Canoel International Energy Ltd.

Consolidated Financial Statements
As at and for the years ended March 31, 2012 and 2011

Managements' Responsibility for Financial Reporting

The accompanying consolidated financial statements of Canoel International Energy Ltd. (the "Company") as at and for the years ended March 31, 2012 and 2011 have been prepared by and are the responsibility of the management of the Company and are approved by the board of directors of the Company. The consolidated financial statements are prepared in accordance with International Financial Reporting standards ("IFRS") and reflect management's best estimates and judgments based on currently available information.

(signed)"Andrea Cattaneo"	(Signed)"John Arne Farstad"
President and Chief Executive Officer	Chief Financial Officer

July 26, 2012

Calgary, Alberta

Tel: 403 266 5608
Fax: 403 233 7833
www.bdo.ca

BDO Canada LLP
620, 903 - 8th Avenue SW
Calgary AB T2P 0P7 Canada

Independent Auditors' Report

To the Shareholders of
Canoel International Energy Ltd.

We have audited the accompanying consolidated financial statements of Canoel International Energy Ltd., which comprise the consolidated statements of financial position as at March 31, 2012, March 31, 2011 and April 1, 2010 and the consolidated statements of comprehensive loss, statements of changes in equity, and statements of cash flows for the years ended March 31, 2012 and March 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Canoel International Energy Ltd. as at March 31, 2012, March 31, 2011 and April 1, 2010 and its financial performance and cash flows for the years ended March 31, 2012 and March 31, 2011 in accordance with International Financial Reporting Standards.

Emphasis of matter

In forming our opinion on the consolidated financial statements, which is not qualified, we draw attention to note 2 to the consolidated financial statements, which describes that the Company requires additional funding to continue with its exploration and development activities. These conditions, along with other matters as set forth in note 2, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

BDO Canada LLP

Chartered Accountants
Calgary, Alberta
July 25, 2012

Canoel International Energy Ltd.

Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

	Note	**March 31, 2012** $	March 31, 2011 $	April 1, 2010 $
ASSETS			(Note 27)	(Note 27)
Current assets				
Cash and cash equivalents		**1,447,708**	1,806,453	992,599
Trade and other receivables	7	**1,030,203**	1,153,269	547,542
Inventory	9	**87,887**	32,709	–
Prepaid expenses		**34,763**	71,194	11,727
		2,600,561	3,063,625	1,551,868
Non-current assets				
Property and equipment	11	**4,683,617**	4,830,413	–
Exploration and evaluation assets	12	–	691,218	986,420
Total assets		**7,284,178**	8,585,256	2,538,288
LIABILITIES				
Current liabilities				
Trade and other payables	13	**2,271,937**	1,423,461	261,566
Note payable	10 & 15	**536,323**	969,600	–
Loan payable	16	**1,995,000**	–	–
Oil share agreement	10	**647,358**	–	–
		5,450,618	2,393,061	261,566
Non-current liabilities				
Oil share agreement	10	–	531,782	–
Decommissioning obligation	14	**1,612,075**	2,169,937	–
Long-term debt	16	–	1,939,600	–
Convertible notes	17	**1,348,722**	204,111	–
Derivative liability	17	**36,067**	–	–
Total liabilities		**8,447,482**	7,238,491	261,566
EQUITY				
Share capital	19	**5,464,242**	5,112,214	3,136,450
Equity component of convertible debt	17	–	69,424	–
Warrants	19	**573,571**	114,033	479,283
Contributed surplus		**857,912**	750,221	195,535
Accumulated other comprehensive loss		**(251,748)**	(76,306)	–
Deficit		**(7,807,281)**	(4,622,821)	(1,534,546)
Total equity		**(1,163,304)**	1,346,765	2,276,722
Total equity and liabilities		**7,284,178**	8,585,256	2,538,288

Going concern (note 2), Commitments (note 25)

Subsequent event (note 28)

Approved by the Board of Directors

(Signed) “*Erik Larre*”
Director

(Signed) *“Andrea Cattaneo”*
Director

The accompanying notes are an integral part of these consolidated financial statements.

Canoel International Energy Ltd.

Consolidated Statements of Comprehensive Loss and Other Comprehensive Loss
For the years ended March 31
(Expressed in Canadian dollars)

	Note	**2012**	2011
		$	$
			(Note 27)
Oil and gas revenue		**2,254,533**	1,375,896
Royalties		**(303,020)**	(124,041)
		1,951,513	1,251,855
Expenses			
Operating		**1,228,136**	908,636
Transportation		**118,792**	18,704
General and administrative		**2,528,661**	2,000,865
Exploration expense		**–**	513,149
Foreign exchange		**(44,179)**	76,872
Depletion and depreciation	11	**322,447**	189,975
Gain on change in fair value of convertible debentures	17	**(23,494)**	–
Loss on termination agreement	12	**372,400**	–
Impairment loss on exploration and evaluation assets	12	**–**	295,202
Loss on the sale of exploration and evaluation assets	12	**69,939**	–
		4,572,702	4,003,403
Finance income		**867**	665
Finance expense		**564,138**	286,577
Net finance expense	8	**563,271**	285,912
Loss before tax		**(3,184,460)**	(3,037,460)
Income tax recovery (expense)	18	**-**	(50,815)
Loss for the year		**(3,184,460)**	(3,088,275)
Other comprehensive loss			
Foreign currency translation on foreign operations		**175,442**	76,306
Net loss and comprehensive loss for the year		**(3,359,902)**	(3,164,581)
Net loss per share			
Basic and diluted	19	**(0.07)**	(0.10)
Weighted average shares outstanding during the year			
Basic and diluted		**43,816,665**	32,350,980

The accompanying notes are an integral part of these consolidated financial statements.

Canoel International Energy Ltd.

Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

	Note	**2012**	2011
		$	**$**
Operating activities			
Net loss for year		**(3,184,460)**	(3,088,275)
Items not involving cash:			
Unrealized foreign exchange gain		**69,318**	(28,247)
Royalties on oil share agreement		**99,821**	–
Share based compensation		**–**	132,449
Depletion and depreciation		**322,447**	189,975
Impairment loss on exploration and evaluation assets		**–**	295,202
Loss on the sale of exploration and evaluation assets		**69,939**	–
Gain on fair value of convertible debt		**(23,494)**	–
Loss on termination agreement		**372,400**	–
Finance expense on decommissioning obligation		**220,800**	169,764
		(2,053,229)	(2,329,132)
Foreign exchange on translation		**(196,757)**	(700,959)
Change in non cash working capital	21	**1,366,321**	833,353
		(883,665)	(2,196,738)
Investing activities			
Expenditures on property and equipment		**(943,870)**	(340,641)
Acquisition of property and equipment		–	(1,440,880)
Disposal of exploration and evaluation assets		**621,279**	–
Cash acquired from corporate acquisition		–	273,593
Change in non cash working capital	21	**320,554**	19,037
		(2,037)	(1,488,891)
Financing activities			
Proceeds from issuance of convertible notes		**1,289,060**	575,000
Proceeds from issuance of notes payable		**544,414**	–
Long term debt		–	2,000,000
Repayment of borrowings		**(992,958)**	(376,923)
Proceeds from issue of share capital		**670,722**	1,420,944
Change in non-cash working capital	21	**(942,718)**	1,007,408
		568,520	4,626,429
Change in cash and cash equivalents		**(317,182)**	940,800
Effect of foreign translation on cash and cash equivalents		**(41,563)**	(126,946)
Cash and cash equivalents, beginning of year		**1,806,453**	992,599
Cash and cash equivalents, end of year		**1,447,708**	1,806,453
Interest paid		**144,560**	116,520

The accompanying notes are an integral part of these consolidated financial statements.

Canoel International Energy Ltd.

Consolidated Statements of Changes in Equity
(Expressed in Canadian dollars)

	Note	Share capital		Equity component of convertible debt	Warrants	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total equity
		Number	Amount						
Balance April 1, 2010		21,618,715	3,136,450	–	479,283	195,535	–	(1,534,546)	2,276,722
Non-brokered private placement		3,631,217	435,746	–	–	–	–	–	435,746
Norwegian private placement		9,110,729	1,093,288	–	–	–	–	–	1,093,288
Share issue cost		–	(108,090)	–	–	–	–	–	(108,090)
Share based compensation		–	–	–	–	132,449	–	–	132,449
Issuance of convertible notes		–	–	142,280	12,857	–	–	–	155,137
Finders warrants		–	–	–	1,160	–	–	–	1,160
Fair value of share purchase warrants		–	(42,970)	–	42,970	–	–	–	–
Oren Oil share transaction		602,413	72,290	–	–	–	–	–	72,290
Warrants expired		–	–	–	(422,237)	422,237	–	–	–
Share of Oren Oil ASA debt		1,813,051	217,500	–	–	–	–	–	217,500
Debt conversion		2,566,667	308,000	(72,856)	–	–	–	–	235,144
Other comprehensive loss for the year		–	–	–	–	–	(76,306)	–	(76,306)
Net loss for the year		–	–	–	–	–	–	(3,088,275)	(3,088,275)
Balance March 31, 2011		39,342,792	5,112,214	69,424	114,033	750,221	(76,306)	(4,622,821)	1,346,765
Debt conversion		2,016,666	242,000	(69,424)	–	6,535	–	–	179,111
Issuance of convertible notes		–	–	75,800	–	–	–	–	75,800
Non-brokered private placements		11,200,034	670,722	–	–	–	–	–	670,722
Fair value of share purchase warrants		–	(560,694)	–	560,694	–	–	–	–
Warrants expired		–	–	–	(101,156)	101,156	–	–	–
Adjustment to convertible notes to hybrid instrument		–	–	(75,800)	–	–	–	–	(75,800)
Net loss for the year		–	–	–	–	–	–	(3,184,460)	(3,184,460)
Other comprehensive loss for the year		–	–	–	–	–	(175,442)	–	(175,442)
Balance March 31, 2012		52,559,492	5,464,242	–	573,571	857,912	(251,748)	(7,807,281)	(1,163,304)

The accompanying notes are an integral part of these consolidated financial statements.

1 Nature of operations

Canoel International Energy Ltd. ("Canoel" or the "Company") was incorporated pursuant to the provisions of the British Columbia Business Corporations Act on September 20, 2007. The address of the Company's registered office is 15th Floor, 850 - 2nd Street S.W., Calgary, Alberta T2P 0R8, Canada. The Company is primarily involved in the exploration for, development of and production of petroleum and natural gas properties in Argentina.

On March 10, 2010, the Company formed Ingenieria Petrolera del Rio de la Plata S.R.L. ("IPRP"), a wholly owned subsidiary of the Company. IPRP was established to negotiate management agreements to operate existing producing properties on behalf of other companies.

On July 22, 2010, the Company acquired 100% of Central Patagonia SRL ("Central Patagonia"), a subsidiary of two U.S. based companies, Central Patagonia Corporation (since renamed Petrolera Patagonia Corporation) and CPC Holdings (since renamed PP Holdings), thereby acquiring two adjacent oil producing properties in Argentina (the "Argentina Acquisition"). Central Patagonia SRL has since been renamed Petrolera Patagonia SRL. In anticipation of the completion of the Argentina Acquisition, on July 20, 2010 the Company formed a wholly owned U.S subsidiary, Ingenieria Petrolera Patagonia Ltd. ("IPP") to act as the acquirer of the two US companies controlling Central Patagonia.

On March 23, 2011, Canoel established Canoel Italia S.R.L ("Italia S.R.L.") a wholly owned subsidiary of the Company, to have an operating entity as required by the Ministry of Economic Development in order to place bids on oil & gas properties.

2 Going Concern

As at March 31, 2012, the Company had not yet achieved profitable operations, has a working capital deficit of $2,850,057 (March 31, 2011 – working capital of $670,564) and an accumulated deficit of $7,807,281 (March 31, 2011 - $4,622,821) since its inception, and expects to incur further losses in the development of its business. Current cash resources will not be sufficient to continue the exploration and development activities. These matters raise significant doubt about the ability of the Company to continue to meet its obligations as they become due. Continuing operations are dependent on the ability to obtain adequate funding to finance existing operations, and attain future profitable operations in Argentina. Additional financing is subject to the global financial markets and economic conditions, and volatility in the debt and equity markets. These factors have made, and will likely continue to make, it challenging to obtain cost effective funding. There is no assurance this capital will be available and if it is not, the Company may be forced to curtail or suspend planned activity (note 28).

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles applicable to a going concern, which assumes that the Company will be able to realize its assets and meet its obligations and continue its operations for the foreseeable future. Realization values may be substantially different from carrying values as shown and these consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis were not appropriate for these consolidated financial statements, then the adjustments would be necessary in the carrying value of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used. These adjustments could be material.

3 Basis of presentation

a) Statement of compliance

These consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The Company adopted IFRS effective April 1, 2011, with a transition date of April 1, 2010; therefore, this represents the Company's first annual financial statements issued in accordance with IFRS and the application of IFRS 1 "First-time Adoption of International Financial Reporting Standards". IFRS 1 requires that a Company develop accounting policies based on the current interpretations effective as at the reporting date and apply these policies for all periods presented in the financial statements. The accounting policies are outlined in Note 4. These policies have been retrospectively and consistently applied except where specific exemptions permitted an alternative treatment upon transition to IFRS in accordance with IFRS 1. The financial statements for the year ended March 31, 2011 were prepared in accordance with Canadian GAAP. Canadian GAAP differs from IFRS in certain areas; therefore, the financial statements for the comparative periods have been re-stated under IFRS. Reconciliations and the effect of the transition from Canadian GAAP to IFRS are disclosed in Note 27.

These financial statements were authorized for issue by the Board of Directors on July 25, 2012.

Operating expenses in the statement of operations are presented as a combination of function and nature in conformity with industry practice. Depletion and depreciation are presented on a separate line by their nature, while operating expenses and net general and administrative expenses are presented on a functional basis. Significant expenses such as salaries, wages and fees and share-based compensation are presented by their nature in the notes to the financial statements.

b) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments and share based payments, which are measured at fair value. The methods used to measure fair values are discussed in Note 6.

c) Functional and presentation currency

These consolidated financial statements have been presented in Canadian dollars. The Company's functional currencies are Peso's for the Argentina subsidiary, US dollars for the US subsidiaries, and Euro's for the subsidiary in Italy. Currencies are noted as follows: US$ for United States dollars and ARS$ for Argentine pesos.

d) Use of estimates

The preparation of financial statements in conformity with IFRS requires the use of judgment, estimates, and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income, and expenses at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's reasonable knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Any change in estimate is recorded in the reporting period in which the estimate is revised.

3 Basis of presentation (continued)

d) Use of estimates (continued)

The critical accounting judgments, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Property & equipment, depletion & depreciation, and exploration & evaluation assets:

Estimated useful lives and residual values of tangible equipment are reviewed annually. Estimated reserve lives and the value of the reserves are reviewed each reporting period. The carrying values of property & equipment and exploration & evaluation assets are reviewed for impairment where there has been a trigger event (that is, an event which may have resulted in impairment) by assessing the recoverable amount. Recoverable amount is the higher of fair value less costs to sell and value in use which is determined by the present value of future cash flows. The calculation of estimated future cash flows is based on estimates of gross reserves, production rates, oil and gas prices, future costs, discount rates, and other relevant assumptions and is, therefore, subjective.

Decommissioning obligation

In accounting for the decommissioning obligation, the Company makes assumptions regarding the timing and the amount of reclamation and abandonment expenditures, inflation, discount rate, and possible changes in the legal and regulatory environment. This estimate is reviewed each reporting period.

Fair value of financial instruments

As described in Notes 6 and 24, management would use judgment in selecting an appropriate valuation technique for financial instruments not quoted in an active market.

Share based compensation

In accounting for the fair value of stock options and warrants, the Company makes assumptions regarding share price volatility, risk free rate, forfeiture rate, and expected life in order to determine the amount of associated expense to recognize.

Income taxes

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in profit or loss both in the period of change, which would include any impact on cumulative provisions, and in future periods. Deferred tax assets (if any) are recognized only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse and a judgment as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as the amounts recognized in profit or loss in the period in which the change occurs.

4 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements. Certain comparative amounts in the financial statements have been reclassified to conform to the current year's presentation.

a) Cash and cash equivalents

Cash and cash equivalents consist of cash in the bank and short term highly liquid investments with maturities of three months or less.

b) Inventory

Inventory consists of oil and condensate, which are recorded at the lower of cost and net realizable value. Cost is comprised of operating expenses that have been incurred in bringing inventories to their present location and condition and the portion of depletion expense associated with the oil and condensate production. Net realizable value is the estimated selling price in the ordinary course of business less applicable variable selling expenses. The Company assigns the cost of inventory using the first-in-first out method. Inventory outstanding at the beginning of the period is sold during the period.

c) Prepaid expenses

Prepaid expenses include prepaid annual fees which are based on the invoiced amount and amortized over the term of the related payment.

d) Property and equipment

Recognition and measurement:

Property and equipment are initially measured at cost. Subsequent to initial measurement, property and equipment are stated at cost less accumulated depletion & depreciation and accumulated impairment losses. Costs include expenditures incurred for acquisition of land, drilling completing and equipping wells, geological and geophysical studies, directly attributable general and administrative expenses, and anticipated reclamation and abandonment.

Costs relating to major inspections, overhauls and workovers are included in the asset's carrying amount if the costs incurred will result in economic benefit flowing to the Company over an extended period of time. If an asset is replaced, the original asset would be derecognized. Once commercial viability and technical feasibility are confirmed, costs are reclassified from exploration and evaluation assets to a cash generating unit ("CGU") in property and equipment. A CGU is defined as the smallest group of assets that generates cash inflows from continuing use that largely are independent of the cash inflows of other assets or groups thereof. Components are defined as a part of an item of property and equipment with a cost that is significant in relation to the total cost of the item and would be depleted or depreciated separately. All other repairs and maintenance costs are expensed as incurred.

Gains and losses on disposal of an item of property and equipment, including oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized as a separate line item in the statement of loss.

4 Significant accounting policies (continued)

d) Property and equipment (continued)

Depletion and depreciation:

The carrying amounts of property and equipment, including initial and any subsequent capital expenditure, are depleted for each component using the units of production method based on the ratio of production in the quarter to the related estimated proved and probable reserves of oil and natural gas before royalties as determined by independent petroleum engineers. Future development costs and decommissioning costs necessary to bring these reserves into production are included in the depletion calculation. For purposes of the depletion calculation, natural gas reserves and production are converted to equivalent volumes of crude oil based on relative energy content of six thousand cubic feet to one barrel of oil. Depletion and depreciation commences on the date that the asset is available for use. Office furniture and equipment are recorded at cost and are depreciated on the declining balance basis using rates varying from 10% to 30%. Estimates of residual values and useful lives are assessed annually and any change in estimate is taken into account in the determination of depletion and depreciation.

Proved and probable reserves are estimated in independent reserves evaluation reports which present the estimated quantities of crude oil, natural gas and natural gas liquids demonstrated with specific degrees of certainty to be recoverable from known reservoirs which are considered commercially producible. Proved reserves are considered to have a 90 percent probability that the actual quantity of recoverable reserves will be more than the amount estimated and a 10 percent probability that it will be less. Probable reserves carry a 50 percent probability that the actual recoverable reserves will exceed the estimated recoverable reserves, and a 50 percent probability of being less than the estimate.

Reserves may be considered commercially producible if management has the intent of developing and producing them, and that intent is based on reasonable assessment of economics of such production, a reasonable expectation of markets for the production, and evidence that the required production, transmission and transportation facilities will be available.

Reserves may only be deemed proved and probable based on actual production or a conclusive formation test. The area of the reservoir considered proved includes the portion delineated by drilling and the immediately adjoining portions not yet drilled, but reasonably judged as economically productive on the basis of available data.

The Company's oil and gas reserves are determined in accordance with the standards contained in National Instrument 51-101 Standard for Oil and Gas Activities and the Canadian Oil and Gas Evaluation Handbook.

Impairment:

At each reporting date, the Company assesses whether there are any events or changes in circumstances that would indicate that an asset may be impaired. Where an indicator of impairment exists, the Company prepares a formal estimate of the cash generating unit's recoverable amount. The recoverable amount of a cash generating unit is the greater of its value in use and its fair value less costs to sell.

Value in use is generally the present value of the future cash flows expected to be generated from production of proved and probable reserves determined by reference to the reserve report. The estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset.

4 Significant accounting policies (continued)

d) Property and equipment (continued)

Fair value less cost to sell is determined as the amount that would be obtained from the sale of a cash generating unit in an arm's length transaction between knowledgeable and willing parties. For oil and natural gas assets, fair value less cost to sell is generally the net present value of the estimated future cash flows expected to arise from continued use of the cash generating unit, including future expansion and disposal, discounted by an appropriate discount rate which a market participant would apply to arrive at a net present value of the cash generating unit. Consideration is given to acquisition metrics of recent transactions completed on similar assets to those contained within the relevant CGU.

An impairment loss is recognized in profit or loss if the carrying amount of an asset exceeds its estimated recoverable amount.

Impairment losses from prior years are assessed at each reporting date for indications that the loss has decreased or ceased to exist. If a change in the estimates used to determine the recoverable amount so indicate, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount which would have been determined, net of depletion and depreciation, if no impairment loss had been recognized.

e) Exploration and evaluation assets

Recognition:

Pre-license costs are recognized in profit or loss as incurred. Costs incurred for the exploration and evaluation of mineral resources after the Company has obtained the legal rights to explore a specific area and before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable are considered to be exploration and evaluation assets. Exploration and evaluation assets are measured at cost. Costs include acquisition of the rights to explore, geological & geophysical studies, exploratory drilling and completion, and activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource. Subsequent to initial measurement, exploration and evaluation assets are measured at cost less any accumulated impairment losses. Exploration and evaluation assets are transferred to property and equipment once technical feasibility and commercial viability can be demonstrated.

Gains and losses on disposal of an item of exploration and evaluation assets are determined by comparing the proceeds from disposal with the carrying amount and are recognized as a separate line item in the statement of operations.

Impairment:

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. As well, once technical feasibility and commercial viability can be demonstrated, exploration and evaluation assets are tested for impairment prior to being transferred to property and equipment. The recoverable amount of a cash generating unit is the greater of its value in use and its fair value less costs to sell.

Value in use is generally the present value of the future cash flows expected to be generated from production of proved and probable reserves determined by reference to the reserve report. The estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset.

4 Significant accounting policies (continued)

e) Exploration and evaluation assets (continued)

Fair value less cost to sell is determined as the amount that would be obtained from the sale of a cash generating unit in an arm's length transaction between knowledgeable and willing parties. For oil and natural gas assets, fair value less cost to sell is generally the net present value of the estimated future cash flows expected to arise from continued use of the cash generating unit, including future expansion and disposal, discounted by an appropriate discount rate which a market participant would apply to arrive at a net present value of the cash generating unit.

When indicators of impairment are present, the Company will measure any resulting impairment loss on an asset by asset basis. Exploration and evaluation assets must also be tested for impairment once technical feasibility and commercial viability can be demonstrated before reclassification to property and equipment.

f) Jointly controlled operations and jointly controlled assets

Many of the Company's activities involve jointly controlled assets. The financial statements include the Company's share of these jointly controlled assets and the proportionate share of relevant revenue and expenses.

g) Financial instruments

The Company would recognize a financial asset or a financial liability in its statement of financial position when it becomes a party to the contractual provisions of the instrument.

Financial instruments comprise cash and cash equivalents, accounts and other receivables, trade and other payables, long term debt, notes payable and convertible debentures.

The Company would measure these financial instruments as follows:

i) Financial assets and liabilities at fair value through profit or loss – These instruments are acquired primarily for the purpose of selling or repurchasing in the near term and are recorded at fair value both upon initial recognition and subsequent measurement. Transaction costs associated with the acquisition are expensed. Changes in fair value are recognized in the statement of comprehensive loss. The Company doesn't hold any instruments in this category.

ii) Held to maturity investment – These instruments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Company would have the positive intention and ability to hold to maturity. Upon initial recognition, this instrument would be recognized at fair value plus any transaction costs that are directly attributed to the acquisition. Subsequently, these instruments are measured at amortized cost using the effective interest method. The Company doesn't hold any instruments in this category.

4 Significant accounting policies (continued)

g) Financial instruments (continued)

iii) Available for sale investments – These instruments are those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss and are initially recognized at fair value plus transaction costs. These instruments are subsequently measured at fair value with the changes in fair value being recognized in other comprehensive income. The Company doesn't hold any instruments in this category.

iv) Loans and receivables – These instruments are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recorded at fair value. Subsequently, these instruments are measured at amortized cost using the effective interest rate method less any estimate for impairment. The instruments held by the Company in this category are cash and cash equivalents, trade receivables, and other receivables.

v) Financial liabilities at amortized cost – These instruments are recognized initially at fair value and are subsequently measured at amortized cost using the effective interest method. The instruments held by the Company in this category are trade payables, other payables, note payable, long term debt, and convertible notes.

Compound financial instruments

Compound financial instruments include convertible notes which can be converted to common shares at the option of the holder at any time prior to maturity. If the conversion feature in the instrument results in a fixed number of shares being issued for a fixed amount of consideration, the instrument is accounted for as a compound financial instrument. The compound financial instrument is bifurcated and recorded with an equity and liability component. The liability component is recognized initially at the fair value of a liability without the equity conversion feature. The equity component is recognized initially as the difference between the fair value of the convertible debt and the fair value of the liability component. Transaction costs are allocated between the liability and equity component proportionately based on the initial values of each component. Subsequently, the liability component is measured at amortized cost using the effective interest method. Interest is recognized in finance expense in the statement of loss and comprehensive loss. The equity component is not re-measured after initial recognition. Upon conversion, the liability component is reclassified to equity and no gain or loss would be recognized.

Hybrid instruments

If the conversion feature in the instrument does not result in a fixed number of shares being issued for a fixed amount of consideration, the instrument is recorded as a liability with an embedded derivative. Upon initial recognition and for subsequent financial reporting periods, embedded derivatives are accounted for at fair value with any changes in fair value being recorded in the statement of loss. The fair value of the embedded derivative is determined using the Black Scholes model and the difference between the embedded derivative and the original amount of the instrument is allocated to the liability.

4 Significant accounting policies (continued)

g) Financial instruments (continued)

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

Warrants

Upon issuance, the substance of the contractual arrangement for the warrant is reviewed to determine whether the warrant is an equity instrument or a financial liability. If the terms of the warrant include:

i. No contractual obligation to deliver cash or another financial asset or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the issuer; and

ii. If the warrant may be settled with the Company's own equity instruments, it is a non-derivative that includes no contractual obligation for the Company to deliver a variable number of its own equity instruments or a derivative that will be settled only by the Company exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments. Warrants to acquire a fixed number of the Company's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. An impairment loss of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. All impairment losses are recognized in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

De-recognition of financial instruments

The Company would derecognize a financial asset when the contractual right to receive its cashflows expires or rights are transferred in a manner where substantially all the risks and rewards of ownership are transferred in the transaction. The Company would derecognize a financial liability when its contractual obligations are discharged, cancelled, or expired.

Offsetting of financial instruments

A financial asset and a financial liability shall be offset and the net amount presented in the statement of financial position when the Company: i) currently has a legally enforceable right to off set the recognized amounts; and ii) intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

4 Significant accounting policies (continued)

h) Share based payments

The Company issued equity-settled share-based payments to employees and other individuals which are subject to service conditions. The fair value of equity-settled share-based payments is measured at the date of grant using the Black Scholes option pricing model and expense is recognized in the statement of comprehensive loss over the period during which service conditions are required to be met or immediately where no performance or service criteria exist. Inputs include share price on date of grant, exercise price, expected volatility which is estimated based on historical price trends, dividends, estimated forfeiture rate which is based on historical staff turnover, and risk free interest rate. The amount recognized as an expense is adjusted to reflect the actual number of options that vest.

i) Provisions

A provision is recognized in the statement of financial position when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount can be reliably estimated. The amount recognized as a provision would be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. If the effect is material, provisions are determined by discounting the expected future cash flows at an appropriate pre-tax discount rate. Future operating costs are not provided for. A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

Decommissioning obligation

Liabilities for decommissioning and restoration based on both constructive and legal obligations are initially measured at the present value of management's best estimate of cash outflows required to settle the present obligation at the reporting date. Such costs are capitalized as part of the cost of property and equipment and depleted over the life of the asset.

The change in the liability due to the passage of time is recognized as an increase in finance expense in the statement of comprehensive loss and in the carrying value of the obligation. A change resulting from revisions to either the timing or the amount of the original estimate of cash flows is recognized as an increase or decrease in the carrying amount of the obligation, with an offsetting increase or decrease in the carrying amount of the associated asset. Actual costs incurred upon settlement of the obligation are charged against the provision to the extent the provision was established.

j) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity.

Current income tax is the expected tax payable on the taxable income for the period using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

4 Significant accounting policies (continued)

j) Income tax (continued)

Deferred income tax is recognized providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

Deferred income tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

k) Revenue

Petroleum and natural gas revenue are recognized as revenue when the significant risks and rewards of ownership of the product are transferred to the buyer, which is usually when commodities are delivered and title passes to the purchaser.

l) Employee benefits

Short term employee benefits

Short term benefits such as salaries, bonuses, contributions to employment insurance or Canada pension plan, and other employee benefits are measured on an undiscounted basis and are recognized in general and administrative expense and capitalized to property and equipment or exploration and evaluation assets as the service is provided.

m) Finance income and expense

Finance expense is comprised of interest expense on debt, accretion of the discount on decommissioning obligation, accretion on convertible notes, and other miscellaneous interest expense.

Finance income is recognized as it accrues in profit or loss using the effective interest method.

n) Leases

Payments made under operating leases are recognized in expense in accordance with the terms and conditions of the lease which typically results in payments being recognized on a straight line basis over the term of the lease. The Company does not currently have any finance leases.

4 Significant accounting policies (continued)

o) Foreign exchange

Foreign currency transactions

Transactions in foreign currencies are recorded at the rates of exchange prevailing at the dates of the individual transaction. In subsequent reporting periods, foreign currency monetary items are translated using the closing rate and non-monetary items are translated on a historical cost basis using the exchange rate at the date of transaction. Non-monetary items measured at fair value would be translated using the exchange rate on the date when fair value was determined. Gains and losses arising from subsequent changes in exchange rates are recognized in the statement of comprehensive loss.

Foreign currency translation

The subsidiaries in the US, Argentina, and Italy have US dollars, Argentinean Pesos, and Euro's respectively as their functional currencies. As the Company reports its results in Canadian dollars, these subsidiaries must be translated to Canadian dollars. Assets and liabilities are translated using the closing exchange rate on the date of the statement of financial position. Income and expenses are translated using an exchange rate on the dates of the transactions. Foreign exchange gains and losses resulting from the translation from the functional currency to the presentation currency are recorded in other comprehensive income.

p) Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries Ingenieria Petrolera Patagonia, Petrolera Patagonia Corporation, PP Holdings Inc, Petrolera Patagonia SrL, Ingenieria Petrolera del Rio de La Plata Srl, and Canoel Italia Srl. Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing these consolidated financial statements.

q) Loss per share

Basic loss per share represents net loss for the period divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share represents net loss divided by the weighted average number of common shares outstanding during the period plus the weighted average number of dilutive shares resulting from options and warrants where the inclusion of these would not be anti-dilutive.

5 Future accounting standards

IAS 1 *Presentation of Financial Statements* was amended in June 2011 to require that items in other comprehensive income be presented together based on whether they will be ultimately reclassified to the statement of loss. This amendment is effective for annual periods beginning on or after July 1, 2012.

IFRS 7 *Financial Instruments: Disclosures* was amended in December 2011 to require additional quantitative disclosures for financial instruments which have been offset or are subject to master netting arrangements. This amendment is effective for annual periods beginning on or after January 1, 2013 and requires retrospective application.

5 Future accounting standards (continued)

IFRS 9 *Financial Instruments* was issued in November 2009 and addresses the classification and measurement of financial assets. This new standard reduces the number of categories and measurement options for financial assets. This new standard also amends the measurement of equity instruments whereas these instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. This standard must be applied for years beginning January 1, 2015.

IFRS 10 *Consolidated Financial Statements* was issued in May 2011. IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are special purpose entities in the scope of SIC-12. In addition, the consolidation procedures are carried forward substantially unmodified from IAS 27 (2008). This standard is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted.

IFRS 11 *Joint Arrangements* was issued in May 2011. This standard classifies joint arrangements as either joint operations or joint ventures and no longer allows the choice of equity accounting or proportionate consolidation. These entities must now use the equity method. Upon application of IFRS 11, entities which had previously accounted for joint ventures using proportionate consolidation shall collapse the proportionately consolidated net asset value (including any allocation of goodwill) into a single investment balance at the beginning of the earliest period presented. The investment's opening balance is tested for impairment in accordance with IAS 28 (2011) and IAS 36 *Impairment of Assets*. Any impairment losses are recognized as an adjustment to opening retained earnings at the beginning of the earliest period presented. This standard is effective for annual periods beginning on or after January 1, 2013.

IFRS 12 *Disclosure of Interests in Other Entities* was issued in May 2011. IFRS 12 contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The required disclosures aim to provide information in order to enable users to evaluate the nature of, and the risks associated with, an entity's interest in other entities, and the effects of those interests on the entity's financial position, financial performance and cash flows. This standard is effective for annual periods beginning on or after January 1, 2013.

IFRS 13 Fair Value Measurement was issued in May 2011. IFRS 13 replaces the fair value measurement guidance contained in other sections in IFRS with a single source of fair value measurement guidance. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income. This standard is effective for annual periods beginning on or after January 1, 2013.

IAS 32 Financial Instruments: Presentation was amended in December 2011 to clarify that the right of offset for financial assets and liabilities must be available on the current date and not dependent on the occurrence of a future event. This amendment is effective for annual periods beginning on or after January 1, 2014 and requires retrospective application.

The Company intends to adopt the new standards prospectively in its financial statements. The impact of adoption of these standards has not yet been determined.

6 Determination of fair value

Where determination of fair value is required by the Company's accounting policies and disclosures, fair values have been determined based on the following methods.

a) Property and equipment – The fair value of property and equipment is the estimated amount for which property and equipment could be exchanged between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The fair value of oil and natural gas interests is estimated with reference to the discounted cash flows expected to be derived from production of oil and natural gas, based on externally prepared reserve reports. The risk-adjusted discount rate is specific to the assets with reference to general market conditions.

b) Cash and cash equivalents, trade and other receivables, and trade and other payables – Fair value is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At March 31, 2012, the fair value of these balances approximated their carrying value due to their short term to maturity.

c) Stock options and warrants – Fair value is measured using a Black Scholes option pricing model with inputs including share price on measurement date, exercise price, expected volatility, forfeiture rate, weighted average expected life, expected dividends, and the risk-free interest rate.

7 Trade and other receivables

		March 31, 2012		March 31, 2011		April 1, 2010
Trade receivables	$	322,225	$	58,927	$	18,098
GST		21,624		8,626		39,444
Other receivables		686,354		1,085,716		490,000
	$	1,030,203	$	1,153,269	$	547,542

For the year ended March 2012, other receivables primarily includes income tax withholdings and stamp tax provision in Argentina. For the year ended March 2011, other receivables relate to income tax withholdings and stamp tax provision in Argentina and a cash call payment made to the operator in Tunisia. As at April 1, 2010, other receivables relate to a cash call payment made to the operator in Tunisia. See note 24 for further information.

8 Finance income and expense

	March 31, 2012	March 31, 2011
Income:		
Interest income on cash and cash equivalents	$ 867	$ 665
Expenses:		
Interest expense	343,337	116,813
Accretion on decommissioning obligation	213,989	151,978
Accretion on convertible notes	6,812	17,786
	564,138	286,577
Net finance expense	$ 563,271	$ 285,912

9 Inventory

As at March 31, 2012, inventory of $87,887 (March 31, 2011 – $32,709) consists of crude oil that has been produced but not yet sold.

10 Business combination

On July 22, 2010, a Share Purchase Agreement (the "Agreement") was signed to acquire a 100% interest in Central Patagonia in order to obtain additional production. Pursuant to the Agreement, IPP completed the Argentina Acquisition of Central Patagonia from Central Argentina Corporation ("Central Argentina") through the purchase of the shares of Central Patagonia Corp ("CPC") and CPC Holdings Inc. ("CPC Holdings"), who together own 100% of Central Patagonia. The purchase price was US$3,316,616. Of the total purchase price, US$1,400,000 was advanced in cash consideration by the Company through IPP on the closing date and US$1,368,161 is repayable under two different promissory notes (collectively the "Notes"). The first note was due to Central Argentina on the maturity date of July 22, 2011 and bears an interest rate of 7.5% per annum, payable quarterly. Using its option, IPP decided to repay a portion the amount of the First Note prior to its maturity date. In return for a payment of US$675,000 made on June 1, 2011, Canoel signed an agreement with Central Argentina to postpone any payment for capital, interest and additional fees until July 22, 2012. The remaining amount was fully paid on October 1, 2011. The second promissory note for the amount of US$443,003, which was due to Central Argentina on February 12, 2011, was fully paid on that date. Pursuant to the Agreement, adjustments were calculated in favor of Canoel in the amount of US$74,842; this amount was deducted from the value of the Second Promissory Note, prior to its repayment. This loan had an interest rate of 7.5% per annum until November 22, 2010, at which point the interest rate increased to 15% per annum. At its option, the Company may repay any amount of the Notes prior to the respective maturity dates. The Notes are secured by a first lien on the equity interests and all personal and real property of CPC, CPC Holdings and Central Patagonia. At March 31, 2012, the remaining balance on the note payable related to this transaction is nil (March 31, 2011 - $969,600).

10 Business combination (continued)

Contingent consideration included in the Agreement is as follows:

For a period of three years commencing November 30, 2010, the Company will provide Central Argentina with the following: (i) 50% of the annual gross revenue derived from the sale of barrels of oil at a per barrel invoice price that exceeds US$42.00, but is less than or equal to US$52.00; and (ii) 25% of the annual gross revenue derived from the sale of barrels of oil at a per barrel invoice price that exceeds US$52.00. The Company calculated a NPV of this obligation at the time of the business combination to be $564,470 (US$ 548,455) based on a 7.5 percent discount rate and estimated future production and estimated future sale price. The value of the oil share agreement at March 31, 2012 is $647,358 (March 31, 2011 - $531,782).

Calculation of the purchase price	$
Cash	1,440,880
Promissory note	1,029,200
Promissory note	378,911
Oil share consideration	564,470
	3,413,461

Allocated as follows	$
Property and equipment	5,132,620
Working capital	492,117
Decommissioning obligation	(2,211,276)
	3,413,461

Working capital includes receivables acquired in the amount of $864,511. Receivables acquired were primarily trade receivables. The carrying value approximates the fair value due to the short period to maturity. Transaction costs in the amount of $135,600 were recorded in general and administrative expense on the statement of comprehensive loss in the year ended March 31, 2011. There were no other transactions relating to the business combination recorded separately or contingent consideration associated with this transaction.

The results of operations of Petrolera Patagonia included in the consolidated financial statements of the Company from July 22, 2010 are as follows:

	March 31, 2011
Revenue (net of royalties)	1,251,855
Expenses	1,389,724
Net loss	(137,869)

11 Property and equipment

Cost	Oil and gas properties $	Furniture & fixtures $	Total $
Balance, April 1, 2010	–	–	–
Additions	154,505	38,212	192,717
Business combination	5,078,767	53,853	5,132,620
Decommissioning obligation	26,273	–	26,273
Foreign currency translation	(331,222)	–	(331,222)
As at March 31, 2011	4,928,323	92,065	5,020,388
Additions	895,054	48,816	943,870
Other	21,707	–	21,707
Decommissioning obligation	(659,038)	–	(659,038)
Foreign currency translation	(130,888)	–	(130,888)
As at March 31, 2012	5,055,158	140,881	5,196,039

Accumulated depletion and depreciation	Oil and gas properties $	Furniture & fixtures $	Total $
Balance, April 1, 2010	–	–	–
Depletion and depreciation	(186,118)	(3,857)	(189,975)
As at March 31, 2011	(186,118)	(3,857)	(189,975)
Depletion and depreciation	(299,025)	(23,422)	(322,447)
As at March 31, 2012	(485,143)	(27,279)	(512,422)
Carrying value			
As at April 1, 2010	–	–	–
As at March 31, 2011	4,742,205	88,208	4,830,413
As at March 31, 2012	4,570,015	113,602	4,683,617

Depletion for the year ended March 31, 2012 included estimated future development costs of $8,150,000 for proved and probable reserves (March 31, 2011 - $nil).

Cash generating units ("CGU") are defined by geographic area. The Company has the following cash generating units: Argentina and other. The other cash generating unit includes furniture and fixtures.

The Company completed an impairment review on its cash generating units in property and equipment and determined that there was no impairment for the years ended March 31, 2012 and March 31, 2011. The impairment review was conducted by comparing carrying value to recoverable amount. Carrying value is calculated for the cash generating units as the cost less depletion and depreciation and impairment losses. Recoverable amount is defined as the higher of fair value less costs to sell and value in use.

11 Property and equipment (continued)

The Company has calculated the recoverable amount of the cash generating units using fair value less costs to sell which is based on a third party reserve report which estimates future cashflows over the remaining reserves using a 10% discount rate.

For the years ended March 31, 2012 and 2011, benchmark prices are as follows:

March 31, 2012	Price $/STB
2013	56.58
2014	56.58
2015	56.58
2016	56.58
2017	56.58

March 31, 2011	Price $/STB
2012	52.60
2013	52.60
2014	52.60
2015	52.60
2016	52.60

For the years ended March 31, 2012 and March 31, 2011, recoverable amount using proved and probable reserves significantly exceeded carrying value. Therefore, a sensitivity analysis on the variables considered would not impact the conclusion that there would be no impairment.

12 Exploration and evaluation assets

April 1, 2010	$	986,420
Impairment on exploration and evaluation assets		(295,202)
March 31, 2011	$	691,218
Loss on the sale of exploration and evaluation assets		(69,939)
Disposal		(621,279)
March 31, 2012	$	–

Upon transition to IFRS on April 1, 2010, $986,420 in costs related to the Tunisian blocks of Jorf, Bazma, and Sud Tozeur (the" Tunisian Blocks") were reclassified from property and equipment to exploration and evaluation assets as these costs related to the unproven properties in Tunisia.

As a result of discovering some fundamental flaws after reprocessing geophysical data, the Company completed an impairment review on its exploration and evaluation assets and determined that there was an impairment of $295,202 for the year ended March 31, 2011. The impairment review was conducted by comparing carrying value to recoverable amount.

12 Exploration and evaluation assets (continued)

Carrying value is calculated for the cash generating units as the cost less accumulated impairment losses. Recoverable amount is defined as the higher of fair value less costs to sell and value in use. The Company has calculated the recoverable amount of the cash generating units using fair value less costs to sell which is based on the estimated amount that the Company could expect to receive upon disposal of this asset.

On August 5, 2011, the Company divested its interest in the Tunisian blocks which it acquired in late November 2008. Pursuant to the Termination and Release Agreement, CYGAM Energy Inc. ("CYGAM") had agreed to pay $621,278, an amount equal to those costs paid by Canoel pursuant to the Farmout Agreement, in exchange for the assignment and transfer of any rights earned by Canoel under the Farmout Agreement or the Memorandum of Understanding.

CYGAM had agreed to pay $50,000 of the Termination Fee to Canoel within 5 days of the approval of the Termination and Release Agreement by the board of directors of both of CYGAM and Canoel. The Company received the remaining balance of $571,278 on March 28, 2012. Further, Canoel has surrendered its deposit of $490,000 paid to CYGAM pursuant to the terms of the Farmout Agreement (the "Deposit") and CYGAM has paid $117,600 to Canoel resulting in a loss upon termination of this agreement of $372,400.

13 Trade and other payables

	March 31, 2012	March 31, 2011	April 1, 2010
Trade payables	$ 1,525,482	$ 637,723	$ 127,147
Accruals	741,435	334,726	134,419
Other payables	5,020	451,012	–
	$ 2,271,937	$ 1,423,461	$ 261,566

14 Decommissioning Obligation

The following table presents the reconciliation of the carrying amount of the obligation associated with the reclamation and abandonment of the Company's property and equipment:

	March 31, 2012 $	March 31, 2011 $
Balance, beginning of year	2,169,937	–
Acquired on July 22, 2010	–	2,211,276
Additions	398,685	–
Current provision in finance expense	213,989	151,978
Change in estimate	(1,057,723)	26,273
Foreign currency translation	(112,813)	(219,590)
Balance, end of year	1,612,075	2,169,937

14 Decommissioning Obligation (continued)

The following significant assumptions were used to estimate the asset retirement obligation:

	March 31, 2012	March 31, 2011
Undiscounted cash flows	$12.3 million	$7.7 million
Risk free rate	13.55%	10%
Inflation rate	9.8%	9.7%
Weighted average expected timing of cash flows	16 years	13 years

15 Notes payable

On September 15, 2011, the Company obtained a loan for $544,414 (US$500,000). The loan is secured by a mortgage on the oil and gas properties in Argentina and bears interest at a fixed rate of interest of 11%. The loan matures in December 2012 and payments of interest only are required until maturity. As at March 2012, the balance in the note payable is $536,323.

16 Long term Debt

On January 20, 2011, the Company obtained a loan from a private lender for US$2,000,000. The loan matures in January 2013. The loan can be extended for an additional six months to July 2013 if the Company is in negotiations with a third party to sell its oil and gas properties. The loan is unsecured and bears interest at the fixed U.S Prime rate of 3.25% plus 6.75%. Payments are interest only on a quarterly basis commencing on April 21, 2011. The Company has agreed to grant security over additional oil and gas assets acquired in Argentina, if any and once acquired, using the loan proceeds. Subject to regulatory approval the lender has the right to participate in a portion of the profit from the eventual sale of any such property. As at March 31, 2012, no additional Argentinean properties have been purchased. The balance has been reclassified as loan payable in current liabilities for $1,995,000 (March 31, 2011 - $1,939,600).

17 Convertible notes

Compound instrument

	Face value $	Debt component $	Equity component $
Balance, April 1, 2010	–		–
Issued	575,000	419,863	142,280
Accretion expense	–	14,188	–
Settlement	(308,000)	(229,940)	(72,856)
Balance, March 31, 2011	267,000	204,111	69,424
Settlement	(267,000)	(204,111)	(69,424)
Balance, March 31, 2012	-	-	-

17 Convertible notes (continued)

On June 24, 2010, the Company issued 100 convertible notes ("Note 0.1") and on September 2, 2010, the Company issued 15 convertible notes ("Note 0.2 and Note 0.3"), collectively the "Notes", by way of a private placement for total gross proceeds of $500,000 from Note 0.1 and $75,000 from Note 0.2 and Note 0.3. Each Note consists of one unsecured convertible note, with a principal value of $5,000, and 5,000 common share purchase warrants (the "Warrants"). The Notes will mature 4 years from the date of issuance, unless early redemption or conversion occurs. The principal amount of each Note is convertible into common shares of the Company at the option of the holder at any time prior to maturity at a conversion price of $0.20 per share. The warrants associated with Note 0.1 have an exercise price of $0.50 and are exercisable until June 24, 2014. The warrants associated with Notes 0.2 and 0.3 have an exercise price of $0.50 and are exercisable until September 2, 2014.

The Notes bear interest at a rate of 15% per annum, payable in arrears in equal quarterly installments. The Notes will be fully due and payable on the maturity date with the repayment of the principal commencing on September 24, 2011 for Note 0.1 and December 2, 2011 for Note 0.2 and Note 0.3, in 12 equal, quarterly installments. Subsequent to one year from the respective issue dates, the Company has the option to repay the principal balance in full at any time provided written notice is given one-month in advance.

Each Warrant entitles the holder to purchase one additional common share of the Company at a price of $0.50 per share until June 24, 2014 for Note 0.1 and September 2, 2014 for Note 0.2 and Note 0.3, (note 19(d)).

The fair value of the liability component was estimated to be $419,863 using a discount rate of 18% which approximated the interest rate that would have been applicable to non-convertible debt of the Company at the time the Notes were issued. The fair value of the warrant subsequently reduced the liability portion of the Note. The liability component of the Notes will be accreted to the remaining face value of $267,000 over the four year life for both the equity component and the value of the warrant.

The Company incurred debt issuance costs of $40,000 payable to unrelated parties who assisted in sourcing subscribers for the placement. These costs were expensed through the consolidated statements of loss and comprehensive loss. The Notes are secured by the Company's interest in all of the rights, title and interest in all shares of the capital of IPP.

On October 5, 2010, a stakeholder of the Company's Note 0.1 convertible debt converted $308,000 of debt into 2,566,667 common shares at a price of $0.12 per share under a settlement agreement. The stakeholder was also issued an additional 1,283,333 purchase warrants. Each warrant entitled the holder to purchase one common share in the capital of Canoel at a price of $0.17 per share until October 5, 2011. The remaining balance of the convertible debt after this conversion is $267,000.

On April 25, 2011, a stakeholder of the Company's Note 0.1 convertible debt converted $192,000 of debt into 1,600,000 common shares at a price of $0.12 per share. The stakeholder was issued 800,000 purchase warrants. Each warrant entitled the holder to purchase one Common Shares in the capital of the Company at a price of $0.17 per share until April 25, 2012. The Company has allocated $9,950 of the unit value to warrants (note 19(d)).

On September 14, 2011, a stakeholder of the Company's Note 0.2 convertible notes converted $50,000 of debt into 416,666 common shares at a price of $0.12 per share. The stakeholder was issued 800,000 purchase warrants. Each warrant entitles the holder to purchase one Common Shares in the capital of the Company at a price of $0.17 per share until September 14, 2012. The Company has allocated $39,562 of the unit value to warrants (note 19(d)).

17 Convertible notes (continued)

On July 4, 2011, the Canoel repaid Note 0.3 in the amount of $ 25,000.

Hybrid instrument:

	Face value	Debt component	Derivative liability
	$	$	$
Issued (i)	210,239	196,412	16,758
Issued (ii)	1,195,219	1,033,249	42,804
Change in fair value	-	-	(23,494)
Accretion expense	-	6,812	-
Foreign exchange	-	112,248	
Balance, March 31, 2012	1,405,458	1,348,722	36,067

i) On July 20, 2011, the Company completed a private placement of convertible notes for aggregate gross proceeds of NOK $1,200,000 (CAD$213,170). Each note bears interest at a simple interest rate of 12% per annum, payable in arrears in equal quarterly installments commencing October 20, 2011. These notes are unsecured and mature on July 18, 2014. At the option of the holder of the notes, the principal and any unpaid interest of a note may be converted into common shares of Canoel at a price of $0.15 per common share at any time prior to maturity.

As these notes are denominated in a currency other than the Company's functional currency, the notes are a hybrid instrument since the conversion feature represents a derivative financial liability. On initial recognition, the fair value of the derivative liability is measured first using the Black Scholes model and the residual is allocated to the convertible note. The derivative is subsequently accounted for at fair value through profit or loss and, as a result, is fair valued at each reporting period with changes in the fair value being recorded in income. The fair value of the notes at the time of issue and as at March 31, 2012 was determined with the following assumptions:

	March 31, 2012	July 21, 2011
Risk free interest rate	1.33%	1.66%
Expected life in years	2.3	3
Expected volatility	161%	170%

On initial recognition, the derivative was valued at $16,758 which resulted in the residual of $196,412 being allocated to the convertible note. This is measured at amortized cost and will accrete up to the face value of $213,170 until the maturity date, which is July 18, 2014.

The effective interest rate of these notes is 8%. At March 31, 2012, the derivative liability is measured at $5,237 and the convertible liability is measured at $196,925.

17 Convertible notes (continued)

ii) On December 16, 2011, Canoel completed a private placement of convertible notes for aggregate gross proceeds of $1,080,000 Swiss francs (approximately CDN$1,075,890). Each note bears interest at a simple interest rate of 9% per annum, payable in arrears in equal quarterly installments commencing April 11, 2012. Interest is accrued and presented in trade and other payables.

These notes are unsecured and mature on January 11, 2015. At the option of the holder of the notes, the principal and any unpaid interest of a Note may be converted into common shares of Canoel at a price of CDN$0.15 per common share at any time prior to maturity.

As these notes are denominated in a currency other than the Company's functional currency, the notes are a hybrid instrument since the conversion feature represents a derivative financial liability. On initial recognition, the fair value of the derivative liability is measured first using the Black Scholes model and the residual is allocated to the convertible note. The derivative is subsequently accounted for at fair value through profit or loss and, as a result, is fair valued at each reporting period with changes in the fair value being recorded in income. The fair value of the notes at the time of issue and as at March 31, 2012 was determined with the following assumptions:

	March 31, 2012	December 16, 2011
Risk free interest rate	1.33%	0.90%
Expected life in years	2.7	3
Expected volatility	170%	177%

On initial recognition, the derivative was valued at $42,804 which resulted in the residual of $1,033,249 being allocated to the convertible note. This is measured at amortized cost and will accrete up to the face value of $1,075,890 until the maturity date, which is January 11, 2015. The effective interest rate of these notes is 9%. At March 31, 2012, the derivative liability is measured at $30,830 and the convertible liability is measured at $1,151,797.

18 Deferred income tax

The difference between tax expense for the year and the expected income taxes based on the statutory tax rate arises as follows:

		March 31, 2012		March 31, 2011
Expected income tax reduction at 25.0% (2011 – 26.5%)	$	(796,115)	$	(940,696)
Non deductible expenses		195,623		35,191
Changes in enacted tax rates and other		74,592		310,639
Changes in unrecognized deferred tax assets		525,900		645,681
Deferred income tax expense (recovery)	$	-	$	50,815

Effective January 1, 2011, the Canadian Federal corporate tax rate decreased from 18% to 16.5% and the Alberta provincial tax rate remained at 10%.

No deferred tax assets have been recognized in respect of the following losses and temporary differences as it is not considered probable that sufficient future taxable profit will allow the deferred tax asset to be recovered:

		March 31, 2012		March 31, 2011
Deferred tax assets:				
Non-capital loss carryforwards	$	1,642,680	$	1,159,237
Share issue costs		75,791		101,147
Deferred tax liabilities:				
Property and equipment		-		(67,813)
		1,718,471		1,192,571
Unrecognized deferred tax assets		(1,718,471)		(1,192,571)
Deferred income tax liability	$	-	$	-

As at March 31, 2012, the Company has accumulated Canadian non-capital losses totaling $6.3 million (March 31, 2011 - $4.6 million), which expire in various amounts from 2028 to 2032.

19 Share Capital

a) Authorized

Unlimited number voting common shares without par value.
Unlimited number of preferred shares issuable in series and without par value.

b) Issued

	Number of Common Shares	Amount $
Balance - April 1, 2010	21,618,715	3,136,450
Non-brokered private placement (i)	3,631,217	435,746
Fair value of share purchase warrants (i)	–	(12,202)
Share issue costs (i)	–	(74,629)
Norwegian private placement (ii)	9,110,729	1,093,287
Share issue costs (ii)	–	(33,460)
Oren Oil ASA Share acquisition (iii)	602,413	72,290
Shares for Oren Oil ASA debt (iv)	1,813,051	217,500
Debt conversion (v)	2,566,667	308,000
Fair value of share purchase warrants (v)	–	(30,768)
Balance - March 31, 2011	39,342,792	5,112,214
Debt conversion (vi)	1,600,000	192,000
Fair value of share purchase warrants (vi)	–	(9,950)
Debt conversion (vii)	416,666	50,000
Fair value of share purchase warrants (vii)	–	(39,652)
Non-brokered private placement (viii)	1,100,000	110,000
Fair value of share purchase warrants (viii)	–	(73,903)
Non-brokered private placement (ix)	6,100,034	360,722
Fair value of finders fee warrants (ix)	–	(3,826)
Fair value of share purchase warrants (ix)	–	(265,236)
Non-brokered private placement (x)	4,000,000	200,000
Fair value of share purchase warrants (x)	–	(168,127)
Balance - March 31, 2012	52,559,492	5,464,242

(i) During the year ended March 31, 2011, the Company issued 3,631,217 units at 0.12 per unit for total proceeds of $435,746. Each unit consists of one common share of the Company and one-half of one common share purchase warrant (the "Warrant"). Each whole Warrant entitled the holder to purchase one additional common share of the Company at $0.20 per share, which were exercisable between June 30, 2011 and September 2, 2011. If at any time following four months and one day from the grant of the Warrants, the closing price of the Company's listed shares exceeds $0.30 for 15 consecutive trading days, the Company may give notice to the holders of the warrants that such unexercised warrants will be terminated 30 days following notice. The Company has allocated $12,202 of the unit value to warrants (note 19(d)).

19 Share Capital (continued)

b) Issued (continued)

The Company incurred share issue costs to an unrelated Finder of $74,629 for the Placements. This includes the value of $1,160 assigned to 199,030 finders warrants (the "Finders Warrants") (note 17(d)). The Finders Warrants, of which 182,530 were exercisable until June 30, 2011 and 16,500 were exercisable until September 2, 2011, entitled the holder to purchase one common share of the Company at $0.20 per share.

(ii) During the second quarter of 2010, the Company completed two Norwegian private placements (the "Norwegian Placement") of 9,110,729 common shares of the Company, at a price of $0.12 per share, for aggregate gross proceeds of $1,093,287. The Norwegian Placement was completed in conjunction with the proposed offer by the Company to purchase the shares of Oren Oil ASA (note 19 b)(iii)) and transfer of debt from Oren Oil to The Company (note 19 b)(iv)). The Company incurred share issue costs of $33,460 related to the Norwegian Placement.

(iii) The Company entered into a share acquisition agreement with the Norwegian company, Oren Oil ASA. The Company issued 602,413 shares at a fair value of $0.12 per share for $72,290 in exchange for 602,420,666 shares in Oren Oil ASA.

(iv) Oren Oil ASA has assigned to the Company, and the Company has accepted, certain of Oren Oil ASA's debt in the aggregate amount of Norwegian Kroner ("NOK") $1,579,167 (approximately $276,000). NOK $1,297,917 of the debt was settled through the issuance of 1,813,051 shares in the Company at $0.12 per share for total amount of $ 217,500.

(v) On October 5, 2010, a stakeholder of the Company's Note 0.1 convertible debt (note 17) converted $308,000 of debt into 2,566,667 common shares at a price of $0.12 per share. The stakeholder was issued 1,283,333 purchase warrants. Each warrant entitles the holder to purchase one Common Shares in the capital of the Company at a price of $0.17 per share for a period of one year from the date of the issue. The Company has allocated $30,768 of the unit value to warrants (note 17(d)).

(vi) On April 21, 2011, a stakeholder of the Company's Note 0.1 convertible debt (note 17) converted $192,000 of debt into 1,600,000 common shares at a price of $0.12 per share. The stakeholder was issued 800,000 purchase warrants. Each warrant entitles the holder to purchase one Common Share in the capital of the Company at a price of $0.17 per share until April 25, 2012. The Company has allocated $9,950 of the unit value to warrants (note 19(d)).

(vii) On September 14, 2011, a stakeholder of the Company's Note 0.2 convertible notes (note 17) converted $50,000 of debt into 416,666 common shares at a price of $0.12 per share. The stakeholder was issued 800,000 purchase warrants. Each warrant entitles the holder to purchase one Common Share in the capital of the Company at a price of $0.17 per share until September 14, 2012. The Company has allocated $39,562 of the unit value to warrants (note 19(d)).

19 Share Capital (continued)

b) Issued (continued)

(viii) On September 23, 2011, the Company issued 1,100,000 common shares at a price of $0.10 per share, for aggregate gross proceeds of $110,000. In conjunction with this issuance, 1,100,000 warrants were issued with an exercise price of $0.15 and are exercisable until September 23, 2014. The Company has allocated $73,903 of the unit value to warrants (note 19(d)).

(ix) On November 24, 2011, the Company issued 6,100,034 common shares at a price of $0.06 per share, for aggregate gross proceeds of $360,722 which includes foreign exchange of $5,280. In conjunction with this issuance, 6,100,034 warrants were issued with an exercise price of $0.10 and are exercisable until November 23, 2013. The company has allocated $265,236 of the unit value to warrants (note 19(d)). The Company issued 88,000 common share purchase warrants as a finders fee, with the same terms as above, in connection with this private placement. The company has allocated $3,826 of value to these warrants (note 19(d)).

(x) On March 30, 2012, the Company issued 4,000,000 units at a price of $0.05 for aggregate cash proceeds of $200,000. Each unit includes one common share and one warrant. Each warrant can be used to purchase one common share for $0.10 per common share and is exercisable any time until March 28, 2014. The Company has allocated $168,127 of the unit value to the warrants.

As at March 31, 2012, the Company has not issued any preferred shares.

c) Escrow shares

During the year ended March 31, 2008, the Company closed a private placement to issue 3,080,000 common shares at a price of $0.10 per share for gross proceeds of $308,000. At the time of issuance, 3,080,000 common shares were held in escrow pursuant to the requirements of the TSXV. Subsequent to the completion of the Qualifying Transaction on December 8, 2008, 10% of the common shares were released from escrow. Every six months thereafter, a further 15% of the original shares outstanding were released. The remaining 462,000 common shares were released from escrow on December 8, 2011.

19 Share Capital (continued)

d) Warrants

Warrants to acquire common shares are outstanding as follows:

	Number of warrants	Amount $	Weighted average exercise price $
Balance - April 1, 2010	14,308,361	479,283	0.38
Share purchase warrants (19b(i))	1,815,609	12,202	0.20
Finder's share purchase warrants (19b(i))	199,030	1,160	0.20
Share purchase warrants with convertible notes (note 17)	575,000	12,857	0.50
Debt conversion (19b(v)	1,283,333	30,768	0.17
Warrants expired	(11,846,830)	(422,237)	0.38
Balance - March 31, 2011	6,334,503	114,033	0.30
Debt conversion (19b(vi))	800,000	9,950	0.17
Debt conversion (19b(vii))	800,000	39,652	0.17
Warrants issued (19b(viii)	1,100,000	73,903	0.15
Warrants expired	(5,759,503)	(101,156)	0.28
Warrants issued (19 (ix))	6,188,034	269,062	0.10
Warrants issued (19 (x))	4,000,000	168,127	0.10
Balance – March 31, 2012	13,463,034	573,571	0.13

The following summarizes information about the warrants outstanding as at March 31, 2012, all of which are exercisable.

Range of exercise prices ($)	Number of warrants outstanding	Weighted average remaining life (years)	Weighted average exercise price ($)
0.10 – 0.15	11,288,034	1.75	0.10
0.17– 0.50	2,175,000	0.79	0.26
	13,463,034	1.60	0.13

Subsequent to March 31, 2012, 800,000 warrants exercisable at $0.17 expired and 8,020,333 new warrants were issued resulting in 20,683,367 warrants outstanding.

19 Share Capital (continued)

d) Warrants (continued)

The fair value for warrants granted was calculated using the Black-Scholes pricing model using the following assumptions calculated on a weighted average basis:

	March 31, 2012	**March 31, 2011**
Share price	$0.07	$0.10
Exercise price	$0.11	$0.23
Risk-free rate	1.05%	1.50%
Expected life	1.9 years	0.9 years
Expected volatility	152 %	89 %
Fair value per warrant	$0.04	$0.01

e) Stock options

The Company established a stock option plan (the "Plan") for the benefit of directors, employees, and consultants. The maximum number of shares available under the Plan is limited to 10% of the issued common shares at the time of granting the options. Granted options become fully vested on the date of the grant and, if unexercised, expire 5 years from that date.

During the year ended March 31, 2012, there were no stock options were granted (March 31, 2011 – 2,150,000) and 915,000 options were forfeited (March 31, 2011 – nil). The exercise price of the remaining 800 000 options granted March 3, 2011, was amended from $0.09 to $0.10 to comply with TSX Venture Exchange rules. The following table summarizes information about the Company's stock options outstanding as at March 31, 2012:

	Number of options outstanding and exercisable	**Weighted average exercise price ($)**
Balance, April 1, 2010	1,565,000	0.13
Granted	2,150,000	0.10
Balance, March 31, 2011	3,715,000	0.11
Forfeited	(915,000)	0.12
Balance, March 31, 2012	2,800,000	0.11

19 Share Capital (continued)

e) Stock options (continued)

There were no options granted in the year ended March 31, 2012. The fair value of the stock options granted during the year ended March 31, 2011 was estimated at the grant date using the Black-Scholes pricing model using the following assumptions calculated on a weighted average basis:

	March 31, 2011
Share price	$0.09
Exercise price	$0.10
Risk-free rate	2.32%
Expected life	4.7 years
Expected volatility	106%
Fair value per option	$0.06

Share based compensation expense for the year ended March 31, 2012 was $nil (March 31, 2011 – $132,449).

The following table summarizes information about the Company's stock options outstanding, all of which are exercisable, at March 31, 2012:

Range of exercise prices ($)	**Number of options outstanding**	**Weighted average remaining duration (years)**	**Weighted average exercise price ($)**
0.00-0.10	2,410,000	3.22	0.10
0.11-0.20	245,000	2.62	0.15
0.21-0.30	145,000	2.49	0.23
	2,800,000	3.13	0.11

f) Per share data

Basic earnings per share is calculated based on the weighted average number of shares outstanding for the year ended March 31, 2012 of 43,816,665 (March 31, 2012 - 32,350,980) respectively. Currently, the effect of potential issuance of common shares upon the exercise of options, warrants, and conversion of convertible notes of would be anti-dilutive and accordingly basic and diluted loss per common share is the same.

20 Supplemental disclosure

Income statement presentation

The statement of loss and comprehensive loss is prepared primarily by nature of expense with the exception of employee compensation cost which is included in operating and general and administrative expenses. The following table details the amounts of total employee compensation included in the statements of loss and comprehensive loss:

		March 31, 2012		March 31, 2011
Operating expenses	$	555,973	$	245,546
General and administrative		719,441		408,442
Total employee compensation costs	$	1,275,414	$	653,988

21 Non cash working capital

		March 31, 2012		March 31, 2011
Trade and other receivables	$	(123,066)	$	605,727
Inventory		55,178		32,709
Prepaid expenses		(36,431)		59,467
Trade and other payables		848,476		1,161,895
	$	744,157	$	1,859,798

The change in non-cash working capital has been allocated to the following activities:

		March 31, 2012		March 31, 2011
Operating	$	1,366,321	$	833,353
Financing		320,554		19,037
Investing		(942,718)		1,007,408
	$	744,157	$	1,859,798

22 Capital Management

The Company's objective when managing capital is to safeguard the entity's ability to continue as a going concern, so that it can continue to explore and develop its projects to provide returns for shareholders and benefits for other stakeholders. The Company manages its working capital, long term debt, and shareholders equity as capital.

		March 31, 2012		March 31, 2011
Working capital (deficit)	$	(2,850,057)	$	670,564
Long term debt		1,348,722		2,143,711
Shareholders equity (deficit)		(1,163,304)		1,346,765

22 Capital Management (continued)

The Company has just come out of the development stage; however its cash flow from the Argentinean operation will be needed in the near term to finance the operations and to repay the vendor loans, and therefore the Company's principal source of funds will still remain the issuance of common shares. The Company's ability to raise future capital through equity is subject to uncertainty and the inability to raise such capital may have an adverse impact over the Company's ability to continue as a going concern.

The Company monitors capital based on annual funds from operations from its oil and gas properties. The Company prepares budgets for its capital expenditures, which are updated as necessary and are reviewed and periodically approved by the Company's Board of Directors.

The Company manages its capital structure and makes adjustments by continually monitoring its business conditions including the current economic conditions, the risk characteristics of the Company's petroleum and natural gas assets, the depth of its investment opportunities, current and forecasted net debt levels, current and forecasted commodity prices and other facts that influence commodity prices and cash flow from operating activities such as quality and basis differentials, royalties, operating costs and transportation costs.

In order to maintain or adjust the capital structure, the Company will consider the potential level of credit facilities that may be attainable, availability of other sources of debt with different characteristics than conventional debt, the sale of assets, limiting the size of the capital expenditure program, joint venture and other financial partners, and new equity if available on favorable terms.

As part of the capital management program, the Company also monitors its working capital ratio. The Company's objective is to maintain a working capital ratio of greater than 1:1 defined as the ratio of currents assets divided by current liabilities. At March 31, 2012, the working capital ratio was 0.48:1 (March 31, 2011 - 1.28:1).

For the year ended March 31, 2012, there have been no changes in the approach to capital management. There are no external restrictions on capital.

23 Related party transactions

Related party transactions not disclosed elsewhere in these consolidated financial statements are as follows:

During the year ended March 31, 2012:

a) Aggregate consulting fees of $277,440 (March 31, 2011 - $199,750) and office rent of $12,685 (March 31, 2011 – nil) were charged by directors and officers of the Company and recorded in general and administrative expenses.

b) For the year ended March 31, 2012, a bonus of $200,000 was paid to an officer of the Company whereas $252,265 was paid to certain directors and officers of the Company in the year ended March 31, 2011. Bonuses are recorded in general and administrative expense.

c) Aggregate legal fees of $nil (March 31, 2011 - $7,853) were charged by a director of the Company and recorded in general and administrative expense.

d) Included in trade and other payables as at March 31, 2012 was $12,988 (March 31, 2011 - $11,000) payable to related parties.

23 Related party transaction (continued)

e) NOK $600,000 (approximately CDN $106,585) and CHF $50,000 (approximately CDN $55,335) of the convertible notes (note 17i) have been advanced through a company owned by a director of Canoel. The terms of these convertible notes are the same as the notes advanced from non-related parties.

f) Compensation for key management personnel defined as senior management and the directors, which includes the transactions disclosed in a) to c) above, is as follows:

		March 31, 2012		March 31, 2011
Short-term employee benefits	$	477,440	$	459,870
Share-based compensation (Note 19e)		–		132,449
	$	477,440	$	592,319

Transactions with related parties are recorded at the exchange amount, being the price agreed between the parties.

24 Financial Instruments and Risk Management

The Company's financial instruments include cash and cash equivalents, trade and other receivables, trade and other payables, note payable, convertible notes, long term debt, derivative liability, and oil share agreement liability. The carrying values of cash and cash equivalents, trade and other receivables, and trade and other payables approximate their fair values due to their relatively short periods to maturity. The carrying value of the Company's note payable, loan payable, and oil share agreement approximates the fair value. The Company's long-term debt bears interest at floating market rates and, accordingly, the fair value approximates the carrying amount.

The Company's risk management policies are established by the Board of Directors to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's policy.

a) Fair values

The Company classifies fair value measurements using a hierarchy that reflects the significant of the inputs used in making the measurements:

- Level 1 - quoted prices in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 - inputs for the asset or liability that are not based on observable market data.

24 Financial Instruments and Risk Management (continued)

a) Fair values (continued)

The Company has issued convertible notes denominated in a foreign currency other than the functional currency of the entity that issued the notes. Foreign exchange impacts the number of common shares issued and the amount of consideration; therefore, these notes are accounted for as a hybrid instrument and are considered to be a level 3 on the fair value hierarchy. The Company has calculated fair value for the derivative liability with the Black Scholes model using the share price, conversion price, risk free rate, and volatility calculated on the date the notes were issued. While the Company believes the estimate of fair value is appropriate, the use of different valuation techniques or assumptions could result in different measurements of fair value.

b) Credit risk

Credit risk is the risk of an unexpected loss if a customer or counter party to a financial instrument fails to meet its commercial obligations.

For the year ended March 31, 2012, trade and other receivables are comprised of $322,225 for the sale of oil, $116,017 from shareholders (March 31, 2011 and April 1, 2010 – nil), $570,337 for stamp tax provision (March 31, 2011 and April 1, 2010 - $595,716 and nil), nil for cash call payment to the CYGAM (March 31, 2011 and April 1, 2010 - $490,000), and $21,624 for GST (March 31, 2011 and April 1, 2010 – $8,624 and $39,444). The receivable related to the sale of oil is held with a large company who participates in the oil and gas industry in Argentina and was collected subsequent to year end.

The remaining balance of trade and other receivables is related to the Tunisian permits. On August 5, 2011, the Company divested its interest in the Tunisian blocks which it acquired in late November 2008. Canoel has surrendered its deposit of $490,000 paid to CYGAM pursuant to the terms of the Farmout Agreement and CYGAM has paid $117,600 to Canoel resulting in a loss upon termination of this agreement of $372,400.

The Company generally extends unsecured credit to customers and therefore, the collection of trade receivables may be affected by changes in economic, industry, or other conditions. Management believes risk is mitigated by the size and reputation of the companies to which they extend credit.

The Company's maximum credit risk exposure is limited to the carrying value of its trade and other receivables of $1,030,203 (March 31, 2011 - $1,153,269) and cash and cash equivalents of $1,447,708 (March 31, 2011 - $1,806,453).

The Company considers its receivables to be aged as follows:

	March 31, 2012	March 31, 2011
Current	$ 851,401	$ 549,075
31 to 90 days	32,433	66,806
90+ days	146,369	537,388
	$ 1,030,203	$ 1,153,269

24 Financial Instruments and Risk Management (continued)

b) Credit risk (continued)

The Company has not experienced any credit loss in the collection of trade and other receivables in the years ended March 31, 2012 and 2011. Based on review of the customer balances outstanding, no further allowance is deemed necessary. If the circumstances warrant it, an estimate would be made for a particular customer account if a trend of increasing collection period or filing for bankruptcy arose.

The Company would only choose to write-off a receivable balance, as opposed to providing an allowance, after all reasonable avenues of collection have been exhausted.

c) Liquidity risk

Liquidity risk is the risk that the Company will incur difficulties meeting its financial obligations as they are due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and distressed conditions without incurring unacceptable losses or risking harm to the Company's reputation.

As the Company pursues additional opportunities, annual budgets will be prepared, regularly monitored and updated as considered necessary. The Company monitors its cash flow monthly. As at March 31, 2012, the Company's current financial liabilities total $5,450,618 (March 31, 2011 - $2,393,061), and are comprised of trade and other payables, the note payable, loan payable, and oil share agreement. As of March 31, 2012, the Company's cash and cash equivalent balance is not sufficient to meet the Company's obligations. It is expected that further debt and equity financings will be required in order to continue with developing the Company's assets and meet future obligations. There can be no assurance that such financings will be available to the Company. As of March 31, 2012, contractual maturities for financial liabilities are as follows:

		Carrying value	Contractual cashflows	Less than one year	One to two years	Two to four years
Trade and other payables	$	2,271,937	2,271,937	2,271,937	–	–
Note payable		536,323	572,898	572,898	–	–
Oil share agreement liability		647,358	647,358	647,358	–	–
Loan payable		1,995,000	2,144,625	2,144,625	–	–
Convertible note (Swiss Francs)		1,151,797	1,217,420	87,830	87,830	1,041,760
Convertible note (Norwegian Kroner)*		196,925	211,000	211,000	–	–
Derivative liabiity		36,067	–	–	–	–
	$	6,835,407	7,065,238	5,935,648	87,830	1,041,760

* Convertible notes in Norwegian Kroner were exercised in April 2012.

24 Financial Instruments and Risk Management (continued)

c) Liquidity risk (continued)

As of March 31, 2011, contractual maturities for financial liabilities are as follows:

		Carrying value	Contractual cashflows	Less than one year	One to two years	Two to four years
Trade and other payables	$	1,423,461	1,423,461	1,423,461	–	–
Note payable		969,600	996,095	996,095	–	–
Oil share agreement liability		531,782	531,782	–	–	531,782
Long term debt		1,939,600	2,283,730	194,360	2,089,370	–
Convertible note		204,111	358,988	40,050	40,050	278,888
	$	5,068,554	5,594,056	2,653,966	2,129,420	810,670

d) Market Risk

Market risk is the risk that changes in foreign exchange rates, commodity prices, and interest rates will affect the Company's net loss income or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

Currently the Company does not use financial derivatives or physical delivery sales contracts to manage market risks. If in the future management determines market risk warrants the use of financial derivatives or physical delivery sales contracts any such transactions would be approved by the Board of Directors.

(i) Commodity price risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Oil prices in Argentina are the results of complicated formulas that are set by refineries based on instructions or decrees from the government and crude oil prices in Argentina are capped by the Government at variable levels. From early 2010, the price has gradually increased from US$42.00 per barrel to US$52.60 per barrel at March 31, 2011 and US$63.00 per barrel at March 31, 2012.

(ii) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. As at March 31, 2012, the Company has interest bearing cash accounts held with investment grade institutions. A change of one percent on the variable interest rate for the year would not have a significant impact on the Company. The Company has fixed interest on convertible notes (note 17). As at March 31, 2012, the Company has $1,995,000 (March 31, 2011 - $1,939,600) of debt with floating interest (note 16), hence a variation of 1 percent represents approximately $20,000 (March 31, 2011 – $20,000) in savings or added cost for the Company.

24 Financial Instruments and Risk Management (continued)

d) Market Risk (continued)

(iii) Currency risk

Foreign currency exchange risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. The following significant rate changes applied:

	Closing rate		Average rate	
	2012	2011	2012	2011
Peso	0.2282	0.2399	0.2359	0.2570
US dollars	0.9975	0.9696	0.9930	1.0163
Norwegian Kroner	0.1752	-	0.1763	
Swiss Franc	1.1067	-	1.1318	

The following represents the estimated impact on profit or loss and equity. This analysis is based on foreign currency exchange rate variances that the Company considered reasonably possible at the years ended March 31, 2012 and 2011. All other variables such as interest rate are held constant. There have been no changes in the method of calculating the sensitivity to change in foreign exchange rates.

	March 31, 2012			March 31, 2011		
	Rate change	Profit (loss)	Equity	Rate change	Profit (loss)	Equity
Peso	7%	-	138,985	7%	-	116,200
US dollars	7%	(139,650)	(21,965)	15%	(290,880)	45,690
Norwegian Kroner	8%	(16,820)	-	9%	-	-
Swiss Franc	15%	(179,285)	-	15%	-	-
		(335,755)	117,020		(290,880)	161,890

25 Commitments

The Company subleases premises in London, UK, under an operating lease on a month to month basis which requires payments of approximately $58,000 per annum.

26 Operating segments

The Company's operations are conducted in one business sector, the oil and natural gas industry. Geographical areas are used to identify Company's reportable segments. A geographic segment is considered a reportable segment once its activities are regularly reviewed by the Company's management. The Company has three reportable segments which are as follows:

- Argentina
- Tunisia - All assets associated with this segment were disposed in August 2011.
- Other – Segment includes Canoel Italia, the corporate assets and the operations in the Canadian entity. None of these individual segments meet the quantitative thresholds for determining reportable segments in 2012 or 2011.

The accounting policies used in the preparation of the information of the reportable segments is the same as those described in note 3. Information regarding the results of each reportable segment is included below. Performance is measured on segment profit before income tax which is reviewed by senior management. Information for the years ended March 31, 2012 and 2011 is as follows:

	Argentina		Tunisia		Other		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
Revenue from external customers	$ **2,254,533**	1,375,896	–	–	–	–	**2,254,533**	1,375,896
Operating and transportation	**1,346,928**	927,340	–	–	–	–	**1,346,928**	927,340
Royalties	**203,199**	124,041	–	–	**99,821**	–	**303,020**	124,041
General and administrative	**521,814**	108,964	–	–	**2,006,847**	1,909,687	**2,528,661**	2,018,651
Depletion and depreciation	**322,447**	189,975	–	–	–	–	**322,447**	189,975
Impairment				295,202	–	–	–	295,202
Exploration expense	–	–	–	–	–	513,149	–	513,149
Loss on termination	–	–			**372,400**	–	**372,400**	–
Finance and other expenses	**248,153**	163,445	–	–	**317,384**	232,368	**565,537**	395,813
Reportable segment profit (loss)	$ **(388,008)**	(137,869)		(295,202)	**(2,796,452)**	(2,655,204)	**(3,184,460)**	(3,088,275)
Property and equipment	$ **4,678,364**	4,830,413	–	691,218	**5,253**	–	**4,683,617**	5,521,631
Other assets	**2,267,481**	1,007,657	–	–	**333,080**	2,055,968	**2,600,561**	3,063,625
Total liabilities	**4,166,333**	2,382,428	–	–	**4,281,149**	4,856,063	**8,447,482**	7,238,491
Capital expenditures	$ **938,617**	340,641	–	–	**5,253**	–	**943,870**	340,641

27 Transition to from Canadian GAAP to IFRS

The financial statements for the year ended March 31, 2012 represent the Company's first annual financial statements under IFRS. The Company adopted IFRS in accordance with IFRS 1 "First time adoption of International Financial Reporting Standards" on April 1, 2010 using the significant accounting policies outlined in note 4. Until the year ended March 31, 2011, the Company had prepared their financial statements in accordance with Canadian GAAP. This note outlines the adjustments required to transition from Canadian GAAP to IFRS. As part of the Company's adoption of IFRS, the following elections were made under IFRS 1:

- Share based payments – To elect not to restate options that have vested prior to April 1, 2010.
- Business combinations – To elect not to re-state business combinations that occurred prior to the transition date.

27 Transition to from Canadian GAAP to IFRS (continued)

Statement of Financial Position – March 31, 2011

	Note	Canadian GAAP	Adjustments	IFRS
		$	$	$
ASSETS	Note			
Current assets				
Cash and cash equivalents		1,805,629	824	1,806,453
Trade and other receivables		1,151,225	2,044	1,153,269
Inventory		32,607	102	32,709
Prepaid expenses		71,045	149	71,194
		3,060,506	3,119	3,063,625
Non-current assets				
Exploration and evaluation assets				
Property and equipment	a)	–	691,218	691,218
Total assets	b)	5,020,509	(190,096)	4,830,413
		8,081,015	504,241	8,585,256
LIABILITIES				
Current liabilities				
Trade and other payables		1,420,534	2,927	1,423,461
Note payable		969,800	(200)	969,600
		2,390,334	2,727	2,393,061
Non-current liabilities				
Oil Share agreement		531,891	(109)	531,782
Decommissioning obligation	c)	2,224,547	(54,610)	2,169,937
Long-term debt		1,939,600	–	1,939,600
Convertible notes		204,111	–	204,111
Total liabilities		7,290,483	(51,992)	7,238,491
EQUITY				
Share capital		5,112,214	–	5,112,214
Equity component of convertible debenture		69,424	–	69,424
Warrants		114,033	–	114,033
Contributed surplus		750,221	–	750,221
Accumulated other comprehensive loss	d)	(37,326)	(38,980)	(76,306)
Deficit		(5,218,034)	595,213	(4,622,821)
Total equity		790,532	556,233	1,346,765
Total equity and liabilities		8,081,015	504,241	8,585,256

27 Transition to from Canadian GAAP to IFRS (continued)

Statement of Financial Position – April 1, 2010

	Note	Canadian GAAP	Adjustments	IFRS
		$	$	$
ASSETS				
Current assets				
Cash and cash equivalents		992,599	–	992,599
Trade and other receivables		547,542	–	547,542
Prepaid expenses		11,727	–	11,727
		1,551,868	–	1,551,868
Non-current assets				
Exploration and evaluation assets	a)	–	986,420	986,420
Property and equipment	b)	986,420	(986,420)	–
Total assets		2,538,288	–	2,538,288
LIABILITIES				
Current liabilities				
Trade and other payables		261,566	–	261,566
Total liabilities		261,566		261,566
EQUITY				
Share capital		3,136,450	–	3,136,450
Warrants		479,283	–	479,283
Contributed surplus		195,535	–	195,535
Deficit		(1,534,546)	–	(1,534,546)
Total equity		2,276,722	–	2,276,722
Total equity and liabilities		2,538,288	–	2,538,288

27 Transition to from Canadian GAAP to IFRS (continued)

Statement of loss and comprehensive Loss – For the year ended March 31, 2011

	Note	Canadian GAAP	Adjustments	IFRS
		$	$	$
Revenues				
Oil and gas sales		1,364,092	11,804	1,375,896
Royalties		(122,977)	(1,064)	(124,041)
		1,241,115	10,740	1,251,855
Expenses				
Operating		919,385	(10,749)	908,636
Transportation	e)	-	18,704	18,704
General and administrative	f)	1,885,010	115,855	2,000,865
Prospect expense		513,149	–	513,149
Stock based compensation	f)	132,449	(132,449)	–
Foreign exchange	d)	144,697	(67,825)	76,872
Depletion and depreciation	b)	1,163,424	(973,449)	189,975
Impairment loss on exploration and evaluation assets	a)	–	295,202	295,202
		4,758,114	(754,711)	4,003,403
		(3,516,999)	765,451	(2,751,548)
Finance income		665	–	665
Finance expense	c)	116,250	170,327	286,577
Net finance expense		115,585	170,327	285,912
Net loss before tax		(3,632,584)	595,124	(3,037,460)
Income tax expense		(50,904)	89	(50,815)
Net loss for the year		(3,683,488)	595,213	(3,088,275)
Comprehensive loss				
Foreign currency translation loss		(37,326)	(38,980)	(76,306)
Net loss for the year		(3,720,814)	556,233	(3,164,581)
Net loss per share				
Basic and diluted		(0.11)	0.01	(0.10)

27 Transition to from Canadian GAAP to IFRS (continued)

Notes

a) Exploration and evaluation assets (E&E")

The following changes occurred in exploration and evaluation assets as a result of the transition to IFRS:

	March 31, 2011		April 1, 2010
	691,218	$	986,420

Costs:

The Company reclassified amounts from property and equipment to exploration and evaluation assets relating to the costs incurred for Tunisia . Under Canadian GAAP, these costs are presented in conjunction with property and equipment whereas IFRS 6 *Exploration for and Evaluation of Mineral Resources* requires that assets which do not meet the technical feasibility and commercial viability criteria be presented separately as exploration and evaluation assets.

The Company elected to adopt the cost model under IFRS 6 *Exploration for and Evaluation of Mineral Resources*.

Impairment:

For the year ended March 31, 2011, the Company calculated an impairment of $295,202 for E&E assets under previous Canadian GAAP which was included in depletion and depreciation, for the E&E assets. For presentation purposes, this was reclassified to a separate line under IFRS.

b) Property and equipment ("PP&E")

The following changes occurred in property and equipment as a result of the transition to IFRS:

		March 31, 2011		April 1, 2010
Reclassified from PP&E to E&E	$	(691,218)	$	(986,420)
Adjustment to accumulated depletion and depreciation		465,322		–
Decommissioning obligation (note c)		26,273		–
Other		9,527		–
	$	(190,096)	$	(986,420)

27 Transition to from Canadian GAAP to IFRS (continued)

Notes

b) Property and equipment ("PP&E")

Costs:

The Company elected to adopt the cost model in IAS 16 *Property, Plant, and Equipment.*

Depletion and depreciation

Under IFRS, the Company has elected to deplete property and equipment using the unit of production method based on proved and probable reserves. Canadian GAAP required that property and equipment be depleted in a full cost pool for each country using proved reserves. As a result of calculating depletion using proved and probable reserves, the Company recognized a reduction in depletion of $513,875. The composition of the change in depletion and depreciation from Canadian GAAP to IFRS is as follows:

	IFRS	Canadian GAAP	Difference
Depletion and depreciation	189,975	703,850	(513,875)
Impairment (note a)	–	295,202	(295,202)
Accretion (note c)	–	164,372	(164,,372)
	189,975	1,163,424	(973,449)

Impairment:

IFRS requires that an impairment loss be recognized if the carrying value exceeds the recoverable amount for each cash generating unit. Recoverable amount is the higher of the fair value less costs to sell and value in use which is defined as the present value of the expected future cashflows. Under Canadian GAAP, the Company tested for impairment by comparing the carrying value of the cost center to the sum of the undiscounted cash flows of proved reserves. If the carrying amount was greater than the undiscounted cashflows under Canadian GAAP, the carrying amount of the asset was then compared to the sum of discounted cashflows at a risk free rate of proved plus probable reserves. The cost center would then be written down for the difference between the carrying value and discounted cashflows.

The Company determined that there is one cash generating unit. For the year ended March 31, 2011, the Company performed an impairment test using the recoverable amount from its proved and probable reserves and determined that there was no impairment.

27 Transition to from Canadian GAAP to IFRS (continued)

Notes

c) Decommissioning obligation

The Company calculated decommissioning obligation using the risk free rate per IAS 37 *Provisions, Contingent Liabilities and Contingent Assets.* This resulted in an adjustment of $26,273 as at March 31, 2011. Under Canadian GAAP, the discount rate utilized for decommissioning rate is a credit adjusted risk free rate. Under IFRS, the Company is required to prepare this calculation in the applicable functional currency. It is required to review and re-measure the obligation each reporting period for a change in estimate including discount rates. Using risk free interest rates between 10% and 11.3%, the Company recognized an increase in the decommissioning obligation of $54,610.

Accretion has been adjusted from $164,372 to $151,978, plus the impact of the change in foreign exchange translation, for changes resulting from transition to IFRS and reclassified to finance expense.

d) Foreign currency translation loss

IAS 21 *The Effects of Changes in Foreign Exchange Rates* requires that the Company determine the functional currency for each entity within the consolidated financial statements. It was determined that Petrolera Patagonia Corporation, PP Holdings, and Ingenieria Petrolera Patagonia Ltd. have a functional currency of US dollars, Petrolera Patagonia SRL and Ingenieria Petrolera del Rio de la Plata S.R.L. have a functional currency of Peso's, and Canoel Italia S.R.L has a functional currency of Euro's.

As the Company has a presentation currency of Canadian dollars, the entities with functional currencies other than Canadian dollars must be translated each financial reporting period from their respective functional currencies to the presentation currency. Assets and liabilities are translated using the closing exchange rate on the date of the statement of financial position. Income and expenses are translated using an exchange rate on the dates of the transactions. Foreign exchange gains and losses resulting from the translation from the functional currency to the presentation currency are recorded in other comprehensive income.

e) Operating expenses and transportation

The Company reclassified $18,704 from operating expenses to transportation to reflect the Company's election to present expenses by nature.

f) General and administrative expenses

The Company has elected to include share based compensation of $132,449 with general and administrative expenses net of the impact of the change in foreign exchange translation. As this is presentation by function, additional note disclosure is provided in note 20 to reconcile the presentation from by function to nature of expense.

28 Subsequent events

On June 28, 2012, Canoel announced the completion of the first tranche of a private placement of units ("Units") at a price of $0.06 per Unit, for aggregate gross proceeds of $293,000 (4,833,333 units) and on July 11, 2012, the Company completed the second tranche of the same private placement for aggregate gross proceeds of $163,500 (2,725,000 units). Each Unit consists of one common share of Canoel and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share at an exercise price of $0.10 per common share at any time on or before one year from the date the warrants were issued.

In connection with the June 28, 2012, tranche of the private placement, the Company will pay a finder's fee of $14,640 and grant 244,000 common share purchase warrants. In connection with the July 11, 2012 tranche of the private placement, the Company will pay a finder's fee of $13,080 and grant 218,000 common share purchase warrants. Each warrant entitles the holder to acquire one common share at an exercise price of $0.10 per share at any time on or before one year from the date the warrants were issued.

The holders of the NOK convertible notes exercised these notes in April 2012 resulting in the issuance of 2,091,134 common shares.