CANOEL INTERNATIONAL ENERGY LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED MARCH 31, 2014

This management's discussion and analysis (the "MD&A") dated June 23, 2014 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 Canoel for the years ended March 31, 2014 and 2013 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 April 1, 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 and Italy; (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 late 2014; (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 increase its oil and gas production by late 2014; 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 and Italy may be reduced in future months and that the oil price in Argentina 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 June 6, 2013, the Company completed the acquisition of various working interests in 13 Italian producing and exploration properties (the "Assets") from Medoilgas Italia S.P.A. and Medoilgas Civita Limited, each a subsidiary of Mediterranean Oil and Gas Plc (collectively, "MOG") after receiving the final approval from the Italian Ministry of Economic Development to the change of ownership. 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").

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

	Years ended March 31	
Capital additions	**2014**	2013
Argentina	7,069	283,539
Italy	325,048	130,759
	332,117	414,298

Highlights for the year ended March 31, 2014 include the following:

Corporate:

- On September 6, 2013, the Company's shareholders approved a 10 for 1 share consolidation of the Company's equity instruments comprised of common shares, warrants and stock options. All equity instrument figures presented herein are on a post-consolidated basis.

Operational:

- During the year ended March 31, 2014, the Company sold 50,177 barrels of oil from its Argentine properties versus 40,408 barrels of oil in the prior year, an increase of 24%. The Company is pleased to report that this increase in production during the year was achieved after changes in water injection procedures were implemented. Operating and transportation costs have been reduced during the year due to the efforts of a new field management team which took additional steps to closely monitor operations and reduce costs.

- During the year ended March 31, 2014, the Company sold 103,816 mcf of natural gas and 560 barrels of condensate from its Italian properties acquired on June 6, 2013. These numbers equate to a total of 294 mcf per day (49 boe per day) for the year ended March 31, 2014 and 358 mcf per day (60 boe per day) for the 299-day period from June 6 to March 31, 2014.
- 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. 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 ($136) 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 ($1,701,250) as Medoil's contribution toward future abandonment and remediation costs. Canoel also received an initial advance of €104,000 ($142,200) which represents a portion of the revenue MOG received from the Assets during the period between the effective date of the transaction (August 24, 2012) and the closing date of the transaction (June 6, 2013), net of allowable operating costs, agreed capital expenditure associated with the Assets and certain deposits for future capital expenditures.

  The acquisition of Assets was accounted for as a business combination using the acquisition method of accounting:

Fair value of net assets acquired:		
Cash	$	1,843,450
Trade and other receivables		402,459
D&P assets		14,298,378
Foreign currency translation		319,212
Decommissioning obligation		(8,700,236)
Deferred tax		(1,539,452)
Gain on business combination		(6,623,675)
	$	136
Consideration:		
Cash	$	136

  The estimated value of the D&P assets acquired was determined using both internal estimates and an independent reserve evaluation based on oil and gas reserves discounted at 15%. The decommissioning liabilities assumed were determined using the timing and estimated costs associated with the abandonment, restoration, and reclamation of the wells and facilities acquired.

  As the cost of the acquisition was less than the fair value of the net assets acquired, the Company recognized a $6,623,675 gain on the business combination in the consolidated statement of income (loss) and comprehensive income (loss) for the year end March 31, 2014.

  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.

  European gas prices are established upon a formula that uses Brent crude as the base and consistently offer a premium to North American commodity prices.

  Submission of extensive environmental reports relating to the commencement of production of the Torrente Vulgano and Canaldente gas properties has been completed and preliminary approval has been received. The Company is now looking forward to finally place on production these wells after the final approvals is received.

  In early 2014, Canoel 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. This report has now been finalized and it will be available for inspection on SEDAR in the next few weeks.

- On October 3, 2013, Canoel announced that it had taken all the appropriate steps to be included in the list of recognized traders of crude oil with the Libyan National Oil Company ("NOC"). Negotiations with NOC were focused on two opportunities: 1) the potential inclusion on the list of the recognized traders of crude oil with the NOC, and 2) the application to get access to producing fields that are temporarily shut-in. In terms of the second opportunity, Canoel still see a good opportunity in Libya since oil production has diminished considerably due to the poor upkeep of oil fields and state of disarray in the country. Most exports to foreign countries have been temporarily suspended due to lower output and Canoel still intends to concentrate its efforts toward the acquisition and advancement of early stage exploratory acreage as well as the resumption of operations of temporarily suspended fields.
- The Company has continued negotiation with the Libyan National Oil Company ("NOC") and has applied again to be included in the yearly list of recognized oil traders for 2014.

Financial:

- The Company generated oil and natural gas revenue, net of royalties, of $3,687,853 in the year ended March 31, 2014 versus $2,242,744 in the comparative year.
- The Company incurred $332,117 of capital expenditures in the year ended March 31, 2014. The primary focus of these expenditures comprised several workovers in Argentina and activities in Italy.
- On June 1, 2013, Canoel and a third party lender amended the terms of the US$2,000,000 loan payable. 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 September 20, 2013, the Company completed the private placement of 750,000 units at $0.20 per unit for gross proceeds of $150,000. Each unit is comprised of one common share and one warrant exercisable at $0.25 until September 20, 2015.
- On February 10, 2014, the Company completed a $100,000 non-brokered private placement of 400,000 common shares at $0.25 per share to an insider of the Company.
- On March 7, 2014, the Company issued 1,600,000 common shares to Global Resources Investment Trust plc ("GRIT") in exchange for 222,000 GRIT shares. The share exchange was recognized at the £1.00 quoted market price of the GRIT shares on the date of issuance, being £222,000 (CAD $411,699).

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:

- In May 2014, the Company completed the private placement of 6,928,366 units at $0.15 per unit for gross proceeds of $1,039,255. Each unit is comprised of one common share and one warrant exercisable at $0.25 per share until May 2017. In connection with the unit private placement, the Company paid finder's fees of $63,120 and issued 414,782 finder's warrants exercisable at $0.25 until May 2017.

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.

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 December 2013. According to general opinions in Argentina, prices are expected to increase very soon in 2014.

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.

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. Canoel participated in the bidding process for two properties and was later selected as one of the finalists for both.

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 (m3) per day (278,949 standard cubic feet (mcf) per day, using a conversion rate of 1 m3 = 35.31 mcf).

Canoel will have to comply with certain Italian regulatory obligations before field start-up. Production will commence after all the necessary approvals have been received, which the Company expects to occur by late 2014. However, there are no assurances that production of the Torrente Vulgano and Canaldente properties will be at the same levels that they were previously producing.

It is worth noting that 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.

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. This transaction was completed in June 2013, with an effective date of August 24, 2012. The reader is referred to pages 3 and 4 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.

At the end of summer 2010, Canoel sold all its shares in Oren to a local entrepreneur for a nominal sum.

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.

Oren still holds some assets in Russia and Canoel will continue in its advisor role to assist in the disposition of properties in conjunction with Promotes. For these efforts, the Corporation expects to receive a reimbursement of costs plus a commission.

NIGERIA

Canoel is currently engaged in negotiations to acquire an interest in production and development permits in Nigeria as it believes that this country offers great opportunities for the development of significant oil fields. Nigerian operations are described in more details in the Outlook section.

AZERBAIJAN

Canoel is currently engaged in negotiations to acquire an interest in production and development fields in Azerbaijan as it believes that this country offers great opportunities for the development of significant oil fields. Such activities are described in more details in the Outlook section.

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, Argentina, and Azerbaijan 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 broader areas of the African continent which may offer new opportunities.

FINANCIAL PERFORMANCE

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

	For the three months ended March 31		**For the year ended March 31**	
	2014	2013	**2014**	2013
Oil and gas revenue, net of royalties ($)	**950,925**	679,009	**3,687,853**	2,242,744
Oil and gas revenue, net of royalties – per boe ($)	**51.52**	55.51	**54.20**	55.50
Total daily sales volumes per boe	**205**	136	**186**	111
Gain on business combination ($)	**6,623,675**	–	**6,623,675**	–
Net income (loss) ($)	**5,610,377**	(283,006)	**4,209,243**	(2,106,433)
Net income (loss) per share – basic and diluted ($)	**0.58**	(0.04)	**0.48**	(0.32)
Capital expenditures ($)	**236,683**	193,023	**332,117**	414,298
Weighted average number of shares – basic and diluted	**9,722,256**	7,539,393	**8,776,222**	6,498,460

Production

	For the three months ended March 31		**For the year ended March 31**	
	2014	2013	**2014**	2013
Total volumes				
Oil (bbls) (1)	**13,556**	12,233	**50,177**	40,408
Condensate (bbls) (2)	**95**	–	**560**	–
Gas (mcf) (2)	**28,830**	–	**103,816**	–
Total boe	**18,456**	12,233	**68,040**	40,408
Daily volumes				
Oil (bbls/day) (1)	**151**	136	**137**	111
Condensate (bbls/day) (2)	**1**	–	**2**	–
Gas (mcf/day) (2)	**320**	–	**284**	–
Total (boe/day)	**205**	136	**186**	111

(1) At the end of March 2014 were 751 barrels of unsold production held in inventory which were sold in subsequent months. Total oil sales and oil held in inventory at the end of the quarter correspond to an average daily production rate for the three months and year ended March 31, 2014 of 159 barrels of oil per day and 140 barrels of oil per day, respectively.

(2) Daily volumes are calculated over 90 days in the quarter and 365 days for the year, however, production in Italy commenced on June 6, 2013, following the acquisition of properties from MOG as described under "Operational Highlights". For the 299-day period since the date of acquisition, daily gas volumes are 347 mcf/day and daily condensate volumes are 2 bbls/day. As described in note (1), actual production volumes in Argentina were higher than sales volumes and therefore, on a combined basis for Italy and Argentina, the Company's actual total daily production (oil, condensate, and natural gas) for the 299-day period equates to 197 boe per day.

Oil sales volumes increased by approximately 11% from 12,233 barrels in the fourth quarter ended March 31, 2013 to 13,566 barrels in the fourth quarter ended March 31, 2014 and increased approximately 24% from 40,408 barrels in the year ended

March 31, 2013 to 50,177 barrels in the year ended March 31, 2014. For further information, see "Argentina" in the operational update section of this MD&A.

Gas sales volumes of 28,830 mcf for the three months ended March 31, 2104 are for the full period whereas gas sales volumes of 103,816 mcf for the year ended March 31, 2014 are for 299 days from the closing of the acquisition of Italian properties on June 6, 2013 to the end of the period.

Condensate sales volumes are also from Italian properties acquired on June 6, 2013, however, condensate production did not commence until July 2013.

Revenue

	Three months ended March 31		Years ended March 31	
	2014	2013	**2014**	2013
Commodity Prices				
Oil ($/bbl)	**67.41**	63.77	**63.92**	61.25
Condensate ($/bbl)	**124.68**	–	**125.08**	–
Gas ($/mcf)	**3.17**	–	**8.01**	–
Total ($/boe)	**55.10**	63.77	**60.39**	61.25
Revenues ($)				
Oil (Argentina)	**913,841**	780,045	**3,207,148**	2,474,889
Condensate (Italy)	**11,787**	–	**70,060**	–
Gas (Italy)	**91,289**	–	**831,482**	–
Total	**1,016,917**	780,045	**4,108,690**	2,474,889

Oil Revenue

Gross oil revenue earned in Argentina increased to $913,841 for the three months ended March 31, 2014 versus $780,045 in the comparative 2013 period and to $3,207,148 for the year ended March 31, 2014 versus $2,474,889 in the comparative 2013 year. The increase in revenue for the 2014 periods is due to improved production combined with slightly higher oil revenue per barrel in the 2014 periods.

Condensate Revenue

The price per bbl received for condensate remained relatively unchanged in the three months ended March 31, 2014 due to strong market conditions for this commodity.

Gas Revenue

The price per mcf received for natural gas decreased in the three months ended March 31, 2014 due to the impact of fluctuations in the base price of Brent crude which is used in the formulas to establish the price of natural gas and also due the increase in the Euro as compared to the CAD. The Company also recognized a late adjustment to revenues related to the acquisition of the Italian properties which reduced the revenue figure, leaving production volumes unchanged, and resulting in a lower price per mcf in the period.

Royalties and Operating Expenses

	Three months ended March 31		Years ended March 31	
	2014	2013	**2014**	2013
Royalties ($)	**65,992**	101,036	**420,837**	232,145
% of Argentine revenues [1]	**7%**	13%	**13%**	9%
$/bbl of oil	**4.87**	8.26	**8.39**	5.75
$/boe (total Company)	**3.58**	8.26	**6.19**	5.75
Operating and transportation ($)				
Argentina	**476,574**	510,339	**1,365,171**	1,666,524
Italy	**198,661**	–	**628,545**	–
Total	**675,235**	510,339	**1,993,716**	1,666,524
Argentina $/bbl	**35.16**	41.72	**27.21**	41.24
Italy $/boe	**40.55**	–	**35.19**	–
Total $/boe	**36.59**	41.72	**29.30**	41.24

[1] Royalties are charged on Argentine oil revenues only.

Royalties

During the three months and year ended March 31, 2014, the Company incurred royalties on Argentine revenues of $65,991 and $420,837, respectively, versus $101,036 and $232,145, respectively, in the 2013 comparative periods. Royalties in the 2014 and 2013 periods include adjustments related to the liability associated with the oil share agreement which ended in November 2013. Excluding the impact of the oil share agreement, royalties would be approximately 9% of revenue in the 2014 periods which is comparable to the equivalent 2013 royalties at 8% of revenue.

Operating and transportation costs

During the three months and year ended March 31, 2014, the Company incurred $476,574 and $1,365,171, respectively, of operating and transportation costs on the Argentine properties versus $510,339 and $1,666,524, respectively, in the 2013 comparative periods. These operating expenses include $nil and $4,675 from IPRP for the three a months and year ended March 31, 2014 and $76,967 and $348,392 from IPRP for the three months and year ended March 31, 2013.

The Company is very pleased to report that operating and transportation costs have been reduced during the year ended March 31, 2014 due to the efforts of a new field management team which took additional steps to closely monitor operations and reduce costs.

Operating costs per boe for the Italian properties are higher in the three months ended March 31, 2014 compared to the year-to-date period due to an increase in concession costs charged in the quarter.

Netbacks

	Three months ended March 31		Years ended March 31	
	2014	2013	**2014**	2013
Argentina ($/bbl)				
Revenue	**67.41**	63.77	**63.92**	61.25
Royalties	**(4.87)**	(8.26)	**(8.39)**	(5.75)
Operating expenses	**(35.16)**	(41.72)	**(27.21)**	(41.24)
Field netback	**27.38**	13.79	**28.32**	14.26
Italy ($/boe)				
Revenue	**21.04**	–	**50.47**	–
Operating expenses	**(40.55)**	–	**(35.19)**	–
Field netback	**(19.51)**	–	**15.28**	–
Total Company ($/boe)				
Revenue	**55.10**	63.77	**60.39**	61.25
Royalties	**(3.58)**	(8.26)	**(6.19)**	(5.75)
Operating expenses	**(36.59)**	(41.72)	**(29.30)**	(41.24)
Field netback	**14.93**	13.79	**24.90**	14.26

General and Administrative Expenses ("G&A")

General and administrative expenses for the three months and years ended March 31 are composed of the following:

	Three months ended March 31		Years ended March 31	
	2014	2013	**2014**	2013
Professional fees	**519,272**	81,045	**1,085,786**	938,167
Office	**161,516**	111,527	**484,245**	305,849
Salaries and benefits	**30,463**	237,012	**292,632**	391,523
Administrative	**101,314**	54,836	**297,145**	402,584
Travel	**67,767**	105,076	**219,984**	257,255
Oren recovery (non-recurring item)	**–**	(52,043)	**–**	(148,783)
	880,332	537,453	**2,379,792**	2,146,595

G&A expenses decreased by 64% in the three months ended March 31, 2014 versus the 2013 comparative period and 11% in the year ended March 31, 2014 versus the year ended March 31, 2013. Professional fees in the 2014 periods are higher due primarily an increase in audit costs related to the acquisition of the Italian properties and resulting increase in operating activities as well as legal and other transaction costs related to the acquisition. Salaries and benefits are higher in the 2014 year ended period due to bonuses paid to senior executives. Office and administrative expenses are higher in the three months ended March 31, 2014 than the 2013 comparative period due to costs associated with the increase in operating and corporate activities related to the Italian operations.

No general and administrative expenses were capitalized for the three months and years ended March 31, 2014 and 2013.

Depletion and depreciation

	Three months ended March 31		Years ended March 31	
	2014	2013	**2014**	2013
Argentina	**210,385**	89,922	**555,664**	296,947
Italy	**283,837**	–	**333,719**	–
Total	**494,222**	89,922	**889,383**	296,947
Argentina $/bbl	**15.52**	7.35	**11.07**	7.35
Italy $/boe	**57.93**	–	**18.68**	–
Total $/boe	**26.78**	7.35	**13.07**	7.35

The depletion rate for Argentine properties is higher in the 2014 periods due to the decrease in estimated total proved plus probable reserves of 734,000 barrels as of March 31, 2104 compared to 1,821,300 barrels as of March 31, 2013.

The depletion rate for the Italian properties is higher in the three months ended March 31, 2014 due to the final determination of fair values of the assets acquired and related business combination accounting which resulted in an increase in the depletable base in the fourth quarter as well as due to a decrease in the estimated total proved plus probable reserves of 1,381,000 barrels as of March 31, 2014 compared to 1,401,167 barrels as of the acquisition date.

The Company did not identify any indicators of impairment as at March 31, 2014 or during the year then ended.

Net income (loss)

The Company recognized net income for the three months and year ended March 31, 2014 of $5,610,377 and $4,209,243, respectively, versus a net loss of $283,006 and $2,106,433, respectively, for the comparative 2013 periods. Net income in the 2014 periods is due to the recognition of a $6,623,675 gain on the business combination for related to the acquisition of the Italian properties.

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 *
	$	$	$
2014			
Fourth quarter ended March 31, 2014	950,925	5,610,377	0.58
Third quarter ended December 31, 2013	947,394	(705,058)	(0.08)
Second quarter ended September 30, 2013	1,050,224	(328,619)	(0.04)
First quarter ended June 30, 2013	739,310	(367,457)	(0.04)
2013			
Fourth quarter ended March 31, 2013	679,009	(283,006)	(0.04)
Third quarter ended December 31, 2012	708,237	(714,330)	(0.11)
Second quarter ended September 30, 2012	447,169	(579,084)	(0.09)
First quarter ended June 30, 2012	408,329	(530,013)	(0.10)

* The sum of quarterly amounts per share may not add to the year-to-date figure due to rounding.

LIQUIDITY AND CAPITAL RESOURCES

The Company commenced fiscal 2014 with a working capital deficit of $4,273,352. During the year ended March 31, 2014, the Company incurred $2,246,807 on operating items, $332,117 on capital expenditures and $549,497 on property and equipment insurance and reclassified $889,246 of debt from long-term to current in accordance with repayment terms. The Company received $217,348 of net proceeds on the completion of a unit private placement and $1,843,314 of cash, net of cash paid, in conjunction with the acquisition of Italian properties. The Company also received $411,699 of marketable securities in exchange

for the issuance of 1,600,000 of the Company's common shares and recognized a deferred tax liability in the amount of $1,206,633. The Company had a working capital deficit of $4,273,352 at March 31, 2014.

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

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

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.

GOING CONCERN

As at March 31, 2014, the Company has a working capital deficit of $4,273,352 (2013 – $3,754,679) and an accumulated deficit of $5,704,471 (2013 – $9,913,714) since its inception, and may incur future 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 maintain 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.

LIQUIDITY RISK

As at March 31, 2014, the Company had $6,879,084 (2013 – $4,855,021) of current liabilities for which the Company's $711,248 (2013 – $346,541) cash balance is insufficient to settle the current liabilities. It is expected that further debt and equity financings will be required in order to settle existing current liabilities, continue development of the Company's assets and meet future obligations. There can be no assurance that such financings will be available to the Company.

Subsequent to March 31, 2014, the Company raised $1,039,255 of gross proceeds through the completion of the private placement of 6,928,366 units at $0.15 per unit.

As of March 31, 2014, the contractual cash flows, including estimated future interest, of current and non-current financial liabilities mature as follows:

		Carrying amount	Contractual cashflows	Due on or before March 31, 2015	Due in June 2015
Trade and other payables	$	2,474,178	2,474,178	2,474,178	–
Oil share agreement		875,727	875,727	875,727	–
Notes payable		374,068	377,466	377,466	–
Loan payable		2,265,865	2,530,988	2,114,848	416,140
Convertible note		1,265,789	1,445,383	1,445,383	–
	$	7,255,627	7,703,742	7,287,602	416,140

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. On September 6, 2013, the Company's shareholders approved a 10 for 1 share consolidation of the Company's equity instruments comprised of common shares, warrants and stock options.

As March 31, 2014 and the date of this MD&A, 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:

	Number of common shares	**Number of warrants**	**Number of stock options**
Balance – March 31, 2013	8,188,429	3,955,870	280,000
Issued	3,063,610	750,000	–
Expired	–	(2,152,503)	(66,000)
Balance – March 31, 2014	11,252,039	2,553,367	214,000
Issued May 2014	6,928,366	7,343,148	–
Expired	–	–	–
Balance – Date of MD&A	18,180,405	9,896,515	214,000

RELATED PARTY TRANSACTIONS

Related party transactions during the years ended March 31, 2014 and 2013 not disclosed elsewhere in this MD&A are as follows:

a) Included in general and administrative expenses is $200,879 (2013 – $215,677) charged by a company controlled by an officer and director of the Company for office rent and administrative services. As at March 31, 2014, $nil (2013 – $16,145) was included in trade and other payables in respect of these charges.

b) Included in interest expense is $5,175 (2013 – $4,787) on $50,000 Swiss Francs of convertible notes (Note 15(b)) held by company controlled by a director of the Company, of which $12,515 is included in trade and other payables as at March 31, 2014 (2013 – $5,912).

c) Included in trade and other payables is $13,803 (2013 – $132,667) due to an officer and director of the Company in respect of general and administrative expenditures made on behalf of the Company for which the officer and director will be reimbursed.

d) The Company considers its officers and directors to be key management personnel. As at March 31, 2014, key management personnel included 7 individuals (2013 – 7 individuals). Key management compensation for the years ended March 31 is comprised of the following:

		2014		2013
Consulting fees	$	135,948	$	140,461
Bonus		152,943		150,000
Total key management compensation	$	288,891	$	290,461

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.

The Company's plans for 2014 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 late 2014 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. 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. As of August 1st, 2013, the Company has taken 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.

Technical problems in the San Teodoro gas field have been rectified and production is expected to start again shortly.

Submission of extensive environmental reports relating to the commencement of production of the Torrente Vulgano and Canaldente gas properties has been completed and preliminary approval has been received. The Company is now looking forward to finally place on production these wells after the final approval is received.

(b) **Argentina:** The Company will focus on managing the properties acquired in 2010 with the intention to increase production and cash flows. The Company is evaluating drilling operation on different formations similar to the presently producing ones. The Company is also evaluating the potential of deeper horizons which are rumoured to have been drilled very successfully by other operators in close proximity to the Don Alberto and Don Ernesto fields.

(c) **Libya:** As previously done in 2013, Canoel has again taken all the necessary steps to be included in the yearly list of recognized traders of crude oil with the Libyan National Oil Company ("NOC") for 2014. It is important to note that applications to be recognized as an oil trading company need to be submitted to NOC on a yearly basis. The Company considers the implementation of an oil trading agreement as a first step in the Company's process of obtaining potential concessions in producing oil fields which were abandoned after the uprisings and revolution of 2011.

(d) **Nigeria:** Canoel has commenced preliminary negotiations to acquire interests in production and development permits. The Company is also participating in the upcoming bid round for the allocation of marginal fields.

(e) **Azerbaijan:** The Company believes that Azerbaijan offers excellent opportunities to establish joint ventures for the re-development and additional exploration in producing fields through the implementation of new technologies and/or review of current operating procedures. Canoel has recently established a very good relationship with the national oil company of Azerbaijan.

(f) **Norway:** Canoel will define the final fees structure for the activity in Russia with Oren and Promotes in the next few months.

FINANCIAL RISK MANAGEMENT

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 $711,248 (2013 – $346,541) and trade and other receivables of $1,215,913 (2013 – $627,892).

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

	2014	2013
Oil sales	$ 909,525	$ 360,299
Stamp tax and other tax withholdings	235,953	206,365
Goods and services tax	10,861	8,498
Other	59,574	52,730
	$ 1,215,913	$ 627,892

The receivables related to the sale of oil and natural gas are due from large companies who participate in the oil and natural gas industry in Argentina and Italy. Oil and natural gas sales receivables are typically collected in the month following the sales month.

The Company considers its receivables to be aged as follows:

	2014	2013
Current	$ 933,343	$ 412,932
31 to 90 days	–	485
90 + days	282,570	214,475
	$ 1,215,913	$ 627,892

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.

Currency risk

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

	Closing rate		Average rate	
	2014	2013	2014	2013
ARS	0.1380	0.1985	0.1753	0.2129
US dollars	1.1055	1.0137	1.0534	1.0014
Euro	1.5227	1.3071	1.4126	1.2894
Swiss Franc	1.2501	1.0748	1.1491	1.0654

The following represents the estimated impact on net income (loss) of a 10% change in the closing rates as at March 31 2014 and 2013 on foreign denominated financial instruments held by the Company, with other variables such as interest rates and commodity prices held constant:

	2014	2013
US dollars	$ 252,893	$ 206,493
Swiss Franc	150,697	119,118
	$ 403,590	$ 325,611

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.

As at March 31, 2014, a 5% change in the price of natural gas produced in Italy would represent a change in net loss for the year ended March 31, 2014 of approximately $45,100 (2013 – not applicable).

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. As at March 31, 2014, a 5% change in the price of oil would represent a change in net loss for the year ended March 31, 2014 of approximately $145,300 (2013 – $112,000).

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, loan payable and convertible notes and is therefore not exposed to interest rate risk.

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 $50,000 per annum.

CRITICAL ACCOUNTING ESTIMATES

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected. The significant areas of estimation uncertainty are as follows:

Business combinations

In a business combination, the Company estimates the fair value of assets acquired and liabilities assumed which includes assessing the value of oil and gas properties based upon an estimation of recoverable reserves being acquired.

Carrying value of oil and natural gas assets

The Company used judgment to assess, at each reporting date, whether there is an indication that an asset or CGU may be impaired. A CGU is defined as the lowest grouping of assets that generate identifiable cash inflows that are largely independent of cash inflows of other assets or groups of assets. The allocation of assets into CGU's requires significant judgment and interpretations with respect to the way in which management monitors operations.

If any indication exists that an asset or CGU may be impaired, the Company estimates the recoverable amount. The recoverable amounts of individual assets and cash-generating units have been determined based on the higher of value-in-use and fair value less costs to sell.

These calculations require the use of estimates and assumptions, such as estimates of proved plus probable reserves, future production rates, oil and natural gas prices, future costs and other relevant assumptions, all of which are subject to change. The carrying value of oil and gas assets is sensitive to changes in the aforementioned estimates and assumptions and a material adjustment to the carrying value of the Company's oil and natural gas assets may be required as a result of changes to these estimates and assumptions.

Depletion and depreciation

Amounts recorded for depletion and depreciation and amounts used for impairment calculations are based on estimates of total proved and probable petroleum and natural gas reserves and future development capital. By their nature, the estimates of reserves, including the estimates of future prices, costs and future cash flows, are subject to measurement uncertainty. Accordingly, the impact to the consolidated financial statements in future periods could be material.

Estimation of oil and natural gas reserves

The estimate of oil and natural gas reserves is integral to the calculation of the amount of depletion charged to the consolidated statement of loss and comprehensive loss and is also a key determinant in assessing whether the carrying value of any of the Company's oil and natural gas assets has been impaired. Changes in reported reserves can impact asset carrying values and the decommissioning obligation due to changes in expected future cash flows.

The Company's reserves are evaluated and reported on by independent reserve engineers at least annually in accordance with Canadian Securities Administrators' National Instrument 51-101. Reserve estimation is based on a variety of factors including engineering data, geological and geophysical data, projected future rates of production, commodity pricing and timing of future expenditures, all of which are subject to significant judgment and interpretation.

Decommissioning obligation

Amounts recorded for the Company's decommissioning obligation requires the use of management's best estimates of future decommissioning expenditures, expected timing of expenditures, discount rates and future inflation rates. The estimates are based on internal and third party information and calculations and are subject to change over time and may have a material impact on the Company's consolidated statement of loss and comprehensive loss or its consolidated statement of financial position.

Stock options, warrants and derivative financial instruments

The estimated fair value of derivative financial instruments resulting in financial assets and liabilities, by their very nature are subject to measurement uncertainty. The Company uses the Black-Scholes pricing model to estimate the fair value of stock options, warrants and derivative financial instruments, which is based on significant assumptions such as volatility, forfeiture rate, interest rate, dividend yield and expected term.

Deferred taxes

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company operates are subject to change. As such, income taxes are subject to measurement uncertainty.

Contingencies

When contingencies exist, management estimates the related financial impact to the Company of the possible outcomes of one or more future events.

NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

The Company has reviewed amendments to accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Company:

IFRS 2 Share-based Payment

Amendments to IFRS 2 Share-based Payment revised the definitions of 'vesting conditions' and 'market condition' and add definitions for 'performance condition' and 'service condition'. Amendments apply to share-based payment transactions for which the grant date is on or after July 1, 2014.

IAS 24 Related Party Disclosures

Amendments to IAS 24 Related Party Disclosures clarify that an entity providing key management services to the reporting entity is a related party of the reporting entity.

IAS 32 Financial Instruments: Presentation

Amendments to IAS 32 Financial Instruments: Presentation clarify that an entity has a legally enforceable right to set-off if that right is (a) not contingent on a future event; and (b) enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments also clarify that when a settlement mechanism provides for either net settlement or gross settlement, it is equivalent to net settlement.

IAS 36 Impairment of Assets

In May 2013, the International Accounting Standards Board issued an amendment to IAS 36 Impairment of Assets. These narrow-scope amendments address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

IAS 39 Financial Instruments: Recognition and Measurement

In November 2013, the IASB published amendments to IAS 39 Financial Instruments: Recognition and Measurement through a document entitled "Novation of Derivatives and Continuation of Hedge Accounting". The amendments provide some relief from the discontinuation of hedge accounting when a novation is made as a consequence of laws or regulations or the introduction of laws or regulations, subject to certain criteria.

IFRIC 21 Levies

IFRIC 21 Levies clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. The interpretation also clarifies that no liability should be recognized before the specified minimum threshold to trigger that levy is reached.

The above amendments are effective for annual periods beginning on or after January 1, 2014. The Company is currently assessing the impact of these amendments on its consolidated financial statements.

OTHER

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