Canadian Overseas Petroleum Limited

Condensed Consolidated Financial Statements
As at and for the three and nine month periods ended September 30, 2011 and 2010

Management's Responsibility for Financial Statements

The information provided in these financial statements, is the responsibility of management. In the preparation of the statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying financial statements.

Management maintains a system of internal controls to provide reasonable assurance that the Company's assets are safeguarded and to facilitate the preparation of relevant and timely information.

The audit committee has reviewed the financial statements with management and the auditors, and has reported to the Board of Directors. The Board of Directors has approved the financial statements as presented.

Signed "Arthur S. Millholland"
Arthur S. Millholland
President and Chief Executive Officer
November 17, 2011

Signed "Aleksandra Owad"
Aleksandra Owad
Chief Financial Officer
November 17, 2011

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

	September 30, 2011	December 31, 2010	January 1, 2010
Assets			
Current assets			
Cash and cash equivalents *(note 4)*	**$ 88,282**	$ 37,403	$ 1,439
Accounts receivable	**141**	83	75
Prepaid expenses	**191**	22	277
	88,614	37,508	1,791
Deposit for seismic data *(note 5)*	**15,584**	-	-
Long-term rent deposit and prepayments	**43**	43	70
Exploration and evaluation assets *(note 6)*	**24,228**	-	-
Office equipment	**233**	59	70
	$ 128,702	$ 37,610	$ 1,931
Liabilities			
Current			
Accounts payable and accrued liabilities	**$ 10,831**	$ 989	$ 1,901
Loan	**-**	-	1,802
	10,831	989	3,703
Shareholders' Equity			
Share capital *(note 7)*	**100,768**	41,833	8,063
Warrants	**37,359**	11,007	306
Contributed surplus	**9,113**	4,317	1,074
Deficit	**(31,867)**	(20,536)	(11,215)
Accumulated other comprehensive income	**2,498**	-	-
	117,871	36,621	(1,772)
	$ 128,702	$ 37,610	$ 1,931

Nature of operations (note 1)
Commitments and contractual obligations (note 8)

See accompanying notes to the condensed consolidated financial statements.

Canadian Overseas Petroleum Limited

Condensed Consolidated Statements of Comprehensive Income (Loss) (unaudited)

(in thousands of Canadian dollars except for share and per share amounts)

	Three months ended September 30, 2011	Three months ended September 30, 2010	**Nine months ended September 30, 2011**	Nine months ended September 30, 2010
Results from operating activities				
Services to third parties	**$ 71**	$ -	**$ 71**	$ 6
Pre-license exploration expenses	**(716)**	-	**(1,432)**	-
Administrative expenses	**(1,780)**	(1,153)	**(6,130)**	(3,792)
Depreciation	**(10)**	(3)	**(17)**	(8)
Stock-based compensation *(note 7c)*	**(78)**	-	**(4,796)**	(583)
	(2,513)	(1,156)	**(12,304)**	(4,377)
Finance income and costs				
Interest income	**54**	8	**552**	10
Interest and financing charges	**-**	-	**-**	(461)
Foreign exchange gain	**251**	-	**421**	-
	305	8	**973**	(451)
Net Loss	**(2,208)**	(1,148)	**(11,331)**	(4,828)
Cumulative translation adjustment	**4,335**	-	**2,498**	-
Total comprehensive income (loss)	**$ 2,127**	$ (1,148)	**$ (8,833)**	$ (4,828)
Net loss per share (basic and diluted)	**$(0.01)**	$(0.05)	**$(0.05)**	$(0.24)
Weighted average number of shares outstanding	**284,016,939**	23,715,935	**248,423,904**	20,026,114

See accompanying notes to the condensed consolidated financial statements.

Canadian Overseas Petroleum Limited

Condensed Consolidated Statements of Changes in Equity (unaudited)

(in thousands of Canadian dollars)

	Share Capital	Warrants	Contributed Surplus	Deficit	Accumulated Other Comprehensive Income	Total Equity
Balance at January 1, 2010	**$ 8,063**	**$ 306**	**$ 1,074**	**$ (11,215)**	**$ -**	**$ (1,772)**
Total comprehensive loss for the period				(4,828)		**(4,828)**
Transactions with owners, recorded directly to equity						
Issue of common shares – net of issue costs	7,004					**7,004**
Issue of share purchase warrants		1,341				**1,341**
Stock options granted			583			**583**
Balance at September 30, 2010	**$ 15,067**	**$ 1,647**	**$ 1,657**	**$ (16,043)**	**$ -**	**$ 2,328**
Balance at December 31, 2010	**$ 41,833**	**$ 11,007**	**$ 4,317**	**$ (20,536)**	**$ -**	**$ 36,621**
Total comprehensive (loss) income for the period				(11,331)	2,498	**(8,833)**
Transactions with owners, recorded directly to equity						
Issue of common shares – net of issue costs	58,890					**58,890**
Issue of share purchase warrants		26,364				**26,364**
Exercise of warrants	45	(12)				**33**
Stock options granted			4,796			**4,796**
Balance at September 30, 2011	**$ 100,768**	**$ 37,359**	**$ 9,113**	**$ (31,867)**	**$ 2,498**	**$ 117,871**

See accompanying notes to the condensed consolidated financial statements.

Canadian Overseas Petroleum Limited

Condensed Consolidated Statements of Cash Flows (unaudited)

(in thousands of Canadian dollars)

	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Cash Used In Operating Activities		
Net loss	**$ (11,331)**	$ (4,828)
Add (subtract) non-cash items:		
Stock-based compensation	**4,796**	583
Net finance (income) / costs	**(552)**	451
Depreciation	**17**	8
Foreign exchange gain	**(363)**	1
Funds used in operations	**(7,433)**	(3,785)
Net change in non-cash working capital *(note 11)*	**(618)**	(1,368)
	(8,051)	(5,153)
Financing Activities		
Issuance of common shares and warrants, net of issue costs	**85,287**	8,178
Repayment of loan	**-**	(2,000)
Interest paid	**-**	(96)
	85,287	6,082
Investing Activities		
Additions to office equipment	**(192)**	(2)
Additions to oil and gas exploration assets	**(24,228)**	-
Deposit for seismic data	**(14,465)**	-
Interest income	**552**	10
Net change in non-cash working capital *(note 11)*	**8,199**	-
	(30,134)	8
Increase in cash and cash equivalents during period	**47,102**	937
Net effect of foreign exchange on cash and cash equivalents held in foreign currencies	**3,777**	-
Cash and cash equivalents, beginning of period	**37,403**	1,439
Cash and cash equivalents, end of period	**$ 88,282**	$ 2,376

See accompanying notes to the condensed consolidated financial statements.

1. NATURE OF OPERATIONS

Canadian Overseas Petroleum Limited ("COPL" or the "Company"), is a publicly traded company incorporated and domiciled in Canada. The Company's common shares are traded on the TSX Venture Exchange in Canada. The Company's registered office is in Calgary, Alberta at 400, 604 – 1st Street SW.

COPL and its subsidiaries are involved in identification, acquisition, exploration and development of oil and gas offshore reserves. Currently the Company has the following subsidiaries, all of which are wholly-owned:

- COPL Technical Services Limited, formerly North Sea Oil Ltd., which is involved in providing technical services to the COPL group of companies;
- Canadian Overseas Petroleum (UK) Limited, formerly North Sea Oil Exploration Limited, which is involved in the UK operations; and
- Canadian Overseas Petroleum (Bermuda Holdings) Limited and Canadian Overseas Petroleum (Bermuda) Limited ("COPL B"), which were created in May 2011 to cover anticipated operations offshore Liberia.

2. BASIS OF PREPARATION

Basis of preparation and compliance

The Company's condensed consolidated financial statements ("financial statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Company began preparing its financial statements using IFRS effective January 1, 2011. IFRS requires an entity to adopt IFRS in its first annual financial statements prepared under IFRS by making an explicit and unreserved statement in those financial statements of compliance with IFRS. The Company will make this statement when it issues its 2011 annual consolidated financial statements. These financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting", as issued by the International Accounting Standards Board ("IASB") using the accounting policies the Company expects to adopt in its consolidated financial statements for the year ending December 31, 2011. Previously, the Company prepared its interim and annual consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP").

The Company's financial statements have been prepared on a historical cost basis, except for certain financial assets and liabilities that have been measured at fair value.

These financial statements are presented in Canadian dollars ("$"), which is the Company's functional currency. All financial information presented in tables has been rounded to the nearest thousand Canadian dollars except where otherwise indicated.

The financial statements were authorized for issue by the Company's Board of Directors on November 17, 2011.

Basis of consolidation

The financial statements include the financial statements of COPL and its subsidiaries.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. All inter-company transactions and balances have been eliminated on consolidation.

2. BASIS OF PREPARATION (continued)

Information on first-time adoption of IFRS
The Company has prepared its IFRS opening statement of financial position as at January 1, 2010, the date of transition to IFRS. As at the date of transition, the Company did not hold material assets and did not carry on operations other than those related to management and administration. Accordingly after taking into account the mandatory exemptions and elections available under IFRS 1, "First-time adoption of International Financial Reporting Standards", there were no adjustments from GAAP required in the process of preparing IFRS opening balances (other than account reclassifications disclosed in respective notes).

Basis of preparation and compliance
Pursuant to IFRS 1 the Company has chosen to apply the following exemptions:

- IFRS 3, "Business Combinations" has not been applied to acquisitions of subsidiaries that occurred before January 1, 2010, the Company's date of transition.
- IFRS 2, "Share-based Payment" has not been applied to equity instruments that were granted on or before November 7, 2002, nor has it been applied to equity instruments granted after November 7, 2002 that vested before January 1, 2010.

Significant accounting judgments and estimates
The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions and to use judgment that affects the reported amounts of assets, liabilities, revenues and expenses. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accordingly, actual results may differ from those estimated amounts and differences may be material.

In particular, significant areas of estimation uncertainty considered by management in preparing the financial statements are:

- Stock-based compensation
- Warrants
- Deferred income tax
- Commitments and contractual obligations
- Functional currency

3. SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents
Cash and cash equivalents include cash held at banks, short-term deposits with a maturity of three months or less, cash held in escrow and credit card deposits. Cash held in escrow is cash held at banks for which use is restricted to particular projects in accordance with escrow agreements.

Office Equipment
Office furniture and equipment are recognized at purchase price net of depreciation, which is calculated on a straight line basis over estimated useful life.

Potential Prospect Expenses and Pre-License Costs
The Company expenses amounts incurred in the evaluation and development of potential business ventures until the related business arrangements are consummated. The costs incurred prior to the award of oil and gas licenses, concessions and other exploration rights are recognized as an expense in the period incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Exploration and Evaluation ("E&E")
The cost of exploring, appraising and evaluating oil and gas properties, including costs of farming into or acquiring the rights to explore, geological and geophysical studies, seismic data and modeling, exploration and/or appraisal drilling and directly related overheads are capitalized and classified as intangible E&E assets. These costs are accumulated in cost centers by field or project in anticipation of future allocation to Cash Generating Units ("CGU").

E&E assets are not amortized prior to the conclusion of appraisal activities. Once active exploration is completed, commercial reserves are discovered and the project is approved for development, E&E assets related to particular projects will be reclassified to development and production assets and the carrying amounts will be assessed for impairment and adjusted (if appropriate) to their estimated recoverable amounts. If commercial reserves are not discovered, the E&E asset is written off in the statement of comprehensive income (loss).

The E&E phase of a particular project is completed when either the technical feasibility and commercial viability of extracting oil or gas are demonstrable for the project or there is no prospect of a positive outcome for the project.

Jointly Controlled Assets and Operations
The Company's oil and gas activities are carried out jointly with other partners through farm-in agreements and joint operating agreements. The Company accounts for its proportionate share of the results, assets and liabilities related to these operations.

Stock-Based Compensation
The Company issues equity-settled stock options to its employees, directors and consultants and follows the fair value method of accounting. A Black-Scholes option-pricing model is used to determine the fair value of the award at the time the options are granted. The related expense is charged to the statement of comprehensive income (loss) with a corresponding increase in equity as contributed surplus over the vesting term. Consideration received on the exercise of an option is credited to share capital, along with the related stock-based compensation previously recognized in contributed surplus.

Leases
Rent payable for assets under operating lease is charged to the statement of comprehensive income (loss) on a straight-line basis over the lease period.

Revenue Recognition
Third party service revenue is recognized at contractual amounts as the related services are provided. The Company recognizes interest income as it is earned.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign Currency Translation

The financial statements are presented in Canadian dollars, which is currently the Company's functional and reporting currency.

Transactions denominated in foreign currencies are translated at the exchange rate prevailing on the transaction date. At each period end, monetary assets and liabilities denominated in a foreign currency are translated at the exchange rate prevailing at the period end date. All differences are recognized in net earnings. Non-monetary assets, liabilities and transactions denominated in a foreign currency and measured at historical cost are translated at the exchange rate in effect at the transaction date. Non-monetary items measured at fair value are translated using the exchange rates at the date when the fair value was determined.

For the purpose of consolidation, assets and liabilities of foreign subsidiaries are translated using the exchange rate prevailing at the period end date. The statements of comprehensive income (loss) and cash flow are translated using the average exchange rates for the period. Foreign exchange differences resulting from such transactions are recorded in Shareholders' Equity as accumulated other comprehensive income. As at September 30, 2011, accumulated other comprehensive income is composed solely of foreign currency translation adjustments.

Financial Instruments

All financial instruments are initially recognized at fair value on the statement of financial position. The Company has classified each financial instrument into one of the following categories: financial assets and liabilities at Fair Value Through Profit and Loss ("FVTPL"), receivables, financial assets available-for-sale, financial assets held-to-maturity and other financial liabilities. Subsequent measurement of financial instruments is based on their classification.

Financial assets and liabilities at FVTPL are subsequently measured at fair value with changes in those fair values recognized in net earnings. Financial assets "available-for-sale" are subsequently measured at fair value with changes in fair value recognized in other comprehensive income, net of tax.

Financial assets "held-to-maturity", "loans and receivables" and "other financial liabilities" are subsequently measured at amortized cost using the effective interest method.

The Company determines the classification of its financial instruments at initial recognition and where allowed and appropriate, re–evaluates this designation at each financial year end.

Deferred Income Tax

The Company uses the liability method of accounting for income taxes, whereby deferred income tax assets and liabilities are recognized based on temporary differences between the tax basis of assets and liabilities and their carrying amount in the financial statements and for unused tax loss carry-forwards.

Deferred tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted at the statement of financial position date.

Deferred income tax assets are recognized only to the extent it is probable that taxable profit will be available to utilize the associated tax deductions.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to offset current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same tax jurisdiction.

4. CASH AND CASH EQUIVALENTS

	September 30, 2011 $	December 31, 2010 $	January 1, 2010 $
Cash	**13,761**	36,873	309
Short-term deposits	**-**	500	1,100
Cash in escrow accounts	**74,221**	-	-
Credit card deposits	**300**	30	30
	88,282	37,403	1,439

Cash balances earn interest, whenever possible, at floating rates based on daily bank deposit rates. Short-term deposits are made for periods varying between one day and three months, depending on immediate cash requirements, and earn interest at the respective short term deposit rates. As at September 30, 2011, $74.2 million was held in banks in escrow accounts restricted by escrow agreements signed with UK partners for use on specific exploration projects. Credit card deposits are bank deposits that cover the maximum limit of corporate credit cards.

The fair value of cash and cash equivalents was $88.3 million as at September 30, 2011, $37.4 million as at December 31, 2010 and $1.4 million as at January 1, 2010. The Company deposits its cash with reputable Canadian and UK banks. The Company did not have any overdraft facilities in place as at September 30, 2011, December 31, 2010 and January 1, 2010.

5. DEPOSIT FOR SEISMIC DATA

In May 2011, the Company signed a Sale and Purchase Agreement ("SPA") with Peppercoast Petroleum plc ("Peppercoast") to acquire a 100% interest in Block LB-13 offshore Liberia, for which closure is subject to several conditions, including approval from the Liberian government (discussed further in Note 8). As part of this transaction, the Company has also entered into a number of contractual arrangements in respect of a 3D seismic survey for Block LB-13. A payment of US$15.0 million (approximately $14.5 million at the time of payment and approximately $15.6 million as at September 30, 2011) was made by the Company to settle Peppercoast's account payable for acquisition and processing of the 3D seismic survey, thereby satisfying Peppercoast's work obligations for the first phase of the Production Sharing Contract ("PSC") for Block LB-13. In lieu of this, the Company received a license agreement from TGS-Nopac Geological Company for a copy of the 3D seismic survey covering the 2,023 square kilometers of Block LB-13. The US$15.0 million payment is secured by first fixed and floating charges over all existing and future assets owned by Peppercoast and is recognized as a long-term deposit until the completion of the SPA transaction.

6. EXPLORATION AND EVALUATION ASSETS

	UK North Sea $
As at January 1, 2010 and December 31, 2010	**-**
Additions at cost	**24,228**
As at September 30, 2011	**24,228**

The additions to exploration and evaluation intangible assets of $24.2 million for the nine month period ended September 30, 2011 related to the Company's exploration projects in the UK North Sea. All these projects are carried out with UK partners on a non-operator basis.

7. SHARE CAPITAL

a) Authorized and Issued Common Shares

Authorized

An unlimited number of common voting shares (the "Common Shares") without nominal or par value and an unlimited number of preferred shares, issuable in series.

Issued

	Pre-Consolidation Number of Common Shares	Post-Consolidation Number of Common Shares	Amount
Balance, January 1, 2010 (i)	**66,608,888**	**16,652,222**	**$ 8,063**
Issued for payment of Bridge Loan fees (ii)	721,694	180,424	167
Issued pursuant to private placement (iii)	27,490,315	6,872,582	6,955
Issued for payment of finders' fees on private placement (iv)	1,042,841	260,711	264
Issued pursuant to public offering – first release condition (v)		-	-
Share issue costs (iii & v)	-	-	(382)
Balance, September 30, 2010 (i)		**23,965,939**	**$ 15,067**
Issued for payment of Bridge Loan fees (ii)	-	-	-
Issued pursuant to private placement (iii)	-	-	-
Issued for payment of finders' fees on private placement (iv)	-	-	-
Issued pursuant to public offering – first release condition (v)		78,000,000	29,640
Share issue costs (iii & v)	-	-	(2,874)
Balance, December 31, 2010 (i)		**101,965,939**	**$ 41,833**
Issued pursuant to public offering – second release condition (vi)		182,000,000	69,160
Issued pursuant to exercise of warrants		51,000	33
Contributed surplus on warrants exercised		-	12
Share issue costs (vi)		-	(10,270)
Balance, September 30, 2011		**284,016,939**	**$ 100,768**

7. SHARE CAPITAL (continued)

a) Authorized and Issued Common Shares (continued)

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

(i) As at January 1, 2010 and December 31, 2010, the number of common shares includes 250,000 common shares (1,000,000 pre-consolidation common shares) held in escrow. These shares were issued on December 7, 2009, at an issue price of $2.40 per share ($0.60 pre-consolidation) to acquire 100% of the shares of the Company's subsidiaries. The shares held in escrow were accounted for as contingently returnable shares at December 31, 2010, which were not considered outstanding and were not included in the computation of basic loss per share until they were released from escrow. The transaction was approved by the TSX-V on February 3, 2011 and the respective common shares were released to the beneficial holders.

(ii) On May 5, 2010, the Company issued to Endeavour Financial Corporation 180,424 common shares (721,694 pre-consolidation common shares) as payment for a fee of $167,000 in respect of the Bridge Loan. Pursuant to the Bridge Loan agreement, the fee was due if the loan was not repaid in full by April 1, 2010. The number of common shares was calculated based on the 5-day volume weighted average closing price of the Company's shares immediately before April 1, 2010. The fee of $167,000 was recognized in the statement of comprehensive income (loss) as interest and financing charges in 2010.

(iii) On May 14, 2010 and May 21, 2010, the Company closed a private placement of 6,872,582 units at $1.20 per unit (27,490,315 pre-consolidation units at $0.30 per unit) for total gross proceeds of $8.2 million. Each unit consisted 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 fair value of the share purchase warrants issued was estimated at $1.3 million using a Black-Scholes option pricing model with the following assumptions:

	2010
Risk-free interest rate	2.0%
Weighted average life (years)	1.5
Expected volatility	100%
Expected dividend yield	0%

(iv) The Company paid, whenever applicable, a finder's fee by issuing units equivalent in number to 5% of the units subscribed via a particular broker. As the result, there were 260,711 units (1,042,841 pre-consolidation units) issued as finder's fees, with exercise price and expiry date of the share purchase warrants consistent with the warrants issued as part of the private placement. The value of $313,000, representing the subscription value of the units issued as finder's fees together with legal fees of $69,000, was recognized as share issue costs. The fair value of share purchase warrants issued as finder's fee was estimated at $49,000 using a Black-Scholes option pricing model with the same assumptions as noted above. Similar to units issued further to the private placement, the units issued as finder's fees were subject to resale restriction and could not be resold until four months and one day after the date of issue.

7. SHARE CAPITAL (continued)

a) Authorized and Issued Common Shares (continued)

(v) On November 23, 2010, the Company filed a prospectus to obtain financing for its operations in the UK North Sea. The offering provided 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 will 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 $130.0 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"), with 30% payable on satisfaction of the First Release Condition and 70% on satisfaction of the Second Release Condition.

On December 10, 2010, the First Release Condition was met as the Company signed farm-in agreements in respect of the Fulla 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 the Agent's Fee and expenses). The fair value of the Warrants issued was estimated at $9.4 million using a Black-Scholes option pricing model with the following assumptions:

	2010
Risk-free interest rate	1.5%
Weighted average life (years)	1.5
Expected volatility	80%
Expected dividend yield	0%

(vi) 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 (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 $85.3 million were released to the Company ($91.0 million gross proceeds, net of the Agent's Fee and expenses). The fair value of the Warrants issued was estimated at $21.8 million using a Black-Scholes option pricing model with the assumptions as presented above in item (v).

In addition, upon satisfaction of both Release Conditions, the Company issued 15,600,000 share purchase warrants to its agent as 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 until December 1, 2012 at an exercise price of $0.50. The fair value of the agent's warrants issued was estimated at $4.5 million using a Black-Scholes option pricing model with the assumptions as presented above in item (v) and was recognized as share issue costs.

7. SHARE CAPITAL (continued)

b) Warrants

A summary of status of the Company's warrants as at September 30, 2011 and December 31, 2010 is as follows:

	September 30, 2011			December 31, 2010		
	Number of Warrants		**Wt. Avg. Exercise Price**	**Number of Warrants**		**Wt. Avg. Exercise Price**
Balance, beginning of period	**42,566,646**	**$**	**0.76**	425,000	$	2.00
Issued	**106,600,000**		**0.63**	42,566,646		0.76
Exercised	**(51,000)**		**0.65**	-		-
Expired	**-**		**-**	(425,000)		2.00
Balance, end of period	**149,115,646**	**$**	**0.67**	42,566,646	$	0.76

A summary of the Company's share purchase warrants issued and outstanding as at September 30, 2011 is as follows:

	Number of Warrants Issued and Outstanding	**Exercise Price**	**Expiry Date**
Private Placement Warrants (Note 7a iii)	3,436,291	$2.00	November 14, 2011
Finder's Fee Warrants (Note 7a iv)	130,355	$2.00	November 14, 2011
Public Offering – First Release (Note 7a v)	38,949,000	$0.65	December 1, 2013
Public Offering – Second Release (Note 7a vi)	91,000,000	$0.65	December 1, 2013
Public Offering – Agent's Warrants (Note 7a vi)	15,600,000	$0.50	December 1, 2012
	149,115,646	$0.67	

c) Incentive Stock Options

The Company has a stock option plan where the number of common shares reserved under the plan shall not exceed 10% of the issued and outstanding common shares and the number reserved for any one individual may not exceed 5% of the issued and outstanding shares. Exercise prices for stock options granted are determined by the closing market price on the day before the date of grant.

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 options vested immediately and expire five years from date of grant. The related stock-based compensation expense of $4.7 million has been recognized in the statement of comprehensive loss for the nine month period ended September 30, 2011.

7. SHARE CAPITAL (continued)

c) Incentive Stock Options (continued)

On July 1, 2011, the Company granted 300,000 stock options to an employee to acquire common shares at an exercise price of $0.46 per share. The options vested immediately and expire five years from date of grant. The related stock-based compensation expense of $0.1 million has been recognized in the statement of comprehensive income (loss) for the three and nine month periods ended September 30, 2011.

The fair value of each option granted is estimated on the date of grant using a Black-Scholes option pricing model with the following assumptions:

	2011
Risk-free interest rate	1.5%
Weighted average life (years)	4.0
Expected volatility	75%
Expected dividend yield	0%

During the three months ended September 30, 2011, 242,500 stock options granted to consultants were cancelled, as they no longer provide services to the Company.

No stock options were exercised during the nine month period ended September 30, 2011.

As at September 30, 2011, there were total of 22,065,000 stock options to purchase common shares outstanding, having a weighted average exercise price of $0.67 per share with a remaining weighted average contractual life of 4.24 years.

8. COMMITMENTS AND CONTRACTUAL OBLIGATIONS

As at September 30, 2011, the Company has the following contractual obligations:

	Total	Less than One Year	One to Three Years	Four to Five Years	After Five Years
UK drilling commitments	**86,962**	86,962	-	-	-
Office lease	**3,920**	535	1,069	1,069	1,247
	90,882	87,497	1,069	1,069	1,247

Further to agreements signed in respect of exploration prospects in the UK North Sea, the Company is committed to participate in drilling an additional five exploration wells in 2011 and 2012 at an estimated cost of $87.0 million net to the Company. Subject to positive results for these commitment wells, the Company has contingent obligations to participate in well testing and in the drilling of one additional well.

The Company is committed under an operating lease agreement for the rental of office space in Calgary. The approximate lease payments total $3.9 million and are payable over the next nine years.

8. COMMITMENTS AND CONTRACTUAL OBLIGATIONS (continued)

On May 18, 2011 the Company (via its Bermuda subsidiary, COPL B) signed a Sale and Purchase Agreement ("SPA") with Peppercoast to acquire a 100% interest in Block LB-13 offshore Liberia for a total sum of US$85.0 million (approximately $88.3 million) payable in cash (to a maximum of US$50.0 million) and common shares of COPL. The transaction is expected to close by December 31, 2011, assuming certain conditions can be satisfied, including obtaining the consent of the National Oil Company of Liberia ("NOCAL"). Block LB-13 covers an area of approximately 2,400 square kilometres. and is governed by a Production Sharing Contract ("PSC") with an eight year exploration license that commenced in May 2007 and is divided into three phases, the first phase being four years, the second phase two years and the third phase another two years. Subject to completion of the SPA with Peppercoast, the Company will be committed to drill a well within the second phase and an additional well within the third phase of the PSC.

On November 16, 2011 the Company signed an Asset Acquisition Agreement with ExxonMobil Exploration and Production Liberia Limited ("ExxonMobil"), a wholly owned subsidiary of the ExxonMobil Corporation, with respect to the onward sale of certain interests in Block LB-13 offshore Liberia. Under the terms of the sale, which is subject to the approval of the NOCAL and the Government of Liberia and to the satisfaction or waiver of other closing conditions, ExxonMobil will acquire a 70% interest in the PSC governing Block LB-13 immediately following COPL B's acquisition of a 100% interest from Peppercoast. In return, ExxonMobil will pay COPL B US$55.0 million (approximately $57.1 million) and pay COPL B's portion of the first well to be drilled on Block LB-13 to a maximum of US$36.0 million. If less than US$36.0 million is spent on COPL B's proportionate cost for the first well, the balance will be applied towards COPL B's costs of a second well if drilled. Additionally, ExxonMobil will pay COPL B's share of joint venture costs estimated at approximately US$6.0 million up to the completion of the first well. COPL B's equity interest in the PSC (Block) will be 30% upon closing and ExxonMobil will be the PSC's (Block's) designated operator.

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.

9. FINANCIAL INSTRUMENTS

The Company has classified its cash and cash equivalents and other deposits as financial assets at FVTPL and has measured them at fair value. Accounts receivable are classified as receivables; accounts payable, accrued liabilities and loans are classified as other liabilities; these items are measured at amortized cost.

(a) Fair values

As at September 30, 2011, December 31, 2010 and January 1, 2010 the fair values of all financial instruments not carried at fair value approximated their carrying values due to their short-term maturity.

(b) Foreign exchange risk

With the Company's current exploration activities carried out in the UK, significant amounts are transacted in or referenced to currencies other than the Canadian dollar, including the British Pound and U.S. dollar. As a result, fluctuations in the exchange rates between the Canadian dollar, British Pound and U.S. dollar can have a significant effect on the Company's financial position and its reported results. To mitigate a portion of its exposure and to the extent it is feasible, the Company keeps its funds in currencies applicable to its known short-term commitments.

9. FINANCIAL INSTRUMENTS (continued)

(b) Foreign exchange risk (continued)

Cash and cash equivalents includes amounts denominated in foreign currencies:

	September 30, 2011	December 31, 2010	January 1, 2010
British Pounds	**48,195**	1,000	**-**
US Dollars	**795**	-	**-**

(c) Credit risk

The Company's accounts receivable are mainly due from the governments (Goods and Services Tax in Canada and Value Added Tax in UK) and from its employees in respect of travel advances. The Company believes there is no unusual exposure associated with these receivables. No amounts are considered to be past due and no allowance for doubtful accounts has been recorded in the accounts. As at September 30, 2011, the Company holds $88.2 million of cash and cash equivalents with Canadian and UK chartered banks. Management has assessed the associated credit risk as relatively low.

Should the SPA transaction discussed in Note 8 fail to close, the long-term deposit (Note 5) will become a receivable from Peppercoast and subject to credit risk at that time.

(d) Interest rate risk

The Company's policy is to keep its cash, whenever possible, in interest bearing accounts with its banking institutions. The Company periodically monitors the interest rates offered and is satisfied with the credit ratings of its banks.

10. CAPITAL MANAGEMENT

The Company's objectives when managing capital are:

- to safeguard the Company's ability to continue as a going concern;
- to maintain balance sheet strength and optimal capital structure, while ensuring the Company's strategic objectives are met; and
- to provide an appropriate return to shareholders relative to the risk of the Company's underlying assets.

In the management of capital, the Company includes shareholders' equity and interest bearing debt defined as long-term loans and current portion of long-term loans. Shareholders' equity includes share capital, warrants, contributed surplus and deficit.

The Company maintains and adjusts its capital structure based on changes in economic conditions and the Company's planned requirements. The Company may adjust its capital structure by issuing new equity and/or debt, selling and/or acquiring assets, and controlling the capital expenditure program.

The Company is not subject to any external capital requirements. There were no changes in the Company's capital management policies during the nine month period ended September 30, 2011.

11. NET CHANGE IN NON-CASH WORKING CAPITAL

	Nine months September 30, 2011	Nine months September 30, 2010
(Increase) in accounts receivable	**$ (58)**	$ (21)
(Increase)/decrease in prepaid expenses	**(169)**	228
Decrease in long-term rent deposit	**-**	29
(Decrease)/increase in operating accounts payable and accrued liabilities	**(391)**	(1,604)
Net change in operating non-cash working capital	**$ (618)**	$ (1,368)
Increase in accounts payable related to exploration assets	**10,233**	-
Non-cash transaction:		
Net effect of foreign exchange	**(2,034)**	-
Net change in investing non-cash working capital	**$ 8,199**	$ -

12. TRANSITION TO IFRS

These financial statements represent an initial presentation of the Company's financial position and results of operations under IFRS as at and for the three and nine months ended September 30, 2011 and 2010 in conjunction with the Company's annual audited consolidated financial statements to be issued under IFRS for the year ended December 31, 2011. As discussed in Note 2, these financial statements have been prepared in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards" and with IAS 34, "Interim Financial Statements". Previously, the Company prepared its interim and annual consolidated financial statements in accordance with GAAP applicable for Canada.

IFRS 1 requires the presentation of comparative information as at January 1, 2010 under IFRS and reconciliation between IFRS and the previous GAAP results. Due to the Company's:

- limited operations in 2009 and 2010;
- lack of assets (other than office equipment and cash) as at January 1, 2010 and December 31, 2010; and
- election to apply exemptions available under IFRS 1 in respect of IFRS 3, "Business Combination" and IFRS 2, "Share-based Payment",

the implementation of IFRS did not trigger any adjustments to the Company's financial position, equity, comprehensive income (loss) and results of operations for any of the periods presented.