Canadian Overseas Petroleum Limited
(formerly Velo Energy Inc.)
Interim Consolidated Financial Statements
As at and for the three month period ended
March 31, 2011

Management's Responsibility for Financial Statements

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

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

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

Signed "Arthur S. Millholland"
Arthur S. Millholland
President and Chief Executive Officer
May 20, 2011

Signed "Aleksandra Owad"
Aleksandra Owad
Chief Financial Officer
May 20, 2011

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

	March 31, 2011	December 31, 2010	January 1, 2010
Assets			
Current assets			
Cash and cash equivalents *(note 4)*	$ 119,822	$ 37,403	$ 1,439
Accounts receivable	103	83	75
Prepaid expenses	29	22	277
	119,954	37,508	1,791
Long-term rent deposit and prepayments	43	43	70
Exploration and evaluation *(note 5)*	692	-	-
Office equipment *(note 6)*	56	59	70
	$ 120,745	$ 37,610	$ 1,931
Liabilities			
Current			
Accounts payable and accrued liabilities	$ 1,307	$ 989	$ 1,901
Loan	-	-	1,802
	1,307	989	3,703
Shareholders' Equity			
Share capital *(note 7)*	100,768	41,833	8,063
Warrants	37,359	11,007	306
Contributed surplus	9,035	4,317	1,074
Deficit	(27,435)	(20,536)	(11,215)
Accumulated other comprehensive income	(289)	-	-
	119,438	36,621	(1,772)
	$ 120,745	$ 37,610	$ 1,931

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

See accompanying notes to the consolidated financial statements.

Canadian Overseas Petroleum Limited

Condensed Consolidated Statements of Comprehensive Loss (unaudited)

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

	Three months ended March 31, 2011	Three months ended March 31, 2010
Results from operating activities		
Management services	**$ -**	$ 6
Administrative expenses	**(2,134)**	(1,441)
Depreciation	**(3)**	(3)
Stock-based compensation *(note 7c)*	**(4,718)**	-
	(6,855)	(1,438)
Finance income and costs		
Interest income	**380**	-
Interest and financing charges	**-**	(270)
Foreign exchange (loss)/gain	**(424)**	1
	(44)	(269)
Net Loss	**(6,899)**	(1,707)
Other comprehensive loss	**(289)**	-
Total comprehensive loss	**$ (7,188)**	$ (1,707)
Net loss per share (basic and diluted)	**$(0.04)**	$(0.10)
Weighted average number of shares outstanding	**176,559,741**	16,402,222

See accompanying notes to the consolidated financial statements.

Canadian Overseas Petroleum Limited

Condensed Consolidated Statement of Changes in Equity (unaudited)

(in thousands of Canadian dollars)

	Share Capital	Warrants	Contributed Surplus	Deficit	Accumulated Other Comprehensive Loss	Total Equity
Balance at January 1, 2010	**$ 8,063**	**$ 306**	**$ 1,074**	**$ (11,215)**	**$ -**	**$ (1,772)**
Total comprehensive income (loss) for the period						
Loss for period				(1,706)		**(1,706)**
Balance at March 31, 2010	**$ 8,063**	**$ 306**	**$ 1,074**	**$ (12,921)**	**$ -**	**$ (3,478)**
Balance at December 31, 2010	**$ 41,833**	**$ 11,007**	**$ 4,317**	**$ (20,536)**	**$ -**	**$ 36,621**
Total comprehensive income (loss) for the period						
Loss for period				(6,899)		**(6,899)**
Cumulative translation adjustment					(289)	**(289)**
Transactions with owners, recorded directly to equity						
Issue of common shares – net of issue cost	58,890					**58,890**
Issue of share purchase warrants		26,364				**26,364**
Exercise of warrants	45	(12)				**33**
Stock options granted			4,718			**4,718**
Balance at March 31, 2011	**$100,768**	**$ 37,359**	**$ 9,035**	**$ (27,435)**	**$ (289)**	**$119,438**

See accompanying notes to the consolidated financial statements.

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

	Three months ended March 31, 2011	Three months ended March 31, 2010
Cash Provided By (Used In) Operating Activities		
Net income (loss)	**$ (6,899)**	$ (1,707)
Add (subtract) non-cash items:		
Stock-based compensation	**4,718**	-
Finance and service fees	**-**	69
Depreciation	**3**	3
Foreign exchange loss (gain)	**424**	(1)
Funds used in operations	**(1,754)**	(1,636)
Net change in non-cash working capital (Note 11)	**(298)**	850
	(2,052)	(786)
Financing Activities		
Issuance of common shares and warrants, net of issue costs	**85,287**	-
Investing Activities		
Additions to office equipment	**-**	(2)
Additions to oil and gas exploration assets	**(692)**	-
	(692)	(2)
Increase/(decrease) in cash during period	**82,543**	(788)
Net effect of foreign exchange on cash held in foreign currencies	**(424)**	-
Cash and cash equivalents, beginning of period	**37,403**	1,439
Cash and cash equivalents, end of period	**$ 119,822**	$ 651
Interest paid	**$ -**	$ -
Taxes paid	**$ -**	$ -

See accompanying notes to the consolidated financial statements.

1. NATURE OF OPERATIONS

Canadian Overseas Petroleum Limited ("COPL" or the "Company"), formerly Velo Energy Inc., is a widely-held publicly traded company incorporated and domiciled in Canada. The Company's common shares are traded on the TSX Venture Exchange in Canada.

COPL and its wholly owned subsidiaries COPL Technical Services Limited, formerly North Sea Oil Ltd., and Canadian Overseas Petroleum (UK) Limited, formerly North Sea Oil Exploration Limited, are involved in identification, acquisition, exploration and development of oil and gas offshore reserves.

On November 23, 2010, the Company filed a prospectus to obtain financing for its operations. The offering provided for the total gross proceeds of $130 million (approximately $122.1 million net after agent's fee and estimated offering costs) to be released to the Company upon certain conditions. The first release condition was met on December 1, 2010 and $36.6 million was released from escrow; the second release condition was met on February 22, 2011 and the remaining funds of $85.3 million (net of agent's fee) were released to the Company (discussed in detail in Note 7).

2. BASIS OF PREPARATION

Basis of preparation and compliance

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

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

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

The consolidated financial statements were authorized for issued by the Company's Board of Directors on May 18, 2011.

Basis of consolidation

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

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

2. BASIS OF PREPARATION (continued)

Information on first-time adoption of IFRS

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

Basis of preparation and compliance

Pursuant to IFRS 1 the Company has chosen to apply the following exemptions:

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

Significant accounting judgments, and estimates

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

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

Office Equipment

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

Potential Prospect Expenses and Pre-License Costs

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

Leases
Rentals payable for assets under operating leases are charged to the statement of comprehensive loss on a straight-line basis over the lease period.

Revenue Recognition
Management services revenues are recognized at contractual amounts as the related services are provided. The Company recognizes interest income as it is earned.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

For the purpose of consolidation, assets and liabilities of foreign subsidiaries are translated using the exchange rate prevailing on the period end date. The income and cash flow statements are translated using the average exchange rates of the period. Foreign exchange differences resulting from such transactions are recorded in Shareholders' Equity as other comprehensive income. As at March 31, 2011, accumulated other comprehensive income is composed solely of foreign currency translation adjustments.

Financial Instruments

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

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

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

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

Deferred Income Tax

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

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

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

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

4. CASH AND CASH EQUIVALENTS

	March 31, 2011	**December 31, 2010**
	$	$
Cash	**103,231**	36,873
Short-term deposits	**-**	500
Cash in escrow accounts	**16,261**	-
Credit card deposits	**330**	30
	119,822	37,403

Cash balances earn interest, whenever possible, at floating rates based on daily bank deposit rates. Short-term deposits are made for periods varying between one day and three months, depending on immediate cash requirements and earn interest at the respective short term deposit rates. As at March 31, 2011, $16.3 million was held in banks in escrow accounts restricted by escrow agreements signed with farm-in partners for use on specific exploration projects. Credit card deposits are bank deposits that cover the maximum limit of corporate credit cards.

The fair value of cash and cash equivalents was $119.5 million as at March 31, 2011 and $37.4 million as at December 31, 2010. The Company deposits its cash with reputable Canadian and UK banks. The Company did not have any overdraft facility in place as at March 31, 2011 and/or December 31, 2010.

5. EXPLORATION AND EVALUATION ASSETS

	UK North Sea
	$
As at January 1, 2010 and December 31, 2010	**-**
Additions at cost	**692**
As at March 31, 2011	**692**

The additions to exploration and evaluation intangible assets of $692 thousand for the three month period ended March 31, 2011 related to the Company's exploration projects in the UK North Sea. All these projects are carried out with UK partners on a non-operator basis.

6. OFFICE EQUIPMENT

	March 31, 2011 $	2010 $
Balance, beginning of period	**72**	72
Additions, at cost	**-**	2
Disposals	**-**	(2)
Balance, end of period	**72**	72
Depreciation – Balance, beginning of period	**13**	2
Depreciation charge for the period	**3**	11
Disposals	**-**	-
Depreciation – Balance, end of period	**16**	13
Net book value- Balance, beginning of period	**59**	70
Net Book value – Balance, end of period	**56**	59

Office equipment includes office furniture, computers and other office equipment and is depreciated on a straight line basis over the useful life of these assets, which is estimated at three to five years.

7. SHARE CAPITAL

a) Authorized and Issued Common Shares

Authorized

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

Issued

	Pre-Consolidation Number of Common Shares	Post-Consolidation Number of Common Shares	Amount
Balance, January 1, 2010 (i)	**66,608,888**	**16,652,222**	**$ 8,063**
Issued for payment of Bridge Loan fees (ii)	721,694	180,424	167
Issued pursuant to private placement (iii)	27,490,315	6,872,582	6,955
Issued for payment of finders' fees on private placement (iv)	1,042,841	260,711	264
Issued pursuant to public offering – first release condition (v)		78,000,000	29,640
Share issue costs (iii & v)	-	-	(3,256)
Balance, December 31, 2010 (i)		**101,965,939**	**$ 41,833**
Issued pursuant to public offering – second release condition (vi)		182,000,000	69,160
Issued pursuant to exercise of warrants		51,000	33
Contributed surplus on warrants exercised		-	12
Share issue costs (vi)	-	-	(10,270)
Balance, March 31, 2011		**284,016,939**	**$ 100,768**

7. SHARE CAPITAL (continued)

a) Authorized and Issued Common Shares (continued)

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

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

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

(iii) On May 14, 2010 and May 21, 2010, the Company closed a private placement of 6,872,582 units at $1.20 per unit (27,490,315 pre-consolidation units at $0.30 per unit) for total gross proceeds of $8.2 million. Each unit consisted of one common share and one half of a share purchase warrant. Each whole warrant entitles the holder to acquire an additional common share at an exercise price of $2.00 (pre-consolidation exercise price of $0.50) expiring November 14, 2011. The fair value of the share purchase warrants issued was estimated at $1.3 million using a Black-Scholes option pricing model with the following assumptions:

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

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

7. SHARE CAPITAL (continued)

a) Authorized and Issued Common Shares (continued)

(v) On November 23, 2010, the Company filed a prospectus to obtain financing for its operations in the UK North Sea. The offering provided for the sale of 260,000,000 subscription receipts ("Subscription Receipts") at a price of $0.50 per Subscription Receipt. Each Subscription Receipt entitled the holder to receive one common share of COPL ("Common Share") and one half of one (0.5) common share purchase warrant of COPL ("Warrant"), upon the satisfaction of certain Release Conditions (as defined in the prospectus). Each Warrant entitles the holder to purchase one Common Share at $0.65 within 36 months from the closing date, provided that the Warrants will expire if not exercised within 10 days of notice from COPL that the 20 day volume weighted average trading price of Common shares is greater than $1.25.

The closing of the Offering occurred on December 1, 2010. The gross proceeds from the sale of Subscription Receipts of $130 million were held in escrow pending satisfaction of the First and Second Release Conditions (as defined in the prospectus). The agent was entitled to a cash commission equal to 6% of the gross proceeds of the Offering ("Agent's Fee"), with 30% payable on satisfaction of the First Release Condition and 70% on satisfaction of the Second Release Condition.

On December 10, 2010, the First Release Condition was met as the Company signed farm-in agreements in respect of the Fulla and Bluebell projects (as defined in the prospectus). Accordingly 78,000,000 Subscription Receipts were converted into 78,000,000 Common Shares and 39,000,000 Warrants, and funds of approximately $36.6 million were released to the Company ($39.0 million gross proceeds, net of Agent's Fee and expenses). The fair value of the Warrants issued was estimated at $9.4 million using a Black-Scholes option pricing model with the following assumptions:

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

(vi) On February 22, 2011, the Second Release Condition was met as the Company signed farm-in agreements in respect of North Sea prospects in Block 23/21 and Block 22/15 (as defined in the prospectus). Accordingly 182,000,000 Subscription Receipts were converted into 182,000,000 Common Shares and 91,000,000 Warrants, and funds of approximately $85.5 million were released to the Company ($91.0 million gross proceeds, net of Agent's Fee and expenses). The fair value of the Warrants issued was estimated at $21.8 million using a Black-Scholes option pricing model with the assumptions as presented above in item (v).

In addition, upon satisfaction of both Release Conditions, the Company issued 15,600,000 share purchase warrants to its agent as compensation warrants in an amount equal to 6% of the aggregate number of Subscription Receipts sold pursuant to the offering. Each agent's warrant entitles the holder to purchase one Common Share of COPL for the period until December 1, 2012 at an exercise price of $0.50. The fair value of the agent's warrants issued was estimated at $4.5 million using a Black-Scholes option pricing model with the assumptions as presented above in item (v) and was recognized as share issue costs.

7. SHARE CAPITAL (continued)

b) Warrants

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

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

A summary of the Company's share purchase warrants issued and outstanding as at March 31, 2011 is as follows:

	Number of Warrants issued in 2010	**Exercise Price**	**Expiry Date**
Private Placement Warrants (Note 7a iii)	3,436,291	$2.00	November 14, 2011
Finder's Fee Warrants (Note 7a iv)	130,355	$2.00	November 14, 2011
Public Offering – First Release (Note 7a v)	38,949,000	$0.65	December 1, 2013
Public Offering – Second Release (Note 7a vi)	91,000,000	$0.65	December 1, 2013
Public Offering – Agent's Warrants (Note 7a vi)	15,600,000	$0.50	December 1, 2013
	149,115,646	$0.67	

c) Incentive Stock Options

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

On February 23, 2011, the Company granted 12,415,000 stock options to its directors, officers, employees and consultants to acquire common shares at an exercise price of $0.68. The options vest immediately and expire in five years from date of grant. The related stock-based compensation expense of $4.7 million has been recognized in the statement of comprehensive loss for the three month period ended March 31, 2011.

7. SHARE CAPITAL (continued)

c) Incentive Stock Options (continued)

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

	February 2011
Risk-free interest rate	1.5.0%
Weighted average life (years)	4.0
Expected volatility	75%
Expected dividend yield	0%

No stock options were exercised during the three month period ended March 31, 2011.

As at March 31, 2011, there were total of 22,007,500 stock options to purchase common shares outstanding, having a weighted average exercise price of $0.67 per share with a remaining weighted average contractual life of 4.7 years.

8. COMMITMENTS AND CONTRACTUAL OBLIGATIONS

As at March 31, 2011, the Company has the following contractual obligations:

	Total	**Less than One Year**	**One to Three Years**	**Four to Five Years**	**After Five Years**
Farm-in commitments	**66,600**	66,600	-	-	-
Office lease	**4,188**	535	1,069	1,069	1,515
Financial advisory services	**29**	29	-	-	-
	70,817	67,164	1,069	1,069	1,515

Further to farm-in agreements signed in respect of exploration prospects in the UK North Sea, the Company is committed to participate in drilling five exploration wells in 2011 at an estimated cost of $66.6 million net to the Company. Subject to positive results for these commitment wells, the Company has contingent obligations to participate in well testing and in the drilling of two contingent wells.

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 9 years.

The obligation in respect of financial advisory services relates to an agreement with Endeavour Financial International Corporation. The agreement is in effect until June 10, 2011.

Potential further obligations are discussed in Note 13 “Subsequent Events”.

9. FINANCIAL INSTRUMENTS

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

(a) Fair values

As at March 31, 2011 and December 31, 2010, the fair values of all financial instruments not carried at fair value approximated their carrying values due to their short-term maturity. The items which are considered at FVTPL are cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities.

(b) Foreign exchange risk:

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

Cash and cash equivalents includes amounts denominated in foreign currencies:

	March 31, 2011	**December 31, 2010**
British Pounds	**38,571**	1,000
US Dollars	**100**	-

(c) Credit risk:

The Company's accounts receivable are mainly due from the governments (Goods and Services Tax in Canada and Value Added Tax in UK) and from its employees in respect of travel advances. The Company believes there is no unusual exposure associated with these receivables. No amounts are considered to be past due and no allowance for doubtful accounts has been recorded in the accounts. As at March 31, 2011, the Company holds $119.5 million of cash and cash equivalents with Canadian and UK chartered banks. Management has assessed the associated credit risk as relatively low.

(d) Interest rate risk:

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

10. CAPITAL MANAGEMENT

The Company's objectives when managing capital are:

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

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

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

The Company is not subject to any external capital requirements. There were no changes in the Company's capital management policies during the three month period ended March 31, 2011.

11. NET CHANGE IN NON-CASH WORKING CAPITAL

	Three months March 31, 2011	**Three months March 31, 2010**
(Increase) in term deposits	**$ (300)**	$ -
(Increase) decrease in accounts receivable	**(20)**	8
(Increase) decrease in prepaid expenses	**(7)**	174
Decrease in long-term rent deposit	**-**	15
Increase (decrease) in accounts payable and accrued liabilities	**318**	618
Non-cash transactions:		
Cumulative translation adjustments	**(289)**	-
Interest on loan	**-**	49
Warrants amortization	**-**	(15)
Unrealized gain/loss	**-**	1
Net change in non-cash working capital	**$ (298)**	**850**

12. TRANSITION TO IFRS

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

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

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

the implementation of IFRS did not trigger any adjustments to the Company's financial position and results of operations.

13. SUBSEQUENT EVENTS

On May 18, 2011, the Company signed a Sale and Purchase Agreement ("SPA") to acquire a 100% interest in Block LB-13 offshore Liberia from Peppercoast Petroleum plc ("Peppercoast") for a total sum of US$85,000,000 payable in cash and common shares of COPL. The transaction is expected to close on or about June 30, 2011, assuming certain conditions can be satisfied, including obtaining the consent of the National Oil Company of Liberia ("NOCAL").

The purchase price will be satisfied, subject to approval by the TSX Venture Exchange, as to a minimum of US$45,000,000 and a maximum of US$50,000,000 in cash, and the remainder in common shares of COPL which will be issued directly to the Peppercoast shareholders and priced at US$0.5473 per share (being the five day volume weighted average price per common share in US Dollars on the TSX Venture Exchange in the five business days prior to May 18, 2011, and based on the noon exchange rate for the Canadian dollar against the US Dollar as quoted by the Bank of Canada).

In addition to the agreed purchase price and further to a loan agreement also signed on May 18, 2011, the Company has loaned US$15 million on a secured basis to Peppercoast in order for Peppercoast to settle an account payable due to acquisition and processing of a 3D seismic survey done for Block LB-13. This payment should satisfy Peppercoast's work obligations for the first phase of the Production Sharing Contract ("PSC") in Liberia. Subject to SPA completion, the Company will be committed under the PSC to drill a well within the next two years (second phase) and another well within following two years (third phase of PSC).