), which represented travel advances, with $nil payable to related parties (December 31, 2011 - $nil) for outstanding travel expenses.

b) Remuneration of Directors and Other Key Management Personnel

The key management personnel of the Company are comprised of executives of the Company and members of Canadian Overseas Petroleum Limited's Board of Directors. The remuneration of directors and key management personnel during the year ended December 31 is as follows:

In $ 000's	**2012**	2011
Short-term benefits	**$ 1,812**	$ 1,673
Stock-based compensation	**-**	2,860
	$ 1,812	$ 4,533

Short-term benefits include annual salaries, directors' fees and health and other taxable benefits.

Stock-based compensation relates to stock options granted during the year and represent the fair value of options granted using a Black-Scholes option pricing model as at the date of grant (discussed in Note 9 to the Company's consolidated financial statements as at and for the year ended December 31, 2012).

FINANCIAL INSTRUMENTS*

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

Should the PSPA transaction with Peppercoast (discussed in the "Overview" section) fail to close, the long-term deposit for seismic data will become a receivable from Peppercoast and subject to credit risk at that time.

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

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SHARE CAPITAL

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

As at December 31, 2012 and December 31, 2011, there were 284,016,939 common shares issued and outstanding.

As at December 31, 2012, the Company also had the following outstanding securities other than common shares:

- A total of 129,949,000 share purchase warrants issued and outstanding, each warrant carrying the right to acquire one common share; these warrants were issued in relation to the December 2010 public offering with an exercise price of $0.65 and an expiry date of December 1, 2013;

- 20,565,000 stock options issued and outstanding to purchase common shares with an average exercise price of $0.67 per share and a remaining contractual life of two to three years.

COMMITMENTS AND CONTRACTUAL OBLIGATIONS*

As at December 31, 2012, the Company has the following commitments other than the obligations under UK contracts in dispute (as discussed in the "Loss on UK contracts" section):

In $ 000's	Total	Less than One Year	One to Three Years	Four to Five Years	After Five Years
NZ exploration commitments	**$ 1,700**	$ 200	$ 1,500	$ -	$ -
Office lease	**3,725**	554	1,077	1,069	1,025
	$ 5,425	$ 754	$ 2,577	$ 1,069	$ 1,025

NZ exploration commitments of $1.7 million as at December 31, 2012 relate to a minimum work programme to be carried out under the 50% exploration license in New Zealand. In addition, the Company acts as a guarantor of its partner's commitments (the remaining 50%) in this New Zealand license.

The Company is committed under an operating lease agreement for the rental of office space in Calgary and Aberdeen, UK. The approximate lease payments total $3.7 million and are payable over the next seven years.

Liberia transactions

On May 18, 2011 the Company (via its Bermuda subsidiary, COPL B) signed a Sale and Purchase Agreement ("PSPA") with Peppercoast to acquire a 100% interest in Block LB-13 offshore Liberia

On November 16, 2011, the Company signed an Asset Purchase Agreement with ExxonMobil Exploration and Production Liberia Limited ("ExxonMobil"), a wholly owned subsidiary of the ExxonMobil Corporation, to sell a 70% interest in the Production Sharing Contract ("PSC") governing Block LB-13 immediately following COPL B's acquisition of a 100% interest from Peppercoast.

In April 2012, the National Oil Company of Liberia ("NOCAL') accepted the proposed joint venture between ExxonMobil and COPL B as satisfying in principle the technical and financial competence requirements of the transfer provisions for the PSC governing Block LB-13 subject to agreeing on proposed amendments to the PSC. The negotiations between NOCAL, Exxon, Peppercoast and the Company continued during the rest of 2012.

**** 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* (CONTINUED)

Liberia transactions (continued)

On March 8, 2013, a Restated and Amended PSC for Block LB-13 offshore Liberia was agreed and the President of Liberia has approved and signed the appropriate paperwork related to the PSC so that it can be sent to the Liberian Legislature for a ratification vote. The terms of the PSC will take effect once ratification has occurred and the PSC is enacted into law. Completion of the transactions contemplated is expected to occur shortly after ratification and remain subject to a number of conditions, including ratification.

Certain terms of the previously signed purchase agreements between COPL, COPL B and Peppercoast, and between COPL B and ExxonMobil have been amended. COPL B and ExxonMobil have amended the Asset Purchase Agreement such that COPL B will now have a 20% working interest in Block LB-13 and ExxonMobil as operator will have an 80% working interest. ExxonMobil will continue to pay COPL B's working interest portion of drilling expenses for the first $120 million of gross drilling costs committed under the PSC, and COPL B's share of joint venture costs. In addition, the payment terms as between COPL B and Peppercoast have also changed from the initial PSPA agreement. The new arrangements call for the completion of the acquisition of the original PSC by COPL B to be funded by NOCAL such that NOCAL shall pay the obligations of COPL B to Peppercoast. Following that transfer, ExxonMobil will pay to NOCAL (1) all funds owed to COPL B under the Asset Purchase Agreement, and (2) on behalf of COPL B and ExxonMobil, all amounts owed by COPL B and ExxonMobil to the Government of Liberia on account of the issuance of the PSC. Upon that payment, the PSC shall be owned 20% by COPL B and 80% by ExxonMobil.

As a result of these changes, COPL will no longer issue any shares to Peppercoast to complete the transaction. Further, other than legal costs, usual closing costs and on-going fees under the PSC, COPL and COPL B will have no net cash outlay or cost in connection with the closings other than forgiveness of accounts receivable related to the $15 million 3D seismic license fee owing by Peppercoast to COPL and other inter-company amounts, as well as $7 million of fees payable to the Government of Liberia.

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, 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.***

LIQUIDITY AND CAPITAL RESOURCES *

As of December 31, 2012, the Company had working capital of approximately $1.6 million, shareholders' equity of $16.8 million and cash of $4.4 million.

For the year ended December 31, 2012, the Company's cash used in operating activities amounted to $66.3 million, and related to administrative costs, exploration expenses, costs related to termination of contracts in the UK and pre-license costs related to the Liberia project.

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

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SELECTED QUARTERLY INFORMATION

Eight Most Recent Quarters:

($ 000's)	December 31, 2012	September 30, 2012	June 30, 2012	March 31, 2012
Revenue	10	34	76	66
Loss	(3,562)	(39,737)	(3,131)	(10,208)
Loss per share - basic & diluted	(0.20)	(0.14)	(0.01)	(0.04)

($ 000's)	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011
Revenue	159	125	118	380
Loss	(42,097)	(2,208)	(2,224)	(6,899)
Loss per share - basic & diluted	(0.15)	(0.01)	(0.01)	(0.04)

The 2012 quarterly losses mainly represent the Company's administrative costs, exploration expenses and pre-license costs. In addition, in the first quarter of 2012 the $8.2 million of the Bluebell exploration expenses were written off. In the third quarter of 2012, $16.1 million of funds held in escrow and in dispute with BG were derecognized and exploration and evaluation assets of $20.9 million relating to the Fulla exploration project of Block 206/5a in the UK, North Sea were written off.

The 2011 quarterly losses mainly represent the Company's administrative and pre-license costs. In addition, the fourth quarter of 2011 includes loss on UK contracts of $37.9 million and exploration costs of $1.7 million. The first quarter of 2011 includes also a stock- based compensation expense of $4.8 million.

FUTURE ACCOUNTING CHANGES

As of January 1, 2015 , the Company will be required to adopt IFRS 9 "Financial Instruments", which is the result of the first phase of the International Accounting Standards Board ("IASB") project to replace IAS 39 "Financial Instruments: Recognition and Measurement". The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. Portions of the standard remain in development and the full impact of the standard on COPL's consolidated financial statements will not be known until the project is complete.

In May 2011, the IASB released the following new standards: IFRS 10, "Consolidated Financial Statements", IFRS 11, "Joint Arrangements", IFRS 12, "Disclosures of interests in other entities" and IFRS 13, "Fair Value Measurement". Each of these standards is to be adopted for fiscal years beginning January 1, 2013 with earlier adoption permitted. The Company does not expect the adoption of these standards and amendments to have a material impact on the Company's consolidated financial statements.

CRITICAL ACCOUNTING ESTIMATES

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

DIRECTORS

Arthur S. Millholland, P.Geol. - President and Chief Executive Officer
Harald Ludwig - Director
Massimo Carello - Director
Christopher McLean - Director
Rick Schmitt - Director

OFFICERS

Arthur S. Millholland, P.Geol. - President and Chief Executive Officer
Aleksandra Owad, CGA, FCCA (UK) – Chief Financial Officer
Rod Christensen, P.Geo. – Vice President, Exploration and Exploitation

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