CANOEL INTERNATIONAL ENERGY LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED MARCH 31, 2013

This management's discussion and analysis (the “MD&A”) dated June 25, 2013 of Canoel International Energy Ltd. (“Canoel” or the “Company”) is presented in Canadian dollars and should be read in conjunction with the audited financial statements and management's discussion and analysis of Canoel for the years ended March 31, 2013 and 2012 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 as at March 31, 2013. 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 two properties producing oil in the Patagonia region of Sothern Argentina, owned 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; (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 early 2013; (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 middle of 2013; 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) pricing of crude oil and petroleum products set by the government of Argentina; (ii) increased competition; (iii) assumption that Promotes SA will receive a portion of the Oren Oil ASA assets to be kept in escrow in favor of certain beneficiaries; (iv) assumption that operating costs in Argentina may be reduced in future months and that the oil price will continue to improve; (v) 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 and exploration for oil & gas in Africa.

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 hydrocarbons are produced.

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.

In mid 2012, in line with the Company's strategy to increase its involvement in Italy through its Italian subsidiary, Canoel commenced negotiations to purchase producing and exploratory permits from a well established gas producing company, Mediterranean Oil & Gas Plc, a British company with activities in Italy, France and Malta whose shares trade on the London AIM Stock Exchange.

On September 4, 2012, Canoel signed a Purchase and Sale Agreement with Medoilgas Italia Spa and Medoilgas Civita Limited, both subsidiaries of Mediterranean Oil & Gas Plc (collectively, "MOG") to acquire MOG's entire working interest in 13 onshore exploration and production assets (the "Proposed Transaction").

The production assets (the "Assets") are comprised of (i) 6 operated onshore gas production concessions: Masseria Grottavecchia (20% working interest), San Teodoro (100% working interest), Torrente Cigno (45% working interest), Misano Adriatico (100% working interest), Sant'Andrea (40% working interest) and Masseria Petrilli (50% working interest); (ii) 3 non-operated onshore gas production concessions: Masseria Acquasalsa (8.8% working interest), Lucera (13.6% working interest) and San Mauro (18% working interest) (collectively, the "Gas Licenses"); (iii) an operated exploration permit: Montalbano (57.15% working interest) (the "Exploration Permit"); and (iv) 3 exploration permit applications: Serra dei Gatti (100% working interest), Villa Carbone (50% working interest) and Colle dei Nidi (25% working interest) (the "Exploration Applications").

Upon completion of the Proposed Transaction, the Company will (i) pay MOG the sum of €100 as consideration for the acquisition of MOG's working interests in the Assets; (ii) assume the liability for all future abandonment and site remediation costs associated with the Assets; (iii) receive €1,250,000 (approximately CAD $1,650,000) as a partial contribution towards the future abandonment and site remediation costs for the Assets; and (iv) receive revenue, net of allowable operating costs and agreed capital expenditure associated with the Assets, from the effective date of the Proposed Transaction (August 24, 2012) to the closing date of the Proposed Transaction. The current average daily gas production from the Gas Licenses is approximately 487 MCF per day (equal to 13,800 m3/day.)

Most of the Gas Licenses are located onshore in southern Italy, in the Regions of Puglia, Basilicata, Molise, Abruzzo and Marche. The Exploration Permit and Exploration Applications are located in southern Italy and cover an area of 1,285.41 square kilometres.

The Proposed Transaction was subject to MOG and Canoel receiving the approval for this sale by the Italian Ministry of Economic Development. This approval was recently received as described in the "Subsequent Events" section. The Proposed Transaction had already received the approval of the TSX Venture Exchange.

The Company conducted the following acquisition and exploration activities in Argentina and the other countries as described below:

	Three months ended March 31		**Years ended March 31**	
Capital additions	**2013**	2012	**2013**	2012
Argentina	243,888	305,024	396,008	895,054
Other	61,604	–	130,759	48,816
	305,492	305,024	526,767	943,870

Highlights for the year ended March 31, 2013 include the following:

Operational:

For the year ended March 31, 2013, the Company produced 40,408 barrels of oil versus 40,695barrels in the prior year. The Company is pleased to report that production has increased during the quarter after changes in water injection procedures were implemented.

Financial

- The Company generated oil revenue, net of royalties, of $2,242,744 in the year ended March 31, 2013 versus $1,951,513 in the comparative year.
- The Company incurred $414,298 in capital expenditures. The primary focus of these expenditures comprised several workovers in Argentina and activities in Italy
- The Company had an active year of raising equity to fund ongoing operations:
  - On March 4, 2013, Canoel closed the second tranche of a non-brokered private placement of units ("Units") and issued 3,566,666 Units at $0.06 per Unit for aggregate gross proceeds of approximately $214,000. Each unit consists of one common share and one warrant exercisable at $0.10 until March 4, 2015.
  - On February 15, 2013, Canoel closed the first tranche of a non-brokered private placement of units ("Units"). The Corporation issued 7,610,000 Units at $0.06 per Unit for aggregate gross proceeds of approximately $456,600. Each unit consists of one common share in the capital of Canoel and one common share purchase warrant. Each common share purchase warrant entitles the holder thereof to purchase, subject to adjustment, one additional common share at an exercise price of $0.10 per share at any time on or before the date that is 24 months from the date of issuance of the common share purchase warrant.

    Andrea Cattaneo, the President and CEO of the Corporation purchased 1,833,333 ($110,000) in this first tranche of the private placement. Following his acquisition of 1,833,333 Units, Andrea Cattaneo will hold 6,944,115 common shares of Canoel, representing approximately 8.87% of the issued and outstanding shares of the Corporation, plus 1,833,333 share purchase warrants and 950,000 stock options exercisable for common shares. Assuming the full exercise of warrants and stock options, Mr. Cattaneo would beneficially own or control an aggregate of 9,727,449 common shares of Canoel, representing approximately 12% of the issued and outstanding common shares of the Corporation on a fully diluted basis.
  - On December 7, 2012, the company issued an aggregate of 3,333,000 units at a price of $0.06 per unit for gross proceeds of approximately $199,980
  - On November 15, 2012, the Company issued an aggregate of 2,948,999 units at a price of $0.06 per unit for gross proceeds of approximately $176,940.
  - On August 6, 2012, the Company issued 2,166,666 units at $0.06 per unit for aggregate gross proceeds of $130,000.

- On July 11, 2012, the Company issued 2,358,334 units at $0.06 per unit for aggregate gross proceeds of $141,500.

Administrative

- The Company continues to improve its accounting and administrative functions within the organization.
- In Argentina, an office has been established in Buenos Aires and an accounting and legal team has been hired.
- In Italy, an office has been established as per ministerial requirements in order to become recognized as an oil and gas operating company.

Subsequent event highlights:

- On June 1, 2013, Caoel and a third party lender amended the terms of the US$2,000,000 loan payable as disclosed in full in Note 24 (a) of the Financial Statements. The principal amount was increased to US$2,050,000, with a new maturity date extended to June 1, 2015, and interest rate set at 10% per annum.
- On June 6, 2013, the Company announced that it had completed the acquisition of several Italian producing and exploration properties after receiving the final approval from the Italian Ministry of Economic Development to the change of ownership. Following the latest approval, it is now expected that the decree from the Ministry will be recorded in the Italian Official Gazette. As initially reported on September 6, 2012, Canoel had entered into a purchase and sale agreement with Medoilgas Italia S.p.A. and Medoilgas Civita Limited, each a subsidiary of Mediterranean Oil and Gas Plc (collectively, "MOG") (AIM: MOG) to acquire MOG's entire working interest in 13 onshore producing and exploration properties. These [properties are described in the previous section of this MA&A titled "Nature of operations, Acquisitions and Exploration Activities".

  On completion of the transaction, Canoel paid MOG a nominal sum of €100 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, Canoel received a cash payment of €1,250,000 (approximately $1,650,000) as Medoil's contribution toward future abandonment and remediation costs. Canoel also received an initial advance of €104,000 ($137,000) which represents a portion of the revenue MOG received from the Assets during the period between the effective date of the Proposed Transaction (August 24, 2012) 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 Canoel in due time.

  Most of the Gas Licenses are located in the southern part of continental Italy in the Regions of Puglia, Basilicata, Molise, Abruzzo and Marche. Last year Canoel was awarded 2 gas producing concessions in this same geographical area by the Italian "Ministero dello Sviluppo Economico". These concessions, Torrente Vulgano and Canaldente, are respectively located in the Regions of Puglia and Basilicata. The new Exploration Permit and Exploration Applications are also located in the southern part of Italy and cover an area of approximately 1,285 square kilometres.

  Production from the acquired Gas Licences currently accounts for approximately 13,800 m3/day equal to 487,384 standard cubic feet/day. Current European pricing metrics offer a premium to North American commodity prices, with current cost per MM Btu being equivalent to approximately $13.50.

  Canoel has engaged an independent engineering company to prepare a 51-101 report on the Gas Licences and the Exploration Permits as well as the previously acquired Torrente Vulgano and Canaldente concessions.

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 three 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", and 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 early 2013.

As described in the "Nature of Operations, Acquisition and Exploration Activities" section of this report, on September 4, 2012, Canoel signed a Purchase and Sale Agreement with two Italian subsidiaries of Mediterranean Oil & Gas Plc to acquire their entire working interest, ranging from 8.8% to 100%, in 13 onshore producing and exploration permits. The reader is referred to pages 4

and 5 for additional details.

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"), 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. The Company has received confirmation that $100,000 will be paid of which $30,000 was received by September 30, 2012 and $70,000 to be received by December 15, 2012. Therefore, the Company has recorded a receivable for the balance and a reduction of general and administrative expense for $100,000 in the three months ended June 30, 2012.

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 included 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. No value has been assigned to these shares as the Company is in the process of determining their fair value.

LIBYA

On November 21, 2012, the Company announced that it is opening a representative office in Libya and is processing the opening of a local company registered under local Libyan laws. Canoel has identified Libya as a country in which it will in the future seek to identify opportunities to conduct business and purchase exploration or production assets.

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, Libya, Nigeria 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 African continent. This area specifically comprises Nigeria, Angola, Namibia, Congo-Brazzaville, the Democratic Republic of the Congo, Namibia 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	
	2013	2012
Oil and gas revenue, net of royalties ($)	**679,009**	654,926
Oil and gas revenue, net of royalties – per boe ($)	**55.51**	57.48
Daily sales volumes (boe 6:1)	**136**	125
Net loss ($)	**(283,006)**	(1,236,591)
Net loss per share – basic and diluted ($)	**(0.00)**	(0.03)
Capital expenditures ($)	**195,023**	305,024
Weighted average number of shares – basic and diluted	**75,393,925**	48,603,208

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

	Years ended March 31	
	2013	2012
Oil and gas revenue, net of royalties ($)	**2,242,744**	1,951,513
Oil and gas revenue, net of royalties – per boe ($)	**55.50**	47.95
Daily sales volumes (boe 6:1)	**111**	111
Net loss ($)	**(2,106,433)**	(3,184,460)
Net loss per share – basic and diluted ($)	**(0.03)**	(0.07)
Total assets	**5,112,284**	7,284,178
Non-current liabilities	**2,356,420**	2,996,864
Shareholder's equity (deficit)	**(2,099,157)**	(1,163,304)
Cashflow from (used in) operations ($)	**(1,859,779)**	(883,665)

Capital expenditures ($)	**414,298**	943,870
Weighted average number of shares – basic and diluted	**64,984,609**	43,816,665

Production	**Three months ended March 31**		**Years ended March 31**	
	2013	2012	**2013**	2012
Oil and NGL (bbls)	**12,233**	11,394	**40,408**	40,695
boe/day (6:1)	**136**	125	**111**	111

Production increased by approximately 7% from 11,394 in the three months ended March 31, 2012 to 12,233 barrels in the three months ended March 31, 2013 and slightly decreased from 40,695 barrels in the year ended March 31, 2012 to 40,408 barrels in the year ended March 31, 2013.

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

Revenue	**Three months ended March 31**		**Years ended March 31**	
	2013	2012	**2013**	2012
Commodity Prices				
Oil and NGL ($/bbl)	**63.77**	61.07	61.25	55.40
Revenues ($)				
Oil and NGL	**780,045**	695,865	2,474,889	2,254,533

Oil Revenue

Gross oil revenue increased to $780,045 and $2,474,889 for the three months and year ended March 31, 2013, versus $695,865 and 2,254,533 in the comparative 2012 periods representing revenue from operations in Argentina. The change in revenue for the three months and year ended March 31, 2013 versus the comparative periods in 2012 is due to improved production in the three months ended March 31, 2013 which was offset by slightly lower net oil revenue per barrel year over year.

Royalties and Operating Expenses	**Three months ended March 31**		**Years ended March 31**	
	2013	2012	**2013**	2012
Royalties ($)	**101,036**	40,939	**232,145**	303,020

% of revenues	**13%**	6%	**9%**	13%
$/boe	**8.26**	3.59	**5.75**	7.45

Operating ($)	**519,096**	690,865	**1,576,496**	1,228,136
Transportation ($)	**(8,757)**	118,792	**90,028**	118,792
	510,339	809,657	**1,666,524**	1,346,928
$/boe	**41.72**	71.06	**41.24**	33.10

Royalties

For the three months and year ended March 31, 2013, $101,036 and $232,145 were incurred for royalties versus $40,939 and $303,020 in the comparative periods in 2012. Royalties in fiscal 2013 include an adjustment for approximately $28,765 related to the liability associated with the oil share agreement. Excluding the impact of this adjustment, royalties would be 9% of revenue which is comparable to the year ended March 31, 2012.

Operating and transportation costs

For the three months and year ended March 31, 2013, $510,339 and $1,666,524 were incurred for operating and transportation costs versus $809,657 and $1,346,928 in the comparative periods in 2012. Operating expense includes $76,967 and $348,392 from IPRP for the three months and year ended March 31, 2013 and $74,846 in the three months and fiscal year comparative periods in 2012 as IPRP commenced operations in the fourth quarter of fiscal 2012. Operating expenses also include costs incurred to production test gas wells in Italy; these expenditures were necessary in order to receive the final approval to place the wells on continuous production.

The first quarter of fiscal 2013 includes a reclassification of approximately $120,000 from operating expense to the materials category in property and equipment. This reclassification occurred as a result of capital assets being expensed in prior periods.

Netbacks ($/boe)	**Three months ended March 31**		**Years ended March 31**	
	2013	2012	**2013**	2012
Revenue	**63.77**	61.07	**61.25**	55.40
Royalties	**(8.26)**	(3.59)	**(5.75)**	(7.45)
Operating expenses	**(41.72)**	(71.06)	**(41.24)**	(33.10)
Field netbacks	**13.79**	(13.58)	**14.26**	14.85

General and Administrative Expenses (“G&A”)

	Three months ended March 31		**Years ended March 31**	
	2013	2012	**2013**	2012
General and administrative expenses	**712,118**	598,835	**2,146,595**	2,528,661

During the three months and year ended March 31, 2013, the Company incurred $712,118 and $2,146,595 in G&A expenses versus $598,835 and $2,528,661 in the comparative periods in 2012. G&A expenses in the second and third quarters were higher because a great portion of the fiscal year audit and accounting fees was booked in this period.

General and administrative expense is composed of the following:

	Three months ended March 31		Years ended March 31	
	2013	2012	**2013**	2012
Professional fees	**81,045**	140,749	**938,167**	977,495
Administrative	**229,501**	199,591	**402,584**	518,586
Office	**111,527**	142,381	**305,849**	544,136
Travel	**105,076**	94,313	**257,255**	221,746
Salaries and benefits	**237,012**	21,801	**391,523**	266,698
Oren recovery	**(52,043)**	–	**(148,783)**	–
	712,118	598,835	**2,146,595**	2,528,661

Professional fees decreased both in the three months and in the year ended March 31, 2013. Of the professional fees recorded to date, approximately $204,300 relates to the current year audit plus additional costs related to the prior year's audit. Increased travel costs are as a result of the focus on expanding the company. For explanation of the Oren recovery, please see the "Norway and Russia" section in this MD&A. No general and administrative expenses were capitalized for the three months and years ended March 31, 2013 and 2012.

Depletion and depreciation

	Three months ended March 31		Years ended March 31	
	2013	2012	**2013**	2012
Depletion and depreciation ($)	**89,922**	88,824	**296,947**	322,447
$/boe	**7.35**	7.80	**7.35**	7.92

Depletion and depreciation for the three months and year ended March 31, 2013 were $89,922 and $296,947 as compared to $88,824 and $322,447 for the comparative periods in 2012.

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

Net Loss

The net loss for the three months and year ended March 31, 2013 was $283,006 and $2,106,433 versus a net loss of $1,236,591 and $3,184,460 for the comparative period in 2012.

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
	$	$	$
2013			

Fourth quarter ended March 31, 2013	679,009	(283,006)	(0.00)
Third quarter ended December 31, 2012	708,237	(714,330)	(0.01)
Second quarter ended September 30, 2012	447,169	(579,084)	(0.01)
First quarter ended June 30, 2012	408,329	(530,013)	(0.01)
2012			
Fourth quarter ended March 31, 2012	654,926	(1,236,591)	(0.03)
Third quarter ended December 31, 2011	312,100	(1,066,393)	(0.02)
Second quarter ended September 30, 2011	432,788	(586,837)	(0.02)
First quarter ended June 30, 2011	559,018	(294,643)	(0.01)

LIQUIDITY AND CAPITAL RESOURCES

The Company commenced fiscal 2013 with a working capital deficit of $2,850,057. During the year ended March 31, 2013, the Company spent $1,995,959 and $414,298 on operating activities and capital expenditures and repaid $106,790 of borrowings. In addition, the Company raised net proceeds of $1,610,916 from the issuance of new shares. The Company had a working capital deficit of $3,754,679 at March 31, 2013.

The Company has continued to raise new debt and equity to fund ongoing operations:

- On March 4, 2013, Canoel closed the second tranche of a non-brokered private placement of units (“Units”) and issued 3,566,666 Units at $0.06 per Unit for aggregate gross proceeds of approximately $214,000. Each unit consists of one common share and one warrant exercisable at $0.10 until March 4, 2015. The Company has allocated $64,000 of the unit value to the warrants based on their estimated fair value determined on the issuance date.

- On February 15, 2013, Canoel closed the first tranche of a non-brokered private placement of units (“Units”). The Corporation issued 7,610,000 Units at $0.06 per Unit for aggregate gross proceeds of approximately $456,600. Each unit consists of one common share in the capital of Canoel and one common share purchase warrant. Each common share purchase warrant entitles the holder thereof to purchase, subject to adjustment, one additional common share at an exercise price of $0.10 per share at any time on or before the date that is 24 months from the date of issuance of the common share purchase warrant.

  Andrea Cattaneo, the President and CEO of the Corporation purchased 1,833,333 ($110,000) in this first tranche of the private placement. Following his acquisition of 1,833,333 Units, Andrea Cattaneo will hold 6,944,115 common shares of Canoel, representing approximately 8.87% of the issued and outstanding shares of the Corporation, plus 1,833,333 share purchase warrants and 950,000 stock options exercisable for common shares. Assuming the full exercise of warrants and stock options, Mr. Cattaneo would beneficially own or control an aggregate of 9,727,449 common shares of Canoel, representing approximately 12% of the issued and outstanding common shares of the Corporation on a fully diluted basis. The Company has allocated $183,900 of the unit value to the warrants based on their estimated fair value determined on the issuance date.

- On December 7, 2012, the Company issued 3,333,000 units at $0.06 per unit for aggregate gross proceeds of $199,960. 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 until December 7, 2013. The Company has allocated $80,500 of the unit value to these warrants based on their estimated fair value determined on the issuance date.

- On November 15, 2012, the Company issued 2,948,999 units at $0.06 per unit for aggregate gross proceeds of $176,940. Each unit consists of one common share in the capital of Canoel and one common share purchase warrant. Each common share purchase warrant entitles the holder thereof to purchase, subject to adjustment, one additional common share at an exercise price of $0.10 per share at any time on or before the date that is 24 months from the date of issuance of the common share purchase warrant. Tonsenhagen Forretningssentrum AS, a company related to Erik Larre, who is a director and an insider of the Company, purchased 833,333 Units for approximately $50,000. Other units issued were purchased by officers and directors of Canoel. The Company has allocated $53,000 of the unit value

to these warrants based on their estimated fair value determined on the issuance date.

- On August 6, 2012, the Company issued 2,166,666 units at $0.06 per unit for aggregate gross proceeds of $130,000. 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 until August 6, 2013. Of the total units issued, 1,000,000 units were purchased by a corporation whose owner is a director of Canoel. The Company has allocated $69,000 of the unit value to these warrants based on their estimated fair value determined on the issuance date.
- On July 11, 2012, the Company issued 2,358,334 units at $0.06 per unit for aggregate gross proceeds of $141,500. 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 until July 11, 2013. The Company has allocated $75,000 of the unit value to these warrants based on their estimated fair value determined on the issuance date. In connection with this tranche, the Company paid a finder's fee of $13,080 and granted 218,000 common share purchase warrants with the same terms as above. The fair value of the warrants was estimated at $6,900 on the issuance date.
- On June 28, 2012, the Company issued 5,250,000 common shares at a price of $0.06 per share, for aggregate gross proceeds of $315,000. In conjunction with this issuance, 5,250,000 warrants were issued with an exercise price of $0.10 and are exercisable until June 27, 2013. The Company has allocated $167,000 of the unit value to these warrants based on their estimated fair value determined on the issuance date. In addition, the Company issued 244,000 common share purchase warrants as finder's fees. The fair value of the warrants was estimated at $7,800 on the issuance date.
- On March 30, 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 based on their estimated fair value determined on the issuance date.
- 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 instalments 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 $5,280 of foreign exchange related to proceeds received in a foreign currency. 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 based on their estimated fair value determined on the issuance date. 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 fair value of the finder's warrants was estimated at $3,826.
- 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 based on their estimated fair value determined on the issuance date.
- 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 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.
- 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.

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 March 31, 2013, 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	81,884,287
Warrants	39,558,699
Stock Options	2,800,000

Subsequent to March 31, 2013, the Company did not issue additional common shares.

WARRANTS

The following is a continuity of warrants:

	Number of warrants	Amount $	Weighted average exercise price
Balance – March 31, 2011	6,334,503	$ 114,033	$ 0.30
Debt conversion	1,600,000	49,602	0.17
Unit private placements	11,200,034	507,266	0.10
Finder's fees	88,000	3,826	0.10
Expired	(5,759,503)	(101,156)	0.28
Balance – March 31, 2012	13,463,034	$ 573,571	$ 0.13
Unit private placements	27,233,665	692,400	0.10
Finder's fees	462,000	14,700	0.10
Expired	(1,600,000)	(49,602)	0.17
Balance – March 31, 2013 and date of MD&A	39,558,699	$ 1,231,069	$ 0.11

The following summarizes information about the warrants outstanding as at March 31, 2013, all of which are exercisable.

Exercise price	Number of warrants	Weighted average remaining life (years)	Weighted average exercise price
$ 0.10	37,883,699	1.12	$ 0.10
$ 0.15	1,100,000	0.48	0.15
$ 0.50	575,000	1.25	0.50
	39,558,699	1.10	$ 0.11

STOCK OPTIONS

The following is a continuity of options:

	Number of options	Weighted average exercise price
Balance – March 31, 2011	3,715,000	$ 0.11
Forfeited	(915,000)	0.12
Balance – March 31, 2012 and 2013 and date of MD&A	2,800,000	$ 0.11

The following summarizes information about stock options outstanding as at March 31, 2013:

Exercise price	Number of options	Weighted average remaining life (years)	Weighted average exercise price
$ 0.10	2,410,000	2.22	$ 0.10
$ 0.13	105,000	1.49	0.13
$ 0.15	70,000	1.58	0.15
$ 0.17	70,000	1.85	0.17
$ 0.23	145,000	1.49	0.23
	2,800,000	2.13	$ 0.11

RELATED PARTY TRANSACTIONS

Related party transactions during the years ended March 31, 2013 and 2012 not disclosed elsewhere in this MD&A are as follows:

a) Included in general and administrative expenses is $215,677 (2012 – $12,685) charged by a company controlled by an officer and director of the Company for office rent and administrative services. As at March 31, 2013, $16,145 (2012 – $12,988) was included in trade and other payables in respect of these charges.

b) Included in interest expense is $4,787 (2012 – $1,475) on $50,000 Swiss Francs of convertible notes held by company controlled by a director of the Company, of which $5,912 is included in trade and other payables as at March 31, 2013 (2012 – $1,134).

c) Included in trade and other payables is $132,667 (2012 – $nil) 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.

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 ongoing 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.

Property & equipment, depletion & depreciation, and exploration & evaluation assets:

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 standards and interpretations not yet adopted

In May 2011, the IASB issued four new standards and two amendments. Five of these items related to consolidation, while the remaining one addresses fair value measurement. All of the new standards are effective for annual periods beginning on or after April 1, 2013. Early adoption is permitted.

IFRS 10, "Consolidated Financial Statements" replaces IAS 27 "Consolidated Separate Financial Statements". It introduces a new principle-based definition of control, applicable to all investees to determine the scope of consolidation. The standard provides the framework for consolidated financial statements and their preparation based on the principle of control.

IFRS 11 "Joint Arrangements" replaces IAS 31, "Interests in Joint Ventures". IFRS 11 divides joint arrangements into two types, each having its own accounting model. A "joint operation" continues to be accounted for using proportionate consolidation, whereas a "joint venture" must be accounted for using equity accounting. This differs from IAS 31, where there was the choice to use proportionate consolidation or equity accounting for joint ventures. A "joint operation" is defined as the joint operators having rights to the assets, and obligations for the liabilities, relating to the arrangement. In a "joint venture", the joint ventures

partners have rights to the net assets of the arrangement, typically through their investment in a separate joint venture entity.

IFRS 12 “Disclosure of Interests in Other Entities” is a new standard, which combines all of the disclosure requirements for subsidiaries, associates and joint arrangements, as well as unconsolidated structured entities.

IFRS 13 “Fair Value Measurement” is a new standard meant to clarify the definition of fair value, provide guidance on measuring fair value and improve disclosure requirements related to fair value measurement.

IAS 28 “Investments in Associates and Joint Ventures” has been amended as a result of the issuance of IFRS 11 and the withdrawal of IAS 31. The amended standard sets out the requirements for the application of the equity method when accounting for interest in joint ventures, in addition to interests in associates.

IAS 27 “Separate Financial Statements” has been amended to focus solely on accounting and disclosure requirements when an entity presents separate financial statements, due to the issuance of the new IFRS 10 which is specific to consolidated financial statements.

In November 2009, the IASB published IFRS 9, “Financial Instruments,” which covers the classification and measurement of financial assets as part of its project to replace IAS 39, “Financial Instruments: Recognition and Measurement.” In October 2010, the requirements for classifying and measuring financial liabilities were added to IFRS 9. Under this guidance, entities have the option to recognize financial liabilities at fair value through earnings. If this option is elected, entities would be required to reverse the portion of the fair value change due to a company’s own credit risk out of earnings and recognize the change in other comprehensive income. IFRS 9 is effective for the Company on April 1, 2015. Early adoption is permitted and the standard is required to be applied retrospectively.

The Company is currently evaluating the impact of adopting all of the newly issued and amended standards.

Going Concern

As at March 31, 2013, the Company had not yet achieved profitable operations, has accumulated a deficit of $9,913,714 (March 31, 2012 - $7,807,281) 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.

The 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 the 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 the 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 2 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. The Company's maximum credit risk exposure is limited to the carrying amount cash of $346,541 (2012 – $1,447,708) and trade and other receivables of $627,892 (2012 – $1,030,203).

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

		2013		**2012**
Oil sales	$	360,299	$	322,225
Shareholders		–		116,017
Stamp tax and other tax withholdings		206,365		570,337
Goods and services tax		8,498		21,624
Other		52,730		–
	$	627,892	$	1,030,203

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.

The Company considers its receivables to be aged as follows:

		2013		**2012**
Current	$	412,932	$	851,401
31 to 90 days		485		32,433
90 + days		214,475		146,369
	$	627,892	$	1,030,203

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 at March 31, 2013, the Company had $4,855,021 (2012 – $5,450,618) of current liabilities for which the Company's $346,541 (2012 – $1,477,708) 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 March 31, 2013, the contractual maturities of current and non-current financial liabilities are as follows:

	Carrying amount	Contractual cashflows	Fiscal 2014	Fiscal 2015
Trade and other payables	$ 1,709,658	1,709,658	1,709,658	–
Oil share agreement	686,990	686,990	686,990	–
Notes payable	427,173	438,293	438,293	–
Loan payable	2,031,200	2,092,855	2,092,855	–
Convertible note	1,016,606	1,347,114	104,471	1,242,643
	$ 5,871,627	6,274,910	5,032,267	1,242,643

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.

(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 for December 31 are as follows:

	Closing rate		Average rate	
	2013	2012	2013	2012
ARS	0.1985	0.2282	0.2129	0.2359
US dollars	1.0137	0.9975	1.0014	0.9930
Swiss Franc	1.0748	1.1067	1.0651	1.1318
Norwegian Kroner	0.1741	0.1752	0.1733	0.1763

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 years ended March 31, 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	13%	–	220,310	7%	–	138,985
US dollars	2%	(60,920)	(17,280)	7%	(139,650)	(21,965)
Swiss Franc	15%	(129,920)	–	15%	(179,285)	–
Norwegian Kroner	2%	–	–	8%	(16,820)	–
		(190,840)	203,030		(335,755)	117,020

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$63.00 per barrel at March 31, 2012, and US$60 per barrel at March 31, 2013.

As at March 31, 2013, a 5% change in the price of oil would represent a change in net loss of approximately $112,000.

(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 10) and convertible notes. As at March 31, 2013, the Company has US$2,000,000 (2012 -– US$2,000,000) of loans payable with a floating interest, hence a variation of 1% represents approximately $20,028 (US$20,000) in savings or added cost for the Company.

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 the balance of 2013 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. Production of natural gas from the Torrente Vulgano and Canaldente properties is now expected to commence in the fourth quarter of 2013 after refurbishing of existing production facilities and pipelines is completed.

Opening of this Italian subsidiary was also an absolute necessity in order to finalize the recent acquisition of 9 producing licenses and 4 exploration applications from Mediterranean Oil & gas Plc (MOG). This acquisition, in addition to providing Canoel with funds to help with future abandonment costs, accounted for the immediate and retroactive production of natural gas for the account of Canoel. The Company has commenced the process of taking over operatorship of several of these producing properties and exploration permits using both in-house personnel and outside consultants. Canoel will evaluate drilling opportunities on these permits and will formalize plans to either participate directly in such potential operations or farm-out its interest to third parties.

(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 operation 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

(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) **Africa**

The Company intends to focus primarily in Libya and Nigeria and, secondarily, in the area comprising Angola, Congo Brazzaville, Democratic Republic of the Congo, Mali, Nigeria, Tanzania, and Uganda for the development of its exploration activities. These areas offer a much larger upside potential than the areas where the Company was previously focusing.

(e) **Crude Oil Trading**

The Company continues its effort to commence oil trading operations in Libya as disclosed in the press release dated March 21, 2013.