Canoel International Energy Ltd.

Consolidated Financial Statements

As at and for the years ended March 31, 2013 and 2012

Managements' Responsibility

To the Shareholders of Canoel International Energy Ltd.:

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that the transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of the consolidated financial statements.

The Board of Directors, through its Audit Committee is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Audit Committee has the responsibility of meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee is also responsible for recommending the appointment of the Company's external auditors.

MNP LLP, an independent firm of Chartered Accountants, is appointed by the shareholders to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, the Audit Committee and management to discuss their audit findings.

(signed)"Andrea Cattaneo"
President and Chief Executive Officer

(Signed)"Luigi Regis Milano"
Chief Financial Officer

June 25, 2013

Calgary, Alberta

Independent Auditors' Report

To the Shareholders of Canoel International Energy Ltd.:

We have audited the accompanying consolidated financial statements of Canoel International Energy Ltd. and its subsidiaries (the "Company"), which comprise the consolidated statement of financial position as at March 31, 2013 and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the year then ended, and notes comprising 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 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 audit. We conducted our audit 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 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 financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 overall presentation of the financial statements.

We believe the audit evidence we have obtained in our audit 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. and its subsidiaries as at March 31, 2013 and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter – Going Concern
Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that Canoel International Energy Ltd. has not yet achieved profitable operations, has a working capital deficit of $3,754,679 and an accumulated deficit of $9,913,714. These conditions indicate the existence of material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern.

Other Matter
The consolidated financial statements of Canoel International Energy Ltd. as at and for the year ended March 31, 2012, were audited by another auditor who expressed an unmodified opinion on those statements on July 25, 2012.

MNP LLP
Chartered Accountants

Calgary, Alberta
June 25, 2013

Suite 1500, 640 – 5th Ave. S.W., Calgary, Alberta T2P 3G4 Tel: (403) 263-3385 Fax: (403) 269-8450

MNP

Canoel International Energy Ltd.

Consolidated Statements of Financial Position
As at March 31
(Expressed in Canadian dollars)

	Note	**2013** **$**	2012 $
ASSETS			
Current assets			
Cash		**346,541**	1,447,708
Trade and other receivables		**627,892**	1,030,203
Inventory	6	**61,749**	87,887
Prepaid expenses		**64,160**	34,763
		1,100,342	2,600,561
Non-current assets			
Property and equipment	7	**4,011,942**	4,683,617
Total assets		**5,112,284**	7,284,178
LIABILITIES			
Current liabilities			
Trade and other payables		**1,709,658**	2,271,937
Oil share agreement	10	**686,990**	647,358
Notes payable	11	**427,173**	536,323
Loan payable	12	**2,031,200**	1,995,000
		4,855,021	5,450,618
Non-current liabilities			
Decommissioning obligation	13	**1,283,060**	1,612,075
Convertible notes	14	**1,016,606**	1,348,722
Derivative liability	14	**56,754**	36,067
Total liabilities		**7,211,441**	8,447,482
SHAREHOLDERS' DEFICIT			
Share capital	16	**6,556,260**	5,464,242
Warrants	16	**1,231,069**	573,571
Contributed surplus		**907,514**	857,912
Accumulated other comprehensive loss		**(880,286)**	(251,748)
Deficit		**(9,913,714)**	(7,807,281)
Total shareholders' deficit		**(2,099,157)**	(1,163,304)
Total shareholders' deficit and liabilities		**5,112,284**	7,284,178

Going concern (Note 1)

Subsequent event (Note 24)

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 Loss and Comprehensive Loss
For the years ended March 31
(Expressed in Canadian dollars)

	Note	**2013** **$**	2012 $
Revenue			
Oil and natural gas revenue		**2,474,889**	2,254,533
Royalties		**(232,145)**	(303,020)
		2,242,744	1,951,513
Other revenue		**51,759**	–
		2,294,503	1,951,513
Expenses			
Operating		**1,576,496**	1,228,136
Transportation		**90,028**	118,792
General and administrative		**2,146,595**	2,528,661
Foreign exchange		**(397,269)**	(44,178)
Depletion and depreciation	7	**296,947**	322,447
Loss on the sale of exploration and evaluation assets	8	**–**	69,939
Loss on termination agreement	8	**–**	372,400
Fair value adjustment on derivative liability	14	**23,783**	(23,495)
Gain on conversion of notes	14	**(11,222)**	–
		3,725,358	4,572,702
Finance income		**–**	(867)
Finance expense		**675,578**	564,138
Net finance expense	18	**675,578**	563,271
Net loss		**(2,106,433)**	(3,184,460)
Exchange differences on translation of foreign operations		**(628,538)**	(175,442)
Comprehensive loss		**(2,734,971)**	(3,359,902)
Net loss per share			
Basic and diluted	16	**(0.03)**	(0.07)
Weighted average shares outstanding			
Basic and diluted	16	**64,984,609**	43,816,665

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

Canoel International Energy Ltd.

Consolidated Statements of Cash Flows
For the years ended March 31
(Expressed in Canadian dollars)

	Note	**2013**	2012
		$	$
Operating activities			
Net loss		**(2,106,433)**	(3,184,460)
Items not involving cash:			
Royalties on oil share agreement		**28,765**	99,821
Depletion and depreciation	7	**296,947**	322,447
Loss on the sale of exploration and evaluation assets		**–**	69,939
Fair value adjustment on derivative liability	14	**23,783**	(23,495)
Gain on conversion of notes	14	**(11,222)**	–
Loss on termination agreement		**–**	372,400
Finance expense		**218,470**	220,801
		(1,549,690)	(2,122,547)
Foreign exchange on translation		**(425,308)**	(127,439)
Change in non-cash working capital	19	**(20,961)**	1,366,321
		(1,995,959)	(883,665)
Investing activities			
Expenditures on property and equipment		**(414,298)**	(943,870)
Disposal of exploration and evaluation assets		**–**	621,279
Change in non-cash working capital	19	**(142,266)**	320,554
		(556,564)	(2,037)
Financing activities			
Proceeds from issuance of convertible notes		**–**	1,289,060
Proceeds from issuance of notes payable		**–**	544,414
Repayment of borrowings		**(106,790)**	(992,958)
Proceeds from issue of share capital, net of share issue costs		**1,610,916**	670,722
Change in non-cash working capital	19	**–**	(942,718)
		1,504,126	568,520
Change in cash		**(1,048,397)**	(317,182)
Foreign exchange effect on cash held in foreign currencies		**(52,770)**	(41,563)
Cash, beginning of year		**1,447,708**	1,806,453
Cash, end of year		**346,541**	1,447,708
Cash interest paid		**316,996**	144,560

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)

	Share capital		Equity component of convertible debt	Warrants	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total equity
	Number	Amount						
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 (Note 14)	2,016,666	242,000	(69,424)	–	6,535	–	–	179,111
Non-brokered private placements, net of issue costs (Note 16)	11,200,034	670,722	–	–	–	–	–	670,722
Fair value of warrants (Note 16)	–	(560,694)	–	560,694	–	–	–	–
Expiry of warrants (Note 16)	–	–	–	(101,156)	101,156	–	–	–
Net loss	–	–	–	–	–	–	(3,184,460)	(3,184,460)
Other comprehensive loss	–	–	–	–	–	(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)
Debt conversion (Note 14)	2,091,130	188,202	–	–	–	–	–	188,202
Non-brokered private placements, net of issue costs (Note 16)	27,233,665	1,610,916	–	–	–	–	–	1,610,916
Fair value of warrants (Note 16)	–	(707,100)	–	707,100	–	–	–	–
Expiry of warrants (Note 16)	–	–	–	(49,602)	49,602	–	–	–
Net loss	–	–	–	–	–	–	(2,106,433)	(2,106,433)
Other comprehensive loss	–	–	–	–	–	(628,538)	–	(628,538)
Balance – March 31, 2013	81,884,287	$6,556,260	–	$1,231,069	$907,514	$(880,286)	$(9,913,714)	$(2,099,157)

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

1. Nature of operations and going concern

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 oil and natural gas properties primarily in Argentina.

As at March 31, 2013, the Company had not yet achieved profitable operations, has a working capital deficit of $3,754,679 (March 31, 2012 – $2,850,057) and an accumulated deficit of $9,740,163 (March 31, 2012 – $7,807,281) 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.

These consolidated financial statements have been prepared on the basis of the going concern assumption that the Company will be able to discharge its obligations and realize its assets in the normal course of business at the values at which they are carried in these consolidated financial statements, and that the Company will be able to continue its business activities. 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.

2. Basis of presentation

a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board in effect for the fiscal year beginning April 1, 2012.

These consolidated financial statements were authorized for issue by the Board of Directors on June 25, 2013.

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 are presented by their nature in the notes to the consolidated financial statements.

b) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments, which are measured at fair value.

c) Presentation and functional currency

The presentation currency of the Company is the Canadian dollar ("CAD").

Functional currency is the currency of the primary economic environment in which a company operates. The functional currency of the Company is the CAD. The functional currencies of the Company's subsidiaries are Argentine Pesos ("ARS") for the subsidiaries in Argentina, United States ("US") dollars for the subsidiaries in the US and Euros for the subsidiary in Italy.

3. Significant accounting policies

a) Consolidation

Subsidiaries

The following entities have been consolidated within the Company's financial statements:

Entity	Registered	Holding
Canoel International Energy Ltd.	Canada	Parent
Ingenieria Petrolera del Rio de la Plata SRL	Argentina	100%
Ingenieria Petrolera Patagonia SRL ("IPP")	US	100%
Canoel Italia SRL	Italy	100%
Petrolera Patagonia Corporation ("PPC")	US	100% owned subsidiary of IPP
PP Holding Inc. ("PPH")	US	100% owned subsidiary of IPP
Petrolera Patagonia SRL	Argentina	95% owned subsidiary of PPC and 5% held by PPH

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The acquisition method of accounting is used to account for acquisitions of subsidiaries and assets that meet the definition of a business under IFRS. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their recognized amounts (generally fair value) at the acquisition date. The excess of the cost of acquisition over the recognized amounts of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, a bargain purchase gain is recognized immediately in the consolidated statement of loss and comprehensive loss.

Jointly controlled assets

The Company's oil and natural gas activities involve jointly controlled assets. The consolidated financial statements include the Company's share of these jointly controlled assets and a proportionate share of the relevant revenue and related costs.

Transactions eliminated on consolidation

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions are eliminated in preparing the consolidated financial statements.

b) Foreign currency translation

Foreign currency transactions are translated into the respective functional currencies of the Company and its subsidiaries using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange

rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of loss and comprehensive loss.

The financial results and position of foreign operations whose functional currency is different from the presentation currency are translated as follows:

- Assets and liabilities are translated at period-end exchange rates prevailing at that reporting date; and
- Income and expenses are translated at average exchange rates for the period.

Exchange differences arising on translation of foreign operations are transferred directly to the Company's exchange difference on translating foreign operations on the Statement of Comprehensive Loss and are reported as a separate component of shareholders' equity titled "Accumulated Other Comprehensive Income". These differences are recognized in profit or loss in the period in which the operation is disposed of.

c) Cash

Cash consist of cash deposits in bank accounts.

d) 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.

e) Prepaid expenses

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

f) Property and equipment

Development and production expenditures

Development and production ("D&P") assets include costs incurred in developing commercial reserves and bringing them into production, together with the exploration and evaluation ("E&E") expenditures incurred in finding the commercial reserves that have been reclassified from E&E assets, the projected cost of retiring the assets and any directly attributable general and administrative expenses. Items of property and equipment, including D&P assets, are carried at cost less accumulated depletion and depreciation and accumulated impairment losses.

When significant parts of an item of property and equipment, including D&P assets, have different useful lives, they are accounted for as separate items (major components).

Gains and losses on disposal of an item of property and equipment, including D&P assets, are determined by comparing the proceeds of disposal with the carrying amount of the item and are recognized in profit or loss.

Subsequent costs

Costs incurred subsequent to the determination of technical feasibility and commercial viability, costs of replacing parts of property and equipment and workovers of property and equipment are recognized only if they increase the economic benefits of the assets to which they relate. All other expenditures are recognized in profit or loss when incurred. The carrying amounts of previous inspections or any replaced or sold components are derecognized. The costs of day-to-day servicing of an item of property and equipment are

recognized in profit or loss as incurred.

Depletion and depreciation

The net book value of producing assets are depleted on a field-by-field basis using the unit of production method with reference to the ratio of production in the year to the related proved and probable reserves, as determined by an independent reserve engineer, taking into account estimated future development costs necessary to bring those reserves into production. For purposes of these calculations, relative volumes of natural gas production and reserves are converted at the energy equivalent conversion rate of six thousand cubic feet of natural gas to one barrel of crude oil.

Office furniture and equipment is depreciated over the estimated useful lives of the assets on a declining balance basis of rates varying from 10% to 30%. The Company assesses the method of depreciation, useful lives and residual values at least annually.

Impairment

At the end of each reporting period, the Company reviews the D&P assets for circumstances that indicate the assets may be impaired. Assets are grouped together into cash-generating units ("CGUs") for the purpose of impairment testing. If any such indication of impairment exists, the Company makes an estimate of its recoverable amount. A CGUs recoverable amount is the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of future cash flows expected to be derived from the production of proved and probable reserves.

Fair value less cost to sell is determined as the amount that would be obtained from the sale of a CGU in an arm's length transaction between knowledgeable and willing parties. The fair value less cost to sell of oil and natural gas assets is generally determined as the net present value of the estimated future cash flows expected to arise from the continued use of the CGU, including any expansion prospects, and its eventual disposal, using assumptions that an independent market participant may take into account. These cash flows are discounted by an appropriate discount rate which would be applied by such a market participant to arrive at a net present value of the CGU. When the recoverable amount is less than the carrying amount, the asset or CGU is impaired. For impairment losses identified on a CGU, the loss is allocated on a pro rata basis to the assets within the CGU. The impairment loss is recognized as an expense in profit or loss.

At the end of each subsequent reporting period these impairments are assessed for indicators of reversal. Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss have been recognized for the asset or CGU in prior periods. A reversal of an impairment loss is recognized in profit or loss.

g) Decommissioning obligation

The Company recognizes a decommissioning obligation in the period in which a well is drilled or acquired and a reasonable estimate of the future costs associated with removal, site restoration and asset retirement can be made. The estimated decommissioning obligation is recorded with a corresponding increase in the carrying amount of the related cost centre.

Decommissioning obligations are measured at the present value of management's best estimate of the expenditures required to settle the present obligation at the statement of financial position date. Subsequent to the initial measurement, the provision is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the decommissioning

obligations are charged against the provision to the extent the provision was established.

h) Income tax

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded, using the statement of financial position method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. However, deferred tax is not recorded on taxable temporary differences arising on the initial recognition of goodwill or on the initial recognition of assets and liabilities in a transaction other than a business combination that affect neither accounting nor taxable profit or loss. Deferred tax is also not recorded on differences relating to investments in subsidiaries and jointly controlled entities to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

i) Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise cash, trade and other receivables, trade and other payables, notes payable, loans payable and convertible notes. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below:

Financial assets at fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss, unless such instruments relate to investments in equity instruments that do not have a quoted market price in an active market and cannot be reliably measured in which case the investment is measured at cost. The Company has classified cash as fair value through profit or loss and the carrying amount of cash approximates fair value due to its short term to maturity.

Other

Other non-derivative financial instruments, such as trade and other receivables, trade and other payables, notes payable and loan payable are measured at amortized cost using the effective interest method, less any impairment losses. The carrying amount of these financial instruments approximates fair value due to their short-term to maturity.

Compound financial instruments

Compound financial instruments include convertible notes which can be converted into a fixed number of common shares for a fixed amount of consideration. The compound financial instrument is bifurcated and recorded with a liability and equity component. The liability component is initially recognized as the fair value of the liability without the conversion feature. The equity component is recognized as the difference between the fair value of the convertible debt and the fair value of the liability component. Transaction costs are proportionately allocated between the components. Subsequently, the liability component is measured at amortized cost using the effective interest method and accretes up to the principal balance at maturity. The equity component is not re-measured after initial recognition. Upon conversion, the liability component is reclassified to equity and no gain or loss is recognized.

Derivative financial instruments

The Company evaluates all financial instruments for freestanding and embedded derivatives. The conversion feature of convertible notes is an embedded derivative if the principal amount is convertible into common shares at a conversion price in a currency that differs from the currency of the principal amount such as when a foreign currency principal amount is convertible into common shares (and warrants) at a CAD conversion price. In this case, the Company recognizes the fair value of the derivative components at the date of issuance, with the remainder of the proceeds attributed to the liability component of the convertible notes. The derivative component is marked-to-market at each reporting date using the Black-Scholes pricing model to estimate the fair value. Changes in the fair value of the derivative liability are included in the consolidated statement of loss and comprehensive loss. The liability component accretes up to the principal balance at maturity. Upon conversion, the liability component is reclassified to equity and a gain or loss is recognized in the consolidated statement of loss and comprehensive loss for differences between the conversion price and the market price of the Company's shares on the date of conversion.

j) Impairment of financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect 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. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in the consolidated statement of loss and comprehensive loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in the consolidated statement of loss and comprehensive loss.

k) Share capital

Common shares are classified as equity. Warrants that entitle the holder the right to acquire a fixed number of the Company's common shares for a fixed amount of CAD are also classified as equity. Incremental costs

directly attributable to the issue of common shares are recognized as a deduction from equity.

l) Share-based payments

The Company follows the fair value method of accounting for stock options. The fair value of each stock option is calculated using the Black-Scholes option pricing model and is charged as share-based payments expense over the vesting period of the option, with a corresponding increase recorded in contributed surplus. Forfeitures are accounted for at grant date and adjusted based on actual vesting. Upon exercise of the stock option, the consideration received plus the amount previously recorded in contributed surplus is recorded as an increase to share capital.

m) Per share amounts

The Company presents basic and diluted per share data for its common shares. Basic per share amounts are calculated by dividing the profit of loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted per share amounts are determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted, for the effects of all dilutive potential common shares.

n) Revenue recognition

Oil and natural gas revenues are recognized when title and risks pass to the purchaser and payment is reasonably assured.

Other revenue, primarily for advisory services, is recognized after services are performed and invoiced and collection is reasonably assured.

o) Finance income and expense

Finance income is recognized as it accrues in the consolidated statement of loss and comprehensive loss using the effective interest method.

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

p) 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 have any finance leases.

q) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments and has been identified as the executive directors that make strategic decisions.

r) New standards and interpretations not yet adopted

In May 2011, the IASB issued four new standards and two amendments. Five of these items related to consolidation, while the remaining one addresses fair value measurement. All of the new standards are effective for annual periods beginning on or after April 1, 2013. Early adoption is permitted.

IFRS 10, “Consolidated Financial Statements” replaces IAS 27 “Consolidated Separate Financial Statements”. It introduces a new principle-based definition of control, applicable to all investees to determine the scope of consolidation. The standard provides the framework for consolidated financial statements and their preparation based on the principle of control.

IFRS 11 "Joint Arrangements" replaces IAS 31, "Interests in Joint Ventures". IFRS 11 divides joint arrangements into two types, each having its own accounting model. A "joint operation" continues to be accounted for using proportionate consolidation, whereas a "joint venture" must be accounted for using equity accounting. This differs from IAS 31, where there was the choice to use proportionate consolidation or equity accounting for joint ventures. A "joint operation" is defined as the joint operators having rights to the assets, and obligations for the liabilities, relating to the arrangement. In a "joint venture", the joint ventures partners have rights to the net assets of the arrangement, typically through their investment in a separate joint venture entity.

IFRS 12 "Disclosure of Interests in Other Entities" is a new standard, which combines all of the disclosure requirements for subsidiaries, associates and joint arrangements, as well as unconsolidated structured entities.

IFRS 13 "Fair Value Measurement" is a new standard meant to clarify the definition of fair value, provide guidance on measuring fair value and improve disclosure requirements related to fair value measurement.

IAS 28 "Investments in Associates and Joint Ventures" has been amended as a result of the issuance of IFRS 11 and the withdrawal of IAS 31. The amended standard sets out the requirements for the application of the equity method when accounting for interest in joint ventures, in addition to interests in associates.

IAS 27 "Separate Financial Statements" has been amended to focus solely on accounting and disclosure requirements when an entity presents separate financial statements, due to the issuance of the new IFRS 10 which is specific to consolidated financial statements.

In November 2009, the IASB published IFRS 9, "Financial Instruments," which covers the classification and measurement of financial assets as part of its project to replace IAS 39, "Financial Instruments: Recognition and Measurement." In October 2010, the requirements for classifying and measuring financial liabilities were added to IFRS 9. Under this guidance, entities have the option to recognize financial liabilities at fair value through earnings. If this option is elected, entities would be required to reverse the portion of the fair value change due to a company's own credit risk out of earnings and recognize the change in other comprehensive income. IFRS 9 is effective for the Company on April 1, 2015. Early adoption is permitted and the standard is required to be applied retrospectively.

The Company is currently evaluating the impact of adopting all of the newly issued and amended standards.

4. Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

a) Property and equipment

The fair value of property and equipment recognized in a business combination is based on fair value at the date of acquisition. The fair value of property and equipment is the estimated amount for which property and equipment could be exchanged on the acquisition date 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 assets (included in property and equipment) is estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on externally prepared reserve reports. The risk-adjusted discount rate is specific to the asset with reference to general market conditions.

b) Cash, trade and other receivables, trade and other payables, notes payable and loan payable

The fair value of cash, trade and other receivables and trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At March 31, 2013 and 2012, the fair value of these balances approximated their carrying amount due to their short term to maturity.

c) Stock options and warrants

The fair value of stock options and warrants is measured using a Black-Scholes pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected forfeiture rate (based on historic forfeitures), expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information including volatilities of peer companies), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds).

The Company did not grant any stock options as share-based payments in the years ended March 31, 2013 and 2012. The grant date weighted average fair value of warrants granted in the year ended March 31, 2013 was $0.03 per warrant (2012 – $0.04 per warrant), estimated using the Black-Scholes pricing model calculations based on the following significant assumptions:

	2013	2012
Risk-free interest rate	1.05%	1.05%
Expected volatility	100%	152%
Expected life	1.6 years	1.9 years
Dividends	nil	nil

d) Financial instruments

The Company determines the fair value of financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument.

Level 1– Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Cash is a Level 1 financial asset.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward rates for interest rate, time value and volatility factors, which can be substantially observed or corroborated in the marketplace. The compound financial instrument and derivative liability are Level 2 liabilities.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level.

5. Critical accounting judgments and estimates in applying accounting policies

a) Judgments

Judgment is used in situations when there is a choice and/or assessment requirement by management. The following are critical judgments apart from those involving estimations (disclosed below), that management has made in the process of applying the Company's accounting policies and that have a significant effect on the amounts recognized the consolidated financial statements.

Going concern

As discussed in Note 1, these consolidated financial statements have been prepared in accordance with IFRS on a going concern basis, which assumes the realization of assets and discharge of liabilities in the normal course of business within the foreseeable future. Management uses judgment to assess the Company's ability to continue as a going concern and the existence of conditions that cast doubt upon the going concern assumption.

It is management's assessment that the going concern assumption is appropriate based on its continued ability to raise funds through the issuance of common shares and warrants as disclosed in Note 16.

CGUs

Management makes judgments in determining its CGUs and evaluates the geography, geology, production profile and infrastructure of its assets in making such determinations. Based on this assessment, the Company's CGUs are generally composed of significant development areas. As at March 31, 2013 and 2012, the Company had one CGU in Argentina. The Company reviews the composition of its CGUs at each reporting date to assess whether any changes are required in light of new facts and circumstances.

Impairment of oil and natural gas properties

Management uses judgment to assess the existence of impairment indicators such as events or changes in circumstances that may indicate the carrying amount of oil and natural gas properties may not be recoverable. Due to a relatively stable oil price earned by the Company's producing Argentine properties and world pricing indicators for the price of oil, the Company did not identify any indicators of impairment at March 31, 2013. Negative aspects of a proposed transaction under negotiation in fiscal 2012 (and subsequently suspended) were assessed by management as indicators of potential impairment of the Argentine oil properties at March 31, 2012.

Decommissioning liabilities

Management uses judgment to assess the Company's legal obligations to decommission its oil and natural gas properties and restore property sites after closure. The Company's production activity is required to be in compliance with various environmental laws and regulations in Argentina. The assessment of decommissioning liabilities is based on management's understanding of the current legal and environmental requirements and third party engineering valuations.

Deferred taxes

Judgments are made by management to determine the likelihood of whether deferred tax assets at the end of the reporting period will be realized from future taxable earnings.

Contingencies

Management uses judgment to assess the existence of contingencies. By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. Management also uses judgment to assess the likelihood of the occurrence of one or more future events. It is management's assessment that there are no

contingencies at March 31, 2013 and 2012.

b) Estimates

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected. The significant areas of estimation uncertainty are as follows:

Carrying value of oil and natural gas assets

The Company used judgment to assess, at each reporting date, whether there is an indication that an asset or cash generating unit ("CGU") may be impaired. A CGU is defined as the lowest grouping of assets that generate identifiable cash inflows that are largely independent of cash inflows of other assets or groups of assets. The allocation of assets into CGU's requires significant judgment and interpretations with respect to the way in which management monitors operations.

If any indication exists that an asset or CGU may be impaired, the Company estimates the recoverable amount. The recoverable amounts of individual assets and cash-generating units have been determined based on the higher of value-in-use and fair value less costs to sell.

These calculations require the use of estimates and assumptions, such as estimates of proved plus probable reserves, future production rates, oil and natural gas prices, future costs and other relevant assumptions, all of which are subject to change. The carrying value of oil and gas assets is sensitive to changes in the aforementioned estimates and assumptions and a material adjustment to the carrying value of the Company's oil and natural gas assets may be required as a result of changes to these estimates and assumptions.

Depletion and depreciation

Amounts recorded for depletion and depreciation and amounts used for impairment calculations are based on estimates of total proved and probable petroleum and natural gas reserves and future development capital. By their nature, the estimates of reserves, including the estimates of future prices, costs and future cash flows, are subject to measurement uncertainty. Accordingly, the impact to the consolidated financial statements in future periods could be material.

Estimation of oil and natural gas reserves

The estimate of oil and natural gas reserves is integral to the calculation of the amount of depletion charged to the consolidated statement of loss and comprehensive loss and is also a key determinant in assessing whether the carrying value of any of the Company's oil and natural gas assets has been impaired. Changes in reported reserves can impact asset carrying values and the decommissioning obligation due to changes in expected future cash flows.

The Company's reserves are evaluated and reported on by independent reserve engineers at least annually in accordance with Canadian Securities Administrators' National Instrument 51-101. Reserve estimation is based on a variety of factors including engineering data, geological and geophysical data, projected future rates of production, commodity pricing and timing of future expenditures, all of which are subject to significant judgment and interpretation.

Decommissioning obligation

Amounts recorded for the Company's decommissioning obligation requires the use of management's best estimates of future decommissioning expenditures, expected timing of expenditures, discount rates and future inflation rates. The estimates are based on internal and third party information and calculations and are subject to change over time and may have a material impact on the Company's consolidated statement of loss and comprehensive loss or its consolidated statement of financial position.

Stock options, warrants and derivative financial instruments

The estimated fair value of derivative financial instruments resulting in financial assets and liabilities, by their very nature are subject to measurement uncertainty. The Company uses the Black-Scholes pricing model to estimate the fair value of stock options, warrants and derivative financial instruments, which is based on significant assumptions such as volatility, forfeiture rate, interest rate, dividend yield and expected term.

Deferred taxes

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company operates are subject to change. As such, income taxes are subject to measurement uncertainty.

Contingencies

When contingencies exist, management estimates the related financial impact to the Company of the possible outcomes of one or more future events.

6. Inventory

As at March 31, 2013, inventory consists of $29,048 (2012 – $87,887) of crude oil that has been produced but not yet sold.

7. Property and equipment

	Oil and natural gas properties $	Furniture & fixtures $	Total $
Cost			
Balance – April 1, 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)
Balance – March 31, 2012	5,055,158	140,881	5,196,039
Additions	409,898	4,400	414,298
Decommissioning obligation	(331,643)	–	(331,643)
Foreign currency translation	(457,383)	–	(457,383)
Balance – March 31, 2013	4,676,030	145,281	4,821,311
Accumulated depletion and depreciation			
Balance - April 1, 2011	(186,118)	(3,857)	(189,975)
Depletion and depreciation	(299,025)	(23,422)	(322,447)
Balance – March 31, 2012	(485,143)	(27,279)	(512,422)
Depletion and depreciation	(272,889)	(24,058)	(296,947)
Balance – March 31, 2013	(758,032)	(51,337)	(809,369)
Carrying amount			
March 31, 2012	4,570,015	113,602	4,683,617
March 31, 2013	3,917,998	93,944	4,011,942

The calculation for depletion during the year ended March 31, 2013 included estimated future development

costs of $10.7 million for proved and probable reserves (2012 – $8.2 million).

The Company did not identify any indicators of impairment at March 31, 2013. Negative aspects of a proposed transaction under negotiation in fiscal 2012 (and subsequently suspended) were assessed by management as indicators of potential impairment of the Argentine oil properties at March 31, 2012. As a result, the Company tested it's oil and natural gas assets for impairment 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 and a benchmark price of $56.58 per barrel of oil.

The Company determined that there was no impairment as at March 31, 2012. The fair value of proved and probable reserves significantly exceeded carrying amount and therefore, a sensitivity analysis on the variables considered would not impact the conclusion that there would be no impairment.

8. Exploration and evaluation assets

Balance - April 1, 2011	$	691,218
Loss on the sale of exploration and evaluation assets		(69,939)
Disposal		(621,279)
Balance – March 31, 2012 and 2013	$	–

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 in the year ended March 31, 2012.

9. Investment in Mafula Energy Ltd.

In November 2011, the Company received 400,000 common shares in Mafula Energy Ltd. ("Mafula"), a private company registered in Zambia, as compensation for advisory services. As there is limited financial information available for Mafula and no current market for Mafula's common shares, the investment is carried at cost as at March 31, 2013 and 2012, which is estimated to be $nil.

10. Oil share agreement

In connection with a business combination completed in July 2010, the Company became obligated to an oil share agreement pursuant to which, 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.

Accretion of the liability and the effects of revisions to estimates are recognized as royalty expense in the consolidated statement of loss and comprehensive loss.

The following table provides a reconciliation of the oil share agreement as at March 31:

		2013		2012
Balance – beginning of year	$	647,358	$	531,782
Royalty expense		28,765		99,821
Foreign currency translation		10,867		15,755
Balance – end of year	$	686,990	$	647,358

As at March 31, 2013, the carrying amount of this obligation was estimated based on the following assumptions:

	2013	2012
Discount rate	7.5%	7.5%
Actual and estimated production (barrels of oil)	104,815	104,780
Actual and estimated sales price per barrel of oil (USD)	$57.52	$57.52
Undiscounted cash flows	$689,009	$681,537

11. Notes payable

On December 15, 2011, the Company obtained a loan for $544,414 (US$500,000). The loan is comprised of notes payable secured by a mortgage on the oil and natural gas properties in Argentina and bears interest at a fixed rate of interest of 11%. The notes matured in December 2012 and payments of interest only are required until maturity. A $100,000 note was repaid including $6,790 of accrued interest, in one-third installments on January 31, February 28, and March 31 of 2013. The remaining $400,000 notes have been extended and will be repaid June 30, 2013 including accrued interest. As at March 31, 2013, the balance of notes payable is $427,173 including accrued interest (2012 –$536,323).

12. Loan payable

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 was extended for an additional six months to July 2013. The loan is unsecured and bears interest at the fixed US 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 natural gas assets acquired in Argentina, if 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, 2013, no additional Argentinean properties have been purchased and the loan payable is reported in current liabilities for $2,031,200 (2012 – $1,995,000) plus $89,595 of accrued interest included in trade and other payables.

On June 1, 2013, the Company and the third party lender amended the terms of the US$2,000,000 loan payable (Note 12) as follows:

- Principal amount US$2,050,000 for which the additional US$50,000 represents an arrangement fee in connection with the amendment of the loan payable;
- Maturity date of June 1, 2015;
- Interest rate of 10% per annum, calculated yearly and payable in monthly installments on the last day of each month;
- Interest only payments for the first 12 months, then equal monthly installments of principal and interest until June 1, 2015;
- Conversion of the loan to bonds and the issuance of 5,000,000 warrants to the lender exercisable at

$0.10 per share until June 1, 2015, subject to approval by the TSX Venture Exchange; and

- Distribution of certain net profits to the lender, as defined in the amended loan agreement, related to the sale of all or part of the Company's assets and operations in Argentina.

13. 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 oil and gas properties:

		2013		2012
Balance – beginning of year	$	1,612,075	$	2,169,937
Additions		–		398,685
Accretion		203,791		213,989
Change in estimate		(331,643)		(1,057,723)
Foreign currency translation		(201,163)		(112,813)
Balance – end of year	$	1,283,060	$	1,612,075

The following significant assumptions were used to estimate the decommissioning obligation:

	2013	2012
Undiscounted cash flows	$11.1 million	$12.3 million
Risk free rate	15.50%	13.55%
Inflation rate	10.6%	9.8%
Weighted average expected timing of cash flows	15 years	16 years

14. Convertible notes

a) Compound instruments

	Face value $	Debt component $	Equity component $
Balance, March 31, 2011	267,000	204,111	69,424
Settlement	(267,000)	(204,111)	(69,424)
Balance, March 31, 2012 and 2013	–	–	–

As at March 31, 2011, the Company had $267,000 principal amount of convertible notes outstanding bearing interest at 15% per annum, payable in arrears in equal quarterly installments.

On April 25, 2011, $192,000 of convertible notes, with a maturity date of June 24, 2014, were converted into 1,600,000 common shares at $0.12 per share and the stakeholder was issued 800,000 warrants with an exercise price of $0.17 per share and an expiry date of April 25, 2012. The fair value of the warrants was estimated at $9,950 using the Black-Scholes pricing model (Note 4(c)).

On July 4, 2011, the Company repaid $25,000 of convertible notes, with a maturity date of September 2, 2014, in cash.

On September 14, 2011, the remaining $50,000 of convertible notes were converted to 416,666 common shares at $0.12 per share and the stakeholder was issued 800,000 warrants with an exercise price of $0.17 per share and an expiry date of September 14, 2012. The fair value of the warrants was estimated at $39,561 using the Black-Scholes pricing model (Note 4(c)).

b) Hybrid instruments:

	Face value $	Debt component $	Derivative liability $
Issued (i)	213,170	196,412	16,758
Issued (ii)	1,075,890	1,033,249	42,804
Change in fair value	–	–	(23,495)
Accretion	–	6,812	–
Foreign exchange	116,398	112,249	–
Balance – March 31, 2012	1,405,458	1,348,722	36,067
Conversion	(209,113)	(196,328)	(3,096)
Change in fair value	–	–	23,783
Accretion	–	14,679	–
Foreign exchange	(37,671)	(150,467)	–
Balance – March 31, 2013	1,158,674	1,016,606	56,754

i) On July 20, 2011, the Company completed a private placement of unsecured convertible notes for aggregate gross proceeds of $1,200,000 Norwegian Krone (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. The notes mature on July 18, 2014. At any time prior to maturity and at the option of the note holder, the principal and any unpaid interest of a note may be converted into common shares of the Company at a price of CAD$0.15 per share.

On initial recognition, the fair value of the derivative liability was estimated at $16,758 and the residual amount of $196,412 was allocated to the debt component.

The exercise price was amended to CAD$0.10 per common share and the notes were converted to 2,091,130 common shares for $209,113 on April 11, 2012. At the time of conversion, the fair value of the derivative liability was $3,096 and the debt component was $196,328 and the trading price of the Company's shares was $0.09 per share, resulting the recognition of a net gain on conversion of $11,222 in the consolidated statement of loss and comprehensive loss for the year ended March 31, 2013.

The fair value of the derivative liability was determined using the Black-Scholes pricing model based on the following assumptions:

	Conversion April 11, 2012	March 31, 2012	Issue July 20, 2011
Risk free interest rate	1.21%	1.33%	1.66%
Expected life	2.3 years	2.3 years	3.0 years
Expected volatility	172%	161%	170%

ii) On December 16, 2011, the Company completed a private placement of unsecured convertible notes for aggregate gross proceeds of $1,080,000 Swiss Francs (CAD$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 in the amount of $30,341 as at March 31, 2013 (2012 – $26,976).

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

On initial recognition, the fair value of the derivative liability was estimated at $42,804 and the residual amount of $1,033,249 was allocated to the debt component.

The fair value of the derivative liability was determined using the Black-Scholes pricing model based on the following assumptions:

	March 31, 2013	March 31, 2012	Issue December 16, 2011
Risk free interest rate	1.07%	1.33%	0.90%
Expected life	1.7 years	2.7 years	3.0 years
Expected volatility	100%	170%	177%

15. Deferred taxes

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

	2013	2012
Expected income tax reduction at 25%	$ (526,608)	$ (796,115)
Non-deductible expenses	16,359	195,623
Changes in enacted rates and other	(752,991)	74,592
Changes in unrecognized deferred tax assets	1,263,240	525,900
Deferred tax	$ –	$ –

Deferred tax assets have not been recognized in respect of the following temporary differences as it is not considered probable that sufficient taxable income will allow the deferred tax assets to be utilized and recovered:

	2013	2012
Non-capital loss carryforwards	$ 2,266,106	$ 1,642,680
Share issuance costs	50,574	75,791
Other	665,031	–
Unrecognized deferred tax assets	$ 2,981,711	$ 1,718,471

As at March 31, 2013, the Company has accumulated non-capital losses totaling $8.3 million (2012 – $6.3 million) which expire in varying amounts between 2028 and 2033.

16. Share capital

a) Issued

	Number of Common Shares	Amount $
Balance – April 1, 2011	39,342,792	5,112,214
Debt conversion (Note 14(a))	2,016,666	242,000
Fair value of warrants (Note 14(a))	–	(49,602)
Non-brokered unit private placement (i)	1,100,000	110,000
Fair value of warrants (i)	–	(73,903)
Non-brokered unit private placement (ii)	6,100,034	360,722
Fair value of warrants (ii)	–	(265,236)
Non-brokered unit private placement (iii)	4,000,000	200,000
Fair value of warrants (iii)	–	(168,127)
Share issue costs	–	(3,826)
Balance - March 31, 2012	52,559,492	5,464,242
Debt conversion (Note 13(b))	2,091,130	188,202
Non-brokered unit private placement (iv)	5,250,000	315,000
Fair value of warrants (iv)	–	(167,000)
Non-brokered unit private placement (v)	2,358,334	141,500
Fair value of warrants (v)	–	(75,000)
Non-brokered unit private placement (vi)	2,166,666	130,000
Fair value of warrants (vi)	–	(69,000)
Non-brokered unit private placement (vii)	2,948,999	176,940
Fair value of warrants (vii)		(53,000)
Non-brokered unit private placement (viii)	3,333,000	199,980
Fair value of warrants (viii)	–	(80,500)
Non-brokered unit private placement (ix)	7,610,000	456,600
Fair value of warrants (ix)	–	(183,900)
Non-brokered unit private placement (x)	3,566,666	214,000
Fair value of warrants (x)	–	(64,000)
Share issue costs	–	(37,804)
Balance – March 31, 2013	81,884,287	6,556,260

i) On September 23, 2011, the Company issued 1,100,000 units at a price of $0.10 per unit, for aggregate cash proceeds of $110,000. Each unit consists of one common share and one warrant exercisable at $0.15 per share until September 23, 2014. The fair value of the warrants was estimated at $73,903 using the Black-Scholes pricing model (Note 4(c)).

ii) On November 24, 2011, the Company issued 6,100,034 units at a price of $0.06 per unit, for aggregate cash proceeds of $360,722, including $5,280 foreign exchange related to proceeds received in a foreign currency. Each unit consists of one common share and one warrant exercisable at $0.10 until November 23, 2013. The fair value of the warrants was estimated at $265,236 using the Black-Scholes pricing model (Note 4(c)).

In addition, the Company issued 88,000 warrants with the same terms as above as a finder's fee, which has been recognized as share issue costs. The fair value of the warrants was estimated at $3,826 using the Black-Scholes pricing model (Note 4(c)).

iii) On March 30, 2012, the Company issued 4,000,000 units at a price of $0.05 per unit for aggregate cash

proceeds of $200,000. Each unit consists of one common share and one warrant. Each warrant entitles the holder to purchase one common share for $0.10 per share until March 28, 2014. The fair value of the warrants was estimated at $168,127 using the Black-Scholes pricing model (Note 4(c)).

iv) On June 28, 2012, the Company issued 5,250,000 units at a price of $0.06 per unit, for aggregate cash proceeds of $315,000. Each unit consists of one common share and one warrant exercisable at $0.10 per share until June 27, 2013. The fair value of the warrants was estimated at $167,000 using the Black-Scholes pricing model (Note 4(c)).

In addition, the Company paid a finder's fee of 244,000 warrants with the same terms as above, all of which was recognized as share issue costs. The fair value of the warrants was estimated at $7,800 using the Black-Scholes pricing model (Note 4(c)).

v) On July 11, 2012, the Company issued 2,358,334 units at $0.06 per unit for aggregate cash proceeds of $141,500. Each unit consists of one common share and one warrant exercisable at $0.10 per share until July 11, 2013. The fair value of the warrants was estimated at $75,000 using the Black-Scholes pricing model (Note 4(c)).

In addition, the Company paid a finder's fee of $13,080 cash and 218,000 warrants with the same terms as above, all of which was recognized as share issue costs. The fair value of the warrants was estimated at $6,900 using the Black-Scholes pricing model (Note 4(c)).

vi) On August 6, 2012, the Company issued 2,166,666 units at $0.06 per unit for aggregate cash proceeds of $130,000. Each unit consists of one common share and one warrant exercisable at $0.10 per share until August 6, 2013. Of the total units issued, 1,000,000 units were purchased by a corporation whose owner is a director of Canoel. The fair value of the warrants was estimated at $69,000 using the Black-Scholes pricing model (Note 4(c)).

vii) On November 15, 2012, the Company issued 2,948,999 units at $0.06 per unit for aggregate cash proceeds of $176,940. Each unit consists of one common share and one warrant exercisable at $0.10 per share until November 15, 2014. Of the total units issued, 833,333 units were purchased by a corporation whose owner is a director of Canoel. The fair value of the warrants was estimated at $53,000 using the Black-Scholes pricing model (Note 4(c)).

viii) On December 7, 2012, the Company issued 3,333,000 units at $0.06 per unit for aggregate cash proceeds of $199,980. Each unit consists of one common share and one warrant exercisable at $0.10 per share until December 7, 2014. The fair value of the warrants was estimated at $80,500 using the Black-Scholes pricing model (Note 4(c)).

In addition, the Company paid a finder's fee of $10,024 cash which was recognized as share issue costs.

ix) On February 15, 2013, the Company issued 7,610,000 units at $0.06 per unit for aggregate cash proceeds of $456,600. Each unit consists of one common share and one warrant exercisable at $0.10 until February 15, 2015. Of the total units issued, 1,833,333 units were purchased by the President and CEO of Canoel. The fair value of the warrants was estimated at $183,900 using the Black-Scholes pricing model (Note 4(c)).

x) On March 4, 2013, the Company issued 3,566,666 units at $0.06 per unit for aggregate cash proceeds of $214,000. Each unit consists of one common share and one warrant exercisable at $0.10 until March 4, 2015. The fair value of the warrants was estimated at $64,000 using the Black-Scholes pricing model (Note 4(c)).

b) Warrants

	Number of warrants	Amount $	Weighted average exercise price
Balance – March 31, 2011	6,334,503	$ 114,033	$ 0.30
Debt conversion (Note 13(a))	1,600,000	49,602	0.17
Unit private placements (Note 15(a))	11,200,034	507,266	0.10
Finder's fees (Note 15(a))	88,000	3,826	0.10
Expired	(5,759,503)	(101,156)	0.28
Balance – March 31, 2012	13,463,034	$ 573,571	$ 0.13
Unit private placements (Note 15(a))	27,233,665	692,400	0.10
Finder's fees (Note 15(a))	462,000	14,700	0.10
Expired	(1,600,000)	(49,602)	0.17
Balance – March 31, 2013	39,558,699	$ 1,231,069	$ 0.11

Information about warrants outstanding and exercisable as at March 31, 2013 is as follows:

Exercise price	Number of warrants	Weighted average remaining life (years)	Weighted average exercise price
$ 0.10	37,883,699	1.12	$ 0.10
$ 0.15	1,100,000	0.48	0.15
$ 0.50	575,000	1.25	0.50
	39,558,699	1.10	$ 0.11

c) Stock options

The Company has 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 and outstanding common shares at the time of granting options. Granted options are fully vested on the date of grant, at which time all related share-based payment expense is recognized in the consolidated statement of loss and comprehensive loss. Stock options expire five years from the date of grant.

	Number of options	Weighted average exercise price
Balance – March 31, 2011	3,715,000	$ 0.11
Forfeited	(915,000)	0.12
Balance – March 31, 2012 and 2013	2,800,000	$ 0.11

Information about stock options outstanding and exercisable as at March 31, 2013 is as follows:

Exercise price	Number of options	Weighted average remaining life (years)	Weighted average exercise price
$ 0.10	2,410,000	2.22	$ 0.10
$ 0.13	105,000	1.49	0.13
$ 0.15	70,000	1.58	0.15
$ 0.17	70,000	1.85	0.17
$ 0.23	145,000	1.49	0.23
	2,800,000	2.13	$ 0.11

d) Per share amounts

	2013	2012
Net loss	$ (2,106,433)	$ (3,184,460)
Weighted average number of shares – basic:		
Issued common shares as at April 1	52,559,492	39,342,792
Effect of common shares issued during the year	12,425,117	4,473,873
	64,984,609	43,816,665
Net loss per share – basic and diluted [1]	$ (0.03)	$ (0.07)

[1] The effect of convertible notes, warrants and stock options is anti-dilutive in loss periods.

17. Supplemental disclosure

(a) Employee compensation cost

The consolidated 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:

	2013	2012
Operating	$ 391,523	$ 555,973
General and administrative	772,639	719,441
Total employee compensation cost	$ 1,164,162	$ 1,275,414

(b) Key management compensation

The Company considers its officers and directors to be key management personnel. As at March 31, 2013, key management personnel included 7 individuals (2012 – 7 individuals).

Key management compensation for the years ended March 31 is comprised of the following:

	2013	2012
Consulting fees	$ 140,461	$ 277,444
Bonus	150,000	200,000
Total key management compensation	$ 290,461	$ 477,444

18. Finance income and expense

	2013	2012
Income:		
Interest income on cash	$ –	$ 867
Expense:		
Interest expense	457,108	343,337
Accretion of decommissioning obligation	203,791	213,989
Accretion of convertible notes	14,679	6,812
	675,578	564,138
Net finance expense	$ 675,578	$ 563,271

19. Change in non-cash working capital

	2013	2012
Trade and other receivables	$ 402,311	$ (123,066)
Inventory	26,138	55,178
Prepaid expenses	(29,397)	(36,431)
Trade and other payables	(562,279)	848,476
Total change in non-cash working capital	$ (163,227)	$ 744,157

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

	2013	2012
Operating	$ (20,961)	$ 1,366,321
Financing	–	320,554
Investing	(142,266)	(942,718)
Total change in non-cash working capital	$ (163,227)	$ 744,157

20. 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 deficiency, long-term debt, and shareholders' deficit as capital.

	2013	2012
Working capital deficiency	$ 3,754,679	$ 2,850,057
Long-term debt – convertible notes	1,016,606	1,348,722
Shareholders' deficit	2,099,157	1,163,304

The Company has recently emerged from the development stage; however its cash flow from the Argentinean operation will be needed in the near term to finance the operations and repay vendor loans. Therefore, the Company's principal source of funds will 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.

21. Related party transactions

Related party transactions during the years ended March 31, 2013 and 2012 not disclosed elsewhere in these consolidated financial statements are as follows:

a) Included in general and administrative expenses is $215,677 (2012 – $12,685) charged by a company controlled by an officer and director of the Company for office rent and administrative services. As at March 31, 2013, $16,145 (2012 – $12,988) was included in trade and other payables in respect of these charges.

b) Included in interest expense is $4,787 (2012 – $1,475) on $50,000 Swiss Francs of convertible notes (Note 14(b)) held by company controlled by a director of the Company, of which $5,912 is included in trade and other payables as at March 31, 2013 (2012 – $1,134).

c) Included in trade and other payables is $132,667 (2012 – $nil) due to an officer and director of the Company in respect of general and administrative expenditures made on behalf of the Company for which the officer and director will be reimbursed.

22. Financial risk management

The Company's activities expose it to a variety of financial risks that arise as a result of its exploration, development, production, and financing activities such as credit risk, liquidity risk and market risk. This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

a) 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. The Company's maximum credit risk exposure is limited to the carrying amount cash of $346,541 (2012 – $1,447,708) and trade and other receivables of $627,892 (2012 – $1,030,203).

The composition of trade and other receivables is summarized in the following table:

	2013	2012
Oil sales	$ 360,299	$ 322,225
Shareholders	–	116,017
Stamp tax and other tax withholdings	206,365	570,337
Goods and services tax	8,498	21,624
Other	52,730	–
	$ 627,892	$ 1,030,203

The receivable related to the sale of oil is held with a large company who participates in the oil and natural gas industry in Argentina. Oil sales receivables are typically collected in the month following the sales month.

The Company considers its receivables to be aged as follows:

	2013	2012
Current	$ 412,932	$ 851,401
31 to 90 days	485	32,433
90 + days	214,475	146,369
	$ 627,892	$ 1,030,203

b) 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 at March 31, 2013, the Company had $4,855,021 (2012 – $5,450,618) of current liabilities for which the Company's $346,541 (2012 – $1,477,708) cash balance is insufficient to settle the current liabilities. It is expected that further debt and equity financings will be required in order to settle existing current liabilities, continue development of 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, 2013, the contractual maturities of current and non-current financial liabilities are as follows:

		Carrying amount	Contractual cashflows	Fiscal 2014	Fiscal 2015
Trade and other payables	$	1,709,658	1,709,658	1,709,658	–
Oil share agreement		686,990	686,990	686,990	–
Notes payable		427,173	438,293	438,293	–
Loan payable		2,031,200	2,092,855	2,092,855	–
Convertible note		1,016,606	1,347,114	104,471	1,242,643
	$	5,871,627	6,274,910	5,032,267	1,242,643

c) 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.

i) 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. Foreign exchange rates for December 31 are as follows:

	Closing rate		Average rate	
	2013	2012	2013	2012
ARS	0.1985	0.2282	0.2129	0.2359
US dollars	1.0137	0.9975	1.0014	0.9930
Swiss Franc	1.0748	1.1067	1.0651	1.1318
Norwegian Kroner	0.1741	0.1752	0.1733	0.1763

The following represents the estimated impact on net loss and equity. This analysis is based on foreign currency exchange rate variances that the Company considered reasonably possible for years ended March 31, 2013 and 2012. 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.

	2013 (Increase) Decrease			2012 (Increase) Decrease		
	Rate change	Net loss	Equity	Rate change	Net loss	Equity
ARS	13%	–	220,310	7%	–	138,985
US dollars	2%	(60,920)	(17,280)	7%	(139,650)	(21,965)
Swiss Franc	15%	(129,920)	–	15%	(179,285)	–
Norwegian Kroner	2%	–	–	8%	(16,820)	–
		(190,840)	203,030		(335,755)	117,020

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$63.00 per barrel at March 31, 2012, and US$60 per barrel at March 31, 2013.

As at March 31, 2013, a 5% change in the price of oil would represent a change in net loss of approximately $112,000.

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. The Company has fixed interest on notes payable (Note 10) and convertible notes (Note 14). As at March 31, 2013, the Company has US$2,000,000 (2012 – US$2,000,000) of loans payable (Note 12) with a floating interest, hence a variation of 1% represents approximately $20,028 (US$20,000) in savings or added cost for the Company.

23. 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 two reportable segments which are as follows:

- Argentina
- Other which 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 2013 or 2012.

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, 2013 and 2012 is as follows:

		Argentina		Other		Total	
		2013	2012	2013	2012	2013	2012
Revenue from external customers	$	**2,474,889**	2,254,533	**–**	–	**2,474,889**	2,254,533
Operating and transportation		**1,666,524**	1,346,928	**–**	–	**1,666,524**	1,346,928
Royalties		**203,380**	203,199	**28,765**	99,821	**232,145**	303,020
General and administrative		**452,562**	521,814	**1,694,033**	2,006,847	**2,146,595**	2,528,661
Depletion and depreciation		**296,947**	322,447	**–**	–	**296,947**	322,447
Loss on termination agreement		**–**	–	**–**	372,400	**–**	372,400
Finance and other expenses		**64,489**	248,153	**174,622**	317,384	**239,111**	565,537
Reportable segment loss before income tax	$	**(209,013)**	(388,008)	**(1,897,420)**	(2,796,452)	**(2,106,433)**	(3,184,460)
Property and equipment	$	**3,876,129**	4,678,364	**135,813**	5,253	**4,011,942**	4,683,617
Other assets	$	**804,921**	2,267,481	**295,421**	333,080	**1,100,342**	2,600,561
Total liabilities	$	**2,994,040**	4,166,333	**4,217,401**	4,281,149	**7,211,441**	8,447,482
Capital expenditures	$	**283,539**	938,617	**130,759**	5,253	**414,298**	943,870

24. Subsequent event

On June 6, 2013, the Company completed the acquisition of various working interests in 13 Italian producing and exploration properties (the “Assets”) from Medoilgas Italia S.P.A. and Medoilgas Civita Limited, each a subsidiary of Mediterranean Oil and Gas Plc (collectively, "MOG”) after receiving the final approval from the Italian Ministry of Economic Development to the change of ownership.

On completion of the transaction, the Company paid MOG a nominal sum of EUR100 for the acquisition of MOG's working interests in the Assets and has assumed the liability for future plugging, abandonment and site remediation costs associated with the Assets. At the same time, the Company received a cash payment of EUR1,250,000 (approximately $1,650,000) as MOG’s contribution toward future abandonment and remediation costs. The Company also received an initial advance of EUR104,000 ($137,000), which represents a portion of the revenue MOG received from the Assets during the period between the August 24, 2012 effective date of the acquisition and the most recent production statements, net of allowable operating costs, agreed capital expenditure associated with the Assets and certain deposits for future capital expenditures. Additional revenue adjustments up to the final transaction date will be paid to the Company in due time.