CANADIAN OVERSEAS PETROLEUM LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS
MARCH 31, 2012

The following is the Management's Discussion and Analysis ("MD&A") of the operating and financial results of Canadian Overseas Petroleum Limited, and its wholly owned subsidiaries COPL Technical Services Limited, Canadian Overseas Petroleum (UK) Limited ("COPL UK"), Canadian Overseas Petroleum (Bermuda Holdings) Limited ("COPL Bermuda Holdings") and Canadian Overseas Petroleum (Bermuda) Limited ("COPL B") (collectively "COPL" or the "Company") as at and for the three month period ended March 31, 2012. The information is provided as of May 11, 2012. The results for the three month period ended March 31, 2012 have been compared to the same period in 2011. This discussion and analysis should be read in conjunction with the Company's audited consolidated financial statements as at and for the years ended December 31, 2011 and 2010, together with the accompanying notes and the Annual Information Form ("AIF") dated March 29, 2012. These documents and additional information about COPL are available on the Company's website at www.canoverseas.com and on SEDAR at www.sedar.com.

All amounts are presented in Canadian dollars unless otherwise noted.

BUSINESS OF THE COMPANY

Canadian Overseas Petroleum Limited is a publicly traded oil and gas company listed on the TSX Venture Exchange (TSX-V) under the symbol "XOP".

COPL is an international oil and gas exploration and development company currently active offshore in the UK North Sea 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, 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" and "Liquidity and Capital Resources" sections);
- the Company's assumptions in respect of the calculation of stock-based compensation and valuation of warrants;
- the Company's ability to manage its financial and operational risks (the "Overview", "Loss on UK contracts", "Financial Instruments" and "Liquidity and Capital Resources" sections).

FORWARD-LOOKING INFORMATION (CONTINUED)

The Company's MD&A and AIF for the year ended December 31, 2011 describe major risks, material assumptions and other factors related to forward-looking statements that could influence actual results and are incorporated herein by reference. These risks, assumptions and other factors have been provided for readers to gain a more complete perspective on COPL's future operations. However, readers should be cautioned that the list of factors is not exhaustive and that this information may not be appropriate for other purposes. Forward-looking statements included or incorporated by reference in this MD&A are valid only as at the date of this MD&A, and the Company does not intend to update or revise these forward-looking statements except as required by applicable securities laws. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

OVERVIEW *

Projects with BG - UK

The Company (via its subsidiary COPL UK) had 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).

In November 2011, an oil discovery was made at Esperanza. The well drilling and testing took considerably longer than estimated, that is 82 days compared to 50 days as initially planned, resulting in a significant 60% 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 respective 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 escrow 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 asset values per share, the costs overruns on the Esperanza well, 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. The movement in the provision for loss on UK contracts related to the three months period ended March 31, 2012 is presented in "Loss on UK contracts" section.

OVERVIEW * (CONTINUED)

Projects with BG – UK (continued)

As at the date of filling this MD&A, there is still approximately GBP 10.1 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, the funds will not be released by the escrow agent to either party without both parties' consent or a court order.

On April 4, 2012, BG filed a claim with the High Court of Justice against the escrow agent and COPL UK, in which BG is seeking an order directing the escrow agent to release the escrow funds to BG. The Company intends to vigorously oppose the claim and the escrow agent has indicated its intention to defend the claim on the basis that it was not obliged to act on the BG claim of the escrow funds.

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. On April 18, 2012, the Company notified BG that COPL UK was executing its rights under the SPA to complete the purchase of the Block 22/15 interest. BG replied by asserting that, as a result of the termination of the SPA, that COPL UK has no rights regarding either Block 22/15 or Block 23/21. The Company is currently assessing its legal status regarding the acquisition of the 50% interest in Block 22/15.

Block 23/21 – farm-in with SSE

The Company has 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 the termination of the SPA agreement with BG, the exploration wells in Block 23/21 RoB will not be drilled. Accordingly, a respective termination agreement of the Earn-in Agreement has been proposed. SSE has indicated a willingness to terminate the Earn-In Agreement on a confirmation by BG that the 23/21 RoB wells will not be drilled. As at the date of filling this MD&A, the Company is not aware if such confirmation by BG was issued, however, in the interim, BG has released or sublet the Ocean Nomad drilling rig, which had been contracted to drill wells in Block 23/21 RoB.

The funds remaining in escrow with SSE of approximately GBP 5.0 million ($8.0 million) are expected be returned to the Company further to provisions of the termination agreement.

Bluebell Prospect - UK

As per an earn-in agreement with Premier Oil plc, 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. The drilling of Bluebell commenced in February 2012 and the well 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, resulting in lower than budgeted costs.

The Company's costs related to the Bluebell project of $9.9 million as at March 31, 2012, are recognized in statement of comprehensive loss as exploration expenses, which includes $8.2 million recognized during the three month period ended March 31, 2012.

The remaining portion of escrow funds related to the Bluebell well of approximately GBP 2.0 million ($3.2 million) as at March 31, 2012 is expected to be released to the Company in the second quarter of 2012.

OVERVIEW * (CONTINUED)

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 National Oil Company of Liberia ("NOCAL') and the Government of Liberia.

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 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.

In April 2012, NOCAL advised Peppercoast that it accepts that the proposed joint venture between ExxonMobil and COPL satisfies in-principle the technical and financial competence requirements of the transfer provisions for the PSC subject to agreeing on proposed amendments to the PSC, and the requirement that ExxonMobil acquires its 70% interest immediately following Peppercoast's assignment to COPL B.

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 2012 the Company continued its exploration activities in the UK North Sea. The total additions to its UK exploration and evaluation assets amounted to $73,000 for the three months ended March 31, 2012 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 $32.5 million were recorded against the provision for loss on UK contracts as the respective SPA with BG was terminated in February 2012. The 2012 costs related to the Bluebell prospect of approximately $8.2 million were recorded as exploration expenses as the Bluebell well drilled in March 2012 was not successful.

General and administrative costs amounted to $1.5 million for the three months ended March 31, 2012 (net of $0.5 million of costs allocated to exploration projects) compared to $2.1 million for the three months ended March 31, 2011 (with $nil costs allocated to exploration projects). A stock-based compensation expense of $4.8 million for stock options granted was recognized in the first quarter of 2011, compared to $nil for the same period in 2012. Pre-license costs related to the Liberia project amounted to $0.5 million in the first quarter of 2012; there were no such expenses in the first quarter of 2011. The Company recognized interest income of $19,000 for the first quarter of 2012, compared to $0.4 million for the same period in 2011. A foreign exchange loss of $39,000 was recorded in the first quarter of 2012, compared to a $0.4 million foreign exchange loss for the same period in 2011. As a result, the Company's loss amounted to $10.2 million for the quarter ended March 31, 2012, compared to a loss of $7.2 million for the quarter ended March 31, 2012.

As at March 31, 2012, the Company's cash and cash equivalents amounted to $37.5 million (December 31, 2011 - $71.9 million) and included $35.7 million (December 31, 2011 - $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. As at March 31, 2012, $16.1 million of these escrow funds were in dispute with BG (as discussed in the "Overview" section).

Cash used in operating activities amounted to $34.4 million for the three month period ended March 31, 2012, compared to $1.7 million for the same period in 2011.

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 PSC for Block LB-13 offshore 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, including participating in 27th Licensing Round; 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.

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FINANCIAL AND OPERATING HIGHLIGHTS

INCOME AND CASH FLOWS FROM OPERATING ACTIVITIES

The following table summarizes the Company's financial results for the three month periods ended March 31, 2012 and 2011:

($ 000's) except per share	Three months ended March 31, 2012	Three months ended March 31, 2011
Services to third parties	**$ 47**	$ -
Administrative expenses	**(1,538)**	(2,134)
Stock-based compensation	**-**	(4,718)
Exploration expenses	**(8,233)**	-
Pre-license costs	**(457)**	-
Interest income	**19**	380
Foreign exchange gain (loss)	**(39)**	(424)
Loss	**(10,208)**	(6,899)
Per share loss	**$ (0.04)**	$ (0.04)
Cash used in operating activities	**$ (34,395)**	$ (1,752)
Outstanding common shares at March 31	***284,016,939***	*284,016,939*
Weighted average - basic	***284,016,939***	*176,559,741*

Exploration expenses in the amount of $8.2 million for the three months ended March 31, 2012 relate to the Bluebell project (as discussed in the "Overview" section).

Pre-licence costs of $0.5 million for the three months ended March 31, 2012 ($nil in 2011) relate to the Liberia project for which anticipated transactions have not been completed yet.

Administrative expenses amounted to $1.5 million for three months ended March 31, 2012 compared to $2.1 million for 2011, and are presented net of cost allocated to exploration projects of $0.5 million. No such allocation was performed during comparable period of 2011.

COMPARATIVE FINANCIAL POSITION ITEMS

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

($ 000's) except per share	March 31, 2012	December 31, 2011
Cash and cash equivalents	**$ 37,516**	$ 71,924
Current assets	**37,824**	72,533
Exploration and evaluation assets	**20,667**	20,594
Deposit for seismic data	**14,987**	15,255
Provision for loss on UK contracts	**183**	32,641
Current liabilities	**10,317**	35,048
Share capital	**100,768**	100,768
Shareholders' equity	**$ 63,425**	$ 73,604

The decrease in cash of $34.4 million during three months ended March 31, 2012 relates mainly to the decrease in the provision for the loss on UK contracts of approximately $32.5 million (discussed further in the "Loss on UK Contracts" section) as well as to payments of other operating and administrative costs.

As at March 31, 2012, $35.7 million (December 31, 2011 - $67.7 million) was held in banks in escrow accounts restricted by escrow agreements signed with UK partners for use on specific exploration projects, including $16.1 million of escrow funds which are currently in dispute (discussed further in the "Overview" section).

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 March 31, 2012	Three months ended March 31, 2011
Administrative:		
Payroll, external directors' fees and related costs	**$ 808**	$ 655
Consulting services	**223**	237
Professional services	**470**	537
Travel expenses	**146**	225
Office expenses	**256**	248
Stock exchange and transfer agent fees	**52**	139
Other general and administrative	**43**	93
Costs allocated to exploration projects	**(460)**	-
Total administrative	**$ 1,538**	$ 2,134
Capitalized exploration and evaluation costs – UK North Sea	**$ 73**	$ 692

LOSS ON UK CONTRACTS *

The movement in the provision for loss on UK contracts during the period ended March 31, 2012 can be summarized as follows:

($ 000's)	Three months ended March, 31 2012
Balance, beginning of period	$ 32,641
Consideration and costs settled during period:	
Payments to BG	(32,106)
Payments to SSE	(21)
The Company's costs in respect Esperanza and Block 23/21 RoB	(331)
Provision for loss on UK contracts, end of period	$ 183

As at the date of release of these MD&A, approximately GBP 10.1 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.

On April 4, 2012, BG filed a claim with the High Court of Justice against the escrow agent and COPL UK, in which BG is seeking an order directing the escrow agent to release the escrow funds to BG. The Company intends to vigorously oppose the claim and the escrow agent has indicated its intention to defend the claim on the basis that it was not obliged to act on the BG claim of the escrow funds

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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.

As the Company's current exploration activities are carried out in the UK, significant amounts are transacted in or referenced to currencies other than the Canadian dollar, including the British Pound and U.S. dollar. As a result, fluctuations in the exchange rates between the Canadian dollar, British Pound and U.S. dollar can have a significant effect on the Company's financial position and its reported results. To mitigate a portion of its exposure and to the extent it is feasible, the Company keeps its funds in currencies applicable to its known short-tem commitments. No assurance can be given that such management of risk exposure will offset and/or eliminate the foreign exchange fluctuations.

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LIQUIDITY AND CAPITAL RESOURCES *

As of March 31, 2012, the Company had working capital of approximately $27.5 million, shareholders' equity of $63.4 million and cash of $37.5 million, including $35.7 million of cash in escrow and restricted for particular UK projects (including $16.1 million of escrow funds in dispute).

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

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SELECTED QUARTERLY INFORMATION

Eight Most Recent Quarters:

($ 000's)	March 31, 2012	December 31, 2011	September 30, 2011	June 30, 2011
Revenue	66	159	125	118
Loss	(10,208)	(42,097)	(2,208)	(2,224)
Loss per share - basic & diluted	(0.04)	(0.15)	(0.01)	(0.01)

($ 000's)	March 31, 2011	December 31, 2010	September 30, 2010	June 30, 2010
Revenue	380	6	8	2
Loss	(6,899)	(4,492)	(1,148)	(1,973)
Loss per share - basic & diluted	(0.04)	(0.07)	(0.05)	(0.10)

ACCOUNTING PRONOUNCEMENTS

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.

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

DIRECTORS

Arthur S. Millholland, P.Geol. - President and Chief Executive Officer
Harald Ludwig - 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