CANADIAN OVERSEAS PETROLEUM LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 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, formerly North Sea Oil Ltd., Canadian Overseas Petroleum (UK) Limited ("COPL UK"), formerly North Sea Oil Exploration Limited, Canadian Overseas Petroleum (Bermuda Holdings) Limited ("COPL Bermuda Holdings") and Canadian Overseas Petroleum (Bermuda) Limited ("COPL Bermuda") (collectively "COPL" or the "Company") as at and for the three and six months ended June 30, 2011. The information is provided as of August 26, 2011. The results for the three and six month ended June 30, 2011 have been compared to the same period in 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, 2010 and 2009, together with the accompanying notes, the December 31, 2010 MD&A and the Annual Information Form dated March 31, 2011. 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 and its subsidiaries are involved in identification, acquisition and/or farm-in, exploration and development of oil and gas offshore reserves.

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 six months ended June 30, 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 " Outlook" and "Liquidity and Capital Resources" sections);
- the Company's ability to raise capital and obtain the financing necessary to develop profitable oil and gas operations (the "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" and "Share Capital" sections);
- the Company's ability to manage its financial and operational risks (the "Financial Instruments" and "Liquidity and Capital Resources" 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 complete agreements by which COPL will acquire interests in prospective properties; in particular, failure to obtain necessary licenses, including approvals from the UK Department of Energy and Climate Change and the National Oil Company of Liberia;
- the uncertainty of realizing anticipated benefits from existing 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 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 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

During the second quarter of 2011, the Company's focus continued to be on facilitating the UK North Sea's drilling program with its partners as well as pursuing with potential acquisition of an exploration block offshore Liberia.

UK Operation

In April 2011, COPL UK opened an office in Aberdeen, Scotland with two employees (including a drilling manager) and in July 2011 hired a manager of geophysics to facilitate the Company's day-to-day operations in the UK.

In June 2011, the Company signed a farm-in agreement with SSE E&P UK Limited ("SSE") in respect of Block 23/21, which contains the Lower Toad, Newt and West Columbus exploration prospects and the Upper Toad appraisal prospect, whereby the Company will pay 16.67% of total well drilling costs to earn an 8.34% working interest in each prospect. At the same time a farm-in agreement signed with BG International in February 2011, which included Block 23/21 prospects as well as Block 22/15, was amended. In the amended contract, the West Columbus exploration well became a firm well (as opposed to contingent well) but drilling costs to be covered by the Company were reduced from 83.33% to 62.5% for Block 23/21 and from 100% to 75% for Block 22/15. As a result of both agreements and subject to completion of drilling, the Company will have 50% working interest in each of Block 23/21prospects.

In July and August 2011, the Company drilled an exploration well and has 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 includes a net oil column estimated at 45 feet. The average porosity was estimated to be 21% in the gross reservoir. Additional detailed analysis is being conducted in the laboratory on oil samples taken from the well. Once the final well analysis has been completed, COPL and its co-venturer will discuss development options that include the Freya discovery made in 1980, which is located in the adjoining Block 206/10a. COPL owns a 50% equity interest in both blocks that include the Fulla and Freya discoveries, and Faroe Petroleum plc, the operator, owns the remaining 50%. The Fulla well spudded July 6, 2011 and was drilled to a total depth of 7,711 feet and was targeting oil in the Clair and Whiting reservoir sands.

Fulla well is the first of five wells expected to be drilled throughout the second half of 2011.

Liberia prospect

In May 2011, two new COPL's subsidiaries were incorporated: COPL Bermuda Holdings and COPL Bermuda to facilitate the anticipated operations in Liberia.

On May 18, 2011, the Company (via COPL Bermuda) 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 payable in cash and common shares of COPL. The agreement initially expected to close on or about June 30, 2011, was extended untill December 31, 2011 as discussions continue with The National Oil Company of Liberia ("NOCAL") and the Government of Liberia regarding requisite approval for the closing of the SPA.

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 Production Sharing Contract ("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.

As part of this transaction, the Company has also entered into a number of contractual arrangements in respect of a 3D seismic survey for Block LB-13. A payment of US$15 million (approximately $14.5 million) was made by the Company to settle Peppercoast's account payable for acquisition and processing of the 3D seismic survey, thereby satisfying Peppercoast's work obligations for the first phase of the Production Sharing Contract for Block LB-13. In lieu of this, the Company received a license agreement from TGS-Nopac Geological Company for a copy of the 3D seismic survey covering the 2,023 square kilometers of Block LB-13. The US$15 million payment is secured by first fixed and floating charges over all existing and future assets owned by Peppercoast and it is recognized as a long-term deposit until the completion of the SPA transaction.

In addition, on May 18, 2011, the Company signed a Technical Service Agreement with Peppercoast to provide technical support in respect of works related to the LB-13 license until the closing of the SPA. Accordingly, the Company's technical team is engaged in the Liberian project on day-to-day basis; a number of drilling prospects have been identified on the block from the interpretation of 3D seismic and the technical evaluation continues to enable identification of a primary drilling location. Also well planning work has been commenced for the first well, committed under the second phase of LB-13 license.

The Company has received a number of inquires from industry, expressing interest in joint venture participation in the Liberia project; discussions with prospective partners are at an early stage.

FINANCIAL SUMMARY

The Company's general and administrative costs increased during the first two quarters of 2011 due to an increase in the Company's activities. General and administrative costs amounted to $2.2 million and $4.4 million for the three and six months ended June 30, 2011 compared to $1.2 million and $2.6 million, respectively in 2010. A stock-based compensation expense of $4.7 million for stock options granted was recognized for the period ended June 30, 2011, compared to $0.6 million for the same period in 2010. The Company recorded no interest charges for the period ended June 30, 2011, compared to $0.2 million and $0.5 million in interest charges for the same periods in 2010. Foreign exchange gains of $0.6 million and $0.2 million were also recognized for the three and six months ended June 30, 2011, compared to no foreign exchange gains or losses in the first two quarters of 2010, which related mainly to translation of cash and cash equivalents kept in currencies other than Canadian dollars. As a result, the Company's net loss amounted to $2.2 million and $9.1 million for the three and six months ended June 30, 2011, compared to a net loss of $2.0 million and $3.77 million for the same periods in 2010.

In the first quarter of 2011, the Company obtained gross proceeds from equity financing of $91 million (approximately $85.3 million net of agent's fees and issue costs) as it met the second release condition of the Company's public offering that closed in December 2010.

In the first half of 2011 the Company formally commenced its exploration activities in the UK with total additions to its exploration and evaluation assets of $0.7 million in the first quarter and an additional $6.6 million in the second quarter.

As at June 30, 2011, the Company's cash and cash equivalents amounted to $89.2 million and included $71.1 million of cash held in escrow accounts with farm-in partners, held for use on specific exploration projects in accordance with escrow agreements.

Cash used in investing activities of $28.6 million for the six month period ended June 30, 2011, related to the additions to explorations assets, payments of cash calls and the deposit for seismic data, compared to immaterial office equipment additions in same period of 2010. Cash used in operating activities amounted to $5.1 million for the six months ended June 30, 2011, compared to $2.6 million for the same period in 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:

- fulfilling existing obligations in UK (as discussed in the "Overview" and "Commitments and Contractual Obligations" sections), that is, participating in its partners' 2011 drilling programs on a non-operator basis,
- continuing to explore options for additional property deals in the UK North Sea that will complement the Company's existing portfolio;
- working on completion of the SPA in respect of the interest in the offshore prospect in Liberia and continuing technical evaluation and well planning work under the Technical Service agreement with Peppercoast (as discussed in the "Overview" section)
- evaluating opportunities in Brazil.

Currently, the Company's partners in UK anticipate the drilling of Esperanza (Block 22/15), Lower Toad and Newt (Block 23/21) and Bluebell (Blocks 15/25a and 15/24a) in the second half of 2011; while West Columbus and Upper Toad prospects are scheduled for second quarter of 2012.

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

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

FINANCIAL AND OPERATING HIGHLIGHTS

Net Income and Cash Flows from Operating Activities

The following table summarizes the Company's financial results for the three and six months period ended June 30, 2011 and 2010:

($ 000's) except per share	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six months ended June 30, 2010
Management services income	**$ -**	$ -	**$ -**	$ 6
General and administrative expenses	**(2,216)**	(1,199)	**(4,350)**	(2,638)
Stock-based compensation	**-**	(583)	**(4,718)**	(583)
Interest income	**118**	2	**498**	2
Foreign exchange gain	**594**	-	**170**	-
Net loss	**(2,224)**	(1,973)	**(9,123)**	(3,680)
Per share loss	**$ (0.01)**	$ (0.10)	**$ (0.04)**	$ (0.20)
Cash used in operating activities	**$ (3,310)**	$ (1,031)	**$ (5,064)**	$ (2,633)
Outstanding common shares	***284,016,939***	*23,965,935*	***284,016,939***	*23,965,935*
Weighted average - basic	***284,016,939***	*19,879,816*	***230,585,183***	*18,150,626*

Comparative Financial Position Items

The following table summarizes the Company's financial position as at June 30, 2011, March 31, 2011, and December 31, 2010:

($ 000's) except per share	June 30, 2011	March 31, 2011	December 31, 2010
Cash and cash equivalents	**$ 89,225**	**$ 119,822**	$ 37,403
Current assets	**98,654**	**119,954**	37,508
Deposit for seismic data	**14,465**	**-**	-
Exploration and evaluation assets	**7,304**	**692**	-
Current liabilities	**4,878**	**1,307**	989
Share capital	**100,768**	**100,768**	41,833
Shareholders' equity (deficiency)	**$ 115,666**	**$ 119,438**	$ 36,621

The significant increase in cash and share capital in the first half of 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.

During the three months ended June 30, 2011, a deposit for seismic data for Liberian Block LB-13 was recorded in relation to potential acquisition of 100% interest in this block (as discussed in "Overview" section).

The additions to exploration and evaluation intangible assets of $7.3 million for the six month period ended June 30, 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.

ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE

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

($ 000's)	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six months ended June 30, 2010
General and administrative:				
Payroll, external directors' fees and related costs	**$ 747**	$ 275	**$ 1,440**	$ 379
Consulting services	**406**	461	**643**	1,193
Professional services	**831**	94	**1,368**	163
Travel expenses	**522**	124	**709**	251
Office expenses	**228**	184	**477**	576
Stock exchange and transfer agent fees	**43**	49	**98**	62
Other general and administrative	**-**	12	**176**	14
Capitalized costs directly related to exploration projects	**(561)**	-	**(561)**	-
Total general and administrative	**$ 2,216**	$ 1,199	**$ 4,350**	$ 2,638
Capitalized exploration and evaluation costs – UK North Sea	**$6,612**	$0	**$7,304**	$0

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses amounted to $2.2 million and $4.4 million for the three and six months ended June 30, 2011, compared to $1.2 million and $2.6 million for the same periods in 2010. The increase in expenditures reflects the increase in the size and activities of the Company's team in 2011.

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 granted to any one individual in any year 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 five years from the date of grant. The related stock-based compensation expense of $4.7 million has been recognized in the consolidated statement of comprehensive loss for the period ended June 30, 2011.

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 for the period ended June 30, 2011).

No stock options were exercised during the three and six month periods ended June 30, 2011 and 2010.

Subsequently to quarter-end, on July 1, 2011, the Company granted 300,000 stock options to an employee to acquire common shares at an exercise price of $0.46 per share. The options vest immediately and expire five years from date of grant.

**** 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.***

INTEREST INCOME AND FINANCING CHARGES

Interest income of $0.1 million for the three months ended June 30, 2011, related to interest earned on cash held at banks. For the six months ended June 30, 2011, interest income of $0.5 million included interest on funds from subscription receipts sold and kept in escrow until the release conditions were met (as per the December 2010 public offering) as well as interest on the Company's cash in banks. The interest income for the comparable periods ended June 30, 2010, was nominal.

Interest and financing charges amounted to $0.2 million and $0.5 million for the three and six month periods ended June 30, 2010, and related entirely to the Bridge Loan which was in place at that time. The loan was repaid in full during June 2010.

There were no interest and/or financing charges recognized in the consolidated statement of comprehensive loss for the three month periods ended June 30, 2011.

FOREIGN EXCHANGE GAIN

Foreign exchange gains of $0.6 million and $0.2 million were recognized for the three and six months ended June 30, 2011 (compared to nil foreign exchange gains or losses in the second quarter of 2010), and related mainly to foreign exchange gains on translation of cash and cash equivalents kept in currencies other than Canadian dollars.

TRANSACTIONS WITH RELATED PARTIES

During the first half of 2010, transactions with the Company's directors and officers in the form of consulting services totalled $0.5 million. At June 30, 2010, there were no accrued liabilities due to its directors and officers. These transactions occurred in the normal course of business and have been valued at exchange amounts based on commercial rates and terms agreed to in the related consulting contracts.

There were no similar transactions in 2011, as the Company's officers became employees in June 2010. As at June 30, 2011, accounts due from related parties amounted to $20,000, which represented travel advances, as well as accounts payable due to related parties in the amount of $25,000, which represented outstanding travel expenses.

FINANCIAL INSTRUMENTS*

The Company's financial instruments consist of cash, short-term deposits, cash held in escrow, credit card and other deposits, 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.

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SHARE CAPITAL*

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

As at June 30, 2011, there were 284,016,939 common shares issued and outstanding. The Company issued the following common shares during the six month period ended June 30, 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 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 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 unaudited consolidated financial statements as at and for the three and six months period ended June 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 June 30, 2011, the Company also had the following outstanding securities other than common shares:

- A total of 149,115,646 share purchase warrants issued and outstanding, each warrant carrying the right to acquire one common share, including: 3,566,646 warrants issued in relation to the May 2010 private placements that have an exercise price of $2.00 and an expiry date of December 14, 2011; 133,515,000 warrants issued in relation to 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 December 2010 public offering, which have an exercise price of $0.50 and an expiry date of December 1, 2013.

- 22,007,500 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 four to five years.

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LIQUIDITY AND CAPITAL RESOURCES *

As of June 30, 2011, the Company had working capital of approximately $93.8 million, shareholders' equity of $115.7 million and cash and cash equivalents of $89.2 million.

As discussed in the "Share Capital" section, during the first half of 2011, the Company obtained the remaining funds from its public offering which closed in December 2010 in the amount of approximately $85.3 million. The Company will use the proceeds from this offering mainly to finance its operations in the UK North Sea, specifically to cover capital commitments related to farm-in transactions (as discussed in the "Overview" and "Commitments and Contractual Obligations" sections).

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

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COMMITMENTS AND CONTRACTUAL OBLIGATIONS*

As at June 30, 2011, the Company has the following contractual obligations:

($ 000's)	Total	Less than One Year	One to Three Years	Four to Five Years	After Five Years
UK drilling commitments	83,000	83,000	-	-	-
Office lease	4,054	535	1,069	1,069	1,381
	87,054	**83,535**	**1,069**	**1,069**	**1,381**

Further to farm-in agreements signed in respect of exploration prospects in the UK North Sea, the Company is committed to participate in drilling six exploration wells in 2011 and 2012 at an estimated cost of $83.0 million net to the Company. Subject to positive results of these commitment wells, the Company has contingent obligations to participate in well testing and in the drilling of one additional contingent well.

The Company is committed under an operating lease agreement for the rental of office space in Calgary. The approximate lease payments total $4.1 million and are payable over the next nine years.

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 for a total sum of US$85.0 million (approximately $82.0 million) payable in cash (to a maximum of US$50 million) and common shares of COPL. The transaction is expected to close by December 31, 2011, assuming certain conditions can be satisfied, including obtaining the consent of The National Oil Company of Liberia ("NOCAL"). Block LB-13 covers an area of approximately 2,400 square kilometres and is governed by a Production Sharing Contract ("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.

The Company has received a number of inquires from industry, expressing interest in joint venture participation in the Liberia project; discussions with prospective partners are at an early stage.

The Company does not have material cash inflows and/or adequate financing to develop profitable operations. The Company is pursuing exploration and acquisition 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.

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SELECTED QUARTERLY INFORMATION

Eight Most Recent Quarters:

($ 000's)	June 30, 2011	March 31, 2011	December 31, 2010	September 30, 2010
Revenue	118	380	-	-
Net loss	(2,224)	(6,899)	(4,492)	(1,148)
Net loss per share - basic & diluted	(0.01)	(0.04)	(0.07)	(0.05)

($ 000's)	June 30, 2010	March 31, 2010	December 31, 2009	September 30, 2009
Revenue	2	6	5	-
Net loss	(1,973)	(1,707)	(1,896)	(1,276)
Net loss per share - basic & diluted	(0.10)	(0.10)	(0.12)	(0.08)

ACCOUNTING POLICIES AND ESTIMATES

Adoption of International Financial Reporting Standards (IFRS)

The Company has prepared its June 30, 2011, interim unaudited condensed 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 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.

The Company’s IFRS accounting policies are provided in Note 3 to the interim unaudited condensed consolidated financial statements as at and for the three and six month periods ended June 30, 2011. 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 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
Gerald Roe – Chief Operating Officer
Aleksandra Owad, CGA, FCCA (UK) – Chief Financial Officer

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