Canoel International Energy Ltd.

Condensed Consolidated Financial Statements
As at and for the three and six month periods ended September 30, 2011
(unaudited)

In accordance with National Instrument 51-102 released by Canadian Securities Administrators, the Company discloses that its auditor have not reviewed the unaudited condensed consolidated interim financial statements for the period ended September 30, 2011

Managements’ Responsibility for Financial Reporting

The accompanying unaudited interim condensed consolidated financial statements of Canoel International Energy Ltd. (the “Company”) as at and for the three and six month periods ended September 30, 2011 have been prepared by and are the responsibility of the management of the Company and are approved by the board of directors of the of the Company. The condensed consolidated financial statements are prepared in accordance with International Financial Reporting standards (“IFRS”) and reflect management’s best estimates and judgments based on currently available information.

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

(Signed)”John Arne Farstad”
Chief Financial Officer

November 29, 2011

Calgary, Alberta

Canoel International Energy Ltd.

Condensed Consolidated Interim Statements of Financial Position
(Unaudited - Expressed in Canadian dollars)

	Note	**September 30, 2011 $**	March 31, 2011 $
ASSETS			
Current-assets			
Cash and cash equivalents		**504,453**	1,805,629
Account receivable		**471,147**	242,708
Other receivable		**1,097,998**	908,517
Inventory	8	**44,945**	32,607
Prepaid expenses		**160,801**	71,045
		2,279,344	3,060,506
Non-current assets			
Property and equipment	10	**5,377,004**	4,969,952
Exploration and evaluation assets	11	**-**	691,218
Total assets		**7,656,348**	8,721,676
LIABILITIES			
Current liabilities			
Trade payable		**1,291,140**	1,002,017
Other payable		**-**	418,517
Note payable	9	**336,050**	969,800
		1,627,190	2,390,334
Non-current liabilities			
Oil share agreement	9	**567,102**	531,891
Decommissioning obligation	12	**2,410,510**	2,224,547
Long-term debt	13	**2,078,097**	1,939,600
Convertible notes	14	**213,170**	204,111
		6,896,069	7,290,483
EQUITY			
Capital and reserves attributable to shareholders			
Share capital	15	**5,340,709**	5,112,214
Other equity	14	**-**	69,424
Warrants	15	**219,409**	114,033
Contributed surplus		**774,885**	750,221
Accumulated other comprehensive income		**(148,918)**	(65,667)
Deficit		**(5,425,806)**	(4,549,032)
Total equity		**760,279**	1,431,193
Total equity and liabilities		**7,656,348**	8,721,676

Going concern (note 2)

Commitments (note 19)

Subsequent events (note 21)

Approved by the Board of Directors

(Signed) *"Jose Ramon Lopez-Portillo"*
Director

(Signed) *"Andrea Cattaneo"*
Director

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

Canoel International Energy Ltd.

Condensed Consolidated Interim Statements of Comprehensive Loss
(Unaudited - Expressed in Canadian dollars)

		Three months		Six months	
For the periods ended September 30		**2011**	**2010**	**2011**	**2010**
		$	**$**	**$**	**$**
	Note				
Oil and gas revenue		**473,086**	435,263	**1,096,176**	435,263
Royalties		**(36,789)**	(32,200)	**(100,861)**	(32,200)
		436,297	403,063	**995,315**	403,063
Expenses					
Operating		**(39,725)**	(159,620)	**(408,956)**	(159,620)
General and administrative		**(675,153)**	(887,128)	**(963,225)**	(1,112,005)
Share based compensation	15	**-**	(69,625)	**-**	(69,625)
Foreign exchange		**(98,933)**	17,226	**(99,630)**	30,643
Depletion and depreciation	10	**(87,355)**	(50,755)	**(172,455)**	(50,755)
Loss on the sale of exploration and evaluation assets	11	**(69,939)**	-	**(69,939)**	-
		(971,105)	(1,149,902)	**(1,714,205)**	(1,361,362)
Finance income	7	**238**	169	**697**	570
Finance expense	7	**(44,379)**	-	**(158,582)**	-
Net finance (expense) income		**(44,141)**	169	**(157,885)**	570
Net loss before tax		**(578,949)**	(746,670)	**(876,775)**	(957,729)
Income tax expense		**-**	-	**-**	-
Net loss		**(578,949)**	(746,670)	**(876,775)**	(957,729)
Other comprehensive loss					
Foreign currency translation on foreign operations		**(73,189)**	-	**(83,251)**	-
Net loss and comprehensive loss for the period		**(652,138)**	(746,670)	**(960,026)**	(957,729)
Net loss per share		**(0.01)**	(0.02)	**(0.02)**	(0.04)
Weighted average shares outstanding during the period					
Basic and diluted		**41,100,667**	31,633,259	**40,977,774**	26,653,349

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

Canoel International Energy Ltd.

Condensed Consolidated Interim Statements of Cash Flows
(Unaudited - Expressed in Canadian dollars)

		Three months		Six months	
For the periods ended September 30	Note	**2011**	2010	**2011**	2010
		$	**$**	**$**	**$**
Operating activities					
Net loss for period		**(578,949)**	(746,670)	**(876,775)**	(957,729)
Items not involving cash:					
Share based compensation		**-**	69,625	**-**	69,625
Depletion and depreciation		**87,355**	50,755	**172,455**	50,755
Loss on the sale of exploration and evaluation assets		**69,939**	-	**69,939**	-
Finance expense		**22,122**	9,696	**66,955**	9,696
Change in non cash working capital		**253,608**	538,384	**46,011**	441,884
		(145,925)	(78,210)	**(521,415)**	(385,769)
Investing activates					
Expenditures on property and equipment		**(182,594)**	-	**(338,682)**	-
Acquisition of property and equipment		**-**	(1,440,600)	**-**	(1,440,600)
		(182,594)	(1,440,600)	**(338,682)**	(1,440,600)
Financing activates					
Proceeds from issuance of convertible bonds		**213,170**	75,000	**213,170**	575,000
Repayment of borrowings		**(25,000)**	-	**(681,110)**	-
Proceeds from issue of share capital		**110,000**	1,223,748	**110,000**	1,422,105
Proceeds from issuance of warrants		**-**	-	**-**	-
Change in non-cash working capital		**(73,189)**	169,786	**(83,139)**	(49,250)
		224,981	1,468,534	**(441,079)**	1,947,855
Change in cash and cash equivalents		**(103,538)**	(50,276)	**(1,301,176)**	121,486
Cash and cash equivalents, beginning of period		**607,991**	1,164,361	**1,805,629**	992,599
Cash and cash equivalents, end of period		**504,453**	1,114,085	**504,453**	1,114,085

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

Canoel International Energy Ltd.

Condensed Consolidated Interim Statements of Changes in Equity
(Unaudited - Expressed in Canadian dollars)

		Share capital							
	Note	Number	Amount	Other equity	Warrants	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total equity
Balance April 1, 2010		21,618,715	3,136,450	-	479,283	195,535	-	(1,534,546)	2,276,722
Non-brokered private placement		3,631,217	435,746						435,746
Norwegian private placement		9,110,730	1,093,288						1,093,288
Share issue cost		-	(108,090)						(108,090)
Stock based compensation		-	-			69,625			69,625
Issuance of convertible notes		-	-	142,280	12,857				155,137
Finders warrants		-	-		1,160				1,160
Fair value of share purchase warrants		-	(12,202)		12,202				-
Oren Oil share transaction		602,413	72,290						72,290
Warrants expired		-	-		(422,237)	422,237			-
Share of Oren Oil ASA debt		1,813,051	217,500						217,500
Debt converting		2,566,067	308,000	(72,856)					235,144
Stock based compensation		-	-			62,824			62,824
Fair value of share purchase warrants		-	(30,768)		30,768				-
Net loss for the period		-	-					(3,014,486)	(3,014,486)
Other comprehensive loss							(65,667)		(65,667)
Balance March 31, 2011		39,342,193	5,112,214	69,424	114,033	750,221	(65,667)	(4,549,032)	1,431,193
Debt converting		2,016,666	242,000	(69,424)	-	6,535	-	-	179,111
Fair value of share purchase warrants		-	(49,602)	-	49,602	-	-	-	-
Warrants expired		-	-	-	(18,129)	18,129	-	-	-
Non-brokered private placement		1,100,000	110,000						110,000
Fair value of share purchase warrants			(73,903)		73,903				-
Net loss for the period		-	-	-	-	-		(876,774)	(876,774)
Other comprehensive loss							(83,251)		(83,251)
Balance September 30, 2011		42,458,859	5,340,709	-	219,409	774,885	(148,918)	(5,425,806)	760,279

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

(Unaudited - Expressed in Canadian dollars)

1 Nature of operations

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

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; and at present, has no assets and liabilities.

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

2 Going Concern

As at September 30, 2011, the Company had not yet achieved profitable operations, has accumulated a deficit of $5,425,806 (March 31, 2011 - $4,549,032) 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 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, attain commercial production from its Tunisian oil and gas properties 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 interim 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.

(Unaudited - Expressed in Canadian dollars)

3 Basis of presentation

a) Statement of compliance

These interim consolidated financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* from the International Financial Reporting Standards ("IFRS"). The Company adopted IFRS effective April 1, 2010. These financial statements do not include all of the information required for full annual financial statements. The financial statements for 2010 were prepared in accordance with Canadian GAAP. Canadian GAAP differs from IFRS in certain areas; therefore, the financial statements for the comparative period have been re-stated under IFRS. Reconciliations and the effect of the transition from Canadian GAAP to IFRS are discussed in Note 23.

These interim consolidated financial statements were prepared based on IFRS issued and in effect on November 28, 2011, the date at which the Board of Directors approved the statements. It is possible that IFRS will continue to evolve resulting in restatements in subsequent 2010 quarters and the year ending March 31, 2011.

The interim consolidated financial statements should be read in conjunction with the Canadian GAAP audited financial statements for Canoel International Energy Ltd. for the year ended March 31, 2011.

b) Basis of measurement

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

c) Functional and presentation currency

These interim consolidated financial statements have been presented in Canadian dollars, unless otherwise noted by US$ for United States dollars or ARS$ for Argentine pesos. The Company's functional currencies are Peso's for the Argentina subsidiary and US dollars for the US subsidiaries.

d) Use of estimates

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's reasonable knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. Estimates and underlying assumptions are reviewed on an on going basis. Any change in estimate is recorded in the reporting period in which the estimate is revised. The critical accounting judgments, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

3 Basis of presentation (continued)

d) Use of estimates (continued)

Property and equipment & depletion and depreciation:

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

Decommissioning obligations

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

Fair value of financial instruments

As described in Notes 6 and 18, management would use judgment in selecting an appropriate valuation technique for financial instruments not quoted in an active market.

Share based compensation

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

4 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these interim financial statements:

a) Cash and cash equivalents

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

b) Inventory

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

(Unaudited - Expressed in Canadian dollars)

4 Significant accounting policies (continued)

c) Prepaid expenses

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

d) Property and equipment

Recognition and measurement:

Property and equipment are initially measured at cost. Subsequent to initial measurement, property and equipment are stated at cost less accumulated depletion & depreciation and accumulated impairment losses. Costs include expenditures incurred for acquisition of land, drilling completing and equipping wells, geological and geophysical studies, and anticipated reclamation and abandonment. Costs relating to major inspections, overhauls and workovers are included in the assets carrying amount if the costs incurred will result in economic benefit flowing to the Company over an extended period of time. If an asset is replaced, the original asset would be derecognized.

Once commercial viability and technical feasibility are confirmed, costs are reclassified from exploration and evaluation assets to a cash generating unit ("CGU") in property and equipment after an impairment test on the exploration and evaluation assets is performed. A CGU is defined as the smallest group of assets that generates cash inflows from continuing use that largely are independent of the cash inflows of other assets or groups thereof. Components are defined as a part of an item of property and equipment with a cost that is significant in relation to the total cost of the item and would be depleted or depreciated separately. All other repairs and maintenance costs are expensed as incurred.

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

Depletion and depreciation:

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

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

(Unaudited - Expressed in Canadian dollars)

4. Significant accounting policies (continued)

d) Property and equipment (continued)

Probable reserves carry a 50 percent probability that the actual recoverable reserves will exceed the estimated recoverable reserves, and a 50 percent probability of being less than the estimate.

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

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

Impairment:

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

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

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

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

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

4 Significant accounting policies (continued)

e) Exploration and evaluation assets

Recognition:

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

Impairment:

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. When indicators of impairment are present, the Company will measure any resulting impairment loss on an asset by asset basis. Exploration and evaluation assets must also be tested for impairment once technical feasibility and commercial viability can be demonstrated before reclassification to property and equipment.

f) Jointly controlled operations and jointly controlled assets

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

g) Borrowing costs

Borrowing costs, which are directly attributable to the purchase and construction of an asset, are included in the cost of the asset. Other borrowing costs are recognized in interest expense in the period incurred.

h) Financial instruments

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

Non-derivative financial instruments

Non-derivative financial instruments comprise cash and cash equivalents, accounts and other receivables, trade and other payables, notes payable, and share capital.

(Unaudited - Expressed in Canadian dollars)

4. **Significant accounting policies** (continued)

h) **Financial instruments** (continued)

The Company would measure these non-derivative financial instruments as follows:

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

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

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

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

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

Share capital

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

4 Significant accounting policies (continued)

h) Financial instruments (continued)

Warrants

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

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

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

Impairment

Financial assets

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

i) Share based payments

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

4 Significant accounting policies (continued)

j) Provisions

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

k) Decommissioning obligations

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

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

l) Income tax

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

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

Deferred income tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

(Unaudited - Expressed in Canadian dollars)

4 Significant accounting policies (continued)

l) Income tax (continued)

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

m) Revenue

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

n) Finance income and expense

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

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

o) Foreign currency translation

The US subsidiaries and their Argentinean operation have US dollars and Argentinean Pesos as their functional currency. As the Company reports its results in Canadian dollars, accounts are translated to Canadian dollars from their US dollar and Argentinean Pesos functional currency as follows: assets and liabilities are translated at the exchange rate in effect at the balance sheet date, shareholders' equity is translated at historical rates at the date of each transaction, and revenues and expenses are translated at the average exchange rate for the period. Gains and losses resulting from the translation of Argentinean operations to Canadian dollars are included in the foreign currency translation account within other comprehensive income. Transactions in foreign currencies other than the functional currencies are translated at the rates in effect on the transaction date. Exchange gains or losses arising on translation or settlement of foreign currency denominated monetary items are charged to earnings in the period they arise.

p) Consolidation

These interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries IPRP and IPP. Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing these condensed consolidated financial statements

q) Loss per share

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

5 Future accounting standards

IFRS 9 *Financial Instruments* was issued in November 2009 and addresses the classification and measurement of financial assets. This new standard reduces the number of categories and measurement options for financial assets. This new standard also amends the measurement of equity instruments whereas these instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. This standard must be applied for years beginning January 1, 2013. The Company has not yet reviewed the impact of this standard.

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

IFRS 11 *Joint Arrangements* was issued in May 2011. Under IFRS 11, joint arrangements are classified as either joint operations or joint ventures. IFRS 11 essentially carves out of previous jointly controlled entities, those arrangements which although structured through a separate vehicle, such separation is ineffective and the parties to the arrangement have rights to the assets and obligations for the liabilities and are accounted for as joint operations in a fashion consistent with jointly controlled assets/operations under IAS 31. In addition, under IFRS 11 joint ventures are stripped of the free choice of equity accounting or proportionate consolidation; these entities must now use the equity method. Upon application of IFRS 11, entities which had previously accounted for joint ventures using proportionate consolidation shall collapse the proportionately consolidated net asset value (including any allocation of goodwill) into a single investment balance at the beginning of the earliest period presented. The investment's opening balance is tested for impairment in accordance with IAS 28 (2011) and IAS 36 *Impairment of Assets*. Any impairment losses are recognized as an adjustment to opening retained earnings at the beginning of the earliest period presented. This standard is effective for annual periods beginning on or after January 1, 2013.

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

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

5 Future accounting standards (continued)

The Company intends to adopt the new standards prospectively in its financial statements for the annual period beginning on January 1, 2013. The extent of the impact of adoption of these standards has not yet been determined.

6 Determination of fair value

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

a) Property and equipment – The fair value of property and equipment is the estimated amount for which property and equipment could be exchanged between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

The fair value of oil and natural gas interests is estimated with reference to the discounted cash flows expected to be derived from production of oil and natural gas, based on externally prepared reserve reports. The risk-adjusted discount rate is specific to the assets with reference to general market conditions.

b) Cash and cash equivalents, accounts receivable and accounts payable – Fair value is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At March 31, 2011, the fair value of these balances approximated their carrying value due to their short term to maturity.

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

7 Finance income and expense

	Three months ended September 30		Six months ended September 30	
	2011	2010	2011	2010
Income:				
Interest income on cash and cash equivalents	$ 238	$ 169	$ 697	$ 570
Expenses:				
Interest expense	(66,501)	-	(135,871)	-
Accretion on decommissioning obligations	22,122	-	(22,711)	-
	(44,379)	-	(158,582)	-
Net finance expense	$ (44,141)	$ 169	$ (157,885)	$ 570

8 Inventory

Inventory at September 30, 2011 of $44,945 (March 31, 2011 – $32,607) consist of crude oil that has been produced but yet not sold.

9 Business combination

On July 22, 2010, a Share Purchase Agreement (the "Agreement") was signed to acquire Central Patagonia. Pursuant to the Agreement, IPP completed the Argentina Acquisition of Central Patagonia from Central Argentina Corporation ("Central Argentina") through the purchase of the shares of Central Patagonia Corp ("CPC") and CPC Holdings Inc. ("CPC Holdings"), who together own 100% of Central Patagonia. The purchase price was US$3,316,616. Central Argentina is the previous parent company of CPC and CPC Holdings. Of the total purchase price, US$1,400,000 was advanced by the Company through IPP on the closing date and US$1,368,161 is repayable under two different promissory notes (collectively the "Notes"). The first note was due to Central Argentina on the maturity date of July 22, 2011 and bears an interest rate of 7.5% per annum, payable quarterly. Using its option, IPP decided to repay a portion the amount of the First Note prior to its maturity date. In return for a payment of US$675,000 made on June 1, 2011, Canoel signed an agreement with Central Argentina to postpone any payment for capital, interest and additional fees (under the SPA) until July 22, 2012. The remaining amount was fully paid on October 1, 2011. The second promissory note for the amount of US$443,003, which was due to Central Argentina on February 12, 2011, was fully paid on that date. Pursuant to the Agreement, adjustments were calculated in favour of Canoel in the amount of US$74,842; this amount was deducted from the value of the Second Promissory Note, prior to its payment. This loan had an interest rate of 7.5% per annum until November 22, 2010, at which point the interest rate increases to 15% per annum. At its option, the Company may repay any amount of the Notes prior to the respective maturity dates. The Notes are secured by a first lien on the equity interests and all personal and real property of CPC, CPC Holdings and Central Patagonia. At September 30, 2011 the remaining balance on the note payable is $336,050 (March 31, 2011 - $969,800).

The remaining consideration pursuant to the Agreement is as follows: for a period of three years from November 30, 2010, the Company will provide Central Argentina with the following: (i) 50% of the annual gross revenue derived from the sale of barrels of oil at a per barrel invoice price that exceeds US$42.00, but is less than or equal to US$52.00; and (ii) 25% of the annual gross revenue derived from the sale of barrels of oil at a per barrel invoice price that exceeds US$52.00. The Company have calculated a NPV of this obligation at US$ 548,455 based on a 7.5 percent discount rate and estimated future production and estimated future sale price. The value at September 30, 2011 is $567,102 (March 31, 2011 - $531,891).

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

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

(Unaudited - Expressed in Canadian dollars)

9 Business combination (continued

The results of operations of Central Patagonia are included in the interim consolidated financial statements of the Company from July 22, 2010. Costs associated with the Argentina Acquisition of $135,600 were expensed and are included in general and administrative expense.

10 Property and equipment

Cost	Oil and gas properties $	Furniture & fixtures $	Total $
Balance, April 1, 2010	-	-	-
Additions	299,640	37,867	337,507
Business combination	5,079,324	53,296	5,132,620
Foreign currency translation	(306,980)	(3,221)	(310,201)
As at March 31, 2011	5,071,984	87,942	5,159,926
Additions	322,944	48,610	371,554
Foreign currency translation	202,755	5,199	207,954
As at September 30, 2011	**5,597,683**	**141,751**	**5,739,434**

Accumulated depletion and depreciation	Oil and gas properties $	Furniture & fixtures $	Total $
Balance, April 1, 2010	-	-	-
Depletion and depreciation	(186,152)	(3,822)	(189,975)
As at March 31, 2011	(186,152)	(3,822)	(189,975)
Depletion and depreciation	(153,847)	(18,608)	(172,455)
As at September 30, 2011	**(339,999)**	**(22,431)**	**(362,430)**
Net book value			
As at March 31, 2011	**4,885,832**	**84,120**	**4,969,952**
As at September 30, 2011	**5,257,684**	**119,320**	**5,377,004**

(Unaudited - Expressed in Canadian dollars)

10 Property and equipment (continued)

As at September 30, 2011, the Company completed an impairment review on its property and equipment and determined that there was no impairment (For the year ended March 31, 2011 - nil and for the six months ended September 30, 2010 - nil). Impairment review was conducted by comparing carrying value to recoverable amount. Carrying value is calculated for the cash generating units as the deemed cost at transition plus adjustments for depletion and depreciation and impairment losses. Recoverable amount of the cash generating units is estimated using value in use. Value in use is determined based on a third party reserve report which estimates future cashflows over the remaining reserves using a discount rate of 10%.

11 Exploration and evaluation assets

April 1, 2011	$	691,218
Loss on the sale of exploration and evaluation assets		(69,939)
Disposal		(621,279)
September 30, 2011	$	-

April 1, 2010	$	986,420
Impairment on exploration and evaluation assets		(295,202)
March 31, 2011	$	691,218

On August 5, 2011 the Company divested its interest in the Tunisian blocks of Jorf, Bazma and Sud Tozeur (the“Tunisian Blocks”) which it acquired in late November 2008. Pursuant to the Termination and Release Agreement, CYGAM has agreed to pay $621,278 (the“Termination Fee”), 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 MOU.

CYGAM has 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, and the balance of the Termination Fee, $571,278, no later than March 31, 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 agreed to pay Canoel an amount up to the amount of the Deposit, subject to certain conditions.

(Unaudited - Expressed in Canadian dollars)

12 Decommissioning Obligation

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

	September 30, 2011	March 31, 2011
	$	$
Balance, beginning of period	**2,224,547**	-
Acquired on July 22, 2010	**-**	2,211,276
Current provision in finance expense	**235,112**	164,372
Foreign currency translation	**(49,149)**	(151,101)
Balance, end of period	**2,410,510**	2,224,547

The key assumptions on which the carrying amount of the decommissioning obligation is based include a risk-free rate of 10% and an inflation rate of 9.5%. The estimated undiscounted value of the estimated cash flow required to settle the obligations in future periods when the assets are retired is approximately $8.5 million (March 31, 2011 – nil). The expected timing of the cash outflows required to settle the obligations is between 2015 and 2025.

13 Long term Debt

On January 20, 2011, the Company obtained a loan from a private lender in the amount of US$2,000,000. The loan matures in two years, and can be extended for an additional six months. The loan is unsecured and bears interest at the fixed U.S Prime rate plus 6.75% payable quarterly with interest only payments commencing on April 21, 2011. The Company has agreed to grant security over additional oil and gas assets acquired in Argentina, if any and once acquired, using the loan proceeds. Subject to regulatory approval the lender has the right to participate in a portion of the profit from the eventual sale of any such property. As at September 30, 2011, no additional Argentinean properties have been purchased and the balance in long term debt was $2,078,097.

14 Convertible notes

	Face value	**Debt component**	**Equity component**
	$	**$**	**$**
Balance, April 1, 2010	-		-
Issued	575,000	419,863	142,280
Accretion expense	-	14,188	-
Settlement	(308,000)	(229,940)	(72,856)
Balance, March 31, 2011	267,000	204,111	69,424
Settlement	(267,000)	(204,111)	(69,424)
Issued	213,170	213,170	-
Balance, September 30, 2011	213,170	213,170	-

14 Convertible notes (continued)

On June 24, 2010, the Company issued 100 convertible notes ("Note 0,1") and on September 2, 2010, the Company issued 15 convertible notes ("Note 0,2 and Note 0,3"), collectively the "Notes", by way of a private placement for total gross proceeds of $500,000 from Note 0,1 and $75,000 from Note 0,2 and Note 0,3. Each Note consists of one unsecured convertible note, with a principal value of $5,000, and 5,000 common share purchase warrants (the "Warrants"). The Notes will mature 4 years from the date of issuance, unless early redemption or conversion occurs. The principal amount of each Note is convertible into common shares of the Company at the option of the holder at any time prior to maturity at a conversion price of $0.20 per share.

The Notes bear interest at a rate of 15% per annum, payable in arrears in equal quarterly installments. The Notes will be fully due and payable on the maturity date with the repayment of the principal commencing on September 24, 2011 for Note 0,1 and December 2, 2011 for Note 0,2 and Note 0,3, in 12 equal, quarterly installments. Subsequent to one year from the respective issue dates, the Company has the option to repay the principal balance in full at any time provided written notice is given one-month in advance.

Each Warrant entitles the holder to purchase one additional common share of the Company at a price of $0.50 per share until June 24, 2014 for Note 0,1 and September 2, 2014 for Note 0,2 and Note 0,3, (note 15(c)).

On October 5, 2010, a stakeholder of the Company's Note 0,1 convertible debt converted $308,000 of debt into 2,566,667 common shares at a price of $0.12 per share under a settlement agreement. The stakeholder was also issued an additional 1,283,333 purchase warrants. Each warrant entitles the holder to purchase one common share in the capital of Canoel at a price of $0.17 per share for a period of one year from the date of the issue. The remaining balance of the convertible debt after this conversion is $267,000.

The Notes are a compound financial instrument and as such have been bifurcated and 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 Notes will be accreted to the remaining face value of $267,000 over the four year life for both the equity component and the value of the warrant.

The Company incurred debt issuance costs of $40,000 payable to unrelated parties who assisted in sourcing subscribers for the placement. These costs were expensed through the consolidated statement of loss, comprehensive loss and deficit.

The Notes are secured by the Company's interest in all of the rights, title and interest in all shares of the capital of IPP.

(Unaudited - Expressed in Canadian dollars)

15 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, April 1, 2010	21,618,715	3,136,450
Non-brokered private placement (i)	3,631,217	435,746
Fair value of share purchase warrants (i)	-	(12,202)
Share issue costs (ii)	-	(74,629)
Norwegian private placement (iii)	9,110,729	1,093,287
Share issue costs (iv)	-	(33,460)
Oren Oil ASA Share acquisition (v)	602,413	72,290
Shares for Oren Oil ASA debt (vi)	1,813,051	217,500
Debt conversion (vii)	2,566,667	308,000
Fair value of share purchase warrants (vii)	-	(30,768)
Outstanding, March 31, 2011	39,342,792	5,112,214
Debt converting (viii)	1,600,000	192,000
Fair value of share purchase warrants (viii)	-	(9,950)
Debt converting (ix)	416,666	50,000
Fair value of share purchase warrants (ix)	-	(39,652)
Non-brokered private placement (x)	1,100,000	110,000
Fair value of share purchase warrants (x)		(73,903)
Outstanding, September 30, 2011	42,459,458	5,340,709

(i) During the year ended March 31, 2011, the Company issued 3,631,217 units as at 0.12 per unit for total proceeds of $435,746. Each unit consists of one common share of the Company and one-half of one common share purchase warrant (the "Warrant"). Each whole Warrant 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 $12,202 of the unit value to warrants (note 15(c)).

(ii) The Company incurred share issue costs to an unrelated Finder of $74,629 related to the Placements (15b(i)). This includes the value of $1,160 assigned to 199,030 finders warrants (the "Finders Warrants") (note 15(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 dates of the Placements.

(Unaudited - Expressed in Canadian dollars)

15 Share Capital (continued)

b) Issued

iii) During the second quarter of 2010, the Company completed two Norwegian private placements (the “Norwegian Placement”) of 9,110,729 common shares of the Company, at a price of $0.12 per share, for aggregate gross proceeds of $1,093,287. The Norwegian Placement was completed in conjunction with the proposed offer by the Company to purchase the shares of Oren Oil ASA (note 15b(v)) and transfer of debt from Oren Oil to The Company (note 15(vi)).

iv) The Company incurred share issue costs of $33,460 related to the Norwegian Placement.

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

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

vii) On October 5, 2010, a stakeholder of the Company’s Note 0,1 convertible debt (note 9) converted $308,000 of debt into 2,566,667 common shares at a price of $0.12 per share. The stakeholder was issued 1,283,333 purchase warrants. Each warrant entitles the holder to purchase one Common Shares in the capital of the Company at a price of $0.17 per share for a period of one year from the date of the issue. The Company has allocated $30,768 of the unit value to warrants (note 15(c)).

viii) During the three months ended June 30, 2011, the Company issued 1,600,000 common shares at a price of $0.12 per share. On April 25, 2011, a stakeholder of the Company’s Note 0,1 convertible debt (note 14) converted $192,000 of debt into 1,600,000 common shares at a price of $0.12 per share. The stakeholder was issued 800,000 purchase warrants. Each warrant entitles the holder to purchase one Common Shares in the capital of the Company at a price of $0.17 per share for a period of one year from the date of the issue. The Company has allocated $9,950 of the unit value to warrants (note 15(c)).

ix) During the three months ended June 30, 2011, the Company issued 416,666 common shares at a price of $0.12 per share. On September 14, 2011, a stakeholder of the Company’s Note 0,2 convertible debt (note 14) converted $50,000 of debt into 416,666 common shares at a price of $0.12 per share. The stakeholder was issued 800,000 purchase warrants. Each warrant entitles the holder to purchase one Common Shares in the capital of the Company at a price of $0.17 per share for a period of one year from the date of the issue. The Company has allocated $39,562 of the unit value to warrants (note 15(c)).

x) On September 23, 2011, the Company issued 1,100,000 common shares at a price of $0.10 per share, for aggregate gross proceeds of $110,000. In conjunction with this issuance, 1,100,000 warrants were issued with an exercise price of $0.15 and are exercisable until September 23, 2014. The Company has allocated $73,903 of the unit value to warrants (note 15(c)).

(Unaudited - Expressed in Canadian dollars)

16 15 Share Capital (continued)

b) Issued (continued)

During the year ended March 31, 2008, the Company closed a private placement to issue 3,080,000 common shares at a price of $0.10 per share for gross proceeds of $308,000. At the time of issuance, 3,080,000 common shares were held in escrow pursuant to the requirements of the TSXV. Subsequent to the completion of the Qualifying Transaction on December 8, 2008, 10% of the common shares were released from escrow. As of September 30, 2011, there were 462,000 common shares remaining in escrow, which will be released in one tranches of 462,000 common shares on December 8, 2011.

As at September 30, 2011 the company has not issued any preferred shares.

c) Warrants

Warrants to acquire common shares outstanding at September 30, 2011 are as follows:

	Number of warrants	Amount $	Weighted average exercise price $
Outstanding, April 1, 2010	14,308,361	479,283	0.38
Share purchase warrants (15b(i))	1,815,609	12,202	0.20
Finder's share purchase warrants (15b(ii))	199,030	1,160	0.20
Share purchase warrants with convertible notes (note 14)	575,000	12,857	0.50
Debt conversion (15b(vii)	1,283,333	30,768	0.17
Warrants expired third quarter 2010	(10,074,330)	(380,683)	0.39
Warrants expired fourth quarter 2010	(1,772,500)	(41,554)	0.30
Balance March 31, 2011	6,334,503	114,033	0.30
Debt conversion (15b(viii))	80,000	9,950	0.17
Warrants expired	(1,095,180)	(6,385)	0.02
Debt conversion (15b(viii))	800,000	39,652	0.17
Warrants issued (15b(x))	1,100,000	73,903	0.15
Warrants expired second quarter 2012 (14c(ii))	(978,490)	(11,744)	0.20
Balance September 30, 2011	6,960,833	219,409	0.27

(Unaudited - Expressed in Canadian dollars)

15 Share Capital (continued)

c) Warrants (continued)

i) Warrants issued in the year ending March 31, 2011:

- 500,000 warrants with an exercise price of $0.50, issued June 24, 2010, valid until June 24, 2014.
- 912,650 warrants with an exercise price of $0.20, issued June 30, 2010, valid until June 30, 2011.
- 182,530 finders fee warrants with an exercise price of $0.20, issued June 30, 2010, valid until June 30, 2011.
- 666,500 warrants with an exercise price of $0.20, issued July 13, 2010, valid until July 13 2011.
- 236,459 warrants with an exercise price of $0.20, issued September 2, 2010, valid until September 2, 2011.
- 16,500 finder’s fee warrants with an exercise price of $0.2 issue September 2, 2010, valid until September 2, 2011.
- 75,000 warrants with an exercise price of $0.5, issued September 2, 2010, valid until September 2, 2014.
- 1,283,333 warrants with exercise price $0.17, issued October 5, 2010, valid until October 5, 2011.

ii) Warrants expired in the 12 months period ending March 31, 2011:

- 9,221,600 warrants with exercise prize $0.4, issued November 21, 2008, expired November 21, 2010.
- 177,730 agent warrants with exercise prize $ 0.25, issued November 21, 2008, and expired November 21, 2010.
- 630,000 warrants with exercise prize $ 0.3, issued November 18, 2009, expired November 18, 2010.
- 45,000 finder’s fee warrants with exercise prize $ 0.3, issued November 18, 2009, and expired November 18, 2010.
- 1,772,500 warrants with exercise prize $ 0.3, issued February 3, 2010, expired February 3, 2011.

iii) Warrants issued in the six months period ending September 30, 2011:

- 800,000 warrants with exercise price $0.17, issued April 25, 2011, valid until April 25, 2012.
- 800,000 warrants with exercise price of $0.17, issued September 14, 2011, valid until September 14, 2012.
- 1,100,000 warrants with exercise price of $0.15, issued September 23, 2011, valid until September 23, 2014.

iv) Warrants expired in the six months period ending September 30, 2011:

- 1,095,180 warrants with exercise price $0.20, issued June 30, 2010, expired June 30, 2011.
- 666,500 warrants with exercise price $0.20, issued July 13, 2010, expired July 13, 2011.
- 59,031 warrants with exercise price $0.26, issued August 11, 2009, expired August 11, 2011.
- 252,959 warrants with exercise price $0.20, issued September 2, 2010, expired September 2, 2011.

(Unaudited - Expressed in Canadian dollars)

15 Share Capital (continued)

c) Warrants (continued)

The following summarizes information about the warrants outstanding as at September 30, 2011, all of which are exercisable.

Range of exercise prices ($)	Number of warrants outstanding	Weighted average remaining life (years)	Weighted average exercise price ($)
	3,983,333	0.87	0.15
	2,977,500	0.98	0.41
	6,960,833	0.92	0.27

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:

	September 30, 2011	March 31, 2011
Risk-free rate	1.20%	1.20%
Expected life	.80 years	0.80 years
Expected volatility	108%	108%
Fair value per warrant	$0.18	$0.18

d) Stock options

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

During the three and six months ended September 30, 2011, there were no stock options grants, cancellations, exercise or expiries.

(Unaudited - Expressed in Canadian dollars)

15 Share Capital (continued)

d) Stock options (continued)

The following table summarizes information about the Company's stock options at September 30, 2011:

	Number of options outstanding and exercisable	Weighted average exercise price
Balance, April 1, 2010	1,565,000	0.13
Granted September 28,2010	1,250,000	0.10
Balance, September 30, 2010	2,815,000	0.12
Granted March 3, 2011	900,000	0.09
Balance, March 31, 2011 and September 30, 2011	3,715,000	0.11

The fair value of the stock options granted during the year is estimated at the grant date using the Black-Scholes pricing model. The assumptions used in the calculation are noted below:

	September 30, 2011	September 30, 2010
Risk-free rate	2.72%	2.12%
Expected life	5 years	5 years
Expected volatility	105%	60%
Fair value per option	$0.07	$0.09

Share based compensation expense for the three and six months ended September 30, 2011 was $nil (September 30, 2010 - $69,625). The total amount has been recorded as an offsetting credit to contributed surplus.

The following table summarizes information about the Company's stock options outstanding, all of which are exercisable, at September 30, 2011:

Range of exercise prices ($)	Number of options outstanding	Weighted average remaining duration (years)	Weighted average exercise price ($)
0.00-0.10	3 100 000	3.65	0.10
0.11-0.20	470 000	2.34	0.16
0.21-0.30	145 000	2.95	0.23
	3,715,000	3.45	0.11

e) Per share data

Basic earnings per share are calculated based on the weighted average number of shares outstanding for the three and six month periods ended September 30, 2011 of 41,100,667 and 40,977,774 (September 30, 2010: 31,633,259 and 26,653,349) respectively. 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.

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

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 September 30, 2011, the working capital ratio was 1.40:1.

For the six months ended September 30, 2011, there have been no changes in the approach to capital management.

17 Related Parties

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

During the three and six months ended September 30, 2011:

- **a)** Aggregate consulting fees of $63,000 and $126,000 (September 30, 2010 - $16,200 and $32,400) were charged by directors and officers of the Company and recorded in the consolidated statement of loss, comprehensive loss and deficit.
- **b)** Aggregate bonus of $nil (Three and six months ended September 30, 2010 - $252,265) were paid to certain directors and officers of the Company and recorded in the consolidated statement of loss, comprehensive loss and deficit.
- **c)** Aggregate legal fees of $nil (September 30, 2010 - $7,500 and $15,000) were charged by a director of the Company and recorded in the consolidated statement of loss, comprehensive loss and deficit.
- **d)** Included in accounts payable and accrued liabilities at September 30, 2011 was $22,000 (September 30, 2010 - $51,305) payable to related parties.

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

(Unaudited - Expressed in Canadian dollars)

18 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 classifies fair value measurements using the following fair value hierarchy that reflects the significant of the inputs used in making the measurements:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Input other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. devised from prices); and;
- Level 3: inputs for the asset or liability that are not based on observable marked data (unobservable inputs).

Cash and cash equivalent are classified as held for-trading and measured at fair value. The fair value of accounts receivable approximate their carrying value due to their short periods to maturity. The fair value of accounts payable and note payable approximate their carrying values due to their short periods to maturity. The carrying value of the Company's convertible notes and oil share agreement approximates the fair value.

The Company's long-term debt bears interest at floating market rates and, accordingly, the fair value approximates the carrying amount.

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.

$1,061,278 of the Company's other receivable is with the operator of the Tunsian permits, thus exposing the Company to concentration risk. The receivable is Termination payment from the operator. 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 and other receivable of $471,147 and cash and cash equivalents of $504,453.

$471,147 of the Company's accounts receivable is due from a major international company which purchases Canoel's crude oil production in Argentina and are subject to the same industry factors such as commodity price fluctuations and escalating costs. This amount has been collected subsequently. The Company generally extends unsecured credit to these customers and therefore, the collection of accounts receivable may be affected by changes in economic or other conditions. Management believes risk is mitigated by the size and reputation of the companies to which they extend credit.

(Unaudited - Expressed in Canadian dollars)

18 Financial Instruments and Risk Management (continued)

b) Credit risk

The Company has not experienced any credit loss in the collection of accounts receivable in the period ended September 30, 2011 and considers the aging of its receivables to be current..

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) 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 September 30, 2011, the Company's current financial liabilities total $1,627,190, and are comprised of accounts payable and accrued liabilities, the current portion of the notes and the notes payable. As of September 30, 2011, the Company's cash and cash equivalent balance is not sufficient to meet the Company's obligations. It is expected that further debt and equity financings will be required in order to continue with developing the Company's assets and meet future obligations. There can be no assurance that such financings will be available to the Company.

d) Market Risk

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

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

(i) Commodity price risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Oil prices in Argentina are the results of complicated formulas that are set by refineries based on instructions or decrees from the government and crude oil prices in Argentina are capped by the Government at variable levels. From early 2010 the price has gradually increased from US$42.00 per barrel to the market price at the end of March 31, 2011 of US$52.60 per barrel, and the market price at October 2011 of US$58.60.

(Unaudited - Expressed in Canadian dollars)

18 Financial Instruments and Risk Management (continued)

d) Market Risk (continued)

(ii) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. As at September 30, 2011, 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. The Company has fixed interest on convertible notes (note 14). As at September 30, 2011 the Company has US$2 million (note 13) (September 30, 2010 - $nil) of debt with floating interest, hence a variation of 1 percent represent US$20,000 in savings or added cost for the Company.

iii) Currency risk

Foreign currency exchange risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. 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 an insignificant impact on the Company's earnings for the period.

The operational currency of the Argentinean company is the Argentine peso ("peso"), the local currency AR$. The peso has steadily depreciated against the US$ during the last 5 years, going from 2.98 pesos for US$1.0 on January 2006 to 4.4227 pesos for US$1.0 September 30. The US$ is the currency of reference for the oil sales of the Argentinean company to local refineries.

19 Commitments

The Company subleases premises in London, UK, under an operating lease that require payments of approximately $58,000 per annum.

(Unaudited - Expressed in Canadian dollars)

20 Segmented information

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 accounting policies used in the preparation of the information of the reportable segments is the same as those described in the summary of significant accounting policies. Revenues, segment profits and capital additions by reportable segments are as follows:

	Three months ending September 30				**Six months ending September 30**			
	2011		**2010**		**2011**		**2010**	
Segment	**Revenue**	**Net Loss**	**Revenue**	**Net Loss**	**Revenue**	**Net Loss**	**Revenue**	**Net Loss**
Tunisia	-	(69,939)	-	-	-	(69,939)	-	-
Argentina	473,086	(53,277)	435,263	192,688	1,096,176	(17,845)	435,263	192,688
Other	-	(455,732)	-	(939,358)	-	(788,991)	-	(1,150,420)
Total	**473,086**	**(578,949)**	**435,263**	**(746,670)**	**1,096,176**	**(876,775)**	**435,263**	**(957,729)**

	September 30, 2011		**September 30, 2010**	
Segment	**PP&E**	**Total Assets**	**PP&E**	**Total Assets**
Tunisia	-	-	986,420	986,420
Argentina	5,377,004	6,301,350	2,726,582	3,232,882
Other	**-**	1,354,998	-	1,762,337
Total	**5,377,004**	**7,656,348**	3,713,002	5,981,639

21 Subsequent events

The Company entered into the following transactions subsequent to September 30, 2011:

On October 11, 2011, the Company announced that, in its role as advisor/manager for the disposal of the Russian assets owned by Oren ASA ("Oren") and its stakeholders, it had agreed to sell 100% of the shares of Promogeotek LLC to three Russian entrepreneurs for US$400,000. As part of the sale purchase contracts, the buyers will receive, on a *prorata* basis, 100% of the loans that Oren had made in the past to Promogeotek which have a total face value of approximately NOK144 millions (approximately CDN$26 million). At the present time, Promogeotek is insolvent.

Canoel acted in this transaction purely as an intermediary and will be entitled to receive only the reimbursement of costs plus a commission, in case certain contractual obligations will be met. After these deductions, the remaining amount from the sale price of US$400,000 will be disbursed to Oren creditors and shareholders. Payment will occur upon the physical transfer of shares and receivables and is subject to the approval of Russian authorities.

21 Subsequent events (continued)

While Canoel spent a certain amount of time and efforts to organize this trade, the state of insolvency of Promogeotek and the consequent lack of access to Promogeotek's assets prevented a better sale agreement with other parties.

Oren still holds other assets in Russia and Canoel will continue in its advisor/manager role to assist in the disposition of properties. For these efforts, the Corporation will receive a reimbursement of costs plus a commission.

On October 5, 2011, Canoel's subsidiary, Ingenieria del Rio de la Plata Srl (which so far has been a dormant subsidiary), signed an agreement with the owner of two service rigs currently located in the province of Chubut in Argentina. Under the terms of the agreement, Canoel will have the exclusive use of the first service rig for a fixed monthly amount of US $25,000 and the option to contract the second rig, if and when needed. The first rig has already been deployed to perform workovers on selected wells in the Don Alberto and Don Ernesto fields. Since service rigs are rather scarce in Argentina, Canoel will also be able to sub-contract one or both rigs to other oil companies operating in the Comodoro Rivadavia area.

22 Transition to from Canadian GAAP to IFRS

As described in Note 3, these are the Company's interim consolidated financial statements for the period covered by the first annual financial statements prepared in accordance with IFRS. The accounting policies in Note 4 have been applied in preparing these interim financial statements for the three and six months ended September 30, 2011 including the comparative information for the three and six months ended September 30, 2010.

In preparing the September 30, 2010 IFRS statement of financial position, the Company has considered amounts previously reported in financial statements prepared in accordance with Canadian GAAP and determined that no adjustments were necessary.

Guidance for the first-time adoption of IFRS is set out in IFRS 1 *First-time Adoption of International Financial Reporting Standards* which provides for certain mandatory exceptions and optional exemptions for first-time adopters of IFRS.

As part of the Company's adoption of IFRS, the following elections were made under IFRS 1:

- Share based payments (IFRS 2) – To elect not to restate options that have vested prior to April 1, 2010.
- Business combinations (IFRS 3) – To elect not to re-state business combinations that occurred prior to the transition date.
- Exploration and evaluation assets (IFRS 6) – To elect to measure assets at deemed cost as determined under the previous GAAP and perform an impairment review as at April 1, 2010.
- Property and equipment (IAS 16) - To elect to measure assets at deemed cost as determined under the previous GAAP and perform an impairment review as at April 1, 2010.

Certain amounts on the statements of financial positions and statements of operations and comprehensive loss have been reclassified to confirm to the presentations adopted under IFRS.