CANADIAN OVERSEAS PETROLEUM LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 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 ("COPL NZ") (collectively "COPL" or the "Company") as at and for the three and nine month periods ended September 30, 2012. The information is provided as of November 13, 2012. The results for the three and nine month periods ended September 30, 2012 have been compared to the same periods in 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, 2011 and 2010, together with the accompanying notes and the Annual Information Form ("AIF") dated March 29, 2012. 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 offshore 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, COPL NZ was incorporated as the Company obtained 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, 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", "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", "Financial Instruments" and "Liquidity and Capital Resources" sections).

FORWARD-LOOKING INFORMATION (CONTINUED)

The Company's MD&A and AIF for the year ended December 31, 2011 describe major risks, material assumptions and other factors related to forward-looking statements that could influence actual results and are incorporated herein by reference. These risks, assumptions and other factors have been provided for readers to gain a more complete perspective on COPL's future operations. However, readers should be cautioned that the 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 *

Dispute with BG – release of cash held in escrow

As at September 30, 2012 there was approximately GBP 10.1 million (approximately $16.1 million) in an escrow account set-up in conjunction with a Sale and Purchase Agreement ("SPA") with BG International Limited ("BG"), which was terminated by BG in February 2012. The amount is in dispute as both the Company and BG are claiming rights to the funds.

On April 4, 2012, BG filed a claim with the High Court of Justice against COPL UK and JPMorgan Chase Bank, the escrow agent, seeking an order directing the escrow agent to release the escrow funds to BG pending resolution of the underlying dispute between the parties. COPL UK has 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) which is accounted for as an increase in a provision for loss on UK contracts as at September 30, 2012, and legal fees of the escrow agent of approximately GBP 42,000 (approximately $67,000).

The October 12, 2012 ruling does not concern the underlying dispute between the parties and the Company will pursue 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 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 as at September 30, 2012.

Write-off of exploration assets related to Fulla

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 Freya and Fulla). 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 STOIIP for the Fulla prospect dropped to 25 MMbbl from a pre-drill 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.

**** 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.***

Write-off of exploration assets related to Fulla (continued)

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, as at September 30, 2012, the Company has written off the exploration and evaluation assets of approximately $20.9 million related to the Fulla project as non-commercial and abandoned.

Liberia prospect

In April 2012, the National Oil Company of Liberia ("NOCAL') advised that it accepts that the proposed joint venture between ExxonMobil Exploration and Production Liberia Limited ("ExxonMobil") and COPL satisfied in principle the technical and financial competence requirements of the transfer provisions for the Production Sharing Contract ("PSC") governing Block LB-13 subject to agreeing on proposed amendments to the PSC, and the requirement that ExxonMobil acquired its interest immediately following Peppercoast Petroleum plc ("Peppercoast") assignment to COPL B.

Negotiations between ExxonMobil, COPL B and NOCAL in respect of amendments to the PSC have concluded with all parties in agreement about the revised PSC. Under the Petroleum Law of Liberia, the Liberian Legislature is required to approve any amendments to the PSC.

The respective transactions are expected to close in the fourth quarter of 2012.

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. Similarly, the Company plans to commission a third party engineering group to prepare a resource report and economic analysis to estimate the unconventional potential for the license. The Whangai Formation is the primary unconventional target over PEP 53806, and is naturally fractured and widespread throughout the East Coast Basin.

FINANCIAL SUMMARY

During the third quarter of 2012, the Company continued its negotiations in respect of the proposed transactions for offshore block LB-13 in Liberia. As at September 30, 2012, the Company wrote exploration and evaluation assets of $20.9 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. The costs related to drilling and testing the Esperanza well plus certain costs in respect of Block 23/21 RoB totalling $32.6 million were recorded against the provision for loss on UK contracts which was set up at the end of 2011 as the respective agreements with BG and SSE were terminated. In addition, $16.1 million of funds held in escrow and in dispute with BG were derecognized as at September 30, 2012 as further to a Court ruling these funds were transferred by the escrow agent to BG on November 5, 2012. Costs related to the Bluebell prospect of approximately $8.2 million for the nine month period ended September 30, 2012, including a recovery of $0.2 million for the three month period ended September 30, 2012, were recorded as exploration expenses as the well drilled in March 2012 was not successful. Pre-licence costs of $0.3 million and $1.7 million for the three and nine month periods ended September 30, 2012 compared to $0.7 million and $1.4 million for the same periods in 2011 related to the Liberia project.

General and administrative costs amounted to $2.4 million and $6.0 million for the three and nine month periods ended September 30, 2012 (net of $21,000 and $0.6 million of costs allocated to exploration projects, respectively) compared to $1.8 million and $6.1 million for the three and nine month periods ended September 30, 2011 (with $0.4 million and $1.0 million of costs allocated to exploration projects, respectively). There was no stock-based compensation expense for the three or nine month periods ending September 30, 2012 compared to $78,000 and $4.8 million recognized for stock options granted for the same periods in 2011. The Company recognized interest income of $15,000 and $47,000 for the three and nine month periods ended September 30, 2012, compared to $54,000 and $0.5 million for the three and nine month periods ended September 30, 2011, respectively. Foreign exchange losses of $0.2 million and $0.1 million were recorded for the three and nine month periods ended September 30, 2012, compared to foreign exchange gains of $0.3 million and $0.4 million for the same periods in 2011. As a result, the Company's loss amounted to $39.7 million and $53.1 million for the three and nine months ended September 30, 2012, compared to losses of $2.2 million and $11.3 million for the same periods in 2011.

As at September 30, 2012, the Company's cash and cash equivalents amounted to $7.0 million (December 31, 2011 - $71.9 million) and included $0.3 million (December 31, 2011 - $67.7 million) of cash held in escrow accounts with farm-in partners, restricted for use on specific projects in accordance with escrow agreements.

Cash used in operating activities amounted to $63.7 million for the nine month period ended September 30, 2012, compared to $8.1 million for the same period in 2011, mainly as a result of payments with respect to the provision for the loss on UK contracts (discussed further in the "Loss on UK Contracts" section), derecognition of cash held in escrow with BG (discussed further in the "Overview" section) and exploration expenses related to the Bluebell well.

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);
- continuing to explore options for additional property deals in the UK North Sea; and
- evaluating opportunities in 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.

**** 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.***

FINANCIAL AND OPERATING HIGHLIGHTS

INCOME AND CASH FLOWS FROM OPERATING ACTIVITIES

The following table summarizes the Company's financial results for the three and nine month periods ended September 30, 2012 and 2011:

($ 000's) except per share	**Three months ended September 30, 2012**	**Three months ended September 30, 2011**	**Nine months ended September 30, 2012**	**Nine months ended September 30, 2011**
Services to third parties	**$ 19**	$ 71	**$ 129**	$ 71
E & E write-off	**(20,908)**	-	**(20,908)**	-
Derecognition of cash held in escrow	**(16,101)**	-	**(16,101)**	-
Exploration	**210**	-	**(8,234)**	-
Pre-licence costs	**(313)**	(716)	**(1,659)**	(1,432)
Loss on UK contracts	**(103)**	-	**(114)**	-
Administrative expenses	**(2,364)**	(1,780)	**(6,046)**	(6,130)
Stock-based compensation	**-**	(78)	**-**	(4,796)
Net interest income	**15**	54	**47**	552
Foreign exchange (loss)/gain	**(179)**	251	**(141)**	421
Loss	**(39,737)**	(2,208)	**(53,076)**	(11,331)
Per share loss	**$ (0.14)**	$ (0.01)	**$ (0.19)**	$ (0.05)
Cash used in operating activities	**$ (17,800)**	$ (2,998)	**$ (63,655)**	$ (8,051)
Outstanding common shares at September 30	***284,016,939***	*284,016,939*	***284,016,939***	*284,016,939*
Weighted average - basic	***284,016,939***	*284,016,939*	***284,016,939***	*248,423,904*

As at September 30, 2012, the Company wrote off exploration and evaluation assets of $20.9 million related to the Fulla exploration project in the UK, North Sea (discussed in the "Overview" section).

Further to the Court ruling (discussed in the "Overview" section), 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 as at September 30, 2012.

An exploration recovery in the amount of $0.2 million for the three month period ended September 30, 2012 and expenses of $8.2 million for the nine month period ended September 30, 2012 relate to the Bluebell project in the UK.

Pre-licence costs of $0.3 million and $1.7 million for the three and nine month periods ended September 30, 2012 ($0.7 million and $1.4 million for the same periods in 2011), relate to the Liberia project for which anticipated transactions have not yet been completed.

Administrative expenses amounted to $2.4 million and $6.0 million for the three and nine month periods ended September 30, 2012, compared to $1.8 million and $6.1 million for the same periods in 2011. Administrative expenses are presented net of costs allocated to exploration projects of $21,000 and $0.6 million for the three and nine month periods ended September 30, 2012, compared to $0.4 million and $1.0 million in allocations for the three and nine month periods ended September 30, 2011.

COMPARATIVE FINANCIAL POSITION ITEMS

The following table summarizes the Company's financial position as at September 30, 2012, June 30, 2012, March 31, 2012 and December 31, 2011:

($ 000's) except per share	September 30, 2012	June 30, 2012	March 31, 2012	December 31, 2011
Cash and cash equivalents	$ 6,995	$ 26,935	$ 37,516	$ 71,924
Current assets	8,016	27,245	37,824	72,533
Exploration and evaluation assets	-	20,716	20,667	20,594
Deposit for seismic data	14,756	15,287	14,987	15,255
Provision for loss on UK contracts	164	64	183	32,641
Current liabilities	2,732	2,948	10,317	35,048
Share capital	100,768	100,768	100,768	100,768
Shareholders' equity	$ 20,308	$ 60,553	$ 63,425	$ 73,604

The decrease in cash of $64.9 million during the nine month period ended September 30, 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 $8.2 million, as well as administrative expenses and pre-licence costs.

As at September 30, 2012, $20.9 million of exploration and evaluation assets related to the Fulla project in the UK were written off as non-commercial.

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)	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Administrative:				
Payroll, external directors' fees and related costs	**$ 847**	$ 860	**$ 2,545**	$ 2,300
Consulting services	**166**	218	**625**	861
Professional services	**801**	470	**2,019**	1,838
Travel expenses	**156**	229	**417**	939
Office expenses	**201**	238	**710**	714
Stock exchange and transfer agent fees	**1**	1	**51**	100
Other general and administrative	**213**	199	**316**	374
Costs allocated to exploration projects	**(21)**	(435)	**(637)**	(996)
Total administrative	**$ 2,364**	$ 1,780	**$ 6,046**	$ 6,130
Capitalized exploration and evaluation costs – UK North Sea	**$ -**	$ 16,924	**$ -**	$ 24,228

LOSS ON UK CONTRACTS *

The movement in the provision for loss on UK contracts during the period ended September 30, 2012 can be summarized as follows:

($ 000's)	Nine months ended September 30, 2012
Balance, beginning of period	**$ 32,641**
Addition to the termination provision	114
Consideration and costs settled during period:	
Payments to BG	(32,106)
Payments to SSE	(21)
The Company's costs in respect of Esperanza and Block 23/21 RoB	(464)
Provision for loss on UK contracts, end of period	**$ 164**

Additions to the termination provision of $114,000 for the nine month period ended September 30, 2012 relate mainly to legal fees in the amount of £65,000 (approximately $103,000) paid to BG on October 25, 2012, further to the October 12, 2012 Court ruling (discussed in the "Overview" section).

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FINANCIAL INSTRUMENTS*

The Company's financial instruments consist of cash, short-term deposits, cash held in escrow, bankers' acceptances, 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.

As the Company's current exploration activities are 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-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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LIQUIDITY AND CAPITAL RESOURCES *

As of September 30, 2012, the Company had working capital of approximately $5.3 million, shareholders' equity of $20.3 million and cash of $7.0 million.

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

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SELECTED QUARTERLY INFORMATION

Eight Most Recent Quarters:

($ 000's)	September 30, 2012	June 30, 2012	March 31, 2012	December 31, 2011
Revenue	34	76	66	159
Loss	(39,737)	(3,131)	(10,208)	(42,097)
Loss per share - basic & diluted	(0.14)	(0.01)	(0.04)	(0.15)

($ 000's)	September 30, 2011	June 30, 2011	March 31, 2011	December 31, 2010
Revenue	125	118	380	6
Loss	(2,208)	(2,224)	(6,899)	(4,492)
Loss per share - basic & diluted	(0.01)	(0.01)	(0.04)	(0.07)

ACCOUNTING PRONOUNCEMENTS

FUTURE ACCOUNTING CHANGES

Changes to future accounting policies, standards and interpretations, as described in Note 3 of the audited consolidated financial statements as at and for the years ended December 31, 2011 and 2010, have not materially changed since December 31, 2011.

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 and warrant, interest rates and volatility. By their nature, these estimates and assumptions are subject to uncertainty, and the actual fair value of option and warrant may differ at any time.

DIRECTORS

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