

Canadian Overseas Petroleum Limited
Unaudited Condensed Interim Consolidated Financial
Statements
As at September 30, 2012 and for the three and nine
month periods ended September 30, 2012 and 2011

Management's Responsibility for Unaudited Condensed Interim Consolidated Financial Statements

The information provided in these unaudited condensed interim consolidated 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 unaudited condensed interim consolidated 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 unaudited condensed interim consolidated financial statements with management and the auditors, and has reported to the Board of Directors. The Board of Directors has approved the unaudited condensed interim consolidated financial statements as presented.

Signed "Arthur S. Millholland"

Arthur S. Millholland
President and Chief Executive Officer
November 12, 2012

Signed "Aleksandra Owad"

Aleksandra Owad
Chief Financial Officer
November 12, 2012

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

	September 30, 2012	December 31, 2011
Assets		
Current		
Cash and cash equivalents (<i>note 3</i>)	\$ 6,995	\$ 71,924
Accounts receivable	840	446
Prepaid expenses	181	163
	<u>8,016</u>	<u>72,533</u>
Deposit for seismic data	14,756	15,255
Deposits and prepayments	48	43
Exploration and evaluation assets (<i>note 5</i>)	-	20,594
Office equipment	220	227
	<u>\$ 23,040</u>	<u>\$ 108,652</u>
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 2,568	\$ 2,407
Provision for loss on UK contracts (<i>note 4</i>)	164	32,641
	<u>2,732</u>	<u>35,048</u>
Shareholders' Equity		
Share capital	100,768	100,768
Warrants	37,359	37,359
Contributed capital reserve	9,113	9,113
Deficit	(127,040)	(73,964)
Accumulated other comprehensive income	108	328
	<u>20,308</u>	<u>73,604</u>
	<u>\$ 23,040</u>	<u>\$ 108,652</u>

Nature of operations (note 1)

See accompanying notes to the condensed interim consolidated financial statements.

Canadian Overseas Petroleum Limited
Condensed Consolidated Statements of Comprehensive Loss (unaudited)
(in thousands of Canadian dollars, except per share amounts)

	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Operations				
Services to third parties	\$ 19	\$ 71	\$ 129	\$ 71
E&E assets write off (note 5)	(20,908)	-	(20,908)	-
Derecognition of cash held in escrow (note 3)	(16,101)	-	(16,101)	-
Exploration	210	-	(8,234)	-
Pre-licence costs	(313)	(716)	(1,659)	(1,432)
Loss on UK contracts (note 4)	(103)	-	(114)	-
Administrative	(2,364)	(1,780)	(6,046)	(6,130)
Depreciation	(13)	(10)	(39)	(17)
Stock-based compensation	-	(78)	-	(4,796)
	<u>(39,573)</u>	<u>(2,513)</u>	<u>(52,972)</u>	<u>(12,304)</u>
Finance income and costs				
Interest income	15	54	47	552
Interest and financing charges	-	-	(10)	-
Foreign exchange (loss)/gain	(179)	251	(141)	421
	<u>(164)</u>	<u>305</u>	<u>(104)</u>	<u>973</u>
Loss	<u>(39,737)</u>	<u>(2,208)</u>	<u>(53,076)</u>	<u>(11,331)</u>
(Loss)/gain on translation of foreign subsidiaries	<u>(508)</u>	<u>4,335</u>	<u>(220)</u>	<u>2,498</u>
Comprehensive (loss)/income	<u>\$ (40,245)</u>	<u>\$ 2,127</u>	<u>\$ (53,296)</u>	<u>\$ (8,833)</u>
Loss per share (basic and diluted)	<u><u>\$(0.14)</u></u>	<u><u>\$(0.01)</u></u>	<u><u>\$(0.19)</u></u>	<u><u>\$(0.05)</u></u>
Weighted average number of shares outstanding	<u><u>284,016,939</u></u>	<u><u>284,016,939</u></u>	<u><u>284,016,939</u></u>	<u><u>248,423,904</u></u>

See accompanying notes to the condensed interim consolidated financial statements.

Canadian Overseas Petroleum Limited
Condensed Consolidated Statements of Changes in Equity (unaudited)
(in thousands of Canadian dollars)

	Share Capital	Warrants	Contributed Capital Reserve	Deficit	Accumulated Other Comprehensive Income/(Loss)	Total Equity
Balance at January 1, 2011	\$ 41,833	\$ 11,007	\$ 4,317	\$ (20,536)	\$ -	\$ 36,621
Comprehensive (loss)/income for the period				(11,331)	2,498	(8,833)
Transactions with owners, recorded directly to equity						
Issue of common shares – net of issue costs	58,890					58,890
Issue of share purchase warrants		26,364				26,364
Exercise of warrants	45	(12)				33
Stock options granted			4,796			4,796
Balance at September 30, 2011	\$ 100,768	\$ 37,359	\$ 9,113	\$ (31,867)	\$ 2,498	\$ 117,871
Balance at December 31, 2011	\$ 100,768	\$ 37,359	\$ 9,113	\$ (73,964)	\$ 328	\$ 73,604
Comprehensive loss for the period				(53,076)	(220)	(53,296)
Balance at September 30, 2012	\$ 100,768	\$ 37,359	\$ 9,113	\$ (127,040)	\$ 108	\$ 20,308

See accompanying notes to the condensed interim consolidated financial statements.

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

	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Cash Used In Operating Activities		
Loss	\$ (53,076)	\$ (11,331)
Add (subtract) non-cash items:		
Stock-based compensation	-	4,796
Net finance income	(47)	(552)
Depreciation	39	17
E&E assets write off	20,908	-
Foreign exchange gain	(14)	(363)
Funds used in operations	(32,190)	(7,433)
Net change in non-cash working capital (<i>note 7</i>)	(31,465)	(618)
	<u>(63,655)</u>	<u>(8,051)</u>
Financing Activities		
Issuance of common shares and warrants, net of issue costs	-	85,287
	<u>-</u>	<u>85,287</u>
Investing Activities		
Additions to office equipment	(32)	(192)
Additions to oil and gas exploration assets	(314)	(24,228)
Deposit for seismic data	-	(14,465)
Interest income	47	552
Net change in non-cash working capital (<i>note 7</i>)	(1,125)	8,199
	<u>(1,424)</u>	<u>(30,134)</u>
(Decrease)/increase in cash and cash equivalents during the period	(65,079)	47,102
Effect of foreign exchange on cash and cash equivalents held in foreign currencies	150	3,777
Cash and cash equivalents, beginning of period	<u>71,924</u>	<u>37,403</u>
Cash and cash equivalents, end of period	<u>\$ 6,995</u>	<u>\$ 88,282</u>

See accompanying notes to the condensed interim consolidated financial statements.

Canadian Overseas Petroleum Limited
Notes to the Unaudited Condensed Interim Consolidated Financial Statements
As at September 30, 2012 and for the three and nine month periods ended September 30, 2012 and 2011

1. NATURE OF OPERATIONS

Canadian Overseas Petroleum Limited (“COPL” or the “Company”), is a publicly traded company incorporated and domiciled in Canada. The Company’s common shares are traded on the TSX Venture Exchange in Canada. The Company’s registered office is in Calgary, Alberta at 400, 604 – 1st Street SW.

COPL and its subsidiaries are involved in the identification, acquisition, exploration and development of oil and gas offshore reserves. Currently the Company has the following subsidiaries, all of which are wholly-owned:

- COPL Technical Services Limited, which is involved in providing technical services to the COPL group of companies;
- Canadian Overseas Petroleum (UK) Limited (“COPL UK”), which is involved in the UK operations;
- Canadian Overseas Petroleum (Bermuda Holdings) Limited and Canadian Overseas Petroleum (Bermuda) Limited, which were created in May 2011 to cover anticipated operations offshore Liberia; and
- COPL New Zealand Limited, which was incorporated on November 8, 2012.

2. BASIS OF PREPARATION, SIGNIFICANT ACCOUNTING POLICIES AND GOING CONCERN

Basis of Preparation and Significant Accounting Policies

The Company’s unaudited condensed interim consolidated financial statements (“financial statements”) have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and are reported in thousands of Canadian dollars (“\$”) in accordance with International Accounting Standard (“IAS”) 34, “Interim Financial Reporting”. The Company’s financial statements should be read in conjunction with the Company’s audited annual consolidated financial statements as at and for the years ended December 31, 2011 and 2010, which outline the Company’s significant accounting policies in Note 3 thereto, as well as the Company’s critical accounting judgments and key sources of estimation uncertainty as set out in Note 3 thereto, which have been applied consistently in these financial statements.

These financial statements were approved for issuance by the Board of Directors on November 12, 2012.

Going Concern

These financial statements are prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business.

Currently, the Company does not have material cash inflows and/or adequate financing to develop profitable operations. The Company is pursuing exploration projects and contracts that, if successful, will require substantial additional financing before they are able to generate positive operating cash flows. Accordingly, the Company’s continued successful operations are dependent on its ability to obtain additional financing. There is no assurance that the Company will be able to obtain adequate financing in the future or that such financing will be obtained on terms advantageous to the Company.

Consequently, the Company’s ability to continue as a going concern is dependent on management’s ability to complete equity or debt financings. With no assurance that such financing will be obtained in 2012, there is a significant doubt that the Company will be able to continue as a going concern. These financial statements do not give effect to adjustments to the carrying values and classifications of assets and liabilities that would be necessary should the Company be unable to continue as a going concern.

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3. CASH AND CASH EQUIVALENTS

	September 30, 2012	December 31, 2011
Cash	\$ 2,120	\$ 3,889
Short-term deposits	1,300	-
One month bankers' acceptances	2,997	-
Cash in escrow accounts	318	67,735
Credit card deposits	260	300
	\$ 6,995	\$ 71,924

On April 4, 2012, BG filed a claim with the High Court of Justice against COPL UK and JPMorgan Chase Bank, the escrow agent, seeking an order directing the escrow agent to release the escrow funds to BG pending resolution of the underlying dispute between the parties. The Company opposed the claim on the basis that the escrow agent had exercised its discretion to retain the funds until the underlying dispute between COPL and BG was solved or determined by a court.

On October 12, 2012, the High Court of Justice ruled that the escrow agent should release the funds held in escrow to BG, but did not rule on the underlying dispute between the parties. On November 5, 2012 the escrow funds of approximately GBP 10.1 (approximately \$16.1 million) were transferred to BG. As a result Company has derecognized the cash held in escrow as at September 30, 2012, as the recovery of this amount is uncertain and is subject to the outcome of ongoing litigation between the Company and BG on this and other matters.

The Court also ruled that the Company be liable to pay legal fees to BG in the amount of GBP 65,000 (approximately \$103,000) which is accounted for as an increase in a provision for loss on UK contracts as at September 30, 2012.

4. LOSS ON UK CONTRACTS

The movement in the provision for loss on UK contracts during the period ended September 30, 2012 can be summarized as follows:

	Nine months ended September 30, 2012
Balance, January 1, 2012	\$ 32,641
Addition to the termination provision	114
Consideration and costs settled during period:	
Payments to BG	(32,106)
Payments to SSE E&P UK Limited	(21)
The Company's costs in respect of Esperanza and Block 23/21 RoB	(464)
Provision for loss on UK contracts, end of period	\$ 164

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5. E&E ASSETS WRITE OFF

As at September 30, 2012, the Company has written off exploration and evaluation assets of \$20.9 million related to the Fulla exploration project of Block 206/5a in the UK, North Sea. Although the Fulla exploration well drilled in late 2011 encountered an oil column, further analysis revealed that that a development of the existing discoveries is not commercially viable and that there is insufficient prospectivity to conduct further exploration/appraisal work; in October 2012, the operator confirmed its intent to relinquish the license.

6. FINANCIAL INSTRUMENTS

a) Fair values

As at September 30, 2012 and December 31, 2011, the fair values of all financial instruments not carried at fair value approximated their carrying values due to their short-term maturity.

(b) Foreign exchange risk

Cash and cash equivalents includes amounts denominated in foreign currencies:

	September 30, 2012	December 31, 2011
British Pounds	1,177	41,698
U.S. Dollars	441	682

7. NET CHANGE IN NON-CASH WORKING CAPITAL

	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Increase in accounts receivable	\$ (641)	\$ (58)
Increase in prepaid expenses and deposits	(23)	(169)
Increase/(decrease) in operating accounts payable and accrued liabilities	1,539	(391)
Settlement of loss on contract with BG	(32,477)	-
Non-cash transaction:		
Net effect of foreign exchange	137	-
Net change in operating non-cash working capital	\$ (31,465)	\$ (618)
Decrease in accounts receivable	247	-
(Decrease)/increase in accounts payable related to exploration assets	(1,372)	10,233
Non-cash transaction:		
Net effect of foreign exchange	-	(2,034)
Net change in investing non-cash working capital	\$ (1,125)	\$ 8,199