Canoel International Energy Ltd.

(A Development Stage Company)

Consolidated Financial Statements
First Quarter Ended June 30, 2010
(expressed in Canadian dollars)

Notice to the Reader

The accompanying unaudited interim financial statements of Canoel International Energy Ltd. for the three months ended June 30, 2010 have been prepared by management and approved by the Board of Directors of the Company. These statements have not been reviewed by the Company's external auditors.

Approved on behalf of Canoel International Energy Ltd.,

Andrea Cattaneo	Stephen Austin
President and Chief Executive Officer	Chief Financial Officer

Dated August 30, 2010

Canoel International Energy Ltd.

(a Development Stage Company)

Consolidated Balance Sheets

As at June 30, 2010 and March 31, 2010

(Expressed in Canadian dollars)

	June 30, 2010 $	March 31, 2010 $ (Audited)
Assets		
Current Assets		
Cash and cash equivalents	**1,164,361**	992,599
Accounts receivable	**771,551**	547,542
Prepaid expenditures	**48,117**	11,727
	1,984,029	1,551,868
Property, plant and equipment (note 5)	**986,420**	986,420
	2,970,449	2,538,288
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**206,429**	261,566
Convertible notes (note 6)	**364,831**	-
	571,260	261,566
Shareholders' equity		
Share capital (note 7b)	**3,328,422**	3,136,450
Other equity (note 6)	**123,482**	-
Warrants (note 7c)	**497,355**	479,283
Contributed surplus	**195,535**	195,535
Deficit	**(1,745,605)**	(1,534,546)
	2,399,189	2,276,722
	2,970,449	2,538,288

Going concern (note 2)
Commitments (note 11)
Subsequent events (note 12)

Approved by the Board of Directors

(Signed) "*Emanuel Olympitis*"
Director

(Signed) *"Andrea Cattaneo"*
Director

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

Canoel International Energy Ltd.

(a Development Stage Company)

Consolidated Statements of Loss, Comprehensive Loss and Deficit

For the three months ended June 30, 2010 and 2009

(Expressed in Canadian dollars)

	June 30, 2010 $	June 30, 2009 $
Revenue		
Interest income	**401**	553
Expenses		
General and administrative	**224,877**	197,087
Foreign exchange (gain)	**(13,417)**	-
	211,460	197,087
Net loss and comprehensive loss	**(211,059)**	(196,534)
Deficit, beginning of period	**(1,534,546)**	(479,159)
Deficit, end of period	**(1,745,605)**	(675,693)
Basic and diluted loss per share (note 7f)	**(0.01)**	(0.01)
Weighted average shares outstanding during the period – basic and diluted	**21,618,715**	15,801,600

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

Canoel International Energy Ltd.

(a Development Stage Company)

Consolidated Statement of Cash Flows

For the three months ended June 30, 2010 and 2009

(Expressed in Canadian dollars)

	June 30, 2010 $	June 30, 2009 $
Cash flows used in operating activities:		
Net loss for the period	**(211,059)**	(196,534)
Changes in non-cash working capital	**(96,500)**	(37,351)
	(307,559)	(233,885)
Cash flows provided by financing activities		
Proceeds from issuance of common shares, net of issue costs	**193,036**	-
Proceeds from issuance of warrants	**5,321**	-
Proceeds from issuance of convertible notes	**500,000**	-
Changes in non-cash working capital	**(219,036)**	-
	479,321	-
Change in cash and cash equivalents	**171,762**	(233,885)
Cash and cash equivalents, beginning of period	**992,599**	1,094,065
Cash and cash equivalents, end of period	**1,164,361**	860,180

Supplemental cash flow disclosure

Interest received	**401**	553

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

(Expressed in Canadian dollars)

1 Nature of operations

Canoel International Energy Ltd. (the "Company") was incorporated pursuant to the provisions of the British Columbia Business Corporations Act on September 20, 2007. The Company was listed on the TSX Venture Exchange Inc ("TSXV") as a capital pool company on April 10, 2008. On November 21, 2008, the Company completed a Short Form Offering to the public and a non-brokered Private Placement, which allowed the Company to complete its Qualifying Transaction in accordance with the applicable policies of the TSXV on December 8, 2008. The Company is a Tier 2 listed Issuer on the TSXV. The Company is a development stage entity as defined by the Canadian Institute of Chartered Accountants ("CICA") Accounting Guideline 11.

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 in exchange for a fee and a percentage of profits. As at June 30, 2010, IPRP exists solely as a shell with no assets and liabilities.

2 Going Concern

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.

As at June 30, 2010, the Company had not yet achieved profitable operations, has accumulated a deficit of $1,745,605 (March 31, 2010 - $1,534,546) since its inception, and expects to incur further losses in the development of its business, which is typical of an oil and gas exploration company in the developmental stage. Current oil and gas activities are in the exploration stage and have not identified oil and gas reserves. Current cash resources will not be sufficient to continue the exploration and development activities. These matters raise doubt about the ability of the Company to continue to meet its obligations as they become due. Continuing

(Expressed in Canadian dollars)

operations are dependent on the ability to obtain adequate funding to finance existing operations, attain commercial production from its oil and gas properties and attain future profitable operations. Additional financing is subject to the global financial markets and economic conditions, which have recently been disrupted and volatile and the debt and equity markets have been distressed. These factors, together with the current weak economic conditions, 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.

3 Significant accounting policies

These unaudited interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"), using the same accounting policies and methods as per the annual financial statements for the year ended March 31, 2010. They do not include all of the disclosures required by Canadian GAAP, and should be read in conjunction with the most recent annual financial statements of the Company.

The results of operations for the three months ended June 30, 2010 are not necessarily indicative of those to be expected for the entire year ending March 31, 2011.

4 Future accounting and reporting changes

Business Combinations, Consolidated Financial Statements and Non-controlling Interest

In January 2009, the CICA issued CICA Handbook Sections 1582: Business Combinations, Section 1601: Consolidations, and Section 1602: Non-controlling Interest. These sections replace the former CICA Handbook Section 1581: Business Combinations and Section 1600: Consolidated Financial Statements and establish a new section for accounting for a non-controlling interest in a subsidiary. CICA Handbook Section 1582 establishes standards for the accounting for a business combination, and states that all assets and liabilities of an acquired business will be recorded at fair value. Obligations for contingent considerations and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. It provides the Canadian equivalent to IFRS 3, Business Combinations (January 2008). The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.

(Expressed in Canadian dollars)

CICA Handbook Section 1601 establishes standards for the preparation of consolidated financial statements.

CICA Handbook Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in the preparation of consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS IAS 27, Consolidated and Separate Financial Statements (January 2008).
CICA Handbook Sections 1601 and 1602 apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year.

All three sections must be adopted concurrently.

Equity

In August 2009, the AcSB issued amendments to CICA Handbook Section 3251: Equity as a result of issuing CICA Handbook Section 1602: Non-controlling Interests. The amendments require non-controlling interests to be recognized as a separate component of equity. The amendments apply only to entities that have adopted Section 1602 and are not expected to have an impact on the Company's financial statements.

(Expressed in Canadian dollars)

5 Property, plant and equipment

			June 30, 2010
	Cost	**Accumulated depletion & depreciation**	**Net book value**
	$	**$**	**$**
Oil and gas properties	**986,420**	**-**	**986,420**
	986,420	**-**	**986,420**

			March 31, 2010
	Cost	**Accumulated depletion & depreciation**	**Net book value**
	$	**$**	**$**
Oil and gas properties	986,420	-	986,420
	986,420	-	986,420

During fiscal 2008 the Company entered into a Farm-out and Participation Agreement (the "Farm-out and Participation Agreement"). Pursuant to the Farm-out and Participation Agreement, the Company has a right to an 11% participating interest in three production sharing contracts related to unproved oil and gas properties. At June 30, 2010 there has been no production and accordingly there has been no depletion or depreciation recorded against the assets.

Included in oil and gas properties is an amount of $190,000 paid for an agreement which provides the Company an option to increase their participating interest from 11% up to 45% in two exploration blocks in Tunisia, Bazma and Sud Touzer. The Company must commit to participate in the drilling of the wells proposed under the permits. Pursuant to the Option Agreement, the payment is non-refundable and the original expiry date on the option was April 30, 2009 for Bazma and on June 30, 2009 for Sud Touzer. Such deadlines have been extended by the operator and will remain valid until the Authorization for Expenditure ("AFE") for the first well on each block is issued. If, subsequent to the receipt of an AFE by the Company, another party commits to earn an interest prior to the Company exercising their option, then the option will be decreased by the interest assumed by the other party. If the option on either block

expires unexercised or another party commits to earn an interest, the Company may need to recognize an impairment in future periods.

6 Convertible notes

	June 30, 2010
Convertible note	500,000
Less: equity component	(123,482)
Less: value of warrant	(11,687)
Liability component of the convertible note	364,831

On June 24, 2010, the Company issued 100 units (the "Unit") by way of a private placement for total gross proceeds of $500,000. Each Unit consisted of one unsecured convertible note (the "Note"), with a principal value of $5,000, and 5,000 common share purchase warrants (the "Warrants"). The Notes will mature on September 24, 2014, unless earlier redemption or conversion occurs. The principal amount of each Note is convertible into common share 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 Notes bear simple 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 in 12 equal, quarterly installments. Subsequent to June 24, 2011, 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 September 24, 2014 (note 7(c)).

The Notes are a compound financial instrument and as such have been recorded as a liability and as equity. The residual valuation method was used to determine the equity portion of the Notes. Under this approach, the liability component was valued first, and the difference between the proceeds of the Notes and the fair value of the liability was assigned to the equity component. The present value of the liability component was calculated using a discount rate of 8% 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 Note will be accreted to its face value of $500,000 over the four year life for both the equity component and the value of the warrant.

(Expressed in Canadian dollars)

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 statement of loss, comprehensive loss and deficit.

7 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 $
Outstanding, March 31, 2010	21,618,715	3,136,450
Non-brokered private placement (i)	1,825,300	219,036
Fair value of share purchase warrants (i)	-	(5,321)
Share issue costs (ii)	-	(21,743)
Outstanding, June 30, 2010	23,444,015	3,328,422

(i) On June 30, 2010, the Company completed a non-brokered private placement (the "Placement"), issuing 1,825,300 units for total proceeds of $219,036 ($0.12 per unit). Each unit consists of one common share and one-half of one common share purchase warrant (the "Warrant"). Each whole Warrant entitles the holder to purchase one additional common share of the Company at $0.20 per share, exercisable for 1 year from the date of the Placement. 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 $5,321 of the unit value to warrants (note 7(c)).

(ii) The Company incurred share issue costs to an unrelated Finder of $21,743 related to June 30, 2010 Placement. This includes the value of $1,064 assigned to 182,530 finders warrants (the "Finders Warrants") (note 7(c)). The Finders Warrants entitles the holder to purchase one common share of the Company at $0.20 per share, exercisable for 1 year from the date of the Placement.

(Expressed in Canadian dollars)

c) **Warrants**

Warrants to acquire common shares outstanding at June 30, 2010 are as follows:

	Number of warrants issued and exercisable	Amount $	Weighted average exercise price $	Weighted average Remaining life (years)
Balance, March 31, 2010	14,308,361	479,283	0.38	0.62
Share purchase warrants (7b(i))	912,650	5,321	0.20	1.00
Finders' share purchase warrants (7b(ii))	182,530	1,064	0.20	1.00
Share purchase warrants issued with convertible notes (note 6)	500,000	11,687	0.50	3.99
Balance, June 30, 2010	15,903,541	497,355	0.37	0.75

The fair value of the share purchase warrants granted during the period are estimated at the grant date using the Black-Scholes option pricing model and have been credited to warrants within shareholders' equity. A weighted average of the assumptions used in the calculation is noted below:

Risk-free rate	1.74%
Expected life	2 years
Expected volatility	63.68%
Fair value per warrant	$0.01

d) **Stock options**

The Company established a stock option plan (the "Plan") for the benefit of directors, officers, key 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. The full amount of the grant becomes exercisable on the grant date and expire after 5 years from the date of grant.

During the three months ended June 30, 2010, there were no stock option grants, cancellations, exercises or expiries. The following table summarizes information about the Company's stock options outstanding at June 30, 2010:

	Number of options Outstanding and exercisable	Weighted average exercise price $	Weighted average remaining life (years)
Balance, March 31, 2010 and June 30, 2010	1,565,000	0.13	3.84

(Expressed in Canadian dollars)

The following table summarizes information about the Company's stock options outstanding at June 30, 2010:

	Option outstanding and exercisable		
Range of exercise prices ($)	**Number of options outstanding**	**Weighted average remaining contractual life (years)**	**Weighted average exercise price $**
0.10 - 0.20	1,420,000	3.80	0.12
0.21 – 0.30	145,000	4.20	0.23

e) **Agent Options**

As at June 30, 2010, the Company has 728,161 Agent Options outstanding, which were granted on November 21, 2008 to the Agents of the non-brokered private placement related to the Qualifying Transaction. Each Agent Option is exercisable into one common share and one common share purchase warrant ("Agent Warrant") of the Company at $0.25. Each Agent Warrant is exercisable into one common share of the Company at $0.40 per common share. The Agent Options expire on November 21, 2010.

f) **Per share data**

Basic earnings per share are calculated based on the weighted average number of shares outstanding during the period of 21,618,715 (June 30, 2009 – 15,801,600). Currently, the effect of potential issuance of common shares upon the exercise of options, warrants or agent options would be anti-dilutive since the Company is in a net loss position and accordingly basic and diluted loss per common share are the same.

8 Capital Management

The Company's objectives when managing capital is to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders. The Company manages its common shares, options and warrants as capital. As the Company is in the development stage its principal source of funds is from the issuance of common shares. It is the Company's objective to safeguard its ability to continue as a going concern, so that it can continue to explore and develop its projects for the benefit of its stakeholders. The Company's ability to raise future capital through equity is subject to

(Expressed in Canadian dollars)

uncertainty and our inability to raise such capital may have an adverse impact over the Company's ability to continue as a going concern.

As part of the capital management program the Company 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 June 30, 2010, the working capital ratio was 9.6:1.

9 Related Parties

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

a) Aggregate consulting fees of $52,705 (June 30, 2009 - $42,917) were charged by directors and officers of the Company and recorded in the consolidated statement of loss, comprehensive loss and deficit.

b) Aggregate legal fees of $7,985 (June 30, 2009 - $10,514) were charged by a director of the Company and recorded in the consolidated statement of loss, comprehensive loss and deficit.

c) Included in accounts payable and accrued liabilities at June 30, 2010 was $16,406 (March 31, 2010 - $23,284) payable to related parties. These amounts are non-interest bearing and have no specific terms of repayment.

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

10 Financial Instruments and Risk Management

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's financial instruments consist of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities. The fair values of these financial instruments

(Expressed in Canadian dollars)

approximate their carrying value due to their short-term nature. The Company's cash and cash equivalents have been subject to level 1 valuation.

b) **Credit risk**

Credit risk is the risk of an unexpected loss if a party to a financial instrument fails to meet its commercial obligations. This arises principally from joint venture partners.

As at June 30, 2010 the Company's receivables consisted of $490,000 (March 31, 2010 - $490,000) from the operator of the Tunisian permits; $219,036 (March 31, 2010 - $nil) due from subscribers of the June 30, 2010 placement, which were collected subsequent to June 30, 2010; $45,613 (March 31, 2010 - $39,444) of good and service taxes from the Government of Canada; and $16,902 (March 31, 2010 -$18,098) of other trade receivables.

Virtually all of the Company's accounts receivable is with the operator of the Tunsian permits, thus exposing the Company to concentration risk. The receivable is a cash call payment made to the operator and is pending utilization as drilling commences. Management believes the risk is mitigated by the reputation of the operator and the operator's intention to continue the development of the Tunisian permits. The Company's maximum credit risk exposure is limited to the carrying value of its accounts receivable of $771,551 and cash and cash equivalents of $1,164,361.

As the Company has not entered into any derivative financial instruments, it is not exposed to credit risk associated with possible non-performance by counterparties to any such derivative financial instrument contracts.

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. 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.

(Expressed in Canadian dollars)

(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. The international nature of the Company's operations will result in exposure to fluctuations in commodity prices as the Company continues to develop.

(i) **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 June 30, 2010, the Company has interest bearing cash accounts held with an 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.

d) **Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company ensures, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or harm to the Company's reputation.

As at June 30, 2010, the Company's financial liabilities totaled $571,260, and are comprised of accounts payable and accrued liabilities and the convertible note. As at June 30, 2010, the Company's cash and cash equivalent balance is sufficient to meet the Company's obligations. $16,406 of the financial liabilities are owed to related individuals and these amounts are subject to the forbearance of the related individuals.

e) **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. To date the Company has focused on the international market for petroleum and natural gas opportunities where many of the anticipated future expenses will be denominated in United States dollars. A hypothetical change of 10% to the foreign exchange rate between the US dollar and the Canadian dollar applied to the average level of US denominated cash and cash equivalents during the period would have a remote impact on the Company's earnings for the period.

(Expressed in Canadian dollars)

11 Commitments

The Company has entered into a farm-out and participation agreement giving it the right to participate in production sharing contracts in Tunisia which will provide the Company with a participating interest in the respective properties. Should the Company elect to participate in these production sharing contracts, it will be required to participate in the drilling of one exploratory well in each of the Jorf, Bazma and Sud Touzer properties. The current production sharing contracts expire in 2016 for Bazma and 2011 for Jorf and 2017 for Sud Touzer. The operator may renew the production sharing contracts for Bazma and Sud Touzer, although it anticipates undertaking the exploration activities prior to renewal of the production sharing contracts. Further renewals of the blocks will be discussed on a project by project basis with the Energy State Authority of Tunisia. Should the Company elect to participate, its estimated share of the expenditures in U.S. dollars is: $907,000 in Bazma, of which $426,000 has already been advanced to the operator resulting in a net remaining amount of $481,000, $529,000 for Jorf, and $1,531,000 for Sud Touzer.

12 Subsequent events

The Company entered into the following transactions subsequent to June 30, 2010:

a) On June 4, 2010, the Company announced that it has entered into an acquisition agreement (the “Agreement”) with Oren Oil ASA (“Oren”). Oren has represented that through the acquisition, the Company will be introduced to opportunities to acquire oil and gas leases within the republic of Russia, which will be assessed through due diligence procedures. Under the Agreement, the Company will make an offer (the “Offer”) to the shareholders of Oren to purchase all of their shares of Oren (“Oren Shares”) on the basis of one common share in the capital of the Company (“Canoel Share”) for every 1,000 Oren Shares tendered under the Offer. The Company paid a non-refundable deposit of 20,000 Norwegian Kroner (“NOK”), approximately CAD $3,000, upon execution of the Agreement.

   Completion of the foregoing transactions is subject to approval by the Exchange, and is conditional upon the receipt by the Company of binding commitments from at least 50.01% of the Oren Shareholders to accept the Offer. Accordingly, this offer is subject to the above requirements and there can be no certainty that this agreement with the Oren shareholders will be completed.

(Expressed in Canadian dollars)

In connection with the Offer, the Oren Shareholders were required to participate in a private placement of Canoel Shares (the "Private Placement") for total gross proceeds of a minimum of NOK 5,000,000 (approximately CAD $800,000). On July 26, 2010 and July 27, 2010, the Company issued 7,110,729 and 2,000,000 common shares, respectively, to the Oren Shareholders, at a price of $0.12 for gross proceeds of $1,093,287.

b) On July 13, 2010, the Company completed a private placement issuing 1,333,000 units at a price of $0.12 per unit for gross proceeds of $159,960. Each unit (the "Unit") consists of one common share of the Company and one-half of one common share purchase warrant (the "Warrant"). Each whole Warrant will entitle the holder to purchase one additional common share of the Company at a price of $0.20 per common share for a period of one year. The Warrants are subject to early termination if, at any time following four months and one day from the date of the closing of the offering, the closing price of the common shares on the TSX Venture Exchange exceeds $0.30 for 15 consecutive trading days.

c) On February 12, 2009, the Company signed a Share Purchase Agreement (the "Agreement") with Central Argentina Corporation ("Central Argentina"), a U.S. based company for the purchase of two adjacent oil producing properties in Argentina. The properties are located in the San Jorge basin in the Patagonia region in southern Argentina, licensed by authorities to produce oil, and during 2009 produced 55,000 barrels of sweet oil having an API gravity of 18.5 and being non paraffinic.

In anticipation of the completion of the acquisition, on July 20, 2010 the Company formed a wholly owned subsidiary, Ingenieria Petrolera Patagonia Ltd. ("IPP") to act the acquiring company. On July 22, 2010, IPP completed the acquisition through the purchase of the shares from Central Argentina of Central Patagonia Corp and CPC Holdings Inc., who together own 100% of the companies which own the properties, for a purchase price of U.S. $2.4 million. Of the total purchase price, $1.4 million was advanced by the Company through IPP on the closing date. The remaining $1M is due to Central Argentina on the maturity date of July 22, 2011 and bears an interest rate of 7.5% per annum, payable quarterly. At its option, IPP may repay the $1M prior to the maturity date. The Company was able to access the existing income stream upon closing.

Pursuant to the Agreement, for a period of three years from the closing date, IPP 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 USD $42.00, but is less than or equal to USD $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 USD $52.00.