

Canoel International Energy Ltd.

Consolidated Financial Statements

As at and for the three months ended June 30, 2014

(unaudited)

Notice of No Auditor Review of Interim Consolidated Financial Statements

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed these unaudited condensed interim consolidated financial statements as at and for the three months ended June 30, 2014.

Managements' Responsibility

To the Shareholders of Canoe International Energy Ltd.:

The accompanying unaudited condensed interim consolidated financial statements of Canoe International Energy Ltd. (the "Company") as at and for the three months ended June 30, 2014 have been prepared by and are the responsibility of the management of the Company and are approved by the board of directors of the Company. The unaudited condensed interim consolidated financial statements are prepared in accordance with International Financial Reporting Standards and reflect management's best estimates and judgments based on currently available information.

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

(Signed)"Luigi Regis Milano"
Chief Financial Officer

August 25, 2014

Calgary, Alberta

Canoel International Energy Ltd.

Condensed Interim Consolidated Statements of Financial Position

(Unaudited)

(Expressed in Canadian dollars)

	Note	June 30 2014 \$	March 31 2014 \$
ASSETS			
Current assets			
Cash		1,284,501	711,248
Marketable securities	4	233,102	378,460
Trade and other receivables	18	1,273,265	1,215,913
Inventory		28,077	48,397
Prepaid expenses		320,336	251,714
		3,139,281	2,605,732
Non-current assets			
Property and equipment	5	21,915,950	20,937,438
Prepaid property and equipment insurance		504,470	549,497
		25,559,701	24,092,667
LIABILITIES			
Current liabilities			
Trade and other payables	18	2,428,783	2,474,178
Oil share agreement		845,229	875,727
Notes payable	6	293,607	374,068
Loan payable	7	2,188,580	1,888,221
Convertible notes	8	1,247,555	1,265,789
Derivative liability	8	133	1,101
		7,003,887	6,879,084
Non-current liabilities			
Loan payable	7	–	377,644
Decommissioning obligation	9	14,393,220	13,392,936
Deferred taxes		1,206,633	1,206,633
		22,603,740	21,856,297
SHAREHOLDERS' EQUITY (DEFICIT)			
Share capital	10	7,409,718	7,151,893
Warrants	11	1,343,470	487,257
Contributed surplus		1,756,013	1,744,326
Accumulated other comprehensive loss		(1,093,812)	(1,442,635)
Deficit		(6,459,428)	(5,704,471)
		2,955,961	2,236,370
Total shareholders' equity (deficit) and liabilities		25,559,701	24,092,667
Going concern (Note 1)			

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

Canoel International Energy Ltd.

Condensed Interim Consolidated Statements of Income (Loss) and Comprehensive Income
(Loss)

For the three months ended June 30

(Unaudited)

(Expressed in Canadian dollars)

	Note	2014 \$	2013 \$
Revenue			
Oil and natural gas revenue		1,193,948	817,735
Royalties		(76,985)	(78,425)
		1,116,963	739,310
Expenses			
Operating		536,510	224,455
Transportation		6,754	13,087
General and administrative		762,813	552,243
Foreign exchange		(16,852)	98,685
Fair value adjustment on marketable securities	4	141,888	–
Depletion and depreciation		196,587	98,971
Fair value adjustment on derivative liability	8	(968)	(31,853)
		1,626,732	955,588
Loss from operations		(509,769)	(216,278)
Finance income	14	–	126,120
Finance expense	14	(245,188)	(277,299)
Net finance expense		(245,188)	(151,179)
Net loss		(754,957)	(367,457)
Exchange differences on translation of foreign operations		348,823	(273,507)
Comprehensive loss		(406,134)	(640,964)
Net income (loss) per share			
Basic and diluted	13	(0.05)	(0.04)
Weighted average shares outstanding			
Basic and diluted	13	14,523,150	8,188,429

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

Canoel International Energy Ltd.

Condensed Interim Consolidated Statements of Cash Flows

For the three months ended June 30

(Unaudited)

(Expressed in Canadian dollars)

	Note	2014 \$	2013 \$
Operating activities			
Net income (loss)		(754,957)	(367,457)
Items not involving cash:			
Fair value adjustment on marketable securities		141,888	–
Depletion and depreciation		196,587	98,971
Royalties on oil share agreement		–	4,249
Fair value adjustment on derivative liability		(968)	(31,853)
Finance expense		139,266	169,480
Reclassification between operating expense and property and equipment		–	23,077
		(278,184)	(103,533)
Foreign exchange on translation		30,791	(55,409)
Change in non-cash working capital	16	(153,180)	(656,251)
		(400,573)	(815,193)
Financing activities			
Repayment of notes payable		(113,587)	–
Proceeds from issue of share capital, net of share issue costs		1,125,725	–
		1,012,138	–
Investing activities			
Cash received on business combination, net of cash paid		–	1,889,542
Expenditures on property and equipment		(31,653)	(6,771)
Prepaid property and equipment insurance		–	(608,309)
Change in non-cash working capital	16	23,894	142,266
		(7,759)	1,416,728
Change in cash		603,806	601,535
Foreign exchange effect on cash held in foreign currencies		(30,553)	(7,597)
Cash, beginning of year		711,248	346,541
Cash, end of year		1,284,501	940,479
Cash interest paid		69,441	107,819

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

Canoel International Energy Ltd.

Condensed Interim Consolidated Statements of Changes in Equity

For the three months ended June 30

(Unaudited)

(Expressed in Canadian dollars)

	Note	2014 \$	2013 \$
Share capital	10		
Balance – beginning of year		7,151,893	6,556,260
Unit private placement, net of issue costs		1,125,725	–
Fair value of warrants		(867,900)	–
Balance – end of year		7,409,718	6,556,260
Warrants	11		
Balance – beginning of year		487,257	1,231,069
Fair value of warrants		867,900	–
Expiry of warrants		(11,687)	(174,800)
Balance – end of year		1,343,470	1,056,269
Contributed surplus			
Balance – beginning of year		1,744,326	907,514
Expiry of warrants		11,687	174,800
Balance – end of year		1,756,013	1,082,314
Accumulated other comprehensive loss			
Balance – beginning of year		(1,442,635)	(880,286)
Exchange differences on translation of foreign operations		348,823	(273,507)
Balance – end of year		(1,093,812)	(1,153,793)
Deficit			
Balance – beginning of year		(5,704,471)	(9,913,714)
Net income (loss)		(754,957)	(367,457)
Balance – end of year		(6,459,428)	(10,281,171)
Total equity		2,955,961	(2,740,121)

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

Canoel International Energy Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended June 30

(Unaudited)

(Expressed in Canadian dollars)

1. Nature of operations and going concern

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

As at June 30, 2014, the Company has a working capital deficit of \$3,864,606 (March 31, 2014 – \$4,273,352) and an accumulated deficit of \$6,459,428 (March 31, 2014 – \$5,704,471) 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.

In May and June 2014, the Company completed the private placement of 8,335,032 units at \$0.15 per unit for gross proceeds of \$1,250,255 (Note 10).

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

2. Basis of presentation

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, including International Accounting Standard 34 – Interim Financial Reporting. The Company has consistently applied the same accounting policies throughout all periods presented except as noted below (Note 3). These condensed interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto in the Corporation's annual filings for the year ended March 31, 2014.

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

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

These unaudited condensed interim consolidated financial statements were authorized for issue by the Board of Directors on August 25, 2014.

Canoel International Energy Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended June 30

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(Expressed in Canadian dollars)

3. Changes in accounting policies

As disclosed in the Company's March 31, 2014 audited consolidated financial statements, on April 1, 2014, the Company adopted the new standard IFRIC 21 Levies as well as amendments to IAS 24 Related Party Disclosures, IAS 32 Financial Instruments: Presentation, IAS 36 Impairment of Assets, IAS 39 Financial Instruments: Recognition and Measurement. The adoption of these standards and amendments had no impact on the amounts recorded or disclosures included in the unaudited condensed interim consolidated financial statements as at and for the three months ended June 30, 2014.

4. Marketable securities

As at June 30, 2014 and March 31, 2014, the Company held 222,000 common shares of an unrelated party, Global Resources Investment Trust plc ("GRIT").

As at June 30, 2014, the fair value of the Company's investment in GRIT shares was £127,650 (CAD \$233,102) (March 31, 2014 – £205,350 (CAD \$378,460)), resulting in the recognition of a \$141,888 loss on the fair value of the marketable securities and \$3,470 loss on foreign exchange in relation to the GRIT shares in the June 30, 2014 consolidated statement of loss and comprehensive loss.

5. Property and equipment

	D&P assets	Furniture & fixtures	Total
Cost			
Balance – March 31, 2014	\$ 22,314,572	\$ 80,634	\$ 22,395,206
Additions	31,653	–	31,653
Decommissioning obligation revisions	1,947,609	–	1,947,609
Foreign currency translation	(839,403)	(3,915)	(843,318)
Balance – June 30, 2014	23,454,431	76,719	23,531,150
Accumulated depletion and depreciation			
Balance – March 31, 2014	\$ (1,407,921)	\$ (49,847)	\$ (1,457,768)
Depletion and depreciation	(194,458)	(2,129)	(196,587)
Foreign currency translation	36,670	2,485	39,155
Balance – June 30, 2014	(1,565,709)	(49,491)	(1,615,200)
Carrying amount			
March 31, 2014	\$ 20,906,651	\$ 30,787	\$ 20,937,438
June 30, 2014	\$ 21,888,722	\$ 27,228	\$ 21,915,950

The depletion calculation for the three months ended June 30, 2014 included estimated future development costs of \$3.9 million for proved and probable reserves (March 31, 2014 – \$4.0 million).

The Company did not identify any indicators of impairment at June 30, 2014.

6. Notes payable

As at June 30, 2014, the Company had US\$245,000 (March 31, 2014 – US\$340,000) of notes payable outstanding secured by a mortgage on the oil and natural gas properties in Argentina and bearing interest at a fixed rate of interest of 11%.

As at June 30, 2014, the balance of notes payable is \$293,607 including accrued interest (March 31, 2014 – \$374,068).

Canoel International Energy Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended June 30

(Unaudited)

(Expressed in Canadian dollars)

7. Loan payable

As at March 31, 2014 and June 30, 2014, the Company had loan payable in the principal amount of US\$2,050,000 due to a private lender with the following terms:

- 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;
- Conversion of the loan to bonds and the issuance of 500,000 warrants to the lender exercisable at \$1.00 per share until June 1, 2015, subject to approval by the TSX Venture Exchange, for which the estimated fair value of the conversion feature is negligible; and
- Distribution of certain net profits to the lender, as defined in the amended loan agreement, related to the sale of all or part of the Company's assets and operations in Argentina.

As at June 30, 2014, \$2,188,580 (March 31, 2014 – \$1,888,221) of principal is classified as a current liability; \$nil (March 31, 2014 – \$377,644) of principal is classified as long-term and \$144,389 (March 31, 2014 – \$131,285) of accrued interest is included in traded and other payables.

8. Convertible notes

	Face value \$	Debt component \$	Derivative liability \$
Balance – March 31, 2014	1,350,169	1,265,789	1,101
Change in fair value	–	–	(968)
Accretion	–	26,254	–
Foreign exchange	(49,904)	(44,488)	–
Balance – June 30, 2014	1,300,265	1,247,555	133

As at June 30, 2014 and March 31, 2014, the Company held \$1,080,000 Swiss Francs (CAD\$1,300,265 at June 30, 2014) of unsecured convertible notes bearing interest at a simple interest rate of 9% per annum, payable in arrears in equal quarterly installments commencing April 11, 2012. Interest is accrued and presented in trade and other payables in the amount of \$180,243 as at June 30, 2014 (March 31, 2014 – \$156,865).

The notes mature on January 11, 2015. At any time prior to maturity and at the option of the note holder, the principal and any unpaid interest of a note may be converted into common shares of the Company at a price of CAD\$1.50 per share.

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

Risk free interest rate	1.07%
Expected life	0.5 years
Expected volatility	100%

Canoel International Energy Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended June 30

(Unaudited)

(Expressed in Canadian dollars)

9. Decommissioning obligation

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

Balance – March 31, 2014	\$	13,392,936
Accretion		103,298
Change in estimate		1,947,609
Foreign currency translation		(1,050,623)
Balance – June 30, 2014	\$	14,393,220

The following significant weighted average assumptions were used to estimate the decommissioning obligation:

Undiscounted cash flows	\$214 million
Risk free rate	24.2%
Inflation rate	17.5%
Weighted average expected timing of cash flows	18 years

10. Share capital

	Number of common shares	Amount \$
Balance – March 31, 2014	11,252,039	7,151,893
Unit private placement	8,335,032	1,250,255
Fair value of warrants	–	(819,820)
Share issue costs	–	(172,610)
Balance – June 30, 2014	19,587,071	7,409,718

In May 2014 and June 2014, the Company completed the private placement of 8,335,032 units at \$0.15 per unit for gross proceeds of \$1,250,255. Each unit is comprised of one common share and one warrant exercisable at \$0.25 per share for a period of 36 months from the date of issuance. In connection with the unit private placement, the Company incurred \$45,850 of issuance costs, paid finder's fees of \$78,680 and issued 492,515 finder's warrants exercisable at \$0.25 for a period of 36 months from the date of issuance.

Officers and directors subscribed for 716,666 units for gross proceeds of \$107,500.

The fair value of the warrants was estimated at \$819,820 (\$0.098 per warrant) and the fair value of the finder's warrants was estimated at \$48,080 (\$0.098 per warrant) using the Black-Scholes pricing model and the following significant weighted average assumptions:

Volatility	75%
Risk-free rate	1.13%
Expected life	3 years

Canoel International Energy Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended June 30

(Unaudited)

(Expressed in Canadian dollars)

11. Warrants

	Number of warrants	Amount \$	Weighted average exercise price
Balance – March 31, 2014	2,553,367	487,257	\$ 0.87
Unit private placements (Note 10)	8,335,032	819,820	0.25
Finder's fees (Note 10)	492,515	48,080	0.25
Expired	(50,000)	(11,687)	(5.00)
Balance – June 30, 2014	11,330,914	1,343,470	\$ 0.37

Information about warrants outstanding and exercisable as at June 30, 2014 is as follows:

Exercise price	Number of warrants	Weighted average remaining life (years)	Weighted average exercise price
\$ 0.25	9,577,547	2.77	\$ 0.25
\$ 1.00	1,745,867	0.56	1.00
\$ 5.00	7,500	0.18	5.00
	11,330,914	2.43	\$ 0.37

12. Stock options

As at March 31, 2014 and June 30, 2014, the Company had 214,000 stock options outstanding and exercisable. Information about stock options outstanding as at June 30, 2014 is as follows:

Exercise price	Number of options	Weighted average remaining life (years)	Weighted average exercise price
\$ 1.00	175,000	1.45	\$ 1.00
\$ 1.25	10,500	0.24	1.25
\$ 1.50	7,000	0.33	1.50
\$ 1.70	7,000	0.60	1.70
\$ 2.30	14,500	0.24	2.30
	214,000	1.49	\$ 1.14

13. Per share amounts

For the three months ended June 30	2014	2013
Net loss	\$ (754,957)	\$ (367,457)
Weighted average number of shares – basic:		
Issued common shares as at April 1	11,252,039	8,188,429
Effect of common shares issued during the period	3,271,111	–
	14,523,150	8,188,429
Net loss per share – basic and diluted ⁽¹⁾	\$ (0.05)	\$ (0.04)

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

Canoel International Energy Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended June 30

(Unaudited)

(Expressed in Canadian dollars)

14. Finance income and expense

For the three months ended June 30	2014	2013
Income:		
Recovery of loan payable interest	\$ –	\$ 126,120
Expense:		
Interest expense	115,636	204,976
Accretion of decommissioning obligation	103,298	46,201
Accretion of convertible notes	26,254	26,122
	245,188	277,299
Net finance expense	\$ (245,188)	\$ (151,179)

15. Presentation of employee compensation cost

(a) Employee compensation cost

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

For the three months ended June 30	2014	2013
Operating	\$ 218,196	\$ 356,589
General and administrative	236,292	148,867
Total employee compensation cost	\$ 454,488	\$ 505,456

16. Change in non-cash working capital

For the three months ended June 30	2014	2013
Trade and other receivables	\$ (109,683)	\$ (32,453)
Inventory	18,532	(38,260)
Prepaid expenses	(56,663)	(332,466)
Trade and other payables	18,528	(110,806)
Total change in non-cash working capital	\$ (129,286)	\$ (513,985)

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

For the three months ended June 30	2014	2013
Operating	\$ (153,180)	\$ (656,251)
Investing	23,894	142,266
Total change in non-cash working capital	\$ (129,286)	\$ (513,985)

Canoel International Energy Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended June 30

(Unaudited)

(Expressed in Canadian dollars)

17. Related party transactions

Related party transactions are considered to be in the normal course of operations and are initially recognized at fair value. Related party transactions during the three months ended June 30, 2014 and 2013 not disclosed elsewhere in these consolidated financial statements are as follows:

- a) Included in general and administrative expenses is \$68,059 (2013 – \$49,094) charged by a company controlled by an officer and director of the Company for office rent and administrative services. As at June 30, 2014, \$nil (March 31, 2014 – \$nil) was included in trade and other payables in respect of these charges.
- b) Included in interest expense is \$1,376 (2013 – \$1,205) on \$50,000 Swiss Francs of convertible notes (Note 8) held by company controlled by a director of the Company, of which \$13,403 is included in trade and other payables as at June 30, 2014 (March 31, 2014 – \$12,515).
- c) Included in trade and other payables is \$nil (March 31, 2014 – \$13,803) 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.

18. Financial risk management

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

a) Credit risk

Credit risk is the risk of an unexpected loss if a customer or counter party to a financial instrument fails to meet its commercial obligations. The Company's maximum credit risk exposure is limited to the carrying amount cash of \$1,284,501 (March 31, 2014 – \$711,248) and trade and other receivables of \$1,273,265 (March 31, 2014 – \$1,215,913).

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

	June 30 2014	March 31 2014
Oil and natural gas sales	\$ 970,178	\$ 909,525
Stamp tax and other tax withholdings	195,272	235,953
Unit private placement receivable (collected July 2014)	16,200	–
Goods and services tax	21,629	10,861
Other	69,986	59,574
	\$ 1,273,265	\$ 1,215,913

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:

	June 30 2014	March 31 2014
Current	\$ 1,025,661	\$ 933,343
90 + days	247,604	282,570
	\$ 1,273,265	\$ 1,215,913

Canoel International Energy Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended June 30

(Unaudited)

(Expressed in Canadian dollars)

b) Liquidity risk

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

As at June 30, 2014, the Company had \$7,003,887 (March 31, 2014 – \$6,879,084) of current liabilities for which the Company's \$1,284,501 (March 31, 2014 – \$711,248) cash balance is insufficient to settle the current liabilities. It is expected that further debt and equity financings will be required in order to settle existing current liabilities, continue development of the Company's assets and meet future obligations. There can be no assurance that such financings will be available to the Company.

As of June 30, 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 June 30, 2015	Due subsequent to June 30, 2015
Trade and other payables	\$ 2,428,783	2,428,783	2,428,783	–
Oil share agreement	845,229	845,229	845,229	–
Notes payable	293,607	303,099	303,099	–
Loan payable	2,188,580	2,389,936	2,389,936	–
Convertible note	1,247,555	1,362,784	1,362,784	–
	\$ 7,003,754	7,329,831	7,329,831	–

c) Market Risk

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

i) Currency risk

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

	Closing rate		Average rate	
	June 30 2014	March 31 2014	Three months ended June 30 2014	2013
ARS	0.1313	0.1380	0.1354	0.1954
US dollars	1.0670	1.1055	1.0902	1.0233
Euro	1.4615	1.5227	1.4955	1.3367
Swiss Franc	1.2039	1.2501	1.2268	1.0862

The following represents the estimated impact on net income (loss) of a 10% change in the closing rates as at June 30, 2014 and 2013 on foreign denominated financial instruments held by the Company, with other variables such as interest rates and commodity prices held constant:

For the three months ended June 30	2014	2013
US dollars	\$ 245,840	\$ 129,590
Swiss Franc	148,045	41,970
	\$ 393,885	\$ 171,560

Canoel International Energy Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended June 30

(Unaudited)

(Expressed in Canadian dollars)

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.

As at June 30, 2014, a 5% change in the price of natural gas produced in Italy would represent a change in net loss for the three months ended June 30, 2014 of approximately \$12,800 (2013 – nominal).

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 June 30, 2014, a 5% change in the price of oil would represent a change in net loss for the three months ended June 30, 2014 of approximately \$43,000 (2013 – \$36,700).

ii) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company has fixed interest on notes payable (Note 6), loan payable (Note 7) and convertible notes (Note 8).

Canoel International Energy Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended June 30

(Unaudited)

(Expressed in Canadian dollars)

19. Operating segments

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

- Argentina;
- Italy, which commenced oil and gas operations following the acquisition of assets in June 2013; and
- Other, which includes corporate assets and the operations in the Canadian and US entities. None of these individual segments meet the quantitative thresholds for determining reportable segments in 2014 or 2013.

		June 30, 2014				March 31, 2014			
		Argentina	Italy	Other	Total	Argentina	Italy	Other	Total
Property and equipment	\$	5,017,309	16,898,641	–	21,915,950	3,267,138	17,670,300	–	20,937,438
Other assets	\$	1,188,542	1,596,433	858,776	3,643,751	1,047,784	1,627,287	480,158	3,155,229
Total liabilities	\$	6,736,027	11,416,288	4,451,425	22,603,740	5,380,166	11,803,204	4,672,927	21,856,297
Capital expenditures	\$	2,708	28,945	–	31,653	7,069	325,048	–	332,117

		Three months ended June 30							
		2014		2013		2014		2013	
		Argentina	Italy	Other	Total	Argentina	Italy	Other	Total
Revenue	\$	937,393	733,797	256,555	83,938	–	–	1,193,948	817,735
Royalties		(76,985)	(74,176)	–	–	–	(4,249)	(76,985)	(78,425)
Operating and transportation		(414,224)	(155,530)	(129,040)	(82,012)	–	–	(543,264)	(237,542)
General and administrative		(151,491)	(149,283)	(100,121)	(36,079)	(511,201)	(366,881)	(762,813)	(552,243)
Depletion and depreciation		(104,753)	(98,971)	(91,834)	–	–	–	(196,587)	(98,971)
Finance and other expenses		(184,195)	(191,017)	(6,802)	–	(178,259)	(26,994)	(369,256)	(218,011)
Segment income (loss)	\$	5,745	64,820	(71,242)	(34,153)	(689,460)	(398,124)	(754,957)	(367,457)