Canoel International Energy Ltd.

Condensed Interim Consolidated Financial Statements
As at and for the three months ended June 30, 2013
(unaudited)

Notice of No Auditor Review of Interim Consolidated Financial Statements

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed these unaudited condensed interim consolidated financial statements as at and for the three months ended June 30, 2013.

Managements' Responsibility

To the Shareholders of Canoel International Energy Ltd.:

The accompanying unaudited condensed interim consolidated financial statements of Canoel International Energy Ltd. (the "Company") as at and for the three months ended June 30, 2013 have been prepared by and are the responsibility of the management of the Company and are approved by the board of directors of the Company. The unaudited condensed interim consolidated financial statements are prepared in accordance with International Financial Reporting Standards and reflect management's best estimates and judgments based on currently available information.

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

(Signed)"Luigi Regis Milano"
Chief Financial Officer

August 27, 2013

Calgary, Alberta

Canoel International Energy Ltd.

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

	Note	**June 30 2013 $**	March 31 2012 $
ASSETS			
Current assets			
Cash		**940,479**	346,541
Trade and other receivables		**660,345**	627,892
Inventory	4	**100,009**	61,749
Prepaid expenses		**396,626**	64,160
		2,097,459	1,100,342
Non-current assets			
Property and equipment	5	**3,478,871**	4,011,942
Prepaid property and equipment insurance	6	**608,309**	–
Total assets		**6,184,639**	5,112,284
LIABILITIES			
Current liabilities			
Trade and other payables		**1,598,852**	1,709,658
Oil share agreement	7	**717,177**	686,990
Notes payable	8	**489,059**	427,173
Loan payable	9	**179,580**	2,031,200
		2,984,668	4,855,021
Non-current liabilities			
Loan payable	9	**1,975,380**	–
Decommissioning obligation	10	**2,892,981**	1,283,060
Convertible notes	11	**1,046,830**	1,016,606
Derivative liability	11	**24,901**	56,754
Total liabilities		**8,924,760**	7,211,441
SHAREHOLDERS' DEFICIT			
Share capital		**6,556,260**	6,556,260
Warrants	12	**1,056,269**	1,231,069
Contributed surplus		**1,082,314**	907,514
Accumulated other comprehensive loss		**(1,153,793)**	(880,286)
Deficit		**(10,281,171)**	(9,913,714)
Total shareholders' deficit		**(2,740,121)**	(2,099,157)
Total shareholders' deficit and liabilities		**6,184,639**	5,112,284

Going concern (Note 1)

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

Canoel International Energy Ltd.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
For the three months ended June 30
(unaudited)
(Expressed in Canadian dollars)

	Note	**2013** **$**	2012 $
Revenue			
Oil and natural gas revenue		**817,735**	441,626
Royalties		**(78,425)**	(33,297)
		739,310	408,329
Other revenue		**–**	51,697
		739,310	460,026
Expenses			
Operating		**224,455**	307,510
Transportation		**13,087**	17,133
General and administrative		**552,243**	410,190
Foreign exchange		**98,685**	14,771
Depletion and depreciation	5	**98,971**	53,454
Fair value adjustment on derivative liability	11	**(31,853)**	37,479
Loss on conversion of notes	11	**–**	9,689
		955,588	850,226
Finance income		**126,120**	–
Finance expense		**(277,299)**	(139,813)
Net finance expense	16	**(151,179)**	(139,813)
Net loss		**(367,457)**	(530,013)
Exchange differences on translation of foreign operations		**(273,507)**	(81,385)
Comprehensive loss		**(640,964)**	(611,398)
Net loss per share			
Basic and diluted	14	**(0.00)**	(0.01)
Weighted average shares outstanding			
Basic and diluted	14	**81,884,287**	53,065,316

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

Canoel International Energy Ltd.

Condensed Interim Consolidated Statements of Cash Flows
For the three months ended June 30
(unaudited)
(Expressed in Canadian dollars)

	Note	**2013** $	2012 $
Operating activities			
Net loss		**(367,457)**	(530,013)
Items not involving cash:			
Royalties on oil share agreement	7	**4,249**	(7,925)
Depletion and depreciation	5	**98,971**	53,454
Fair value adjustment on derivative liability	11	**(31,853)**	37,479
Loss on conversion of notes	11	**–**	9,689
Finance expense		**169,480**	55,681
Reclassification between operating expense and property and equipment		**23,077**	(120,024)
		(103,533)	(501,659)
Foreign exchange on translation		**(55,409)**	29,856
Change in non-cash working capital	17	**(656,251)**	(118,632)
		(815,193)	(590,435)
Investing activities			
Expenditures on property and equipment		**(6,771)**	(138,968)
Property acquisition funds	5	**1,701,250**	–
Property acquisition funds	5	**188,292**	–
Prepaid property and equipment insurance	6	**(608,309)**	–
Change in non-cash working capital	17	**142,266**	(47,758)
		1,416,728	(186,726)
Financing activities			
Proceeds from issue of share capital, net of share issue costs		**–**	315,000
Change in non-cash working capital	17	**–**	13,024
		–	328,024
Change in cash		**601,535**	(449,137)
Foreign exchange effect on cash held in foreign currencies		**(7,597)**	(27,245)
Cash, beginning of year		**346,541**	1,447,708
Cash, end of year		**940,479**	971,326
Cash interest paid		**107,819**	77,811

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

Canoel International Energy Ltd.

Condensed Interim Consolidated Statements of Changes in Equity
For the three months ended June 30, 2013
(unaudited)
(Expressed in Canadian dollars)

	Share capital						
	Number	Amount	Warrants	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total equity
Balance – March 31, 2013	81,884,287	$6,556,260	$1,231,069	$907,514	$(880,286)	$(9,913,714)	$(2,099,157)
Expiry of warrants (Note 11)	–	–	(174,800)	174,800	–	–	–
Net loss	–	–	–	–	–	(367,457)	(367,457)
Other comprehensive loss	–	–	–	–	(273,507)	–	(273,507)
Balance – June 30, 2013	81,884,287	$6,556,260	$1,056,269	$1,082,314	$(1,153,793)	$(10,281,171)	$(2,740,121)

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

(Expressed in Canadian dollars)

1. Nature of operations and going concern

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

As at June 30, 2013, the Company had not yet achieved profitable operations, has a working capital deficit of $887,209 (March 31, 2013 – $3,754,679) and an accumulated deficit of $10,281,171 (March 31, 2013 – $9,740,163) since its inception, and expects to incur further losses in the development of its business. Current cash resources will not be sufficient to continue the exploration and development activities. These matters raise significant doubt about the ability of the Company to continue to meet its obligations as they become due. Continuing operations are dependent on the ability to obtain adequate funding to finance existing operations, and attain future profitable operations in Argentina. Additional financing is subject to the global financial markets and economic conditions, and volatility in the debt and equity markets. These factors have made, and will likely continue to make it challenging to obtain cost effective funding. There is no assurance this capital will be available and if it is not, the Company may be forced to curtail or suspend planned activity.

These consolidated financial statements have been prepared on the basis of the going concern assumption that the Company will be able to discharge its obligations and realize its assets in the normal course of business at the values at which they are carried in these consolidated financial statements, and that the Company will be able to continue its business activities. Realization values may be substantially different from carrying values as shown and these consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis were not appropriate for these consolidated financial statements, then the adjustments would be necessary in the carrying value of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used. These adjustments could be material.

2. Basis of presentation

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, including International Accounting Standard 34 – Interim Financial Reporting. The Company has consistently applied the same accounting policies throughout all periods presented except as noted below (Note 3). These condensed interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto in the Corporation's annual filings for the year ended March 31, 2013.

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

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

These unaudited condensed interim consolidated financial statements were authorized for issue by the Board of Directors on August 23, 2013.

(Expressed in Canadian dollars)

3. Changes in accounting policies

As disclosed in the Company's March 31, 2013 audited consolidated financial statements, on April 1, 2013, the Company adopted new standards for IFRS 10, "Consolidated Financial Statements", IFRS 11 "Joint Arrangements", IFRS 12 "Disclosure of Interests in Other Entities", IFRS 13 "Fair Value Measurement" as well as consequential amendments to IAS 28 "Investments in Associates and Joint Ventures". The adoption of these standards and amendments had no impact on the amounts recorded or disclosures included in the unaudited condensed interim consolidated financial statements as at and for the three months ended June 30, 2013.

4. Inventory

As at June 30, 2013, inventory consists of $100,009 (March 31, 2013 – $29,048) of crude oil that has been produced but not yet sold.

5. Property and equipment

	Oil and natural gas properties $	Furniture & fixtures $	Total $
Cost			
Balance – March 31, 2013	4,676,030	145,281	4,821,311
Additions	6,771	–	6,771
Reclassification between operating expense and property and equipment	(23,077)	–	(23,077)
Net revenue adjustment on acquisition	(188,292)	–	(188,292)
Decommissioning obligation	(124,183)	–	(124,183)
Foreign currency translation	(105,319)	–	(105,319)
Balance – June 30, 2013	4,241,930	145,281	4,387,211
Accumulated depletion and depreciation			
Balance – March 31, 2013	(758,032)	(51,337)	(809,369)
Depletion and depreciation	(92,439)	(6,532)	(98,971)
Balance – June 30, 2013	(850,471)	(57,869)	(908,340)
Carrying amount			
March 31, 2013	3,917,998	93,944	4,011,942
June 30, 2013	3,391,459	87,412	3,478,871

The calculation for depletion during the six months ended June 30, 2013 included estimated future development costs of $11.1 million for proved and probable reserves (March 31, 2013 – $10.7 million).

The Company did not identify any indicators of impairment at June 30, 2013.

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

On completion of the transaction, the Company paid MOG a nominal sum of EUR100 for the acquisition of MOG's working interests in the Assets and has assumed the liability for future plugging, abandonment and site remediation costs associated with the Assets. At the same time, the Company received a cash payment of EUR1,250,000 ($1,701,250) as MOG's contribution toward future abandonment and remediation costs. The Company also received an initial advance of EUR104,000 ($142,200), for a portion of the revenue MOG received from the Assets during the period between the August 24, 2012 effective date of the acquisition and the most recent production statements, net of allowable operating costs, agreed capital expenditure associated with the Assets and certain deposits for future capital expenditures. Additional revenue adjustments up to the final transaction date will be paid to the Company in due time.

(Expressed in Canadian dollars)

Of the initial advance received as at June 30, 2013, $188,292 has been recognized as a net revenue adjustment against property and equipment.

6. Prepaid property and equipment insurance

Upon the change of ownership of the Assets acquired in Italy (Note 5), the Company obtained an insurance policy for its Italian oil and gas operations. The policy has a five year term for which the Company paid the total premium of EUR567,300 ($779,532), of which $15,317 has been recognized as expense, $155,906 is included in current prepaid expenses and the remaining $608,309 balance shown as a long-term asset.

7. Oil share agreement

In connection with a business combination completed in July 2010, the Company became obligated to an oil share agreement pursuant to which, for a period of three years commencing November 30, 2010, the Company will provide Central Argentina with the following: (i) 50% of the annual gross revenue derived from the sale of barrels of oil at a per barrel invoice price that exceeds US$42.00, but is less than or equal to US$52.00; and (ii) 25% of the annual gross revenue derived from the sale of barrels of oil at a per barrel invoice price that exceeds US$52.00.

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

The following table presents the reconciliation of the carrying amount of the oil share agreement:

Balance – March 31, 2013	$	686,990
Royalty expense		4,249
Foreign currency translation		25,938
Balance – June 30, 2103	$	717,177

As at June 30, 2013, the carrying amount of this obligation was estimated based on the following assumptions:

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

8. Notes payable

As at March 31, 2013 and June 30, 2103, the Company had US$400,000 of notes payable outstanding secured by a mortgage on the oil and natural gas properties in Argentina. The notes bear interest at a fixed rate of interest of 11%. The notes were to mature on June 30, 2013 with payments of interest only required until maturity. The maturity dates of the notes have been extended to various dates between October 2013 and April 2014, including accrued interest. As at June 30, 2013, the balance of notes payable is $489,059 including accrued interest (March 31, 2013 – $427,173).

9. Loan payable

On January 20, 2011, the Company obtained a loan from a private lender for US$2,000,000. The loan matures in January 2013. The loan was extended for an additional six months to July 2013. The loan is unsecured and bears interest at the fixed US prime rate of 3.25% plus 6.75%. Payments are interest only on a quarterly basis commencing on April 21, 2011. The Company has agreed to grant security over additional oil and natural gas assets acquired in Argentina, if acquired using the loan proceeds. Subject to regulatory approval, the lender has the right to participate in a portion of the profit from the eventual sale of any such property. As at March 31, 2013, no additional Argentinean properties have been purchased and the loan payable was reported in current liabilities for $2,031,200 (2012 – $1,995,000) plus $89,595 of accrued interest included in trade and other payables.

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

- Amended principal amount US$2,050,000 representing the original US$2,000,000 principal amount plus US$121,644 of accrued interest up to June 1, 2013 and a US$50,000 arrangement fee in connection with the amendment of the loan payable;
- Maturity date of June 1, 2015;
- Interest rate of 10% per annum, calculated yearly and payable in monthly installments on the last day of each month;
- Interest only payments for the first 12 months, then equal monthly installments of principal and interest until June 1, 2015; and
- Distribution of certain net profits to the lender, as defined in the amended loan agreement, related to the sale of all or part of the Company's assets and operations in Argentina.

As a result of the amendment, the Company recognized US$121,644 ($126,120) of income for the recovery of previously accrued but unpaid interest. The US$50,000 arrangement fee is included in interest expense in the current period.

As at June 30, 2103, based on the amended terms of the loan payable, $179,580 of principal is classified as a current liability; $1,975,380 of principal is classified as long-term and $17,712 of accrued interest is included in traded and other payables.

(Expressed in Canadian dollars)

10. Decommissioning obligation

The following table presents the reconciliation of the carrying amount of the obligation associated with the reclamation and abandonment of the Company's oil and gas properties:

Balance – March 31, 2013	$	1,283,060
Acquisition (Note 5)		1,878,583
Accretion		46,201
Change in estimate		(293,266)
Foreign currency translation		(21,597)
Balance – June 30, 2013	$	2,892,981

The following significant weighted average assumptions were used to estimate the decommissioning obligation at June 30, 2013:

Undiscounted cash flows	$15.6 million
Risk free rate	14%
Inflation rate	7.8%
Weighted average expected timing of cash flows	15 years

11. Convertible notes

	Face value $	**Debt component** $	**Derivative liability** $
Balance – March 31, 2013	1,158,674	1,016,606	56,754
Change in fair value	–	–	(31,853)
Accretion	–	26,122	–
Foreign exchange	42,661	4,102	–
Balance – June 30, 2013	1,201,335	1,046,830	24,901

On December 16, 2011, the Company completed a private placement of unsecured convertible notes for aggregate gross proceeds of $1,080,000 Swiss Francs (C$1,201,335 at June 30, 2013). Each note bears interest at a simple interest rate of 9% per annum, payable in arrears in equal quarterly installments commencing April 11, 2012. Interest is accrued and presented in trade and other payables in the amount of $58,418 as at June 30, 2013 (March 31, 2013 – $30,341).

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

The June 30, 2013 fair value of the derivative liability was determined using the Black-Scholes pricing model based on the following assumptions:

Risk free interest rate	1.22%
Expected life	1.5 years
Expected volatility	100%

(Expressed in Canadian dollars)

12. Warrants

	Number of warrants	Amount $	Weighted average exercise price
Balance – March 31, 2012	39,558,699	$ 1,231,069	$ 0.11
Expired	(5,494,000)	(174,800)	(0.10)
Balance – June 30, 2013	34,064,699	$ 1,056,269	$ 0.11

Information about warrants outstanding and exercisable as at June 30, 2013 is as follows:

Exercise price	Number of warrants	Weighted average remaining life (years)	Weighted average exercise price
$ 0.10	32,389,699	1.02	$ 0.10
$ 0.15	1,100,000	0.23	0.15
$ 0.50	575,000	1.01	0.50
	34,064,699	0.99	$ 0.11

13. Stock options

As at March 31, 2013 and June 30, 2013, the Company had 2,800,000 stock options outstanding. Information about stock options outstanding and exercisable as at June 30, 2013 is as follows:

Exercise price	Number of options	Weighted average remaining life (years)	Weighted average exercise price
$ 0.10	2,410,000	1.97	$ 0.10
$ 0.13	105,000	1.24	0.13
$ 0.15	70,000	1.33	0.15
$ 0.17	70,000	1.60	0.17
$ 0.23	145,000	1.24	0.23
	2,800,000	1.88	$ 0.11

14. Per share amounts

For the three months ended June 30	2013	2012
Net loss	$ (367,457)	$ (530,013)
Weighted average number of shares – basic:		
Issued common shares as at April 1	81,884,287	52,559,492
Effect of common shares issued during the period	–	505,824
	81,884,287	53,065,316
Net loss per share – basic and diluted (1)	$ (0.00)	$ (0.01)

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

(Expressed in Canadian dollars)

15. Income statement presentation

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

For the three months ended June 30		2013		2012
Operating	$	356,589	$	140,385
General and administrative		148,867		158,899
Total employee compensation cost	$	505,456	$	299,284

16. Finance income and expense

For the three months ended June 30		2013		2012
Income:				
Recovery of loan payable interest (Note 9)	$	126,120	$	–
Expense:				
Interest expense		204,976		84,131
Accretion of decommissioning obligation		46,201		51,663
Accretion of convertible notes		26,122		4,019
		277,299		139,813
Net finance expense	$	(151,179)	$	(139,813)

17. Change in non-cash working capital

For the three months ended June 30		2013		2012
Trade and other receivables	$	(32,453)	$	369,606
Inventory		(38,260)		45,222
Prepaid expenses		(332,466)		(11,361)
Trade and other payables		(110,806)		(556,833)
Total change in non-cash working capital	$	(513,985)	$	(153,366)

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

For the three months ended June 30		2013		2012
Operating	$	(656,251)	$	(118,632)
Financing		–		(47,758)
Investing		142,266		13,024
Total change in non-cash working capital	$	(513,985)	$	(153,366)

(Expressed in Canadian dollars)

18. Related party transactions

Related party transactions during the three months ended June 30, 2013 and 2012 not disclosed elsewhere in these consolidated financial statements are as follows:

a) Included in general and administrative expenses is $49,094 (2012 – $48,139) charged by a company controlled by an officer and director of the Company for office rent and administrative services. As at June 30, 2013, $32,168 (March 31, 2013 – $16,145) was included in trade and other payables in respect of these charges.

b) Included in interest expense is $1,219 (2012 – $1,205) on $50,000 Swiss Francs of convertible notes (Note 14(b)) held by company controlled by a director of the Company, of which $7,378 is included in trade and other payables as at March 31, 2013 (March 31, 2013 – $5,912).

c) Included in trade and other payables is $158,044 (March 31, 2013 – $132,667) due to an officer and director of the Company in respect of general and administrative expenditures made on behalf of the Company for which the officer and director will be reimbursed.

19. Financial risk management

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

a) Credit risk

Credit risk is the risk of an unexpected loss if a customer or counter party to a financial instrument fails to meet its commercial obligations. The Company's maximum credit risk exposure is limited to the carrying amount cash of $940,479 (March 31, 2013 – $346,541) and trade and other receivables of $660,345 (March 31, 2013 – $627,892).

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

	June 30 2013	**March 31 2013**
Oil sales	$ 240,759	$ 360,299
Stamp tax and other tax withholdings	326,098	206,365
Goods and services tax	10,032	8,498
Other	83,456	52,730
	$ 660,345	$ 627,892

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

(Expressed in Canadian dollars)

The Company considers its receivables to be aged as follows:

		June 30 2013		March 31 2013
Current	$	297,288	$	412,932
31 to 90 days		80,172		485
90 + days		282,885		214,475
	$	660,345	$	627,892

b) Liquidity risk

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

As at June 30, 2013, the Company had $2,984,668 (March 31, 2013 – $4,855,021) of current liabilities for which the Company's $940,479 (March 31, 2013 – $346,541) cash balance is insufficient to settle the current liabilities. It is expected that further debt and equity financings will be required in order to settle existing current liabilities, continue development of the Company's assets and meet future obligations. There can be no assurance that such financings will be available to the Company.

As of June 30, 2013, the contractual maturities of current and non-current financial liabilities are as follows:

		Carrying amount	Contractual cashflows	Current	Due in Fiscal 2015
Trade and other payables	$	1,598,852	1,598,852	1,598,852	–
Oil share agreement		717,177	717,177	717,177	–
Notes payable		489,059	489,059	489,059	–
Loan payable		2,154,960	2,569,066	395,199	2,173,867
Convertible note		1,046,830	1,367,218	108,120	1,259,098
	$	6,006,878	6,741,372	3,308,407	3,432,965

c) Market Risk

Market risk is the risk that changes in foreign exchange rates, commodity prices, and interest rates will affect the Company's net loss income or the value of financial instruments.

i) Currency risk

Foreign currency exchange risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. Foreign exchange rates to Canadian dollars for the noted dates and periods are as follows:

	Closing rate		Average rate	
	June 30 2013	March 31 2013	Three months ended June 30 2013	2012
ARS	0.1951	0.1985	0.1954	0.2272
US dollars	1.0518	1.0137	1.0233	1.0102
Euro	1.3676	1.3071	1.3367	1.2962
Swiss Franc	1.1124	1.0748	1.0862	1.0789

(Expressed in Canadian dollars)

The following represents the estimated impact on net loss and equity. This analysis is based on foreign currency exchange rate variances that the Company considered reasonably possible for three months ended June 30, 2013 and 2012. All other variables such as interest rate are held constant. There have been no changes in the method of calculating the sensitivity to change in foreign exchange rates.

	2013 (Increase) Decrease			2012 (Increase) Decrease		
	Rate change	Net loss	Equity	Rate change	Net loss	Equity
ARS	2%	–	24,840	5%	–	105,570
US dollars	4%	(129,590)	(27,610)	6%	115,385	(56,004)
Euro	5%	28,360	4,730	3%		
Swiss Franc	3%	(41,970)	–	11%	127,651	–
		(143,200)	1,960		243,036	49,566

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.

A 5% change in the price of natural gas produced in Italy would have a nominal effect on the Company's net loss for the three months ended June 30, 2013.

Oil prices in Argentina are the results of complicated formulas that are set by refineries based on instructions or decrees from the government and crude oil prices in Argentina are capped by the Government at variable levels. From early 2010, the price has gradually increased from US$42.00 per barrel to US$63.00 per barrel at March 31, 2012, and US$60 per barrel at March 31, 2013 and June 30, 2013. As at June 30, 2013, a 5% change in the price of oil would represent a change in net loss for the three months ended June 30, 2013 of approximately $36,700.

ii) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company has fixed interest on notes payable (Note 8), loan payable (Note 9) and convertible notes (Note 10).

(Expressed in Canadian dollars)

20. Operating segments

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

- Argentina
- Other which includes Canoel Italia, the corporate assets and the operations in the Canadian entity. None of these individual segments meet the quantitative thresholds for determining reportable segments in 2013 or 2012.

Information for the three months ended June 30, 2013 and 2012 is as follows:

		Three months ended June 30					
		2013	2012	2013	2012	2013	2012
		Argentina		Other		Total	
Revenue from external customers	$	733,797	441,626	83,938	51,697	817,735	493,323
Operating and transportation		155,530	324,643	82,012	–	237,542	324,643
Royalties		74,176	41,303	4,249	(8,006)	78,425	33,297
General and administrative		149,283	130,111	402,960	280,079	552,243	410,190
Depletion and depreciation		98,971	53,454	–	–	98,971	53,454
Finance and other expenses		191,017	71,712	26,994	130,040	218,011	201,752
Reportable segment income (loss) before income tax	$	64,820	(179,597)	(432,277)	(350,416)	(367,457)	(530,013)

		As at June 30, 2013			As at March 31, 2013		
		Argentina	Other	Total	Argentina	Other	Total
Property and equipment	$	3,353,406	125,465	3,478,871	3,876,129	135,813	4,011,942
Other assets	$	949,281	1,756,487	2,705,768	804,921	295,421	1,100,342
Total liabilities	$	2,656,529	6,268,231	8,924,760	2,994,040	4,217,401	7,211,441
Capital expenditures	$	–	6,771	6,771	283,539	130,759	414,298