

Canadian Overseas Petroleum Limited
Unaudited Condensed Interim Consolidated Financial
Statements
As at March 31, 2012 and for the three month periods
ended March 31, 2012 and 2011

Management's Responsibility for Unaudited Condensed Interim Consolidated Financial Statements

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

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

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

Signed "Arthur S. Millholland"

Arthur S. Millholland
President and Chief Executive Officer
May 10, 2012

Signed "Aleksandra Owad"

Aleksandra Owad
Chief Financial Officer
May 10, 2012

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

	March 31,	December 31,
	2012	2011
Assets		
Current		
Cash and cash equivalents <i>(note 3)</i>	\$ 37,516	\$ 71,924
Accounts receivable	137	446
Prepaid expenses	171	163
	<u>37,824</u>	<u>72,533</u>
Deposit for seismic data	14,987	15,255
Deposits and prepayments	43	43
Exploration and evaluation assets	20,667	20,594
Office equipment	221	227
	<u>\$ 73,742</u>	<u>\$ 108,652</u>
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 10,134	\$ 2,407
Provision for loss on UK contracts <i>(note 4)</i>	183	32,641
	<u>10,317</u>	<u>35,048</u>
Shareholders' Equity		
Share capital	100,768	100,768
Warrants	37,359	37,359
Contributed capital reserve	9,113	9,113
Deficit	(84,172)	(73,964)
Accumulated other comprehensive income	357	328
	<u>63,425</u>	<u>73,604</u>
	<u>\$ 73,742</u>	<u>\$ 108,652</u>

Nature of operations (note 1)

See accompanying notes to the condensed interim consolidated financial statements.

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

	Three months ended March 31, 2012	Three months ended March 31, 2011
Operations		
Services to third parties	\$ 47	\$ -
Exploration	(8,223)	-
Pre-license costs	(457)	-
Administrative	(1,538)	(2,134)
Depreciation	(13)	(3)
Stock-based compensation	-	(4,718)
	<u>(10,184)</u>	<u>(6,855)</u>
Finance income and costs		
Interest income	19	380
Interest and financing charges	(4)	-
Foreign exchange loss	(39)	(424)
	<u>(24)</u>	<u>(44)</u>
Loss	(10,208)	(6,899)
Gain on translation of foreign subsidiaries	<u>29</u>	<u>(289)</u>
Comprehensive loss	<u>\$ (10,179)</u>	<u>\$ (7,188)</u>
Loss per share (basic and diluted)	<u>\$ (0.04)</u>	<u>\$ (0.04)</u>
Weighted average number of shares outstanding	<u>284,016,939</u>	<u>176,559,741</u>

See accompanying notes to the condensed interim consolidated financial statements.

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

	Share Capital	Warrants	Contributed Capital Reserve	Deficit	Accumulated Other Comprehensive Income	Total Equity
Balance at January 1, 2011	\$ 41,833	\$ 11,007	\$ 4,317	\$ (20,536)	\$ -	\$ 36,621
Comprehensive loss for the period				(6,899)	(289)	(7,188)
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			4,718			4,718
Balance at March 31, 2011	\$ 100,768	\$ 37,359	\$ 9,035	\$ (27,435)	\$ (289)	\$ 119,438
Balance at January 1, 2012	\$ 100,768	\$ 37,359	\$ 9,113	\$ (73,964)	\$ 328	\$ 73,604
Comprehensive loss for the period				(10,208)	29	(10,179)
Balance at March 31, 2012	\$ 100,768	\$ 37,359	\$ 9,113	\$ (84,172)	\$ 357	\$ 63,425

See accompanying notes to the condensed interim consolidated financial statements.

Canadian Overseas Petroleum Limited
Condensed Consolidated Statements of Cash Flows (unaudited)
(in thousands of Canadian dollars)

	Three months ended March 31, 2012	Three months ended March 31, 2011
Cash Used In Operating Activities		
Loss	\$ (10,208)	\$ (6,899)
Add (subtract) non-cash items:		
Stock-based compensation	-	4,718
Net finance income	(19)	-
Depreciation	13	3
Unrealized foreign exchange (gain)/loss	(342)	424
Funds used in operations	(10,556)	(1,754)
Net change in non-cash working capital (<i>note 6</i>)	(23,839)	2
	<u>(34,395)</u>	<u>(1,752)</u>
Financing Activities		
Issuance of common shares and warrants, net of issue costs	-	85,287
	<u>-</u>	<u>85,287</u>
Investing Activities		
Additions to office equipment	(7)	-
Additions to oil and gas exploration assets	(73)	(692)
Interest income	19	-
Net change in non-cash working capital (<i>note 6</i>)	(341)	-
	<u>(402)</u>	<u>(692)</u>
(Decrease)/increase in cash and cash equivalents during the period	(34,797)	82,843
Effect of foreign exchange on cash and cash equivalents held in foreign currencies	389	(424)
Cash and cash equivalents, beginning of period	71,924	37,403
Cash and cash equivalents, end of period	<u>\$ 37,516</u>	<u>\$ 119,822</u>

See accompanying notes to the condensed interim consolidated financial statements.

Canadian Overseas Petroleum Limited
Notes to the Unaudited Condensed Consolidated Financial Statements
As at March 31, 2012 and for the three month periods ended March 31, 2012 and 2011

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 the 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, which is involved in providing technical services to the COPL group of companies;
- Canadian Overseas Petroleum (UK) 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, SIGNIFICANT ACCOUNTING POLICIES AND GOING CONCERN

Basis of Preparation and Significant Accounting Policies

The Company’s condensed interim consolidated financial statements (“financial statements”) have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and are reported in thousands of Canadian dollars (“\$”) in accordance with International Accounting Standard (“IAS”) 34, “Interim Financial Reporting”. The Company’s financial statements should be read in conjunction with the Company’s audited annual consolidated financial statements as at and for the years ended December 31, 2011 and 2010, which outline the Company’s significant accounting policies in Note 3 thereto, as well as the Company’s critical accounting judgments and key sources of estimation uncertainty as set out in Note 3 thereto, which have been applied consistently in these financial statements.

These financial statements were approved for issuance by the Board of Directors on May 10, 2012.

Going Concern

These financial statements are prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business.

Currently, the Company does not have material cash inflows and/or adequate financing to develop profitable operations. The Company is pursuing exploration projects and contracts (Note 5) that, if successful, will require substantial additional financing before they are able to generate positive operating cash flows. Accordingly, the Company’s continued successful operations are dependent on its ability to obtain additional financing. There is no assurance that the Company will be able to obtain adequate financing in the future or that such financing will be obtained on terms advantageous to the Company.

Consequently, the Company’s ability to continue as a going concern is dependent on management’s ability to complete equity or debt financings. With no assurance that such financing will be obtained in 2012, there is a significant doubt that the Company will be able to continue as a going concern. These financial statements do not give effect to adjustments to the carrying values and classifications of assets and liabilities that would be necessary should the Company be unable to continue as a going concern.

Canadian Overseas Petroleum Limited
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3. CASH AND CASH EQUIVALENTS

	March, 31 2012	December 31, 2011
Cash	\$ 1,545	\$ 3,889
Short-term deposits	-	-
Cash in escrow accounts	35,671	67,735
Credit card deposits	300	300
	\$ 37,516	\$ 71,924

As at March 31, 2012, \$35.7 million (December 31, 2011 - \$67.7 million) was held in banks in escrow accounts restricted by escrow agreements signed with UK partners for use on specific exploration projects, including \$16.1 million of escrow funds which are currently in dispute as discussed further in Note 4.

4. LOSS ON UK CONTRACTS

The movement in the provision for loss on UK contracts during the period ended March 31, 2012 can be summarized as follows:

	Three months ended March, 31 2012
Balance, beginning of period	\$ 32,641
Consideration and costs settled during period:	
Payments to BG	(32,106)
Payments to SSE	(21)
The Company's costs in respect Esperanza and Block 23/21 RoB	(331)
Provision for loss on UK contracts, end of period	\$ 183

As at the date of release of these financial statements, approximately GBP 10.1 million remain in the escrow account with BG. The amount is in dispute as both the Company and BG are claiming rights to this amount and as such, it will not be released by the escrow agent to either party without both parties' consent or a court order.

On April 4, 2012, BG filed a claim with the High Court of Justice against the escrow agent and COPL UK, in which BG is seeking an order directing the escrow agent to release the escrow funds to BG. The Company intends to vigorously oppose the claim and the escrow agent has indicated its intention to defend the claim on the basis that it was not obliged to act on the BG claim of the escrow funds.

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5. FINANCIAL INSTRUMENTS

a) Fair values

As at March 31, 2012 and December 31, 2011, the fair values of all financial instruments not carried at fair value approximated their carrying values due to their short-term maturity.

(b) Foreign exchange risk

Cash and cash equivalents includes amounts denominated in foreign currencies:

	March 31, 2012	December 31, 2011
British Pounds	23,155	41,698
U.S. Dollars	23	682

6. NET CHANGE IN NON-CASH WORKING CAPITAL

	Three months ended March 31, 2012	Three months ended March 31, 2011
Decrease/(increase) in accounts receivable	\$ 63	\$ (20)
Increase in prepaid expenses	(8)	(7)
Increase in operating accounts payable and accrued liabilities	8,403	318
Settlement of loss on contract with BG	(32,458)	-
Non-cash transaction:		
Net effect of foreign exchange	161	(289)
Net change in operating non-cash working capital	\$ (23,839)	\$ 2
Decrease in accounts payable related to exploration assets	(580)	-
Decrease in accounts receivable	247	-
Non-cash transaction:		
Net effect of foreign exchange	(8)	-
Net change in investing non-cash working capital	\$ (341)	\$ -