CANOEL INTERNATIONAL ENERGY LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED MARCH 31, 2012

This management's discussion and analysis (the "MD&A") dated July 26, 2012 of Canoel International Energy Ltd. ("Canoel" or the "Company") is presented in Canadian dollars and should be read in conjunction with the audited consolidated financial statements of the Company as at and for the years ended March 31, 2012 and 2011 together with the accompanying notes.

The consolidated financial statements have been prepared by management and approved by Canoel's Board of Directors on the recommendation of the Audit Committee. These statements are based on certain estimates and assumptions and involve risks and uncertainties. Actual results may differ materially. The financial data included in this MD&A is in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") that are effective or available for early adoption by the Company as at March 31, 2012, the date of the Company's first annual reporting under IFRS. The Company adopted IFRS on March 31, 2011 with a transition date of April 1, 2010. Previously, Canoel had prepared its financial statements in accordance with Canadian generally accepted accounting principles ("**CGAAP**"). The Company has provided accounting policies in accordance with IFRS and has discussed the transition from CGAAP to IFRS in notes 4 and 27 respectively in its consolidated financial statements. The Company has presented its financial statements on a going concern assumption, which assumes that the Company will be able to continue to finance its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. Refer to the Business Risks and Uncertainties section of this MD&A for additional information related to identified risks, estimates and uncertainties.

Additional information related to the Company's business and activities can be found on SEDAR at www.sedar.com.

BOE Presentation – Production information is commonly reported in units of barrels of oil equivalent ("boe"). For purposes of computing such units, natural gas is converted to equivalent barrels of oil using a conversion factor of six thousand cubic feet ("mcf") to one barrel of oil ("bbl"). This conversion ratio of 6:1 is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Such disclosure of boe may be misleading, particularly if used in isolation. Readers should be aware that historical results are not necessarily indicative of future performance.

Special Note Regarding Non-IFRS Measures – This MD&A may include references to certain financial measures, as described below, which do not have standardized meanings prescribed by IFRS, however, as these measures are commonly used in the oil and gas industry, the Company believes that their inclusion is useful to investors and they are measures that the Company uses to evaluate its performance. Investors are cautioned that these non-IFRS measures should not be construed as an alternative to the measures calculated in accordance with IFRS, given their non-standardized meanings; they may not be comparable to similar measures presented by other issuers. The term "field netback" is defined as petroleum and natural gas sales less royalties and less operating and transportation costs. The term "funds from (used in) operations", defined as the cash flow from operating activities, before the change in non-cash working capital and abandonment expenditures, should not be considered an alternative to, or more meaningful than, cash flow from operating activities or net income (loss) as determined in accordance with IFRS as an indicator of performance. The Company's determination of funds from operations may not be comparable to that reported by other companies.

Cautionary Statement regarding Forward-Looking Information

Certain information in this MD&A is forward-looking and related to anticipated financial performance, events and strategies. When used in this context, words such as “will”, “anticipate”, “believe”, “plan”, “intend”, “target” and “expect” or similar words suggest future outcomes. By their nature, such statements are subject to significant risks, assumptions and uncertainties, which could cause the Company’s actual results and experience to be materially different than the anticipated results. In particular, forward-looking information and statements include, but are not limited to: (i) expectations related to the licensing of two properties producing oil in the Patagonia region of Sothern Argentina, owed by Petrolera Patagonia Srl; (ii) expectations related to crude oil and petroleum products prices and demand; (iii) the state of capital markets; (iv) expectations related to reimbursement of costs and payment of a commission to the Company under the Management Services Agreement between the Company and Oren Oil ASA; (v) expectations related to the market value of the Oren Oil ASA assets of Promgeotek LLC, Saganeft LLC, and K-Oil LLC; (vi) expectations related to the receipt of certain Oren Oil ASA assets by Promotes SA; (vii) expectations related to operating costs in Argentina; (viii) variations in the Peso, US dollar, Euro, and Canadian dollar exchange rates; (ix) expectations related to security granted over oil and gas assets in Argentina pursuant to a loan agreement; (x) expectations related to regulatory approvals; (xi) management’s analysis of applicable tax legislation; (xii) expectations that the currently applicable and proposed tax laws will not change and will be implemented; (xiii) expectation that management will continue to focus its efforts towards acquiring large exploration permits, which offer high exploration potential and the opportunity to act as operator at least for the initial exploration period; (xiv) expectation that management will consider acquiring additional producing assets primarily in Argentina; (xv) the capital expenditures required in order to re-commence production on both the Torrente Vulgano and Canaldente properties; (xvi) the ability of the Company to re-commence production on both the Torrente Vulgano and Canaldente properties by late 2012; (xvii) the price of natural gas in Italy; (xviii) the ability of the Company to comply with certain regulatory requirements in Italy; (xix) the Company’s ability to substantially increase its oil and gas production by the end of 2012; and (xx) business strategy and outlook.

These statements are based on certain assumptions and analysis made by the Company in light of its experience and perception of historical trends, current conditions and expected future developments and other factors it believes are appropriate. The material factors and assumptions used to develop these forward-looking statements include, but are not limited to: (i) the assumption that the licenses related to the Alberto and Don Ernesto producing fields shall not expire; (ii) pricing of crude oil and petroleum products set by the government of Argentina; (iii) increased competition; (iv) assumption that Promotes SA will receive a portion of the Oren Oil ASA assets to be kept in escrow in favor of certain beneficiaries; (v) assumption that operating costs in Argentina may be reduced in future months and that the oil price will continue to improve; (vi) additional financing of the Company is subject to the global financial markets and economic conditions; (vii) the Company will evaluate certain properties located within Argentina and will focus on managing the properties acquired in 2010 with the intention to increase production and cash flows; (viii) the Company will continue it its care-taking role for the potential disposition of Oren Oil ASA assets under the Management Agreement; (ix) assumptions related to international oil and natural gas prices; (x) ability to obtain regulatory approvals; (xi) costs of exploration and development; (xii) availability and cost of labour and management resources; (xiii) performance of contractors and suppliers; (xiv) availability and cost of financing; and (xv) the Company’s business strategy and outlook.

Whether actual results, performance or achievements will conform to the Company's expectations and predictions is subject to a number of known and unknown risks and uncertainties which could cause actual results to differ materially from the Company's expectations. Such risks and uncertainties include, but are not limited to risks and uncertainties relating to: (i) volatility of and assumptions regarding commodity prices; (ii) product supply and demand; (iii) market competition; (iv) risks inherent in the Company's operations; (v) potential disruption or unexpected technical difficulties in developing or maintaining facilities; (vi) risks associated with technology; (vii) Company's ability to generate sufficient cash flow from operations to meet its current and future obligations; (viii) the Company's ability to secure external sources of debt and equity as needed; (ix) changes in royalty, tax, environmental, greenhouse gas, carbon, accounting and other laws or regulations or the interpretation of such laws or regulations; (x) political and economic conditions in the countries in which the Company operates; (xi) terrorist threats; (xii) risks associated with potential future lawsuits and regulatory actions made against the Company; (xiii) the performance of counterparties in meeting their obligations under agreements; (xiv) economic conditions; (xv) equipment and labour shortages and inflationary costs; (xvi) fluctuations in foreign exchange rates; (xvii) the effect of weather conditions on operations and facilities; and (xviii) stock market volatility.

Readers are cautioned not to place undue reliance on forward-looking statements as actual results could differ materially from the plans, expectations, estimates or intentions expressed in the forward-looking statements. Forward-looking statements are provided for the purpose of presenting information about management's current expectations and plans relating to the future and readers are cautioned that such statements may not be appropriate for other purposes.

Except as required by law, the Company disclaims any intention and assumes no obligation to update any forward-looking statement.

NATURE OF OPERATIONS, ACQUISITON AND EXPLORATION ACTIVITIES

Canoel International Energy Ltd. was incorporated under the Business Corporations Act (British Columbia) ("BCBCA") on September 20, 2007. The registered business address is 15th Floor, Bankers Court, 850 - 2nd Street S.W., Calgary, Alberta T2P 0R8, Canada. Canoel's website is www.canoelenergy.com. The Company is involved in the exploration for, development of and production of petroleum and natural gas in Argentina and Italy.

On March 10, 2010, Canoel formed Ingenieria Petrolera del Rio de la Plata S.R.L ("IPRP"), a wholly owned subsidiary of Canoel. IPRP was initially incorporated in Buenos Aires, Argentina, to negotiate management agreements to operate existing producing properties. However, as described in following paragraphs, after Petrolera Patagonia was acquired, management saw no immediate needs for IPRP and the company was kept in a dormant state and held in trust by Canoel's trustees in Argentina until late 2011.

On July 20, 2010 Canoel incorporated a wholly owned US subsidiary, Ingenieria Petrolera Patagonia Ltd. ("IPP"), to act as the potential acquirer of two US based companies controlling Central Patagonia Srl, the owner of two producing oil fields in the Chubut Province in Argentina.

On July 22, 2010, Canoel acquired two US based companies, namely Central Patagonia Corporation (renamed Petrolera Patagonia Corporation or "PPC") and CPC Holdings (renamed PP Holdings Inc. or "PPH") owning respectively 95% and 5% of Central Patagonia S.R.L. (renamed Petrolera Patagonia S.R.L. or "PPS"), thereby acquiring two adjacent oil producing properties in Argentina (the "Argentina Acquisition"). On July 20, 2010 Canoel formed its wholly owned US subsidiary, Ingenieria Petrolera Patagonia Ltd. ("IPP") to act as the acquirer of the two US based companies controlling Petrolera Patagonia S.R.L. ("PPS").

On March 23, 2011, Canoel established Canoel Italia S.r.l. ("Italia S.r.l.") a wholly owned subsidiary of the Company, so that it would have an operating entity if the Company was awarded the oil and gas properties being posted for auction by the Ministry of Economic Development.

On August 27, 2011, Canoel Italia srl was awarded two gas properties, which were previously on production but currently shut-in, at the auction. Canoel's bid was accepted on the basis of its technical presentation and proposed program to place the properties back on stream. The properties are Torrente Vulgano, located in the Puglia region, and Canaldente, located in the Basilicata region. Both regions are located in Southern Italy which is where the majority of production is occurring.

In October 2011, Canoel recognized the opportunity to implement its own completion operations and consequently decided to use the dormant company IPRP for these operations. Management commenced the process to transfer the shares of IPRP from Canoel's trustees to Petrolera Patagonia Corporation (95%) and to Petrolera Patagonia S.R.L. (5%). This process was completed in May 2012

The Company conducted the following acquisition and exploration activities during the years ended March 31, 2012 and 2011 in Argentina and the other countries as described below:

		March 31, 2012	March 31, 2011
Capital additions	$	943,870	340,641
Acquisitions	$	-	5,132,620
Disposal of Tunisia	$	(621,279)	-

Highlights for the fiscal year of 2012 include the following:

Operational:

- The Company executed a memorandum of understanding with the owner of a technology which has the ability to create an emulsion between some petrol products. Upon signing a final contract, Canoel would become the exclusive licensee to sell and distribute this technology and the related equipment initially in four countries to be determined by the Company. During the due diligence process, these negotiations stalled and, despite continuing assurances by the technology owner that his process is valid, no further progress has been made. The Company does not anticipate that any further progress will be made; however, intends to keep the channel of communication open for a while longer.
- For the year ended March 31, 2012, the Company had 40,695 barrels of production versus 30,788 barrels in the prior year. 2012 represented the first complete year of activity since the assets in Argentina were purchased in July 2010.

Financial

- The Company generated revenue, net of royalties, of $1,951,513 in the year ended March 31, 2012 versus $1,251,855 in the comparative year.
- The Company incurred $943,870 in capital expenditures. The primary focus of these expenditures was several workovers in Argentina.
- The Company had an active year of raising new debt and equity to fund on going operations:
    - On March 28, 2012, the Company issued 4,000,000 units at a price of $0.05 for aggregate cash proceeds of $200,000.

- On December 16, 2011, Canoel completed a private placement of convertible 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.
- 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. In conjunction with this issuance, 6,188,034 warrants were issued with an exercise price of $0.10 and are exercisable until November 23, 2013.
- 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, 2013.
- On September 15, 2011, the Company signed an agreement for a US$500,000 loan in Argentina through its 100% owned subsidiary, Petrolera Patagonia S.R.L. with a fixed interest rate of 11% and a 15 month term.
- On July 21 2011, the Company completed a private placement of convertible notes for an aggregate gross proceeds of Norwegian Kroner $1,200,000 (approximately $213,070). Each note bears interest at a simple interest rate of 12% per annum and matures on July 18, 2014. The option to convert these notes to common shares was exercised in April 2012.

Administrative

- The Company continues to develop its accounting and administrative functions within the organization.
- In Argentina, an office has been rented and an accounting and legal team has been hired.
- In Italy, an office has been rented. The Ministry of Economic Development will be performing an audit and once this is successfully completed, Canoel Italia srl will be formally assigned the two shut-in gas fields.

Subsequent event highlights:

- On April 12, 2012, Canoel received the final TSXV approval for the conversion of the convertible notes denominated in Norwegian Kroner at the conversion rate of CAD $0.10 per share which resulted in the issuance of 2,091,134 common shares.
- On June 28, 2012, the Company completed the first tranche of a private placement for 4,833,333 units at a price of $0.06 per unit for gross cash proceeds of $293,000. Each unit consists of one common share of Canoel and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share at an exercise price of $0.10 per common share at any time on or before one year from the date the warrants were issued. The Company will pay a finders fee of $14,460 and grant 244,000 warrants.
- On July 11, 2012, the Company completed the second tranche of a private placement for 2,725,000 units at a price of $0.06 per unit for gross cash proceeds of $163,500. Each unit consists of one common share of Canoel and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share at an exercise price of $0.10 per common share at any time on or before one year from the date the warrants were issued. the Company will pay a finder’s fee of $13,080 and grant 218,000 common share purchase warrants.

- The Company has engaged an agent to act on its behalf to raise financing.

OPERATIONAL UPDATE

ARGENTINA

On July 20, 2010 Canoel incorporated a wholly owned US subsidiary, Ingenieria Petrolera Patagonia Ltd. ("IPP"), to act as the potential acquirer of two US based companies controlling Central Patagonia S.R.L,. the owner of two producing oil fields in the Chubut Province in Argentina.

On July 22, 2010, the Company signed a Share Purchase Agreement (the "Share Purchase Agreement" or the "Agreement"). Pursuant to the Agreement, Ingenieria Petrolera Patagonia completed the acquisition of Petrolera Patagonia S.R.L. from Central Argentina Corporation ("Central Argentina") through the purchase of the shares of Petrolera Patagonia Corporation and PP Holdings, which together own 100% of PPS. The purchase price was $2,848,991 plus future royalty payable valued originally at $564,470. Central Argentina is the previous parent company of PPC and PPH. Of the total purchase price, $1,440,880 was advanced by the Company through IPP on the closing date. As deferred consideration, the remaining $1,408,111 was repayable under two different promissory notes (collectively the "Notes"). The first note was due to Central Argentina on July 22, 2011 and had 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 balance from this promissory note was fully paid on October 1, 2011.

The second note was due to Central Argentina in the amount of US$443,003 on February 12, 2011 and 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 note prior to its payment.

The main assets of Petrolera Patagonia S.R.L., on which the Company intends to focus development efforts, are two producing fields, Don Alberto and Don Ernesto, (the "Producing Fields"), which, during the year ended March 31, 2012, produced 40,695 barrels of sweet, non-paraffinic, crude oil with 18.5° API gravity.

The two Producing Fields are located in the Patagonia region of Southern Argentina, and specifically in the San Jorge basin, Chubut Province, within the area of Comodoro Rivadavia. The ownership of these two fields were granted to Petrolera Patagonia under old mining codes (the "Mining Codes") under which the licenses do not have an expiry date. The wells on the Producing Fields are connected to battery tanks through existing infrastructure, which is now partially owned by Srl.

Estimated total proved plus probable oil reserves were assessed at 1,991,639 barrels as of March 31, 2012 (March 31, 2011 – 679,000 net barrels).

Proved reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. Probable reserves are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved + probable reserves.

Oil prices in Argentina are the results of complicated formulas that are set by refineries based on instructions or decrees from the government as crude oil and petroleum products prices in Argentina are capped by the Government at variable levels. The oil price has gradually increased from US$42.00 per barrel in early 2010 to US$63.00 per barrel in March 2012. Price has decreased to US$60 in May 2012.

On September 21, 2011, Canoel signed a Confidentiality Letter and a Memorandum of Understanding with a US oil & gas multinational corporation in relation to four oil producing properties located in the San Jorge basin in Argentina. Signing of such documents granted Canoel an exclusivity period, until the end of

December 2011, to complete the necessary due diligence and investigations in order to potentially complete a Purchase Contract Agreement. The potential acquisition of these oil producing properties may be accomplished through the purchase of the operating company which holds a 55% interest in the fields. This transaction was thought to be completed for a proposed cash consideration of US$1,456,000 plus the issuance of warrants entitling the seller to acquire up to 750,000 Canoel shares at an exercise price of $0.15 per share. Canoel already operates the two 100% owned oil fields, Don Alberto and Don Ernesto. An additional acquisition in the same area would be expected to improve the economics of operating in Argentina where Canoel has recently established an administrative office and a new management team comprised of professional staff previously employed with large corporations.

In April 2012, the Company decided to suspend negotiations for this acquisition based on the growing evidence of certain negative aspects of the proposed transaction.

As mentioned above, in the spring of 2010, Canoel incorporated an Argentinean company at the start of its operations in Argentina. This company, called Ingenieria Petrolera del Rio de la Plata Srl., remained dormant until October 2011 and was then used as the vehicle to sign a temporary rental agreement for a trial period until April 15, 2012 for a workover/drilling rig and to employ, on a month to month basis, a team of 4 rig workers specialized in handling completion, re-completion and drilling operations under the supervision of an experienced rig manager. The rig has replaced the use of very expensive external companies for workover and re-completion operations, therefore improving the company's future ability to enhance production through completion and workover operations. The service rig could also be used to drill shallow to medium depth exploratory wells. These services are currently also being marketed to potential third party clients which could improve the income potential of Canoel as well as generate potential cost savings in its own operations.

TUNISIA

On August 4, 2011, Canoel announced the divestment of its potential interest in the Tunisian blocks of Jorf, Bazma and Sud Tozeur (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. Pursuant to the Termination and Release Agreement, CYGAM paid $621,279 (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. As the carrying value of these assets was $691,218 at March 31, 2011, this resulted in a loss on disposal of $69,939. Following the prompt approval of the Termination and Release Agreement by the board of directors of both CYGAM and Canoel, CYGAM paid an initial $50,000 then paid the remaining balance of $571,278 on March 28, 2012. Therefore, as of March 28, 2012, Canoel has no remaining interests or liabilities in Tunisia.

ITALY

In August 2009, the Italian Ministry of Economic Development posted an invitation for bidding on a few previously producing gas properties owned and operated by Eni, the Italian multinational oil and gas company. A data room was opened and all the companies interested in the bidding process were asked to prepare a technical proposal to improve production from the shut-in properties. Canoel participated in the bidding process for two properties and was later selected as one of the finalists for both. During 2011, the Company continued to prepare and submit the required technical documents for its ongoing participation in the auction of two shut-in gas properties.

On August 30, 2011, the Company announced that the Italian "Ministero per lo Sviluppo Economico" (the Ministry of Economic Development) confirmed in writing that Canoel's technical submission and proposal to re-establish production from the two properties was successful.

These two natural gas properties are in proximity to each other and are located in southern Italy, an area which is currently producing a large portion of Italian hydrocarbons. The first property, named "Torrente Vulgano", is located in the Puglia Region, while the second one, named "Canaldente", is located in the Basilicata Region. Both properties are already connected to the Italian national gas distribution grid; therefore, there is no need to install new gas pipelines.

The Torrente Vulgano and Canaldente properties were previously produced by Eni. Before the agreement to return the field to the Ministry of Economic Development, in the last 4 years of production (1997-2000), the Torrente Vulgano property was producing an average of 7,900 standard cubic meters per day (278,949 standard cubic feet per day, using a conversion rate of 1 Scm = 35.31 Scf).

Canoel will have to comply with certain Italian regulatory obligations before field start-up. There are no assurances that production of the Torrente Vulgano and Canaldente properties will be at the same levels that they were previously producing. Canoel will disclose all reserves data for these two licences, once this data has been translated into documentation in compliance with applicable securities regulations.

The Canaldente reservoir appears to be a good candidate for gas storage when the well will be eventually shut-in at the end of commercial production.

On March 23, 2011, Canoel established an Italian subsidiary (Canoel Italia S.R.L.) in order to have an operating entity as required by the Ministry of Economic Development and as proposed in the bidding submission. This company has been approved in its role as operator by the relevant authorities and is currently submitting environmental reports and conducting the final assessment of on-site equipment.

Production is expected to commence after all the necessary approvals have been received, hopefully by fourth quarter of 2012.

NORWAY AND RUSSIA

During 2010, Canoel completed a series of investigations in Norway after having been advised that this country was appropriate for the purpose of raising additional capital. Norway has indeed been one of the most successful countries in the oil & gas industry in the last 30 years.

After considering a few opportunities, the Company decided to focus its attention on Oren Oil ASA ("Oren"), an oil & gas exploration and production company with headquarters in Oslo and registered in Norway. In the previous 5 years, Oren had developed a portfolio of assets exclusively in Russia, in the Province of Orenburg.

The Oren portfolio in Russia comprised three 100% owned companies: Promgeotek LLC ("Promgeotek"), Saganeft LLC ("Saganeft") and K-Oil LLC ("K-Oil").

Pursuant to an agreement dated May 30, 2010, Canoel made an offer to all the existing shareholders of Oren to exchange their shares in Oren with Canoel shares, in the ratio of 1,000 shares of Oren for 1 share in Canoel (the "Swap Offer"). The Swap Offer was conditional on the Norwegian investors' agreement to subscribe to a private placement of new shares. Consequently, in July 2010, Canoel issued 9,110,729 common shares at a price of $0.12 per common share for aggregate gross proceeds of $1,093,287. In connection with this Norwegian Placement, the Company incurred share issue costs of $33,460 which were paid to an unrelated party. In the same transaction, the Company agreed to pay certain creditors of Oren in return for the future delivery of an interest equal to 27% in Saganeft. At the same time, Oren agreed to make available all its Russian assets in favour of the old creditors and of the historical shareholders prior to the swap and the Company had agreed to act as a consultant (on best effort basis) for a period of 2 years with the task of disposing of these assets.

In summary, as of this date, Canoel is acting solely as the consultant for the management of the properties in Russia overseeing the large credit positions of Oren. Under the Management Service Agreement with Oren, the Company fulfills its duties on a best efforts basis and would obtain the reimbursement of all expenses incurred plus a commission equal to 50% of sale proceeds, in case of successful disposal of any of the Oren assets. These reimbursements of costs and the payment of a commission equal to 50% of sale proceeds will be paid to Canoel only in the event of a successful disposal of any of these assets.

On October 11, 2011, the Company announced that, in its role as advisor/manager for the disposal of the Russian assets owned by Oren ASA ("Oren") and its stakeholders, it had agreed to sell 100% of the shares of Promogeotek LLC (one of the three 100% owned Russian subsidiaries of Oren, with oil properties in the Orenburg province but essentially insolvent at the time) to three Russian entrepreneurs for US$400,000. As part of the sale purchase contracts, the buyers will receive, on a *pro-rata* basis, 100% of the loans that Oren had made in the past to Promogeotek which have a total face value of approximately NOK$144 million (approximately $26 million).

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

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

Canoel continues to operate in the Oslo market. In July 2011, Canoel completed a private placement of Convertible Notes in the amount of NOK$1,200,000 (approximately $213,070) bearing interest at a rate of 12% per annum for a period of three years. These notes include a conversion feature where the principal and unpaid interest may be converted to common shares at a price of $0.15 per common share at any time prior to maturity on July 18, 2014. On April 12, 2012, Canoel received the final TSXV approval for the conversion of the convertible notes at the conversion rate of CAD $0.10 per common share which resulted in the issuance of 2,091 134 shares.

ZAMBIA

Canoel has agreed to assist and strategically advise a Zambian registered company, Mafula Energy Limited ("Mafula"), in its oil and gas exploration activities in Zambia. No oil and gas discoveries have yet been made in Zambia, but Mafula is confident in the exploration potential of the country and has announced that it has been awarded one exploratory permit.

In exchange for Canoel's services, the Company has received a certificate for 400,000 common shares in Mafula Energy Ltd. For the year ended March 31, 2012, no value has been assigned to these shares as the Company is in the process of determining their fair value.

OTHER ACTIVITIES

In addition to its activities discussed above, the Company is actively pursuing the acquisition of other oil and gas producing properties in North America, Italy and Argentina in order to provide cash flow to fund its operations, exploration prospects elsewhere in the world and financing for future acquisitions.

Management believes that one of the most promising areas for the development of producing properties is Italy where the company is examining a variety of new prospects.

In regard to new exploration activities, the Company has decided to focus its attention on the Southern part of the African continent. This area specifically comprises Angola, Namibia, Congo-Brazzaville, the Democratic Republic of the Congo, Tanzania and Uganda.

FINANCIAL PERFORMANCE

The following table summarizes key financial indicators for the three months ended March 31:

	For the three months ended March 31	
	2012	2011
Oil and gas revenue, net of royalties ($)	**654,926**	462,765
Oil and gas revenue, net of royalties – per boe ($)	**57.48**	44.00
Daily sales volumes (boe 6:1)	**125.2**	116.9
Net loss ($)	**(1,236,591)**	(1,819,291)
Net loss per share – basic and diluted ($)	**(0.03)**	(0.05)
Cashflow used in operations ($)	**(651,207)**	(1,255,267)
Capital expenditures ($)	**305,024**	191,855
Weighted average number of shares – basic and diluted	**48,603,208**	39,342,792

The following table summarizes key financial indicators for the years ended March 31:

	Years ended March 31	
	2012	2011
Oil and gas revenue, net of royalties ($)	**1,951,513**	1,251,855
Oil and gas revenue, net of royalties – per boe ($)	**47.95**	40.66
Daily sales volumes (boe 6:1)	**111.2**	122.2
Net loss ($)	**(3,184,460)**	(3,088,275)
Net loss per share – basic and diluted ($)	**(0.07)**	(0.10)
Cashflow used in operations ($)	**(2,053,229)**	(2,329,132)
Capital expenditures ($)	**943,870**	340,641
Total assets ($)	**7,284,178**	8,585,256
Non current liabilities ($)	**2,996,864**	4,845,430
Shareholders’ equity ($)	**(1,163,304)**	1,346,765
Weighted average number of shares – basic and diluted	**43,816,665**	32,350,980

Production	Three months ended March 31		Years ended March 31	
	2012	2011	**2012**	2011
Oil and NGL (bbls/day)	**11,394**	10,518	**40,695**	30,788
boe/day (6:1)	**125.2**	116.9	**111.2**	122.2

For the year ended March 31, 2012, production increased by approximately 32% from 30,788 barrels to 40,695. Fiscal 2012 reflects the first full year of operations since the assets in Argentina were purchased in July 2010. The Company continues to review its options to maximize oil production.

For further information, see "Argentina" in the operational update section of this MD&A.

Revenue	Three months ended March 31		Years ended March 31	
	2012	2011	**2012**	2011
Commodity Prices				
Oil and NGL ($/bbl)	**61.07**	48.81	**55.40**	44.69
Revenues ($)				
Oil and NGL	**695,865**	513,395	**2,254,533**	1,375,896

Oil Revenue

Gross oil revenue was $695,865 and $2,254,533 for the three months and year ended March 31, 2012, versus $513,395 and $1,375,896 in the comparative 2011 periods and $462,492 for the three months ended December 31, 2011 representing revenue from operations in Argentina. The change in revenue for the three months and year ended March 31, 2012 versus the comparative periods in 2011 is due to higher fixed oil price allowed by the government of Argentina and a full year of operations in Fiscal 2012.

Royalties and Operating Expenses	Three months ended March 31		Years ended March 31	
	2012	2011	**2012**	2011
Royalties ($)	**40,939**	50,630	**303,020**	124,041
% of revenues	**6%**	10%	**13%**	9%
$/boe	**3.59**	4.81	**7.45**	4.03
Operating ($)	**741,474**	485,567	**1,228,136**	908,636
Transportation	**68,183**	2,656	**118,792**	18,704
	809,657	488,223	**1,346,928**	927,340
$/boe	**71.06**	46.42	**33.10**	30.12

Operating and transportation costs

For the three months and year ended March 31, 2012, $809,657 and $1,346,928 were incurred for operating and transportation costs versus $488,223 and $927,340 in the comparative periods in 2011 and

$128,315 for the three months ended December 31, 2011. Operating and transportation expenses increased to $809,657 in the three months ended March 31, 2012 compared to $488,223 in the three months ended March 31, 2011 due to workovers, the start of the IPRP which contributed approximately $75,000 in operating expenses, and the completion of a review of the allocation of salaries between operating and general & administrative expense.

Royalties

For the three months and year ended March 31, 2012, $40,939 and $303,020 were incurred for royalties versus $50,630 and $124,041 in the comparative periods in 2011 and $161,220 for the three months ended December 31, 2011. Royalties increased for the year ended March 31, 2012 due to royalties recognized as a result of the increased liability associated with the oil share agreement and higher local crude oil prices.

Netbacks ($/boe)	Three months ended March 31		Years ended March 31	
	2012	2011	**2012**	2011
Revenue	**61.07**	48.81	**55.40**	44.69
Royalties	**3.59**	4.81	**7.45**	4.03
Operating expenses	**71.06**	46.42	**33.10**	30.12
Field netbacks	**(13.58)**	(2.42)	**14.85**	10.54

General and Administrative Expenses ("G&A")

	Three months ended March 31		Years ended March 31	
	2012	2011	**2012**	2011
General and administrative expenses	**$598,831**	$512,455	**$2,528,661**	$2,000,865

During the three months and year ended March 31, 2012, the Company incurred $598,831 and $2,528,661 in G&A expenses versus $512,455 and $2,000,865 in the comparative periods in 2011. During the three months ended December 31, 2011, G&A expenses were $966,603.

Current year general and administrative expenses included costs of $132,875 related to start up costs of the rig service company in Argentina, all of which were incurred in the three months ended March 31, 2012. General and administrative expenses in Argentina increased due to initial start up costs for the Buenos Aries office, including staffing of the office. In addition, the current year G&A costs reflect a full year of operations for the Argentine company whereas the company was operational for only part of the year in 2011.

No general and administrative expenses were capitalized for the three months and years ended March 31, 2012 and 2011.

Depletion and depreciation

	Three months ended March 31		Years ended March 31	
	2012	2011	**2012**	2011
Depletion and depreciation ($)	**88,824**	74,174	**322,447**	189,975
$/boe	**7.80**	7.05	**7.92**	6.17

Depletion and depreciation for the three month and year ended March 31, 2012 was $88,824 and $322,447 as compared to $74,174 and $189,975 for the comparative periods in 2011 and $61,168 for the three months ended December 31, 2011. Fiscal 2012 is the first full year of operations in Argentina; therefore, production has increased from 30,788 in the year ended March 31, 2011 to 40,695 for the year ended March 31, 2012

The Company performed an impairment test on property and equipment and determined that no impairment existed.

Loss on termination agreement

On August 5, 2011, the Company divested its interest in the Tunisian blocks which it acquired in late November 2008. Pursuant to the Termination and Release Agreement, CYGAM Energy Inc. agreed to pay $621,279 in exchange for the assignment and transfer of any rights earned by Canoel under the Farmout Agreement or the Memorandum of Understanding.

CYGAM paid $50,000 of the Termination Fee to Canoel within 5 days of the approval of the Termination and Release Agreement and the Company received the remaining balance of $571,278 on March 28, 2012. Further, Canoel has surrendered its deposit of $490,000 paid to CYGAM pursuant to the terms of the Farmout Agreement in exchange for a payment of $117,600 from CYGAM resulting in a loss upon termination of this agreement of $372,400.

Net Loss

The net loss for the three months and year ended March 31, 2012 was $1,236,591 and $3,184,460 versus a net loss of $1,819,291 and $3,088,275 for the comparative periods in 2011.

SUMMARY OF QUARTERLY INFORMATION

The following is a summary of selected financial information for the Company for the past eight quarters.

	Net revenue	Net loss	Per share
	$	$	$
2012			
Fourth quarter ended March 31, 2012	654,926	(1,236,591)	(0.03)
Third quarter ended December 31, 2011	301,272	(1,071,096)	(0.02)
Second quarter ended September 30, 2011	436,297	(578,951)	(0.01)
First quarter ended June 30, 2011	559,018	(297,826)	(0.01)
2011			
Fourth quarter ended March 31, 2011	462,765	(1,819,291)	(0.05)
Third quarter ended December 31, 2010	386,027	(311,157)	(0.01)
Second quarter ended September 30, 2010	403,063	(746,768)	(0.02)
First quarter ended June 30, 2010	-	(211,059)	(0.01)

LIQUIDITY AND CAPITAL RESOURCES

The Company commenced 2012 with a working capital position of $670,564. During the year ended March 31, 2012, the Company spent $2,053,229 and $943,870 on operating activities and capital expenditures, and sold Tunisian assets for $621,279. In addition, the Company raised $840,516 in new financing, net of repayments, and received $670,722 from the issuance of new shares. During the year, the oil share agreement for $647,358 and the long term debt for $1,995,000 were reclassified to current liabilities. The Company had a working capital deficit of $2,850,057 at March 31, 2012.

The following debt and equity financing was raised in the year ended March 31, 2012:

- On March 28, 2012, the Company issued 4,000,000 units at a price of $0.05 for aggregate cash proceeds of $200,000. Each unit includes one common share and one warrant. Each warrant can be used to purchase one common share for $0.10 per common share and is exercisable any time until March 28, 2014. The Company has allocated $168,127 of the unit value to the warrants.
- On December 16, 2011, Canoel completed a private placement of convertible 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.
- 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. The Company also issued 88,000 common share purchase warrants as a finder's fee, with the same terms as above, in connection with this private placement. The Company has allocated $3,826 of value to these warrants.
- 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.
- On September 15, 2011, the Company signed an agreement for a US$500,000 loan in Argentina through its 100% owned subsidiary, Petrolera Patagonia S.R.L. with a fixed interest rate of 11% and a 15 month term.
- 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.
- 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.
- On July 18, 2011, the Company completed a private placement of convertible notes for aggregate proceeds of Norwegian Kroner of $1,200,000 (approximately $213,070). Each note bears interest at a simple rate of 12% per annum and matures on July 18, 2014. These notes were converted in April 2012.

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 new funding to finance existing operations, attain commercial production from its oil and gas properties, find an industry partner to participate in exploration activities and attain future profitable operations. Additional financing is subject to the global financial markets and economic conditions, which have recently been disrupted and volatile and the debt and equity markets have been distressed. These factors, together with the current weak economic conditions, have made, and will likely continue to make, it challenging to

obtain cost effective funding. There is no assurance this capital will be available and if it is not, the Company may be forced to curtail or suspend planned activity.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has not entered into any off-balance sheet financing arrangements

SHARES AND CONVERTIBLE, EXERCISABLE AND EXCHANGEABLE SECURITIES

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares issuable in series. As of March 31, 2012, the Company's issued share capital and the outstanding securities that are convertible or exercisable for any voting or equity securities of the Company are as follows:

Common shares	52,559,492
Warrants	13,463,034
Stock Options	2,800,000

WARRANTS

The following is a continuity of warrants:

	Number of warrants	Amount $	Weighted average exercise price $
Outstanding, April 1, 2010	14,308,361	479,283	0.38
Share purchase warrants	1,815,609	12,202	0.20
Finder's share purchase warrants	199,030	1,160	0.20
Share purchase warrants with convertible notes	575,000	12,857	0.50
Debt conversion	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	1,600,000	49,602	0.17
Warrants issued	11,288,034	511,092	0.11
Warrants expired	(5,759,503)	(101,156)	0.28
Balance March 31, 2012	13,463,034	573,571	0.13

The following summarizes information about the warrants outstanding as at March 31, 2012, all of which are exercisable.

Range of exercise prices ($)	Number of warrants outstanding	Weighted average remaining life (years)	Weighted average exercise price ($)
0.10 - 0.15	11,288,034	1.75	0.10
0.17 – 0.50	2,175,000	0.79	0.26
	13,463,034	1.60	0.13

Subsequent to March 31, 2012, 800,000 warrants exercisable at $0.17 expired and 8,020,333 new warrants were issued resulting in 20,683,367 warrants outstanding as at the date of this MD&A.

STOCK OPTIONS

The following is a continuity of options:

	Number of options outstanding and exercisable	Weighted average exercise price
Balance, April 1, 2010	1,565,000	0.13
Granted	2,150,000	0.10
Balance, March 31, 2011	3,715,000	0.11
Forfeited	(915,000)	0.12
Balance, March 31, 2012	2,800,000	0.11

The following summarizes information about stock options outstanding as at March 31, 2012:

Range of exercise prices ($)	Number of options outstanding	Weighted average remaining duration (years)	Weighted average exercise price ($)
0.00-0.10	2,410,000	3.22	0.10
0.11-0.20	245,000	2.62	0.15
0.21-0.30	145,000	2.49	0.23
	2,800,000	3.13	0.11

As at March 31, 2012 and date of this MD&A, there were 2,800,000 options outstanding, all of which were exercisable.

RELATED PARTY TRANSACTIONS

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

During the year ended March 31, 2012:

a) Aggregate consulting fees of $277,440 (March 31, 2011 - $199,750) and office rent of $12,685 (March 31, 2011 – nil) were charged by directors and officers of the Company and recorded in general and administrative expenses.

b) For the year ended March 31, 2012, a bonus of $200,000 was paid to an officer of the Company whereas $252,265 was paid to certain directors and officers of the Company in the year ended March 31, 2011. Bonuses are recorded in general and administrative expense.

c) Aggregate legal fees of $nil (March 31, 2011 - $7,853) were charged by a director of the Company and recorded in general and administrative expense.

d) Included in trade and other payables as at March 31, 2012 was $12,988 (March 31, 2011 - $11,000) payable to related parties.

e) NOK $600,000 (approximately CDN $106,585) and CHF $50,000 (approximately CDN $55,335) of the convertible notes have been advanced through a company owned by a director of Canoel. The terms of these convertible notes are the same as the notes advanced from non-related parties.

f) Compensation for key management personnel defined as senior management and the directors, which includes the transactions disclosed in a) through c) above, is as follows:

		March 31, 2012		March 31, 2011
Short-term employee benefits	$	477,440	$	459,870
Share-based compensation		-		132,449
	$	477,440	$	592,319

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

BUSINESS RISKS AND UNCERTAINTIES

The Company has production operations in Argentina, and focuses the majority of its activities on exploration in Argentina and Italy. Some of the Company's operations and related assets are located in countries which carry a higher degree of political and economic risk.

Canoel's current oil production in Argentina is not receiving WTI equivalent prices as the selling price of oil in Argentina is fixed by the Government and is subject to minor price fluctuations. Oil and natural gas are commodities whose prices have fluctuated widely in recent years and are determined based on world demand, supply and other factors, all of which are beyond the control of the Company.

The Company operates in the petroleum and natural gas industry which is subject to numerous risks that can affect the amount of cash flow from operating activities and the ability to grow. These risks include but are not limited to:

- Global economic uncertainty;
- Risks associated with operating in foreign jurisdictions;
- Competition with more established companies and the availability of services;
- Volatility in commodity pricing, exchange and interest rates;
- Government and regulatory risk with respect to royalty and income tax regimes;
- Operation risks that may affect the quality and recoverability of reserves;
- Geological risks associated with accessing and recovering new quantities of reserves;
- Ability to capitalize on farm-in and farm-out opportunities as they arise;
- Production risks associated with the ability to extract commercial quantities of petroleum and natural gas;
- Transportation risk with respect to the ability to transport petroleum and natural gas to market;
- Third party credit risk and the resulting ability to collect amounts owed;
- Capital markets risk and the ability to finance future growth;
- Uncertainty as to the nature of evolving environmental legislation that is likely to result in stricter standards and enforcement ; and
- Environmental risk with respect to the ability to remedy spills, releases or emissions of various substances produced in association with petroleum and natural gas operations.

The Company will seek to minimize these business risks by:

- Employing management, technical staff and consultants with extensive industry experience;
- Maintaining a low cost structure;
- Maintaining prudent financial practices;
- Controlling timing and magnitude of operating and capital costs;
- Working with established industry partners; and
- Maintaining insurance in accordance with industry standards to address the risk of liability for pollution, blow-outs, property damage, personal injury and other hazards.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

In the ordinary course of business, the Company and its subsidiaries may enter into contracts which contain indemnification provisions, such as service agreements, leasing agreements, asset purchase and sale agreements, joint venture agreements, operating agreements, and land use agreements. In such contracts, the Company may indemnify counterparties to the contracts if certain events occur. These indemnification provisions vary on an agreement by agreement basis. In some cases, there are no pre-determined amounts or limits included in the indemnification provisions and the occurrence of contingent events that will trigger payment under them is difficult to predict. Therefore, the maximum potential future amount that the Company could be required to pay cannot be estimated.

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.

CRITICAL ACCOUNTING 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 action, 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.

<u>Property & equipment, depletion & depreciation, and exploration & evaluation assets:</u>

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 property & equipment and exploration & evaluation 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, discount rates, 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

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.

Income taxes

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in profit or loss both in the period of change, which would include any impact on cumulative provisions, and in future periods. Deferred tax assets (if any) are recognized only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse and a judgment as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as the amounts recognized in profit or loss in the period in which the change occurs.

New Accounting Pronouncements

International Financial Reporting Standards

The Company adopted IFRS effective April 1, 2011. As a result, the Company's financial results for the year ended March 31, 2012 and the comparative periods are reported under IFRS while selected historical data before April 1, 2010 continues to be reported under CGAAP.

As part of the Company's adoption of IFRS, the following elections were made under IFRS 1 "First time adoption of International Financial Reporting Standards":

- Share based payments – To elect not to restate options that have vested prior to April 1, 2010.
- Business combinations – To elect not to re-state business combinations that occurred prior to the transition date.

The accounting policies for IFRS are outlined in Note 4 in the audited financial statements for the year ended March 31, 2012 and the transition from CGAAP to IFRS is outlined in Note 27. The areas of adoption that had the most significant impact on the restatement from previous GAAP to IFRS as at April 1, 2010 and for the year ended March 31, 2011 are as follows:

- Oil and gas assets - The costs related to the Tunisia properties under CGAAP have been reclassified from property and equipment to exploration and evaluation assets under IFRS. Under CGAAP, these costs were 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. This resulted in reclassifications of $986,420 as at April 1, 2010 and $621,279 at March 31, 2011.

- Impairment testing - For the year ended March 31, 2011, an impairment test was performed for exploration and evaluation assets resulting in an impairment loss of $295,202 on the Tunisian assets. A review of impairment indicators was performed for property and equipment and it was determined that there was no impairment. IFRS requires that an impairment loss be recognized if the carrying value exceeds the recoverable amount for each cash generating unit. Recoverable amount is the higher of the fair value less costs to sell and value in use which is defined as the present value of the expected future cashflows. Under CGAAP, the Company tested for impairment by comparing the carrying value of the cost center to the sum of the undiscounted cash flows of proved reserves. If the carrying amount was greater than the undiscounted cashflows under CGAAP, the carrying amount of the asset was then compared to the sum of discounted cashflows at a risk free rate of proved plus probable reserves. The cost center would then be written down for the difference between the carrying value and discounted cashflows.
- Depletion and depreciation - Under IFRS, the Company elected to deplete property and equipment using the unit of production method based on proved and probable reserves. Previous GAAP required that property and equipment be depleted in a full cost pool for each country using proved reserves. As a result of calculating depletion using proved and probable reserves, the Company recognized a reduction in depletion of $513,875 for the year ended March 31, 2011.
- Reclassifications – Under CGAAP, accretion and share based compensation are disclosed as separate lines on the statement of loss. Under IFRS, accretion is presented in finance expense. Under IFRS, share based compensation is grouped with general and administrative expense.

Going Concern

As at March 31, 2012, the Company had not yet achieved profitable operations, has accumulated a deficit of $7,807,281 (March 31, 2011 - $4,622,821) 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 and Italy. 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 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.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company’s financial instruments include cash and cash equivalents, trade and other receivables, trade and other payables, note payable, convertible notes, and long term debt. 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 note payable and convertible notes approximates their 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.

The Company has issued convertible notes denominated in a foreign currency other than the functional currency of the entity that issued the notes. Foreign exchange impacts the number of common shares issued and the amount of consideration; therefore, these notes are accounted for as a hybrid instrument and are considered to be a level 3 on the fair value hierarchy. The Company has calculated fair value using for the derivative liability with the Black Scholes model using the share price, conversion price, risk free rate, and volatility calculated on the date the notes were issued. While the Company believes the estimate of fair value is appropriate, the use of different valuation techniques or assumptions could result in different measurements of fair value.

b) 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.

For the year ended March 31, 2012, trade and other receivables are comprised of $322,225 for the sale of oil, $116,017 from shareholders (March 31, 2011 and April 1, 2010 – nil), $570,337 for stamp tax provision (March 31, 2011 and April 1, 2010 - $595,716 and nil), nil for cash call payment to the CYGAM (March 31, 2011 and April 1, 2010 - $490,000), and $21,624 for GST (March 31, 2011 and April 1, 2010 – $8,624 and $39,444). The receivable related to the sale of oil is held with a large company who participates in the oil and gas industry in Argentina and was collected subsequent to year end.

The remaining balance of trade and other receivables at March 31, 2011 is related to the Tunisian permits. On August 5, 2011, the Company divested its interest in the Tunisian blocks which it acquired in late November 2008. Canoel has surrendered its deposit of $490,000 paid to CYGAM pursuant to the terms of the Farmout Agreement and CYGAM has paid $117,600 to Canoel resulting in a loss upon termination of this agreement of $372,400.

The Company generally extends unsecured credit to customers and therefore, the collection of trade receivables may be affected by changes in economic, industry, 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 $1,030,203 (March 31, 2011 - $1,153,269) and cash and cash equivalents of $1,447,708 (March 31, 2011 - $1,806,453).

The Company considers its receivables to be aged as follows:

	March 31, 2012	March 31, 2011
Current	$ 851,401	$ 549,075
Past due by less than 90 days	32,433	66,806
Past due by more than 90 days	146,369	537,388
	$ 1,030,203	$ 1,153,269

The Company has not experienced any credit loss in the collection of trade and other receivables in the years ended March 31, 2012 and 2011. 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 have been exhausted.

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 March 31, 2012, the Company's current financial liabilities total $5,450,618 (March 31, 2011 - $2,393,061), and are comprised of trade and other payables, the note payable, loan payable and the oil share agreement. As of March 31, 2012, 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.

As of March 31, 2012, contractual maturities for financial liabilities are as follows:

	Carrying value	Contractual cashflows	Less than one year	One to two years	Two to four years
Trade and other payables	$ 2,271,937	2,271,937	2,271,937	–	–
Note payable	536,323	572,898	572,898	–	–
Oil share agreement liability	647,358	647,358	647,358	–	–
Loan payable	1,995,000	2,144,625	2,144,625	–	–
Convertible note (Swiss Francs)	1,151,797	1,217,420	87,830	87,830	1,041,760
Convertible note (Norwegian Kroner)*	196,925	211,000	211,000	–	–
Derivative liabiity	36,067	–	–	–	–
	$ 6,835,407	7,065,238	5,935,648	87,830	1,041,760

* Convertible notes in Norwegian Kroner were exercised in April 2012.

As of March 31, 2011, contractual maturities for financial liabilities are as follows:

		Carrying value	Contractual cashflows	Less than one year	One to two years	Two to four years
Trade and other payables	$	1,423,461	1,423,461	1,423,461	–	–
Note payable		969,600	996,095	996,095	–	–
Oil share agreement liability		531,782	531,782	–	–	531,782
Long term debt		1,939,600	2,283,730	194,360	2,089,370	–
Convertible note		204,111	358,988	40,050	40,050	278,888
	$	5,068,554	5,594,056	2,653,966	2,129,420	810,670

d) Market Risk

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

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

(i) Commodity price risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Oil prices in Argentina are the results of complicated formulas that are set by refineries based on instructions or decrees from the government and crude oil prices in Argentina are capped by the Government at variable levels. From early 2010, the price has gradually increased from US$42.00 per barrel to US$52.60 per barrel at March 31, 2011 and US$63.00 per barrel at March 31, 2012.

(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 March 31, 2012, the Company has interest bearing cash accounts held with 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. As at March 31, 2012, the Company has $1,995,000 (March 31, 2011 - $1,939,600) of debt with floating interest hence a variation of 1 percent represents approximately $20,000 (March 31, 2011 – $20,000) in savings or added cost for the Company.

(iii) Currency risk

Foreign currency exchange risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates.

The following represents the estimated impact on profit or loss and equity. This analysis is based on foreign currency exchange rate variances that the Company considered reasonably possible at the years ended March 31, 2012 and 2011. 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.

	March 31, 2012			March 31, 2011		
	Rate change	Profit (loss)	Equity	Rate change	Profit (loss)	Equity
Peso	7%	-	138,985	7%	-	116,200
US dollars	7%	(139,650)	(21,965)	15%	(290,880)	45,690
Norwegian Kroner	8%	(16,820)	-	9%	-	-
Swiss Franc	15%	(179,285)	-	15%	-	-
		(335,755)	117,120		(290,880)	161,890

OUTLOOK

As noted earlier, the Company's cash and cash equivalent balance is not sufficient to meet the Company's obligations and additional funds will have to be raised through the issuance of debt and equity financing. There is no assurance that such additional funds can be raised on reasonable terms, or at all.

The Company plans to continue to focus on both international oil and natural gas exploration opportunities as well as continuing its search for smaller producing assets in North America, Italy and Argentina. Management intends to focus its efforts toward acquiring large exploration permits, which offer high exploration potential and the opportunity to act as operator at least for the initial exploration period; Canoel will also consider acquiring additional producing assets primarily in Argentina, following the successful completion of the first acquisition there.

The Company's plans for 2012 include:

(a) **Italy**: After the establishment of an Italian subsidiary (Canoel Italia S.R.L.), the Company has opened an office in compliance with rules of the local Ministry of Industry in order to proceed with all the necessary processes to place back on production the Torrente Vulgano and Canaldente production licenses, where the wells are currently shut-in.

(b) **Argentina:** the Company will focus on managing the properties acquired in 2010 with the intention to increase production and cash flows, especially in consideration of the planned work-overs to be performed by the service rig operated by Ingenieria del Rio de la Plata Srl. The Company is evaluating drilling operations, using the same rig, on different formations similar to the presently producing ones. The Company also intends to evaluate the potential acquisition of certain properties located within the surrounding areas, while continuing negotiations on four properties in the Comodoro Rivadavia area, as previously disclosed

(c) **Russia:** The Company is continuing its care-taking role, as consultant, for the potential disposal of the large Oren assets under the Management Agreement signed with Oren.

(d) **Southern part of Africa**

The Company intends to solely focus in the area comprising Angola, Namibia, Congo Brazzaville, and the Democratic Republic of the Congo, Tanzania, and Uganda for the

development of its exploration activities. These areas offer a much larger upside potential that the areas where the company was previously focusing.