CANADIAN OVERSEAS PETROLEUM LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011

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") and Canadian Overseas Petroleum (Bermuda) Limited ("COPL B") (collectively "COPL" or the "Company") as at and for the year ended December 31, 2011. The information is provided as of March 29, 2012. 2011 results have been compared to the same period of 2010. 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 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 and West Africa. 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.

FORWARD-LOOKING INFORMATION

This MD&A contains forward-looking statements relating to future events or future performance. In some cases, forward-looking statements can be identified by terminology such as "may", "will", "should", "expects", "projects", "plans", "anticipates", "potential", "intend", "believe" and similar expressions. These statements represent management's expectations or beliefs concerning, among other things, future operating results and various components thereof or the economic performance of Canadian Overseas Petroleum Limited. The projections, estimates and beliefs contained in such forward-looking statements necessarily involve known and unknown risks and uncertainties, including the business risks discussed in this MD&A as at and for the twelve months ended December 31, 2011, 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 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", "Liquidity and Capital Resources" and "Commitments and Contractual Obligations" sections);
- the Company's assumptions in respect of the calculation of stock-based compensation and valuation of warrants (the "Stock-based Compensation Expense", "Interest and Financing Charges", and "Share Capital" sections);
- the Company's ability to manage its financial and operational risks (the "Loss on UK contracts", "Financial Instruments" and "Liquidity and Capital Resources" sections).

FORWARD-LOOKING INFORMATION (CONTINUED)

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

- failure to complete agreements by which COPL will acquire interest in prospective properties; in particular, failure to obtain necessary licenses, including approvals from the National Oil Company of Liberia ("NOCAL") and Government of Liberia;
- the uncertainty of realizing anticipated benefits from existing transactions, including uncertainty regarding reserve estimates;
- uncertainties regarding an outcome of a dispute with UK partner;
- industry conditions: in particular, volatility in oil prices, the availability of drilling and production equipment, and changes in capital and operating costs;
- risks inherent to 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 that adequate financing will be available to the Company on acceptable terms;
- governmental regulations in respect of the oil and gas industry, including environmental regulations, corporate income tax regime, consents and approvals necessary for offshore operations, and decommissioning liabilities;
- risks associated with being a non-operator, including dependence on the operator's skills to keep costs and timetables within budget and dependence on the operator's industry preferences, choices and priorities (which may not be in line with the Company's);
- general economic conditions in areas of operation and globally.

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

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

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

OVERVIEW *

In 2011, the Company made progress as a junior oil and gas company and commenced its offshore exploration drilling in the UK North Sea.

In December 2010, COPL raised $130 million in an equity offering that was held in escrow until agreements were signed for a number of blocks in the UK North Sea. A portion of the escrowed funds was released in December 2010 after earn-in agreements were signed for the Bluebell and Fulla/Freya prospects in the UK North Sea.

On February 22, 2011, the second release condition under the public offering was met as the Company signed an earn-in agreement in respect of Block 23/21 Rest of Block Shallow ("RoB') and Block 22/15 in the UK North Sea. Accordingly, 182,000,000 Subscription Receipts were converted into 182,000,000 Common Shares and 91,000,000 Warrants, and funds of approximately $85.5 million were released to the Company, representing the net proceeds of the balance of the offering after payment of agent's commissions and expenses.

In April 2011, COPL UK opened an office in Aberdeen, Scotland with two employees (including a drilling manager) to facilitate the Company's day-to-day operations in the UK. In July 2011, a geophysics manager joined the COPL UK team on a full time basis.

Fulla/Freya Prospect - UK

In January 2011, further to a farm-in agreement, the DECC consented to transferring 50% of the equity interest for the Freya and Fulla prospects in Blocks 206/5a and 206/10 to COPL UK.

In July and August 2011, the Company drilled an exploration well and made an oil discovery at the Fulla exploration prospect in Block 206/5a in the West of Shetlands region of the UK Atlantic Margin. The well encountered a gross oil column of 133 feet that contained a net oil column estimated at 45 feet. The average porosity was estimated to be 21% in the gross reservoir. COPL and Faroe Petroleum plc, the operator are discussing options that include also the Freya discovery made in 1980, which is located in the adjoining Block 206/10a.

Projects with BG - UK

On February 22, 2011, the Company signed an Earn-in Agreement with BG International Limited ("BG") in respect of Block 23/21 RoB, which contains the Newt, Lower Toad and West Columbus exploration prospects and Upper Toad discovery, and Block 22/15, which contains the Banks discovery and the Esperanza exploration prospect.

On June 7, 2011, the Company (via its Bermuda subsidiary, COPL B) signed a Sale and Purchase Agreement ("SPA") with BG in respect of Blocks 23/21 and 22/15 which replaced the Earn-in Agreement. Per the SPA, the Company would acquire the right to purchase:

- a 50% equity interest in the entire Block 22/15 (including the Banks discovery) by paying an amount equal to 75% of the costs to drill the Esperanza test well and an additional US$15.0 million within 120 days of rig release from Esperanza; and
- a 41.67% equity interest in each of the Lower Toad, Newt and West Columbus exploration prospects by paying consideration equal to 62.5% of the total drilling costs of test wells in each of these prospects. Subject to certain success parameters, COPL would then have the right to acquire a 41.67% equity interest in the Upper Toad discovery by paying consideration equal to 62.5% of the total drilling costs of the Upper Toad test well.

At the time of signing the SPA, the Company's funds of approximately $50.0 million (GBP 32.1 million) were kept in an escrow account with BG to cover COPL's purchase consideration (estimated based on drilling costs but excluding testing costs) as all four wells were expected to be drilled in 2011, with the Esperanza project scheduled in August 2011. Drilling operations commenced at the Esperanza prospect in Block 22/15 in October 2011 and the drilling of three wells in Block 23/21 RoB was postponed by BG until the second quarter of 2012.

OVERVIEW * (CONTINUED)

Projects with BG – UK (continued)

In November 2011, an oil discovery was made at Esperanza. The 22/15-4 well, operated by BG, was drilled by the Ocean Nomad semi-submersible drilling rig to a total depth of 9,427 feet. A reservoir section was encountered in the Paleocene Forties sand at a depth of 8,677 feet, and a minimum total of 52 feet of net pay from a minimum gross section of 73 feet was penetrated by this well. Data obtained from well logs, coring and wireline pressure measurements indicated that the reservoir fluid is light gravity oil. Oil samples were also successfully extracted from the wireline downhole sampler. BG and the Company decided to proceed with drill-stem testing which was completed on December 21, 2011. The well drilling and testing took considerably longer (82 days compared to 50 days as initially planned), resulting in a significant cost overrun.

Under the agreement with BG, there was a requirement to deposit funds into escrow with BG to cover purchase consideration in respect of testing and cost overruns of the Esperanza well. The Company did not make the deposit but did engage in a discussion with BG on alternatives. On January 4, 2012, a Supplemental Agreement was signed with BG wherein, among other things, BG agreed not to serve a default notice but the deposit amount was increased to $50 million and was required by January 31, 2012. Considering a number of factors, including the state of the capital markets, the dilutive effect on the current and prospective assets values per share, the costs overruns on the Esperanza well, the delay in drilling of three wells in Block 23/21, the funds already in escrow (GBP 30.4 million as at December 31, 2011) being more than sufficient to cover all the BG's out-of-pocket costs, restrictions imposed by BG and other reasons, the Company was not in a position to deposit the funds requested by BG. During the period subsequent to the drilling of Esperanza well, the Company and its financial advisors continued to communicate with BG and proposed a number of alternative options to top up the escrow account with BG over a period of time rather than immediately. All these proposals were rejected by BG. The purchase consideration for the Esperanza project of approximately $33.2 million (GBP 21 million) was released from escrow to BG on January 31, 2012 and a formal SPA termination notice was provided to COPL on February 13, 2012.

As a result, while reviewing its legal alternatives, the Company has recognized a loss on the contract with BG in the amount of $37.9 million (GBP 23.9 million) as at December 31, 2011. This represents the cost of drilling and testing at Esperanza as well as site survey costs and well planning costs for Newt, Lower Toad, Upper Toad and West Columbus (as disclosed in details in the "Loss on UK contracts" section).

As at the date of filling this MD&A, there is still approximately GBP 10.0 million ($15.8 million) 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.

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

Block 23/21 – farm-in with SSE

Also on June 7, 2011, the Company entered into an Earn-in Agreement with SSE E&P UK Limited ("SSE") pursuant to which COPL would pay 100% of SSE's 16.67% share of the total drilling costs in the Lower Toad, Newt and West Columbus exploration prospects to earn an 8.33% working interest in such prospects. Under certain conditions, COPL would have the same earn-in terms with SSE for the Upper Toad appraisal prospect.

Due to termination of the SPA agreement with BG, the anticipated exploration wells in Block 23/21 RoB will not be drilled. Accordingly, a respective termination agreement of the Earn-in Agreement (currently in preparation) will be signed by both parties.

The funds remaining in escrow with SSE of approximately GBP 5.0 million ($7.9 million) are expected be returned to the Company further to provisions of the termination agreement.

OVERVIEW * (CONTINUED)

Bluebell Prospect - UK

Further to an earn-in agreement signed in December 2010, the Company will pay 66.67% of the Bluebell exploration well's drilling costs to earn a 40% interest in Blocks 15/24c and 15/25f. Drilling of the Bluebell well (initially scheduled for August 2011 and then November 2011) commenced in February 2012 and it was plugged and abandoned in March 2012 as it did not encounter any commercial volumes of hydrocarbons. The well, operated by Premier Oil plc, was originally estimated to take approximately 30 days to drill but because of favourable weather and drilling conditions, the time was significantly shorter, thus resulting in lower than budgeted costs.

Liberia prospect

On May 18, 2011, the Company (via its Bermuda subsidiary, COPL B) signed a Sale and Purchase Agreement ("SPA") with Peppercoast Petroleum plc ("Peppercoast") to acquire a 100% interest in Block LB-13 offshore Liberia for a total sum of US$85.0 million (approximately $86.4 million) payable in cash (to a maximum of US$50.0 million) and common shares of COPL. The transaction is expected to close in the second quarter of 2012, assuming certain conditions can be satisfied, including obtaining consents from NOCAL and the Government of Liberia.

On November 16, 2011, the Company also 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 the interest 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 Production Sharing Contract ("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 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.

Block LB-13 covers an area of approximately 2,400 square kilometres and is adjacent to blocks LB-14 and LB-12 held by a supermajor oil company. Block LB-13 is governed by a 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. The second and third phases of the PSC require the drilling of a well in each phase. The second phase of the PSC commenced on May 23, 2011.

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

FINANCIAL SUMMARY

In 2011, the Company received net proceeds from equity financing of approximately $85.3 million as it met the second release condition of the Company's public offering that closed in December 2010. In 2010, the total net proceeds from equity financing amounted to $44.3 and related to the May 2010 private placement and the December 2010 public offering.

In 2011 the Company formally commenced its exploration activities in the UK North Sea. The total additions to its UK exploration and evaluation assets amounted to $20.6 million for the year ended December 31, 2011 and related to the Fulla project. The costs related to drilling and testing the Esperanza well plus certain costs in respect of Block 23/21 RoB in total of $37.9 million were recognized as a loss on UK contracts as the respective SPA with BG was terminated in February 2012. The 2011 costs related to the Bluebell prospect of approximately $1.7 million were recorded as exploration expenses as the Bluebell well drilled in March 2012 was not successful. Also in 2011, as part of the proposed acquisition in Liberia, the Company made a deposit of US$15.0 million (approximately $14.5 million at the time of payment and approximately $15.3 million as at December 31, 2011) for 3D seismic of Block LB-13, which is recognized as a long term deposit until the completion of the proposed transaction.

The Company's administrative costs were higher in 2011 than in 2010 due to an increase in the Company's activities. Administrative costs amounted to $8.4 million in 2011 compared to $5.6 million in 2010. A stock-based compensation expense of $4.8 million for stock options granted was recognized in 2011, compared to $3.2 million recognized in 2010. Pre-license costs related to the Liberia project amounted to $1.7 million in 2011; there were no such expenses in 2010. The Company recognized interest income of $0.6 million for 2011, compared to a nominal $17,000 for 2010. There was $40,000 in interest expenses for 2011, compared to $0.5 million interest and financing charges recognized in 2010. A foreign exchange gain of $0.3 million was recorded in 2011, compared to a nominal $39,000 foreign exchange loss recorded in 2010. As a result, the Company's loss amounted to $53.4 million for the year ended December 31, 2011, compared to a loss of $9.3 million for 2010.

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

Cash used in investing activities of $32.9 million for the year ended December 31, 2011, related mainly to the additions to explorations assets and the deposit for seismic data, compared to immaterial interest income in 2010. Cash used in operating activities amounted to $16.8 million for the year ended December 31, 2011, compared to $6.2 million for 2010.

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 SPA in respect of the 100% interest in the offshore Block LB-13 in Liberia and sale of a 70% interest in this block (as discussed in the "Overview" section);
- working toward resolving the dispute with BG (over funds in escrow 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.***

SELECTED ANNUAL INFORMATION

NET INCOME AND CASH FLOWS FROM OPERATING ACTIVITIES

The following table summarizes the Company's financial results for the years ended December 31, 2011, 2010 and 2009:

($ 000's) except per share	2011	2010	2009
Services to third parties	**$ 189**	$ 6	$ 5
Administrative expenses	**8,413**	5,590	$ 2,420
Stock-based compensation	**4,796**	3,243	785
Loss on UK contracts	**37,926**	-	-
Exploration expenses	**1,657**		
Pre-license costs	**1,694**	-	-
Interest income	**593**	17	34
Foreign exchange gain (loss)	**346**	(39)	(1)
Loss	**53,428**	9,321	3,190
Per share loss	**$ 0.21**	$ 0.32	$ 0.20
Cash used in operating activities	**$ 16,764**	$ 6,221	$ 1,930
Outstanding common shares at December 31	***284,016,939***	*101,965,939*	*16,652,222*
Weighted average - basic	***257,332,284***	*29,290,398*	*16,402,222*

COMPARATIVE FINANCIAL POSITION ITEMS

The following table summarizes the Company's financial position as at December 31, 2011, December 31, 2010 and January 1, 2010:

($ 000's) except per share	December 31, 2011	December 31, 2010	January 1, 2010
Cash and cash equivalents	**$ 71,924**	$ 37,403	$ 1,439
Current assets	**72,533**	37,508	1,791
Exploration and evaluation assets	**20,594**	-	-
Deposit for seismic data	**15,255**	-	-
Provision for loss on UK contracts	**32,641**	-	-
Bridge Loan	**-**	-	1,802
Current liabilities	**35,048**	989	3,703
Share capital	**100,768**	41,833	8,063
Shareholders' equity (deficiency)	**$ 73,604**	$ 36,621	$ (1,772)

The significant increase in cash and share capital in 2011 reflects the closing of the public offering in December 2010, with the respective funds released to the Company in December 2010 of approximately $36.6 million and in February 2011 of approximately $85.3 million.

Additions to exploration and evaluation assets of $20.6 million for the year ended December 31, 2011, related to the Company's exploration project in the UK North Sea, carried out with a UK partner on a non-operated basis. The deposit for seismic data relates to the potential acquisition of Liberian Block LB-13.

The Company has recognized a loss on UK contracts of $37.9 million (GBP 23.9 million) which includes a provision for this loss of $32.6 million for the year ended and as at December 31, 2011 which is discussed further in the "Loss on UK Contracts" section.

COMPARATIVE FINANCIAL POSITION ITEMS (CONTINUED)

On December 11, 2009, the Company signed a Bridge Loan agreement for $2.0 million with Endeavour Financial Corporation ("Endeavour") to finance the Company's working capital needs. The Bridge Loan was repaid on June 7, 2010, together with $96,000 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.

($ 000's)	2011	2010
Administrative:		
Payroll, external directors' fees and related costs	**$ 3,319**	$ 1,272
Consulting services	**1,111**	2,207
Professional services	**2,783**	359
Travel expenses	**1,160**	549
Office expenses	**992**	959
Stock exchange and transfer agent fees	**101**	152
Other general and administrative	**385**	92
Costs allocated to exploration projects	**(1,438)**	-
Total administrative	**$ 8,413**	$ 5,590
Capitalized exploration and evaluation costs – UK North Sea	**$ 20,594**	$ -
Provision for loss on UK contracts	**$ 32,641**	$ -

LOSS ON UK CONTRACTS *

The Company had in place a Sale and Purchase Agreement ("SPA") with BG International Limited ("BG") in respect of Block 23/21 RoB (Newt, Lower Toad, West Columbus and Upper Toad) and Block 22/15 (the Esperanza prospect and Banks discovery). The agreement provided for a certain amount of funds to be kept in an escrow account with BG to cover the purchase consideration, which was dependent on the cost of drilling exploration wells. From October through December 2011, the first well was drilled and tested in the Esperanza prospect in Block 22/15 and although successful, encountered significant cost overruns. As per the SPA, the Company was required to immediately deposit additional funds into the escrow account. The Company did not make the deposit but did engage in a discussion with BG on alternatives. On January 4, 2012, a Supplemental Agreement was signed with BG wherein, among other things, BG agreed not to serve a default notice but the deposit amount was increased to $50 million and was required by January 31, 2012. Considering a number of factors, including the state of the capital markets, the dilutive effect on the current and prospective assets values per share, the costs overruns on the Esperanza well, the delay in drilling of three wells in Block 23/21, the funds already in escrow (of approximately GBP 30.4 million as at December 31, 2011) being more than sufficient to cover all the BG's out-of-pocket costs, restrictions imposed by BG and other reasons, the Company was not in a position to deposit the funds requested by BG. During the period subsequent to the drilling of Esperanza well, the Company and its financial advisors continued to communicate with BG and proposed a number of alternative options to top up the escrow account with BG over a period of time rather than immediately. All these proposals were rejected by BG. The purchase consideration for the Esperanza project of approximately $33.2 million (GBP 21 million) was released from escrow to BG on January 31, 2012 and a formal SPA termination notice was provided to COPL on February 13, 2012.

LOSS ON UK CONTRACTS * (CONTINUED)

In addition, the Company had an Earn-in Agreement with SSE E&P UK Limited ("SSE") pursuant to which COPL would pay 100% of SSE's 16.67% share of the total drilling costs in the Lower Toad, Newt and West Columbus exploration prospects to earn an 8.33% working interest in such prospects. Due to termination of the SPA agreement with BG, the anticipated exploration wells in Block 23/21 RoB are not going to be drilled. Accordingly, a respective termination agreement of the Earn-in Agreement (currently in preparation) will be signed by both parties.

As a result, while reviewing its legal alternatives, the Company has recognized a loss on UK contracts of $37.9 million (GBP 23.9 million) for the year ended December 31, 2011, which includes all the costs related to agreements with BG and SSE as follows:

		Year ended December, 31 2011
Consideration and costs settled in 2011:		
Payments to BG (site survey costs re Block 23/21 RoB and Esperanza)	$	2,738
Payments to SSE (re: Block 23/21)		492
COPL's own cost (re Block 23/21 RoB and Esperanza)		2,055
		5,285
Consideration held in escrow as at December 31, 2011:		
Payments to BG made in 2012 (well drilling and testing at Esperanza)		32,106
Payments to SSE made in 2012 (re: Block 23/21)		22
Estimated additional costs in respect of termination		513
Provision for loss on UK contracts		**32,641**
Total loss on UK contracts	**$**	**37,926**

As at the date of release of the consolidated financial statements, approximately GBP 10.0 million ($15.8 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.

**** 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.***

EXPLORATION EXPENSES

Exploration expenses of $1.7 million for the year ended December 31, 2011 ($nil in 2010) relate to the UK prospect of Bluebell for which and an exploration well was drilled in March 2012 and commercial reserves were not discovered.

PRE-LICENSE COSTS

Pre-licence costs of $1.7 million for the year ended December 31, 2011 ($nil in 2010) relate to the Liberia project for which anticipated transactions have not been completed yet.

ADMINISTRATIVE EXPENSES

Administrative expenses amounted to $8.4 million for the year ended December 31, 2011, compared to $5.6 million for 2010. The increase in expenditures reflects the increase in the Company's size and activities in 2011.

INTEREST INCOME AND FINANCING CHARGES*

Interest income of $0.6 million for the year ended December 31, 2011 related to interest earned on cash held at banks (mainly on funds from subscription receipts sold further to December 2010 public offering and kept in escrow until the release conditions were met). The interest income for the comparable period ended December 31, 2010, was nominal.

Interest and financing charges recognized in the consolidated statement of comprehensive loss of $40,000 for the year ended December 31, 2011 related to financing fees charged by joint venture partners in the UK in the normal course of operations. For the year ending December 31, 2010, the $0.5 million related entirely to the Bridge Loan in place at that time and included:

- $87,000 of interest from January 1, 2010 to June 7, 2010, when the loan was repaid in full;
- $167,000 of additional fees 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 the 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.

During 2011, the Company granted to its directors, officers, employees and consultants the following stock options, which vest immediately and expire in five years from date of grant:

- On February 23, 2011 - 12,415,000 stock options to acquire common shares at an exercise price of $0.68. The related stock-based compensation expense of $4.7 million has been recognized in the statement of comprehensive loss.
- On July 1, 2011 - 300,000 stock options to acquire common shares at an exercise price of $0.46 per share. The related stock-based compensation expense of $0.1 million has been recognized in the statement of comprehensive loss.

The fair value of each option granted 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 audited consolidated financial statements as at and for the years ended December 31, 2011 and 2010). Stock-based compensation expense of $4.8 million was recognized for the year ended December 31, 2011 ($3.2 million December 31, 2010).

Further to the provisions of the Company's stock option plan, 72,500 stock options expired in 2010 and 242,500 stock options expired in 2011 as they were granted to consultants no longer providing services to the Company.

No stock options were exercised during the years ended December 31, 2011 and 2010.

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FOREIGN EXCHANGE GAIN

A foreign exchange gain of $0.3 million was recognized for the year ended December 31, 2011 (compared to $39,000 foreign exchange loss in 2010), and related mainly to gains on translation of cash and cash equivalents kept in currencies other than Canadian dollars.

TRANSACTIONS WITH RELATED PARTIES

a) Transactions with Directors and Officers

Transactions with the Company's directors and officers in the form of consulting services occurred in the normal course of business and have been recorded at exchange amounts based on commercial rates and terms agreed to in the related consulting contracts. The expense, receivables and payables related to consulting services provided by directors and officers during the year ended December 31 are as follows:

	2011	2010
Consulting fees	$ 119	$ 622

As at December 31, 2011, accounts due from related parties amounted to $19,000 (December 31, 2010 - $22,000, January 1, 2010 - $nil), which represented travel advances, with $nil payable to related parties (December 31, 2010 - $5,000; January 1, 2010 - $nil) for outstanding travel expenses.

b) Remuneration of Directors and Other Key Management Personnel

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

	2011	2010
Short-term benefits	$ 1,673	$ 1,535
Post-employment benefits	-	-
Other long-term benefits	-	-
Stock-based compensation	2,860	2,952
Termination benefits	-	-
	$ 4,533	$ 4,487

Short-term benefits include annual salaries, directors' fees and health and other taxable benefits. The 2010 balance includes also a portion of the consulting fees discussed in (a).

Stock-based compensation relates to stock options granted during the year and represent the fair value of options granted using a Black-Scholes option pricing model as at the date of grant (discussed in Note 8 to the Company's consolidated financial statements as at and for the year ended December 31, 2011).

FINANCIAL INSTRUMENTS*

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

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

As the Company's current 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.

**** 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.***

SHARE CAPITAL

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

As at December 31, 2011, there were 284,016,939 common shares issued and outstanding. The Company issued the following common shares during the year ended December 31, 2011:

- On February 22, 2011, a second release condition of the December 2010 public offering was met as the Company signed agreements in respect of North Sea prospects in Block 23/21 RoB 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 issue costs). In addition, 15,600,000 agent's warrants were issued, each warrant entitling the holder to purchase one Common Share of COPL for the period until December 1, 2013 at an exercise price of $0.50. The fair value of Warrants issued during the first quarter of 2011 (including agent's warrants) was estimated at $26.3 million using a Black-Scholes option pricing model (the assumptions used for the model are discussed in the notes accompanying the Company's condensed consolidated financial statements as at and for the three and nine months period ended September 30, 2011).

- 51,000 Common Shares were issued upon exercise of share purchase warrants which had an exercise price of $0.65 per warrant.

As at December 31, 2011, the Company also had the following outstanding securities other than common shares:

- A total of 145,549,000 share purchase warrants issued and outstanding, each warrant carrying the right to acquire one common share; 129,949,000 warrants issued in relation to the December 2010 public offering, which have an exercise price of $0.65 and an expiry date of December 1, 2013 and 15,600,000 agent's warrants issued in relation to the December 2010 public offering, which have an exercise price of $0.50 and an expiry date of December 1, 2012.

- 22,065,000 stock options issued and outstanding to purchase common shares with an average exercise price of $0.67 per share and a remaining contractual life of three to four years.

LIQUIDITY AND CAPITAL RESOURCES *

As of December 31, 2011, the Company had working capital of approximately $37.5 million, shareholders' equity of $73.6 million and cash of $71.9 million (including $67.7 million of cash in escrow and restricted for particular UK projects).

For the year ended December 31, 2011, the Company's cash flows can be summarised as follows:

- cash obtained from financing activities amounted to approximately $85.3 million and related to net funds received further to a second release condition of the Company's public offering closed in December 2010,
- cash spent in investing activities amounted to $32.9 million and related mainly to exploration assets in UK and seismic data in respect of Liberia project and
- cash used in operating activities amounted to $16.8 million and related mainly to administrative costs, exploration expenses, costs related to termination of contracts in the UK and pre-license costs related to the Liberia project.

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

**** 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 December 31, 2011, the Company has the following commitments other than the obligations under UK contracts in dispute (as discussed in the "Loss on UK contracts" section):

In $ 000's	Total	Less than One Year	One to Three Years	Four to Five Years	After Five Years
UK drilling commitments	**7,900**	7,900	-	-	-
Office lease	**4,232**	535	1,069	1,069	1,559
	12,132	8,435	1,069	1,069	1,559

UK drilling commitments of $7.9 million as at December 31, 2011 relate to an offshore exploration well, which was drilled, plugged and abandoned in March 2012.

The Company is committed under an operating lease agreement for the rental of office space in Calgary. The approximate lease payments total $4.2 million and are payable over the next eight years.

On May 18, 2011 the Company (via its Bermuda subsidiary, COPL B) signed the SPA to acquire a 100% interest in Block LB-13 offshore Liberia from Peppercoast for a total sum of US$85.0 million (approximately $86.4 million) payable in cash (to a maximum of US$50.0 million) and common shares of COPL. The transaction is expected to close in the second quarter of 2012, assuming certain conditions can be satisfied, including obtaining the consents of NOCAL and the Government of Liberia. Block LB-13 covers an area of approximately 2,400 square kilometres and is governed by a PSC for Block LB-13 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 (as discussed in the "Overview" section). Under the terms of the sale, which is subject to the approval of 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 $55.9 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.

**** 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.***

SELECTED QUARTERLY INFORMATION

Eight Most Recent Quarters:

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

($ 000's)	December 31, 2010	September 30, 2010	June 30, 2010	March 31, 2010
Revenue	6	8	2	6
Loss	(4,492)	(1,148)	(1,973)	(1,707)
Loss per share - basic & diluted	(0.07)	(0.05)	(0.10)	(0.10)

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

The 2010 quarterly losses represent mainly the Company's administrative expenses, with the fourth quarter including also a stock- based compensation expense of $3.2 million.

ACCOUNTING PRONOUNCEMENTS

ADOPTING OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

The Company has prepared its December 31, 2011, condensed consolidated financial statements ("consolidated financial statements") 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. The adoption of IFRS did not have a material impact on the Company's operations, strategic decisions and/or capital expenditures.

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 assets 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 loss and results of operations for any of the periods presented.

The Company's IFRS accounting policies are provided in Note 3 of the consolidated financial statements as at and for the years ended December 31, 2011 and 2010. Due to the Company's limited operations, there are no material changes in accounting policies used by the Company under IFRS as compared to previous GAAP, other than adoption of new IFRS policies applicable to the Company's growing operations. The accounting pronouncements, which the Company was required to adopt as of January 1, 2011, have been adopted as part of the transition to IFRS.

FUTURE ACCOUNTING CHANGES

As of January 1, 2013, the Company will be required to adopt IFRS 9, "Financial Instruments" which will replace IAS 39, "Financial Instruments: Recognition and Measurement" and will provide for a classification model of financial assets and liabilities with two categories: amortized costs and fair value. Currently, the Company does not expect the adoption of IFRS 9 to have a material impact on the Company's consolidated financial statements.

FUTURE ACCOUNTING CHANGES (CONTINUED)

In May, 2011 the IASB issued the following standards: IFRS 10, "Consolidated Financial Statements", IFRS 11, "Joint Arrangements", IFRS 12, "Disclosure of Interest in Other Entities", IFRS 13, "Fair Value Measurement", and amended IAS 27, "Separate Financial Statements" and IAS 29, "Investments in Associates and Joint Ventures". These standards and amendments have not yet been adopted by the Company and are effective January 1, 2013 with early adoption permitted. The Company does not expect the adoption of these standards and amendments to have a material impact on the Company's consolidated financial statements.

CRITICAL ACCOUNTING ESTIMATES

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

DIRECTORS

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

OFFICERS

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

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