CANADIAN OVERSEAS PETROLEUM LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2010

The following is the Management's Discussion and Analysis ("MD&A") of the operating and financial results of Canadian Overseas Petroleum Limited, formerly Velo Energy Inc. and its subsidiaries North Sea Oil Ltd. and Canadian Overseas Petroleum (UK) Limited, formerly North Sea Oil Exploration Limited (collectively "COPL" or the "Company") as at and for the three and nine months ended September 30, 2010. The information is provided as of November 29, 2010. Three and nine months results have been compared to the same period of 2009. This discussion and analysis should be read in conjunction with the Company's audited consolidated financial statements as at and for the year ended December 31, 2009, together with the accompanying notes and the December 31, 2009 MD&A. These documents and additional information about COPL are available 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" (formerly "VLO").

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

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

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 nine months ended September 30, 2010, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or results expressed or implied by such forward-looking statements. Operating conditions and weather can have a significant effect on the timing of events. Accordingly, readers are cautioned that events or circumstances could cause results to differ materially from those predicted.

Forward-looking statements included or incorporated by reference in this document include statements with respect to:

- the Company's strategy to establish and grow an oil and gas business in the UK North Sea (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 set up and develop profitable oil operations in the UK (the "Business of the Company", "Overview", "Outlook", "Liquidity and Capital Resources" and "Commitments and Contractual Obligations" sections);
- in particular, the Company's ability to close the offering, sign farm-in agreements for UK properties, obtain proceeds from the offering and obtain necessary consents required to close proposed farm-in transactions (the "Overview" and "Outlook" sections);
- The Company's assumptions in respect of the calculation of stock-based compensation and valuation of warrants (the "Stock-based Compensation Expense" and "Interest and Financing Charges" sections).

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

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

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

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

The above summary of major risks and assumptions, related to forward-looking statements included or incorporated by reference in this MD&A has been provided for readers to gain a more complete perspective on COPL's future operation. However, readers should be cautioned that the above list of factors is not exhaustive and that this information may not be appropriate for other purposes. Forward-looking statements included or incorporated by reference in this MD&A are valid only as at the date of this MD&A, and the Company does not intend to update or revise these forward-looking statements except as required by applicable securities laws. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

OVERVIEW *

During the third quarter of 2010, COPL focused on the following:

- negotiating potential farm-in agreements for oil and gas offshore properties located in the UK North Sea, and
- obtaining financing to allow the Company to pursue exploration and appraisal projects in the UK.

On August 16, 2010, the Company (through its UK subsidiary) entered into a Letter of Intent ("LOI") with a third party that will allow the Company to earn a 50% working interest in the Fulla and Freya projects in Blocks 206/5a and 206/10a in the UK North Sea. The Company will participate in this farm-in by paying 60% of the drilling costs of the initial exploration well, estimated at approximately US$10.8 million ($11.1 million) net to the Company. Drilling on this exploration prospect will target oil and is anticipated to occur within the next year, subject to the Company obtaining adequate financing. The LOI is subject to financing and regulatory approvals.

In September 2010, the Company has made a proposal to farm into several prospects in Block 23/21 and Block 22/15 in the UK Central North Sea and on September 24 it received a Letter of Exclusivity from a third party which grants COPL exclusivity over these prospects until December 30, 2010 to raise adequate financing.

On October 8, 2010, the Company (through its UK subsidiary) entered into a LOI with a third party for the Bluebell exploration prospect in Blocks 15/24c and 15/25f in the UK North Sea. The LOI is for a potential farm-in whereby the Company would pay 66.67% of the costs to drill an initial well, estimated at approximately US$8.3 million ($8.6 million) net to the Company, to earn a 40% working interest in the prospect. The well is expected to be drilled in 2011. The LOI is subject to financing and regulatory approvals.

On October 26, 2010, the Company entered into a General Advisory Services agreement with Canaccord Genuity Corp., the Agent of the offering described below. The advisory services (other than agency services) relate to certain anticipated farm-in transactions for oil and gas assets in the UK and will be provided until the signing of these transactions or December 31, 2010 (whichever is earlier), for a fixed fee of $0.5 million.

On November 23, 2010, the Company filed a prospectus to obtain financing for its operations in the UK North Sea. The offering provides for the sale of 260,000,000 subscription receipts ("Subscription Receipts") at a price of $0.50 per Subscription Receipt. Each Subscription Receipt entitles 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 on is greater than $1.25. The closing of the Offering is expected to occur on or about December 1, 2010 but no later than December 15, 2010.

The gross proceeds from the sale of Subscription Receipts of $130,000,000 will be held in escrow pending satisfaction of the Release Conditions. Upon the execution of definitive farm-in agreements in respect of each of the Fulla and Bluebell letters of intent (as defined in the prospectus – First Release Condition), 78,000,000 Subscription Receipts will be converted into Common Shares and Warrants and the funds of approximately $36,660,000 (being $39,000,000 of gross proceeds, net of respective Agent's Fee) will be released to the Company. Upon the execution of a definitive agreement in respect of the exclusivity letter (as defined in the prospectus – Second Release Condition), 182,000,000 Subscription Receipts will be converted into Common Shares and Warrants and funds of approximately $85,540,000 (being $91,000,000 of gross proceeds, net of respective Agent's Fee) will be released to the Company. If either or both Release Conditions are not completed on or before March 1, 2011, the subscription proceeds and interest will be returned to the holder of the Subscription Receipt.

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

The closing of the Offering is expected to occur on or about December 1, 2010 but no later than December 15, 2010.

**** 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 SUMMARY

The Company's general and administrative costs are higher in 2010 than in 2009 due to a change in management and an increase in activities. General and administrative costs amounted to $1,153,044 and $3,791,906 for the three and nine month periods ended September 30, 2010, compared to $494,976 and $539,187 for the respective periods of 2009. Interest and financing charges amounted to nil and $460,660 for the three and nine month periods ended September 30, 2010, compared to nil for the respective periods of 2009 and relate to a short term loan that was repaid in June 2010. In addition, the stock-based compensation expense of $583,000 for stock options granted was recognized for the period ended September 30, 2010, compared to $785,400 for the respective period of 2009. As a result, the Company's net loss amounted to $1,148,013 and $4,828,303 for the three and nine month periods ended September 30, 2010, compared to a net loss of $1,276,117 and $1,294,000 for the respective periods of 2009.

In the second quarter of 2010, the Company closed a private placement for gross proceeds of $8,247,095. A portion of these funds was used for the repayment of a $2,000,000 loan and outstanding accounts payable. Accordingly, the Company's current liabilities were reduced from $3,702,849 as at December 31, 2009 to $296,916 as at September 30, 2010. Cash used in operating activities amounted to $1,109,625 and 3,964,139 for the three and nine months ended September 30, 2010, compared to $490,717 and $508,600 for the respective periods of 2009.

OUTLOOK *

The Company's current strategy is to establish and grow its oil and gas business in the UK North Sea by farming into and/or acquiring interests in unappraised and/or undeveloped assets and by participating in UK North Sea licensing rounds on a non-operator basis.

Subject to obtaining financing from the proposed public offering, the Company's short-term operations will focus on:

- entering into binding agreements in respect of proposed farm-ins into oil and gas properties in the UK North Sea;
- fulfilling respective farm-in obligations (i.e. participating in drilling on a non-operator basis);
- evaluating other prospects and farm-in potentials in the UK North Sea.

The Company currently anticipates incurring substantial expenditures for its capital investment plans and to meet contractual obligations as outlined in "Contractual Obligations". The Company's ability to undertake its capital investment and business plans is dependent on its ability to obtain additional financing.

**** This section contains forward-looking information. Please see the "Forward-looking Information" section (at the beginning of this document) for a discussion of risks and uncertainties relating to such information.***

FINANCIAL AND OPERATING HIGHLIGHTS

Net Income and Cash Flows from Operating Activities

The following table summarizes the Company's financial results for the three and nine months ended September 30, 2010 and 2009:

	Three Months ended September 30,		Nine Months ended September 30,	
	2010	**2009**	**2010**	**2009**
General and administrative expenses	**$1,156,162**	$494,976	**$4,844,575**	$539,187
Net loss	**(1,148,013)**	(1,276,117)	**(4,828,303)**	(1,294,000)
Per share loss	**$(0.05)**	$(0.08)	**$(0.24)**	$(0.08)
Cash used in operating activities	**$(1,109,626)**	$(490,717)	**$(3,964,139)**	$(508,600)
Issued common shares at September 30	***23,965,935***	*16,402,222*	***23,965,935***	*16,402,222*
Weighted average - basic	***23,715,935***	*16,402,222*	***20,026,114***	*16,402,222*

Comparative Balance Sheet Items

The following table summarizes the Company's financial position as at September 30, 2010, June 30, 2010, March 31, 2010 and December 31, 2009:

	September 30, 2010	**June 30, 2010**	**March 31, 2010**	**December 31, 2009**
Cash and cash equivalents	**$2,345,899**	$3,429,973	$621,465	$1,408,528
Current assets	**2,521,301**	3,668,839	822,270	1,790,857
Bridge Loan	**-**	-	1,905,630	1,802,315
Current liabilities	**296,916**	295,573	4,424,336	3,702,849
Share capital	**15,067,295**	15,072,562	8,062,924	8,062,924
Shareholders' equity	**$2,328,527**	$3,481,807	$(3,478,132)	$(1,771,541)

Repayment of Bridge Loan

On December 11, 2009, the Company signed a Bridge Loan agreement for $2,000,000 with Endeavour Financial Corporation ("Endeavour") to finance the Company's working capital needs. The Bridge Loan maturity was December 14, 2010 and the loan bore interest at a rate of 10% per annum, payable at maturity or an earlier repayment date. The loan agreement also included a provision that in the event the Company completed any financing, the proceeds should be used to first repay the Bridge Loan together with accrued interest. Accordingly, on June 7, 2010, subsequent to the Private Placement (discussed further in the "Share Capital" section"), the Company repaid the Bridge Loan in full, together with $95,890 of accrued interest.

ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE

The Company is a TSX Venture issuer that has not had significant revenue from operations in either of its last two financial years. In accordance with National Instrument 51-102, additional disclosure on material costs is presented below.

	Three Months ended September 30,		**Nine Months ended September 30,**	
	2010	**2009**	**2010**	**2009**
General and administrative:				
Payroll, external directors' fees and related costs	**$455,164**	-	**$834,424**	-
Consulting services	**266,462**	$272,800	**1,459,598**	$282,939
Professional services	**48,060**	149,690	**210,835**	165,793
Travel expenses	**106,357**	53,924	**358,079**	53,924
Office expenses	**192,055**	14,087	**767,913**	15,635
Stock exchange and transfer agent fees	**19,243**	4,475	**80,998**	20,690
Other general and administrative	**65,703**	-	**80,059**	206
Total general and administrative	**$1,153,044**	$494,976	**$3,791,906**	$539,187
Capitalized exploration and development costs	**$0**	$0	**$0**	$0

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses amounted to $1,153,044 and $3,791,906 for the three and nine month periods ended September 30, 2010, compared to $494,976 and $539,187 for the respective periods of 2009. The increase in expenditures reflects the increase in size of the Company's team and its activities in 2010. Effective June 1, 2010, the Company has eight full-time employees in management, accounting and administration functions.

INTEREST AND FINANCING CHARGES*

Interest and financing charges amounted to nil and $460,660 for the three and nine month periods ended September 30, 2010 compared to nil for the respective periods of 2009, and related entirely to the Bridge Loan with Endeavour. The total costs for the nine month period ended September 30, 2010 included:

- $86,660 interest from January 1, 2010, up to June 7, 2010, when the loan was repaid in full,
- $167,000 of an additional fee paid via issuance of the Company's shares (discussed further in the "Share Capital" section), and
- $207,000 representing amortisation of the fair value of 300,000 (1,200,000 pre-consolidation) share purchase warrants issued to Endeavour in 2009 further to a Bridge Loan agreement.

**** This section contains forward-looking information. Please see the "Forward-looking Information" section (at the beginning of this document) for a discussion of risks and uncertainties relating to such information.***

STOCK-BASED COMPENSATION EXPENSE*

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

On June 1, 2010, the Company granted 662,500 stock options (2,650,000 pre-consolidation stock options) to certain directors and officers and consultants to acquire common shares at an exercise price of $1.20 ($0.30 pre-consolidation exercise price). The stock options vest immediately and expire in five years.

Stock-based compensation expense of $583,000 for the stock options granted was recognized for the period ended September 30, 2010. The fair value of each option granted is estimated on the date of grant using a Black-Scholes option pricing model (the assumptions used for the model are discussed in the notes accompanying the Company's unaudited consolidated financial statements as at and for the nine month period ended September 30, 2010).

Stock-based compensation expense was $785,400 for the nine month period ended September 30, 2009.

No stock options were exercised and/or expired during the nine month period ended September 30, 2010.

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TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties are with the Company's directors and officers in the form of consulting services totalling $577,750 for the nine months and $48,750 for the three months ended September 30, 2010, compared to $268,200 for the nine months and $265,200 for the three months ended September 30, 2009. These transactions occurred in the normal course of business and have been recorded at exchange amounts based on commercial rates and terms agreed to in the related consulting contracts.

As at September 30, 2010, $4,725 was payable to related parties in respect of consulting fees, compared to $701,400 of accrued consulting fees as at December 31, 2009.

FINANCIAL INSTRUMENTS

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

SHARE CAPITAL

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

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

As at September 30, 2010, there were 23,965,935 common shares issued, including 250,000 shares (1,000,000 pre-consolidation shares) held in escrow. The shares held in escrow are accounted for as contingently returnable shares at September 30, 2010, which were not considered outstanding and are not included in the computation of basic loss per share until they are released from escrow. The TSX-V conditional approval of this transaction initially granted until June 30, 2010, was extended until December 31, 2010.

The Company issued the following common shares during the nine month period ended September 30, 2010:

- On May 5, 2010, the Company issued to Endeavour 180,424 common shares (721,694 pre-consolidation common shares) as payment for a fee of $167,000 in respect of a Bridge Loan, which was due, pursuant to the loan agreement, if the loan was not repaid in full by April 1, 2010. The number of common shares was calculated based on the five-day volume weighted average closing price of the Company's shares immediately before April 1, 2010.

- On May 14, 2010 and May 21, 2010, the Company closed a private placement of 6,872,579 units at $1.20 per unit (27,490,315 pre-consolidation units at $0.30 per unit) for total gross proceeds of $8,247,095. Each unit consists of one common share and one half of a share purchase warrant. Each whole warrant will entitle 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 $1,292,000 using a Black-Scholes option pricing model (the assumptions used for the model are discussed in the notes accompanying the Company's unaudited consolidated financial statements as at and for the six month period ended June 30, 2010).

- The Company paid, whenever applicable, a finder's fee by issuing subscription units equivalent to 5% of the units subscribed via a particular broker. As a result, there were 260,710 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 $312,852, representing the subscription value of the units issued as finder's fees together with legal fees of $63,457, 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 are subject to resale restriction and cannot be resold until four months and one day after the date of issue.

As at September 30, 2010, the Company also had the following:

- 2,065,000 stock options (8,260,000 pre-consolidation stock options) to purchase common shares outstanding with an exercise price of $0.80 - $1.20 per share (pre consolidation exercise price of $0.20 - $0.30 per share) and a remaining contractual life of four to five years.

- 3,991,646 share purchase warrants (15,966,583 pre-consolidation share purchase warrants) issued, including 3,566,646 warrants (14,266,583 pre-consolidation warrants) issued as part of the above-mentioned private placement), each warrant carrying the right to acquire an additional common share at an exercise price of $2.00 (pre-consolidation exercise price of $0.50) and with expiry dates in December, 2010 and November 2011.

LIQUIDITY AND CAPITAL RESOURCES *

As of September 30, 2010, the Company had working capital of $2,224,385, shareholders' equity of $2,328,527 and cash of $2,345,899.

On May 14, 2010 and May 21, 2010, the Company closed a private placement of 6,872,579 units at $1.20 per unit (27,490,315 pre-consolidation units at $0.30 per unit), each unit consisting of one common share and one half of a share purchase warrant. The total gross proceeds amounted to $8,247,095. A portion of the proceeds was used in May and June of 2010 to repay the Bridge Loan and to pay the Company's accrued liabilities incurred with respect to setting-up an operation in the UK North Sea. The remaining funds are used to finance the Company's short term working capital requirements.

On November 23, 2010, the Company filed a prospectus for a $130 million sale of Subscription Receipts. Each Subscription Receipt entitles the holder to receive one common share of COPL and half of a share purchase warrant of COPL, upon the satisfaction of certain release conditions (as defined in the prospectus and discussed in the "Overview" section). The closing of this public offering is expected on or about December 1, 2010 but no later than December 15, 2010. The Company will use the proceeds from this offering to finance its operation in the UK North Sea, in particular to cover capital commitments related to the proposed farm-in transactions (as discussed in section the "Overview" section).

Currently, the Company does not have material cash inflows and/or adequate financing available to set up and develop profitable operations. The Company's financial statements are presented 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 operations. The Company's ability to continue as a going concern is dependent upon its ability to raise equity financing, in particular to complete the above offering. No assurance can be provided that the Company will raise the required levels of financing.

**** This section contains forward-looking information. Please see the "Forward-looking Information" section (at the beginning of this document) for a discussion of risks and uncertainties relating to such information.***

COMMITMENTS AND CONTRACTUAL OBLIGATIONS*

As at September 30, 2010, the Company has the following contractual obligations:

	Total	Less than One Year	One to Three Years	Four to Five Years	After Five Years
Office lease	**$4,455,000**	$535,000	$1,069,000	$1,069,000	$1,782,000
Financial advisory services	**124,000**	124,000	-	-	-
	$4,579,000	$659,000	$1,069,000	$1,069,000	$1,782,000

The Company is committed under an operating lease agreement for the rental of office space in Calgary. The approximate lease payments total $4.5 million and are payable over the next nine years.

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

Subsequent to the end of the third quarter, on October 26, 2010, the Company entered into a General Advisory Services agreement with Canaccord Genuity Corp., the agent of the public offering (discussed in the "Overview" section). The advisory services (other than agency services) relate to certain anticipated farm-in transactions for oil and gas assets in the UK and will be provided until the signing of these transactions or December 31, 2010 (whichever is earlier), for a fixed fee of $0.5 million.

The Company is currently pursuing contracts that will require additional financing. The Company's ability to meet the above commitments is dependent on its ability to obtain additional financing, in particular to complete the offering (as discussed in "Overview" section).

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SELECTED QUARTERLY INFORMATION

Eight Most Recent Quarters ($):

	September 30, 2010	**June 30, 2010**	**March 31, 2010**	**December 31, 2009**
Revenue	0	0	6,060	5,079
Net loss	(1,148,013)	(1,973,699)	(1,706,591)	(1,895,267)
Post-consolidated net loss per share - basic & diluted	(0.05)	(0.10)	(0.10)	(0.12)
Pre-consolidated net loss per share - basic & diluted	(0.01)	(0.02)	(0.03)	(0.03)

	September 30, 2009	June 30, 2009	March 31, 2009	December 31, 2008
Revenue	0	0	0	0
Net income (loss)	(1,276,117)	(16,339)	(1,544)	(23,265)
Post-consolidated net income (loss) per share - basic & diluted	(0.08)	(0.00)	(0.00)	(0.00)
Pre-consolidated net income (loss) per share - basic & diluted	(0.02)	(0.00)	(0.00)	(0.00)

ACCOUNTING PRONOUNCEMENTS

Status of Transition to International Financial Reporting Standards (IFRS)

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

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

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

Critical Accounting Estimates

The amounts recorded in respect of stock options and share purchase warrants granted are based on the Company's estimation of their fair value, calculated using assumptions regarding the life of the option/warrant, interest rates and volatility. By their nature, these estimates and assumptions are subject to uncertainty, and the actual fair value of option/warrant may differ at any time.

DIRECTORS

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

OFFICERS

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

William H. Smith, Q.C. – Corporate Secretary