Canoel International Energy Ltd.

Condensed Consolidated Financial Statements
As at and for the three and nine months ended December 31, 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 three and nine months ended December 31, 2011 and 2010

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 nine months ended December 31, 2011 and 2010 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

February 29, 2012

Calgary, Alberta

Canoel International Energy Ltd.

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

	Note	**December 31, 2011 $**	March 31, 2011 $
ASSETS			
Current assets			
Cash and cash equivalents		**1,155,578**	1,805,629
Trade receivables		**621,279**	242,708
Other receivables		**833,278**	908,517
Inventory	8	**62,119**	32,607
Prepaid expenses		**51,769**	71,045
		2,724,023	3,060,506
Non-current assets			
Property and equipment	10	**5,495,606**	4,969,952
Exploration and evaluation assets	11	**-**	691,218
Total assets		**8,219,629**	8,721,676
LIABILITIES			
Current liabilities			
Trade payables		**844,355**	1,002,017
Other payables		**234,583**	418,517
Note payable	13	**544,414**	969,800
		1,623,352	2,390,334
Non-current liabilities			
Oil share agreement	9	**679,732**	531,891
Decommissioning obligation	12	**2,519,754**	2,224,547
Long-term debt	14	**2,034,000**	1,939,600
Convertible notes	15	**1,232,018**	204,111
Total liabilities		**8,088,856**	7,290,483
EQUITY			
Share capital	16	**5,432,369**	5,112,214
Equity component of convertible debt	15	**75,800**	69,424
Warrants	16	**442,449**	114,033
Contributed surplus		**820,907**	750,221
Accumulated other comprehensive loss		**(143,851)**	(65,667)
Deficit		**(6,496,901)**	(4,549,032)
Total equity		**130,773**	1,431,193
Total equity and liabilities		**8,219,629**	8,721,676

Going concern (note 2)

Commitments (note 20)

Subsequent events (note 23)

Approved by the Board of Directors

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

(Signed) *"Andrea Cattaneo"*
Director

Canoel International Energy Ltd.

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

For the periods ended December 31	Note	Three months 2011 $	Three months 2010 $	Nine months 2011 $	Nine months 2010 $
Oil and gas revenue		**462,492**	427,238	**1,558,668**	862,501
Royalties		**(161,220)**	(41,211)	**(262,081)**	(73,411)
		301,272	386,027	**1,296,587**	789,090
Expenses					
Operating		**128,315**	279,497	**537,271**	439,117
General and administrative		**966,603**	306,780	**1,929,826**	1,418,785
Share based compensation	16	**-**	-	**-**	69,625
Foreign exchange		**(16,447)**	16,621	**83,183**	(35,366)
Depletion and depreciation	10	**61,168**	64,948	**233,623**	115,801
Loss on the sale of exploration and evaluation assets	11	**-**	-	**69,939**	-
		1,139,639	667,846	**2,853,842**	2,007,962
Finance income		**224**	39	**921**	609
Finance expense		**293,531**	29,377	**452,113**	50,721
Net finance expense	7	**293,307**	29,338	**451,192**	50,112
Net loss before tax		**(1,131,674)**	(311,157)	**(2,008,447)**	(1,268,984)
Income tax recovery		**60,578**	-	**60,578**	-
Net loss		**(1,071,096)**	(311,157)	**(1,947,869)**	(1,268,984)
Other comprehensive loss					
Foreign currency translation on foreign operations		**5,067**	-	**(78,184)**	-
Net loss and comprehensive loss for the period		**(1,066,029)**	(311,157)	**(2,026,053)**	(1,268,984)
Net loss per share	16				
Basic and diluted		**(0.02)**	(0.01)	**(0.05)**	(0.04)
Weighted average shares outstanding during the period					
Basic and diluted		**44,846,428**	36,484,495	**42,228,324**	30,062,751

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		Nine months	
For the periods ended December 31	Note	**2011**	2010	**2011**	2010
		$	**$**	**$**	**$**
Operating activities					
Net loss for period		**(1,071,096)**	(311,157)	**(1,947,869)**	(1,268,984)
Items not involving cash:					
Share based compensation		-	-	-	69,625
Depletion and depreciation		**61,168**	64,948	**233,623**	115,801
Loss on the sale of exploration and evaluation assets		-	-	**69,939**	-
Finance expense		**176,156**	-	**243,109**	9,693
Change in non cash working capital		**140,085**	(174,583)	**186,096**	267,304
		(693,687)	(420,792)	**(1,215,102)**	(806,561)
Investing activities					
Expenditures on property and equipment		**(300,164)**	(148,786)	**(638,846)**	(148,786)
Acquisition of property and equipment		-	-	-	(1,440,600)
		(300,164)	(148,786)	**(638,846)**	(1,589,386)
Financing activities					
Proceeds from issuance of convertible bonds		**1,075,890**	-	**1,289,060**	575,000
Repayment of borrowings		**208,364**	-	**(472,746)**	-
Proceeds from issue of share capital		**360,722**	597,790	**470,722**	2,019,895
Change in non-cash working capital		-	(440,618)	**(83,139)**	(489,868)
		1,644,976	157,172	**1,203,897**	2,105,027
Change in cash and cash equivalents		**651,125**	(412,406)	**(650,051)**	(290,920)
Cash and cash equivalents, beginning of period		**504,453**	1,114,085	**1,805,629**	992,599
Cash and cash equivalents, end of period		**1,155,578**	701,679	**1,155,578**	701,679
Interest paid		60,964	29,400	64,592	50,744

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)

	Note	Share capital Number	Share capital Amount	Equity component of convertible debt	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)
Share 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		-	380,683	-	(380,685)	-	-	-	(2)
Share of Oren Oil ASA debt		1,813,051	217,500	-	-	-	-	-	217,500
Debt conversion		2,566,067	308,000	(72,856)	-	-	-	-	235,144
Net loss		-	-	-	-	-	-	(1,268,984)	(1,268,984)
Balance December 31, 2010		39,342,193	5,523,665	69,424	124,817	265,160	-	(2,803,530)	3,179,536
Share based compensation		-	-	-	-	62,824	-	-	62,824
Fair value of share purchase warrants		-	(30,768)	-	30,768	-	-	-	-
Warrants expired		-	(380,683)	-	(41,554)	422,237	-	-	-
Net loss for the period		-	-	-	-	-	-	(1,745,502)	(1,745,502)
Other comprehensive loss for the period		-	-	-	-	-	(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 conversion		2,016,666	242,000	(69,424)	-	6,535	-	-	179,111
Fair value of share purchase warrants		-	(388,741)	-	388,741	-	-	-	-
Warrants expired		-	-	-	(64,151)	64,151	-	-	-
Finders warrants		-	(3,826)	-	3,826	-	-	-	-
Non-brokered private placements		7,200,034	470,722	-	-	-	-	-	470,722
Issuance of convertible notes		-	-	75,800	-	-	-	-	75,800
Net loss7		-	-	-	-	-		(1,947,869)	(1,947,869)
Other comprehensive loss		-		-	-	-	(78,184)	-	(78,184)
Balance December 31, 2011		48,558,893	5,432,369	75,800	442,449	820,907	(143,851)	(6,496,901)	130,773

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

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

2 Going Concern

As at December 31, 2011, the Company had not yet achieved profitable operations, has accumulated a deficit of $6,496,901 (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, 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. These adjustments could be material.

(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 22.

These interim consolidated financial statements were prepared based on IFRS issued and in effect on February 29, 2012, 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. The Company's functional currencies are Peso's for the Argentina subsidiary, US dollars for the US subsidiaries, and Euro's for the subsidiary in Italy. Currencies are noted as follows: US$ for United States dollars and ARS$ for Argentine pesos.

d) Use of estimates

The preparation of financial statements in conformity with IFRS requires the use of 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.

(Unaudited - Expressed in Canadian dollars)

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 obligation

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

Fair value of financial instruments

As described in Notes 6 and 19, 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. Costs are reviewed to determine if components should be established within the cash generating unit. 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 item 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.

(Unaudited - Expressed in Canadian dollars)

4. Significant accounting policies (continued)

d) Property and equipment (continued)

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

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

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

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

Impairment:

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

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

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.

(Unaudited - Expressed in Canadian dollars)

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 property and equipment 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 finance 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.

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, trade receivables, and other receivables.

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

(Unaudited - Expressed in Canadian dollars)

4 Significant accounting policies (continued)

h) Financial instruments (continued)

Compound financial instruments

Compound financial instruments include convertible debt denominated in various currencies as disclosed in note 15 which can be converted to common shares at the option of the holder at any time prior to maturity. The compound financial instrument is bifurcated and recorded with an equity and liability component. The liability component is recognized initially at the fair value of a liability without the equity conversion feature. The equity component is recognized initially as the difference between the fair value of the convertible debt and the fair value of the liability component. Transaction costs are allocated between the liability and equity component proportionately based on the initial values of each component. Subsequently, the liability component is measured at amortized cost using the effective interest method. Interest is recognized in finance expense in the statement of comprehensive loss. The equity component is not re-measured after initial recognition. Upon conversion, the liability component is reclassified to equity and no gain or loss would be recognized.

Share capital

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

Warrants

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

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

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

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. 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.

(Unaudited - Expressed in Canadian dollars)

4 Significant accounting policies (continued)

h) Financial instruments (continued)

De-recognition of financial instruments

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

The Company would derecognize a financial liability when its contractual obligations are discharged, cancelled, or expired.

Offsetting of financial instruments

A financial asset and a financial liability shall be offset and the net amount presented in the statement of financial position when the Company:

(a) currently has a legally enforceable right to set off the recognized amounts; and

(b) intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

i) Share base payments

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

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.

(Unaudited - Expressed in Canadian dollars)

4 Significant accounting policies (continued)

k) Decommissioning obligation

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

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.

(Unaudited - Expressed in Canadian dollars)

4. Significant accounting policies (continued)

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.

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

o) Foreign currency translation

The subsidiaries in the US, Argentina, and Italy have US dollars, Argentinean Pesos, and Euro's respectively as their functional currencies. As the Company reports its results in Canadian dollars, accounts are translated from each entities functional currency to Canadian dollars as follows: assets and liabilities are translated at the exchange rate in effect at the statement of financial position date, 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. Foreign exchange gains and losses resulting from translation from a functional currency to a presentation currency are recognized in other comprehensive income. Transactions in foreign currencies other than the functional currency are translated at the rates in effect on the transaction date. Foreign exchange gains or losses arising on translation or settlement of foreign currency denominated monetary items are recognized in the statement of comprehensive loss 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, 2015. The Company has not yet reviewed the impact of this standard.

(Unaudited - Expressed in Canadian dollars)

6 Determination of fair value

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

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

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

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

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

7 Finance income and expense

	Three months ended December 31		Nine months ended December 31	
	2011	2010	2011	2010
Income:				
Interest income on cash and cash equivalents	$ 224	$ 39	$ 921	$ 609
Expenses:				
Interest expense	88,119	29,377	223,990	50,721
Accretion on decommissioning obligations	202,267	-	224,978	-
Accretion on convertible debenture	3,145	-	3,145	-
	293,531	29,377	452,113	50,721
Net finance expense	$ 293,307	$ 29,338	$ 451,192	$ 50,112

8 Inventory

Inventory at December 31, 2011 of $62,119 (March 31, 2011 – $32,607) consist of crude oil that has been produced but yet not sold.

(Unaudited - Expressed in Canadian dollars)

9 Business combination

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

For a period of three years commencing November 30, 2010, the Company will provide Central Argentina with the following: (i) 50% of the annual gross revenue derived from the sale of barrels of oil at a per barrel invoice price that exceeds US$42.00, but is less than or equal to US$52.00; and (ii) 25% of the annual gross revenue derived from the sale of barrels of oil at a per barrel invoice price that exceeds US$52.00. The Company calculated a NPV of this obligation at the time of the business combination to be $564,470 (US$ 548,455) based on a 7.5 percent discount rate and estimated future production and estimated future sale price. The value at December 31, 2011 is $679,732 (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)

Working capital includes receivables acquired in the amount of $864,511. The carrying value approximates the fair value due to the short period to maturity. Receivables acquired were primarily trade receivables.

Transaction costs in the amount of $135,600 were recorded in general and administrative expense on the statement of loss in the three and nine months ended December 31, 2010. There were no other transactions relating to the business combination recorded separately.

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

	December 31, 2010	
	Three months	Nine months
Revenue (net of royalties)	$ 386,027	$ 789,090
Expenses	416,486	653,614
Net income (loss)	(30,459)	135,476

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	53,297	5,132,621
Foreign currency translation	(306,980)	(3,221)	(310,201)
As at March 31, 2011	5,071,984	87,943	5,159,927
Additions	623,107	48,610	671,717
Foreign currency translation	85,371	2,189	87,560
As at December 31, 2011	**5,780,462**	**138,741**	**5,919,203**

(Unaudited - Expressed in Canadian dollars)

10 Property and equipment (continued)

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	(208,913)	(24,710)	(233,623)
As at December 31, 2011	**(395,065)**	**(28,532)**	**(423,598)**
Net book value			
As at March 31, 2011	**4,885,832**	**84,120**	**4,969,952**
As at December 31, 2011	**5,385,397**	**110,209**	**5,495,606**

As at December 31, 2011, the Company completed a review for impairment on its property and equipment and determined that there was no impairment triggers.

11 Exploration and evaluation assets

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

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:

	December 31, 2011	March 31, 2011
	$	$
Balance, beginning of period	**2,224,547**	-
Acquired on July 22, 2010	**-**	2,211,276
Current provision in finance expense	**171,463**	164,372
Foreign currency translation	**123,744**	(151,101)
Balance, end of period	**2,519,754**	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 – $8.5 million. The expected timing of the cash outflows required to settle the obligations is between 2015 and 2025.

13 Notes payable

On September 15, 2011, the Company obtained a loan for $544,414 (US$500,000) through its Petrolera subsidiary. The loan is unsecured and bears interest at a fixed rate of interest of 11%. The loan matures in 15 months and payments of interest only are required until maturity.

14 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 of 3.25% 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 December 31, 2011, no additional Argentinean properties have been purchased and the balance in long term debt was $2,034,000.

(Unaudited - Expressed in Canadian dollars)

15 Convertible notes

	Face value	Debt component	Equity component
	$	$	$
Balance, April 1, 2010	-		-
Issued (i)	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 (ii)	213,170	197,732	15,438
Issued (iii)	1,075,890	1,015,528	60,362
Accretion expense	-	3,145	-
Interest expense	-	15,613	-
Balance, December 31, 2011	1,289,060	1,232,018	75,800

i) On June 24, 2010, the Company issued 100 convertible notes (“Note 0,1”) and on September 2, 2010, the Company issued 15 convertible notes (“Note 0,2 and Note 0,3”), collectively the “Notes”, by way of a private placement for total gross proceeds of $500,000 from Note 0,1 and $75,000 from Note 0,2 and Note 0,3. Each Note consists of one unsecured convertible note, with a principal value of $5,000, and 5,000 common share purchase warrants (the “Warrants”). The Notes will mature 4 years from the date of issuance, unless early redemption or conversion occurs. The principal amount of each Note is convertible into common shares of the Company at the option of the holder at any time prior to maturity at a conversion price of $0.20 per share. The warrants associated to Note 0,1 have an exercise price of $0.50 and are exercisable until June 24, 2014. The warrants associated to Notes 0,2 and 0,3 have an exercise price of $0.50 and are exercisable until September 2, 2014.

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

Each Warrant entitles the holder to purchase one additional common share of the Company at a price of $0.50 per share until June 24, 2014 for Note 0,1 and September 2, 2014 for Note 0,2 and Note 0,3, (note 16(c)).

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

(Unaudited - Expressed in Canadian dollars)

15 Convertible notes (continued)

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.

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 until October 5, 2011. The remaining balance of the convertible debt after this conversion is $267,000.

On April 25, 2011, a stakeholder of the Company's Note 0,1 convertible debt converted $192,000 of debt into 1,600,000 common shares at a price of $0.12 per share. The stakeholder was issued 800,000 purchase warrants. Each warrant entitles the holder to purchase one Common Shares in the capital of the Company at a price of $0.17 per share until April 25, 2012. The Company has allocated $9,950 of the unit value to warrants (note 16(d)).

On September 14, 2011, a stakeholder of the Company's Note 0,2 convertible debt converted $50,000 of debt into 416,666 common shares at a price of $0.12 per share. The stakeholder was issued 800,000 purchase warrants. Each warrant entitles the holder to purchase one Common Shares in the capital of the Company at a price of $0.17 per share until September 14, 2012. The Company has allocated $39,562 of the unit value to warrants (note 16(d)).

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

ii) On July 21, 2011 Canoel completed a private placement of convertible notes (the "Notes") for aggregate gross proceeds of NOK $1,200,000 (approximately CDN$213,170). Each Note bears interest at a simple interest rate of 12% per annum, payable in arrears in equal quarterly installments commencing October 20, 2011. These notes are unsecured and mature on July 18, 2014. At the option of the holder of the Notes, the principal and any unpaid interest of a Note may be converted into common shares of Canoel at a price of $0.15 per common share at any time prior to maturity.

The fair value of the liability component was calculated using a discount rate of 16% which approximated the interest rate that would have been applicable to non-convertible debt of the Company at the time the Notes were issued.

iii) On December 16, 2011, Canoel completed a private placement of convertible notes (the "Notes") for aggregate gross proceeds of $1,080,000 Swiss francs (approximately CDN$1,075,890). Each Note bears interest at a simple interest rate of 9% per annum, payable in arrears in equal quarterly installments commencing April 11, 2012.

(Unaudited - Expressed in Canadian dollars)

15 Convertible notes (continued)

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

The fair value of the liability component was calculated using a discount rate of 13% which approximated the interest rate that would have been applicable to non-convertible debt of the Company at the time the Notes were issued.

16 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 (i)	-	(74,629)
Norwegian private placement (ii)	9,110,729	1,093,287
Share issue costs (ii)	-	(33,460)
Oren Oil ASA Share acquisition (iii)	602,413	72,290
Shares for Oren Oil ASA debt (iv)	1,813,051	217,500
Debt conversion (v)	2,566,667	308,000
Fair value of share purchase warrants (v)	-	(30,768)
Outstanding, March 31, 2011	39,342,792	5,112,214
Debt conversion (vi)	1,600,000	192,000
Fair value of share purchase warrants (vi)	-	(9,950)
Debt conversion (vii)	416,666	50,000
Fair value of share purchase warrants (vii)	-	(39,652)
Non-brokered private placement (viii)	1,100,000	110,000
Fair value of share purchase warrants (viii)	-	(73,903)
Non-brokered private placement (ix)	6,100,034	360,722
Fair value of finders fee warrants (ix)	-	(3,826)
Fair value of share purchase warrants (ix)	-	(265,236)
Outstanding, December 31, 2011	48,559,492	5,432,369

(Unaudited - Expressed in Canadian dollars)

16 Share Capital (continued)

b) Issued (continued)

(i) During the year ended March 31, 2011, the Company issued 3,631,217 units at 0.12 per unit for total proceeds of $435,746. Each unit consists of one common share of the Company and one-half of one common share purchase warrant (the "Warrant"). Each whole Warrant entitles the holder to purchase one additional common share of the Company at $0.20 per share, which were exercisable between June 30, 2011 and September 2, 2011. If at any time following four months and one day from the grant of the Warrants, the closing price of the Company's listed shares exceeds $0.30 for 15 consecutive trading days, the Company may give notice to the holders of the warrants that such unexercised warrants will be terminated 30 days following notice. The Company has allocated $12,202 of the unit value to warrants (note 16(d)).

The Company incurred share issue costs to an unrelated Finder of $74,629 for to the Placements. This includes the value of $1,160 assigned to 199,030 finders warrants (the "Finders Warrants") (note 15(d)). The Finders Warrants entitles the holder to purchase one common share of the Company at $0.20 per share, of which 182,530 were exercisable until June 30, 2011 and 16,500 were exercisable until September 2, 2011.

(ii) During the second quarter of 2010, the Company completed two Norwegian private placements (the "Norwegian Placement") of 9,110,729 common shares of the Company, at a price of $0.12 per share, for aggregate gross proceeds of $1,093,287. The Norwegian Placement was completed in conjunction with the proposed offer by the Company to purchase the shares of Oren Oil ASA (note 16b(iii)) and transfer of debt from Oren Oil to The Company (note 16(iv)). The Company incurred share issue costs of $33,460 related to the Norwegian Placement.

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

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

(v) On October 5, 2010, a stakeholder of the Company's Note 0,1 convertible debt (note 15) 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 16(d)).

(vi) On April 25, 2011, a stakeholder of the Company's Note 0,1 convertible debt (note 15) 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 until April 25, 2012. The Company has allocated $9,950 of the unit value to warrants (note 16(d)).

(Unaudited - Expressed in Canadian dollars)

16 Share Capital (continued)

b) Issued (continued)

(vii) On September 14, 2011, a stakeholder of the Company's Note 0,2 convertible debt (note 15) converted $50,000 of debt into 416,666 common shares at a price of $0.12 per share. The stakeholder was issued 800,000 purchase warrants. Each warrant entitles the holder to purchase one Common Shares in the capital of the Company at a price of $0.17 per share until September 14, 2012. The Company has allocated $39,562 of the unit value to warrants (note 16(d)).

(viii) On September 23, 2011, the Company issued 1,100,000 common shares at a price of $0.10 per share, for aggregate gross proceeds of $110,000. In conjunction with this issuance, 1,100,000 warrants were issued with an exercise price of $0.15 and are exercisable until September 23, 2014. The Company has allocated $73,903 of the unit value to warrants (note 16(d)).

(ix) On November 25, 2011, the Company issued 6,100,034 common shares at a price of $0.06 per share, for aggregate gross proceeds of $360,722 which includes foreign exchange of $5,280. In conjunction with this issuance, 6,100,034 warrants were issued with an exercise price of $0.10 and are exercisable until November 23, 2013. The company has allocated $265,236 of the unit value to warrants (note 16(d)). The Company issued 88,000 common share purchase warrants as a finders fee, with the same terms as above, in connection this private placement. The company has allocated $3,826 of value to these warrants (note 16(d)).

As at December 31, 2011 the company has not issued any preferred shares.

c) Escrow shares

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

(Unaudited - Expressed in Canadian dollars)

16 Share Capital (continued)

d) Warrants

Warrants to acquire common shares outstanding at December 31, 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(i))	199,030	1,160	0.20
Share purchase warrants with convertible notes (note 14)	575,000	12,857	0.50
Debt conversion (15b(vi)	1,283,333	30,768	0.17
Warrants expired	(11,846,830)	(422,237)	0.38
Balance March 31, 2011	6,334,503	114,033	0.30
Debt conversion (15b(vi))	800,000	9,950	0.17
Debt conversion (15b(vii))	800,000	39,652	0.17
Warrants issued (15b(viii)	1,100,000	73,903	0.15
Warrants expired	(3,987,003)	(64,151)	0.22
Warrants issued (15b (ix))	6,188,034	269,062	0.10
Balance December 31, 2011	11,235,534	442,449	0.18

The following summarizes information about the warrants outstanding as at December 31, 2011, all of which are exercisable.

Range of exercise prices ($)	Number of warrants outstanding	Weighted average remaining life (years)	Weighted average exercise price ($)
0.10 – 0.20	8,888,034	1.63	0.12
0.21– 0.50	2,347,500	0.68	0.42
	11,235,534	1.43	0.18

Subsequent to December 31, 2011, 1,772,500 warrants exercisable at $0.40 expired resulting in 9,463,034 warrants outstanding. 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:

	December 31, 2011	March 31, 2011
Share price	$0.055	$0.08
Exercise price	$0.18	$0.30
Risk-free rate	1,13 %	1.2%
Expected life	1.43 years	0.8 years
Expected volatility	158 %	108 %
Fair value per warrant	$0.0024	$0.18

(Unaudited - Expressed in Canadian dollars)

16 Share Capital (continued)

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 nine months ended December 31, 2011, no stock options were granted, cancelled, or exercised. 100,000 options were forfeited in the period due to the resignation of a director. The exercise price of the remaining 800 000 options granted March 3, 2011, where amended from $0.09 till $0.10 to comply with TSX Venture Exchange rules. The following table summarizes information about the Company's stock options at December 31, 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
Granted March 3, 2011	900,000	0.10
Balance, March 31, 2011	3,715,000	0.11
Forfeited	(100,000)	0.10
Balance, December 31, 2011	3,615,000	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:

	December 31, 2011	March 31, 2011
Share price	$0.055	$0.08
Exercise price	$0.11	$0.11
Risk-free rate	2.25%	1.79%
Expected life	3.23 years	5 years
Expected volatility	162%	65%
Fair value per warrant	$0.044	$0.09

Share based compensation expense for the three and nine months ended December 31, 2011 was $nil (December 31, 2010 – nil and $69,625). The total amount has been recorded as an offsetting credit to contributed surplus.

(Unaudited - Expressed in Canadian dollars)

16 Share Capital (continued)

e) Stock options (continued)

The following table summarizes information about the Company's stock options outstanding, all of which are exercisable, at December 31, 2011:

Range of exercise prices ($)	Number of options outstanding	Weighted average remaining duration (years)	Weighted average exercise price ($)
0.00-0.10	3,000,000	3.37	0.10
0.11-0.20	470,000	2.49	0.16
0.21-0.30	145,000	2.70	0.23
	3,615,000	3.23	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 nine months ended December 31, 2011 of 44,846,428 and 42,228,324 (December 31, 2010 - 36,484,495 and 30,062,751) respectively. Currently, the effect of potential issuance of common shares upon the exercise of options and warrants 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.

17 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 working capital, long term debt, and shareholders equity as capital.

	December 31, 2011	March 31, 2011
Working capital	$ 1,100,671	$ 670,172
Long term debt	3,266,018	2,143,711
Shareholders equity	130,773	1,431,193

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

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

(Unaudited - Expressed in Canadian dollars)

17 Capital Management (continued)

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

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

As part of the capital management program the Company also monitors its working capital ratio. The Company's objective is to maintain a working capital ratio of greater than 1:1 defined as the ratio of currents assets divided by current liabilities. At December 31, 2011, the working capital ratio was 1.70:1.

For the nine months ended December 31, 2011, there have been no changes in the approach to capital management. There are no external restrictions on capital.

18 Related Parties

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

During the three and nine months ended December 31, 2011:

a) Aggregate consulting fees of $63,000 and $189,000 (December 31, 2010 - $16,200 and $48,600) 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 (December 31, 2010 – nil and $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 (December 31, 2010 - nil and $7,853) were charged by a director of the Company and recorded in the consolidated statement of loss, comprehensive loss and deficit.

d) Included in trade and other payables as at December 31, 2011 was $11,285 (March 31, 2011 - $11,000) 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)

19 Financial Instruments and Risk Management

The Company's financial instruments include cash and cash equivalents, trade and other receivables, trade and other payables, notes payable, convertible notes, warrants, and share capital. The carrying values of cash and cash equivalents, trade and other receivable, and trade and other payables approximate their fair values due to their relatively 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.

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

a) Fair values

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

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

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.

Approximately $450,000 of the Company's other receivable and $621,279 of trade receivable is with the operator of the Tunsian permits, thus exposing the Company to concentration risk. The receivable is the termination payment from the operator. On August 4, 2011, Canoel announced the divestment of its potential interest in the Tunisian blocks which were covered under the terms of a Farmout and Participation Agreement signed with CYGAM on July 10, 2008. Pursuant to a Termination and Release Agreement, Canoel and CYGAM have terminated the Farmout and Participation Agreement wherein Canoel was granted the opportunity to participate in certain oil and gas operations in order to earn an interest in the Tunisian Blocks, as well as the Memorandum of Understanding ("MOU") whereby Canoel acquired the opportunity to participate in oil and gas operations in order to earn a further interest in certain of the Tunisian Blocks. 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 generally extends unsecured credit to these customers and therefore, the collection of trade receivables 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.

The Company's maximum credit risk exposure is limited to the carrying value of its trade and other receivables of $1,454,557 and cash and cash equivalents of $1,155,578.

(Unaudited - Expressed in Canadian dollars)

19 Financial Instruments and Risk Management (continued)

b) Credit risk (continued)

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

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

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

As the Company pursues additional opportunities, annual budgets will be prepared, regularly monitored and updated as considered necessary. The Company monitors its cash flow monthly. As at December 31, 2011, the Company's current financial liabilities total $1,623,352, and are comprised of trade and other payables and the notes payable. As of December 31, 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.

19 Financial Instruments and Risk Management (continued)

d) Market risk (continued)

(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$42.0 per barrel to US$52.6 per barrel at March 31, 2011 and US$61.0 per barrel at December 31, 2011.

(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 December 31, 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 December 31, 2011, the Company has US$2,034,000 (March 31, 2011 - $1,939,600) of debt with floating interest (note 13), hence a variation of 1 percent represent $5,200 and $15,600 (December 31, 2010 – nil) 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 on January 2006 to 4.30 pesos for US$1 on December 31, 2011. The US$ is the currency of reference for the oil sales of the Argentinean company to local refineries.

20 Commitments

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

(Unaudited - Expressed in Canadian dollars)

21 Operating segments

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

- Argentina
- Tunisia -
- Other – Segment includes corporate assets and administration. None of these individual segments meet the quantitative thresholds for determining reportable segments in 2011 or 2010.

The accounting policies used in the preparation of the information of the reportable segments is the same as those described in note 3.

Information regarding the results of each reportable segment is included below. Performance is measured on segment profit before income tax which is reviewed by senior management.

Information for the three months ended December 31, 2011 and 2010 is as follows:

		Argentina		**Tunisia**		**Other**		**Total**	
		2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
Revenue from external customers	$	**462,492**	427,238	**-**	**-**	**-**	**-**	**462,492**	427,238
Finance income		**-**	-	**-**	**-**	**224**	39	**224**	39
Finance expense		**205,412**	29,377	**-**	**-**	**88,119**	-	**293,531**	29,377
Depletion and depreciation		**61,168**	64,948	**-**	**-**	**-**	**-**	**61,168**	64,948
Reportable segment profit (loss) before income tax		**15,692**	(104,707)	-	-	**(1,086,788)**	(206,450)	**(1,071,096)**	(311,057)
Operating		**128,315**	279,497	**-**	**-**	**-**	**-**	**128,315**	279,497
General and administrative		**190,903**	55,049	-	-	**775,700**	251,731	**966,603**	306,780
Capital expenditures		**300,164**	148,786	**-**	**-**	**-**	**-**	**300,164**	148,786

(Unaudited - Expressed in Canadian dollars)

21 Operating segments (continued)

Information for the nine ended December 31, 2011 and 2010 is as follows:

		Argentina		Tunisia		Other		Total	
		2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
Revenue from external customers	$	**1,558,668**	862,501	**-**	**-**	**-**	-	**1,558,668**	862,501
Finance income		**-**	-	**-**	**-**	**921**	609	**921**	609
Finance expense		**224,978**	-	**-**	**-**	**227,135**	50,721	**452,113**	50,721
Depletion and depreciation		**233,623**	115,801	**-**	**-**	**-**	**-**	**233,623**	115,801
Reportable segment profit (loss) before income tax		**(2,156)**	84,594	**-**	-	**(1,945,713)**	(1,353,578)	**(2,008,447)**	(1,268,984)
Operating		**537,271**	439,117			**-**	-	**537,271**	439,117
General and administrative		**528,528**	71,596	**-**		**1,401,298**	1,347,189	**1,929,826**	1,418,785
Reportable segment assets		**4,569,771**	3,453,822	**-**	986,420	**3,649,858**	1,576,843	**8,219,629**	6,017,085
Reportable segment liabilities		**2,371,338**	1,330,401	**-**	-	**5,717,518**	1,507,147	**1,623,352**	2,837,548
Capital expenditures		**638,846**	1,589,386	**-**	**-**	**-**	**-**	**638,846**	1,589,386

22 Transition to from Canadian GAAP to IFRS

As described in Note 3, these are the Company's interim condensed 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 consolidated financial statements for the three and nine months ended December 31, 2011 including the comparative information for the three and nine months ended December 31, 2010.

In preparing the interim financial statements for December 31, 2010, the Company has considered amounts previously reported in financial statements prepared in accordance with Canadian GAAP and made adjustments where necessary.

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.

(Unaudited - Expressed in Canadian dollars)

22 Transition to from Canadian GAAP to IFRS (continued)

Statement of Financial Position – December 31, 2010

	Note	Canadian GAAP	Adjustments	IFRS
		$	$	$
ASSETS				
Current assets				
Cash and cash equivalents		701,679	-	701,679
Trade receivable		1,380,619	-	1,380,619
Prepaid expenses		88,429	-	88,429
		2,170,727	-	2,170,727
Non-current assets				
Property and equipment	a)	3,846,358	(986,420)	2,859,938
Exploration and evaluation assets	a)	-	986,420	986,420
Total assets		6,017,085	-	6,017,085
LIABILITIES				
Current liabilities				
Trade payable		874,705	-	874,705
Note payable		1,364,605	-	1,364,605
Current portion of convertible debt		38,250	-	38,250
		2,227,560	-	2,227,560
Non-current liabilities				
Decommissioning obligation		394,128	-	394,128
Convertible notes		165,861	-	165,861
Total liabilities		2,837,549	-	2,837,549
EQUITY				
Share capital		5,523,665	-	5,523,665
Equity component of convertible debenture		69,424	-	69,424
Warrants		124,817	-	124,817
Contributed surplus		265,160	-	265,160
Deficit		(2,803,530)	-	(2,803,530)
Total equity		3,179,536	-	3,179,536
Total equity and liabilities		6,017,085	-	6,017,085

(Unaudited - Expressed in Canadian dollars)

22 Transition to from Canadian GAAP to IFRS (continued)

Statement of Comprehensive Loss – For the three and nine months ended December 31, 2010

The Company has determined that no adjustments are necessary for the transition from CGAAP to IFRS for the statement of comprehensive loss for the three and nine months ended December 31, 2010.

Notes

a) Property and equipment ("PP&E) & Exploration and evaluation assets (E&E")

The Company reclassified the following amount from property and equipment to exploration and evaluation assets relating to the costs incurred for Tunisian:

	December 31, 2010
$	(986,420)

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

23 Subsequent events

The Company has executed a memorandum of understanding with the owner of a technology which has the ability to create an emulsion between some petrol products, mainly gasoil and fuel oil and water. Canoel will become, upon signing the final contract, the exclusive licensee to sell and distribute this technology and the related equipment and additive, initially in four countries to be determined by the Company.