Canoel International Energy Ltd.

Consolidated Financial Statements
Third Quarter Ended December 31, 2010
(expressed in Canadian dollars)

Notice to the Reader

The accompanying unaudited interim financial statements of Canoel International Energy Ltd. for the three and nine months ended December 31, 2010 have been prepared by management and approved by the Board of Directors of the Company. These statements have not been reviewed by the Company's external auditors.

Approved on behalf of Canoel International Energy Ltd.,

Andrea Cattaneo	John Arne Farstad
President and Chief Executive Officer	Chief Financial Officer

Dated February 28, 2011

Canoel International Energy Ltd.

Consolidated Balance Sheets

As at December 31, 2010 and March 31, 2010

(Expressed in Canadian dollars)

	December 31,2010 $	March 31, 2010 $ (Audited)
Assets		
Current Assets		
Cash and cash equivalents	**701,679**	992,599
Accounts receivable (note 12)	**1,380,618**	547,542
Prepaid expenditures	**88,429**	11,727
	2,170,727	1,551,868
Property, plant and equipment (note 6)	**3,846,358**	986,420
	6,017,085	2,538,288
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**874,705**	261,566
Note payable (note 5)	**1,346,605**	-
Current portion of convertible notes (note 8)	**38,250**	-
	2,227,560	261,566
Asset retirement obligation (note 7)	**394,128**	-
Convertible notes (note 8)	**165,861**	-
	2,837,548	261,566
Shareholders' equity		
Share capital (note9b)	**5,523,665**	3,136,450
Other equity (note 8)	**69,424**	-
Warrants (note 9c)	**110,282**	479,283
Contributed surplus	**265,160**	195,535
Deficit	**(2,803,530)**	(1,534,546)
	3,179,537	2,276,722
	6,017,085	2,538,288

Going concern (note 2)
Commitments (note 14)
Subsequent events (note 15)

Approved by the Board of Directors

(Signed) "*Luigi Regis Milano*"
Director

(Signed) *"Andrea Cattaneo"*
Director

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

Canoel International Energy Ltd.

Consolidated Statements of Loss, Comprehensive Loss and Deficit

For the three and nine months ended December 31, 2010 and 2009

(Expressed in Canadian dollars)

	Three months ended December 31, 2010	Three months ended December 31, 2009	**Nine months ended December 31, 2010**	Nine months ended December 31, 2009
	$	$	**$**	$
Revenue				
Petroleum revenue	**427,238**	-	**862,501**	-
Royalties	**(41,211)**	-	**(73,411)**	-
Interest income	**39**	153	**609**	1,037
	386,066	153	**789,699**	1,037
Expenses				
Production	**271,268**	-	**423,069**	-
Transportation	**8,229**	-	**16,048**	-
General and administrative (note 13)	**306,780**	244,048	**1,418,785**	623,148
Stock based compensation (note 9d)	**0,00**	5,390	**69,625**	28,304
Depletion, depreciation and accretion	**65,046**	-	**115,801**	-
Interest and foreign exchange	**45,998**	2,814	**15,355**	7,366
	(697,321)	252,252	**(2,058,683)**	(658,818)
Net loss and comprehensive loss	**(311,255)**	(252,099)	**(1,268,984)**	(657,781)
Deficit, beginning of period	**(2,492,275)**	(884,840)	**(1,534,546)**	(479,158)
Deficit, end of period	**(2,803,530)**	(1,136,939)	**(2,803,530)**	(1,136,939)
Basic and diluted loss per share (note 9f)	**(0,01)**	(0.02)	**(0,04)**	(0.04)
Weighted average shares outstanding during the period – basic and diluted	**36,484,495**	16,637,258	**30,062,751**	16,200,732

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

Canoel International Energy Ltd.

Consolidated Statement of Cash Flows

For the three and nine months ended December 31, 2010 and 2009

(Expressed in Canadian dollars)

	Three months ended December 31, 2010 $	Three months ended December 31, 2009 $	**Nine months ended December 31, 2010 $**	Nine months ended December 31, 2009 $
Cash flows used in operating activities:				
Net loss for the period	**(311,256)**	(252,099)	**(1,268,985)**	(657,781)
Items not affecting cash:				
Depletion, depreciation and accretion	**65,046**	-	**115,801**	-
Stock based compensation	**-**	5,390	**69,625**	28,304
Accretion of convertible notes (note 8)	**-**	-	**9,693**	-
	(246,210)	(246,709)	**(1,073,863)**	(629,477)
Changes in non-cash working capital				
Changes in accounts receivable	**(295,138)**	(5,904)	**2,110**	(24,227)
Change in prepaids	**(19,360)**	3,458	**(76,702)**	(18,307)
Change in accounts payable and accrued liabilities	**139,916**	(20,964)	**341,894**	(11,645)
	(420,792)	(270,119)	**(806,561)**	(683,656)
Cash flows used in investing activities				
Investment in property and equipment	**(148,786)**		**(148,786)**	
Corporate acquisition			**(1,440,600)**	
	(148,786)	-	**(1,589,386)**	(77,560)
Cash flows provided by financing activities				
Proceeds from issuance of common shares, net of issue costs	**597,790**	181,013	**2,019,895**	319,285
Proceeds from issuance of convertible notes	**-**		**575,000**	
Changes in non-cash working capital	**(440,618)**	-	**(489,868)**	-
	157,172	181,013	**2,105,027**	319,285
Change in cash and cash equivalents	**(412,406)**	(89,106)	**(290,920)**	(441,931)
Cash and cash equivalents, beginning of period	**1,114,085**	741,240	**922,599**	1,094,065
Cash and cash equivalents, end of period	**701,679**	652,134	**701,679**	652,134

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

(Expressed in Canadian dollars)

1 Nature of operations

Canoel International Energy Ltd. (the "Company") was incorporated pursuant to the provisions of the British Columbia Business Corporations Act on September 20, 2007. The Company is involved in the exploration for, development of and production of petroleum and natural gas properties in Argentina and Tunisia.

On March 10, 2010, the Company formed Ingenieria Petrolera del Rio de la Plata S.R.L. ("IPRP"), a wholly owned subsidiary of the Company. IPRP was established to negotiate management agreements to operate existing producing properties on behalf of other companies; at present has no assets and liabilities.

On July 22, 2010, the Company acquired 100% of Central Patagonia SRL ("Central Patagonia"), a subsidiary of two U.S. based companies, thereby acquiring two adjacent oil producing properties in Argentina (the "Argentina Acquisition"). In anticipation of the completion of the Argentina Acquisition, on July 20, 2010 the Company formed a wholly owned US subsidiary, Ingenieria Petrolera Patagonia Ltd. ("IPP") to act as the acquirer of the two US companies controlling Central Patagonia. Consequently the Company is no longer classified as a development stage entity as defined by the Canadian Institute of Chartered Accountants ("CICA") Accounting Guideline 11.

2 Going Concern

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles applicable to a going concern, which assumes that the Company will be able to realize its assets and meet its obligations and continue its operations for the foreseeable future. Realization values may be substantially different from carrying values as shown and these consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis were not appropriate for these consolidated financial statements, then the adjustments would be necessary in the carrying value of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used.

As at December 31, 2010, the Company had not yet achieved profitable operations, has accumulated a deficit of $2,803,530 (March 31, 2010 - $1,534,546) since its inception, and expects to incur further losses in the development of its business, which is typical of an oil and gas exploration and development company. 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 funding to finance existing operations, attain commercial production from its Tunisian oil and gas properties and attain future profitable operations from Argentina. 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.

3 Significant accounting policies

These unaudited interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"), using the same accounting policies and methods as per the annual financial statements for the year ended March 31, 2010. They do not include all of the disclosures required by Canadian GAAP, and should be read in conjunction with the most recent annual financial statements of the Company.

Foreign Currency Translation

The US subsidiaries and their Argentina operation are considered to be an "integrated foreign operation" for accounting purposes and, therefore, these foreign operations financial statements are translated into Canadian Dollars using the temporal method. Under the temporal method the company translates foreign denominated monetary assets and liabilities at the exchange rate prevailing at the balance sheet date; non monetary assets, liabilities and related depletion and depreciation are translated at historic rate at the balance sheet date; revenue and expenses are translated at the average rate of exchange for the period and any resulting foreign exchange gains or losses are included in earnings.

Property and equipment

The Argentinean company uses the successful efforts method of accounting for oil and gas activities. Costs to acquire mineral interest in the oil and gas properties, to drill and to equip exploratory wells that find proven reserves and to drill and equip developments wells are capitalized. Costs to drill exploratory wells that do not find proven reserves are expensed at the moment that the exploratory drilling proves to be unsuccessful. Geological and geophysical costs and costs of carrying and retaining unproved properties are expensed as they are incurred.

Unproved oil and gas properties are periodically assessed for impairment after considering the remaining term of the lease, drilling results the evaluation of the geological data and other information. A loss is recognized at the time of impairment by providing an impairment allowance. Capitalized costs of producing oil and gas properties, after considering estimated salvage values, are depreciated and depleted over proved developed reserves using the unit of production method; while acquired resources properties, with proved reserves, are depleted over proved reserves using the unit of production method. Pipelines and associated facilities are depreciated on a straight-line basis over their expected useful lives. Acquisition costs of probable reserves are not depleted or amortized while under active evaluation for commercial reserves. Costs are transferred to delectable costs as proved reserves are recognized.

Expenditures for maintenance, repairs and minor renewals necessary to maintain properties in operating condition are expensed as incurred.

Costs associated with major replacements and renewals are capitalized when the service potential of the reserves have enhanced.

Other property and equipment is carried at cost less accumulated depreciation. Depreciation expenses are computed using the straight line method over the estimated useful lives of the assets. Additions too and major improvements of properties and equipment are capitalized.

The results of operations for the three and nine months ended December 31, 2010 are not necessarily indicative of those to be expected for the entire year ending March 31, 2011.

Adoption of new accounting policies

Business combinations

In January 2009, the AcSB issued CICA Handbook Section 1582, "Business Combinations" which replaces previous guidance on business combinations. This Section applies to business combinations entered into on or after January 1, 2011 with earlier adoption permitted. This standard outlines new guidance which states that the purchase price is to be based on trading data at the closing date of the acquisition, not the announcement date, and that most acquisition costs are to be expensed as incurred, not capitalized, as part of the purchase price. As well, under the new standard, the acquirer's unrecognized tax benefits that are recognizable as a result of an acquisition are recognized as a reduction of income tax expense. The new standard also modifies the accounting for contingent consideration and negative goodwill. The Company has elected to prospectively adopt this standard effective April 1, 2010, in advance of the transition to International Financial Reporting Standards ("IFRS") as it substantially aligns with IFRS.

Consolidated financial statements

In January 2009, the AcSB issued CICA Handbook Section 1601, "Consolidations" and 1602, "Non-controlling Interests". Section 1601 carries forward the requirements of Section 1600, "Consolidated Financial Statements", other than those relating to non-controlling interests which would be covered in Section 1602. These standards are effective for annual and interim periods beginning on or after January 1, 2011 with earlier adoption permitted. The Company has elected to adopt the standards effective April 1, 2010.

Principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries IPRP and IPP since its establishment on July 20, 2010 (note 5).

(Expressed in Canadian dollars)

4 Future accounting and reporting changes

Equity

In August 2009, the AcSB issued amendments to CICA Handbook Section 3251: Equity as a result of issuing CICA Handbook Section 1602: Non-controlling Interests. The amendments require non-controlling interests to be recognized as a separate component of equity. The amendments apply only to entities that have adopted Section 1602 and are not expected to have an impact on the Company's financial statements.

5 Business combinations

On July 22, 2010, a Share Purchase Agreement (the "Agreement") was signed to acquire Central Patagonia. Pursuant to the Agreement, IPP completed the Argentina Acquisition of Central Patagonia from Central Argentina Corporation ("Central Argentina") through the purchase of the shares of Central Patagonia Corp ("CPC") and CPC Holdings Inc. ("CPC Holdings"), who together own 100% of Central Patagonia. The purchase price was US $2,843,003. Central Argentina is the previous parent company of CPC and CPC Holdings. Of the total purchase price, US $1,400,000 was advanced by the Company through IPP on the closing date. The remaining US $1,443,003 is repayable under two different promissory notes (collectively the "Notes"). The first note is due to Central Argentina on the maturity date of July 22, 2011 and bears an interest rate of 7.5% per annum, payable quarterly. A second promissory note for the amount of US $443,003 is due to Central Argentina on the maturity date of March 22, 2011 and bears an interest rate of 7.5% per annum until November 22, 2010, at which point the interest rate increases to 15% per annum. At its option, IPP may repay any amount of the Notes prior to the respective maturity dates. The Notes are secured by a first lien on the equity interests and all personal and real property of CPC, CPC Holdings and Central Patagonia. Pursuant to the Agreement, the purchase price allocation is subject to change based on the final determination of assets acquired and liabilities assumed, which may be calculated up to December 31, 2010.

Pursuant to the Agreement, for a period of three years from November 30, 2010 IPP will provide Central Argentina with the following: (i) 50% of the annual gross revenue derived from the sale of barrels of oil at a per barrel invoice price that exceeds USD $42.00, but is less than or equal to USD $52.00; and (ii) 25% of the annual gross revenue derived from the sale of barrels of oil at a per barrel invoice price that exceeds USD $52.00.

The Company has accounted for the Argentina Acquisition as prescribed by CICA Handbook section 1582 "Business Combinations". As the acquirer, IPP is required to recognize the assets and liabilities of Central Patagonia as at July 22, 2010. The results of operations of Central Patagonia are included in the consolidated financial statements of the Company from July 22, 2010. Costs associated with the Argentina Acquisition of $135,600 were expensed and are included in general and administrative expense.

In the quarter ended December 31, 2010, the Company has accrued $29,324 in interest on the Notes.

(Expressed in Canadian dollars)

A stated above, management is still completing its review of the assets and liabilities acquired in this transaction, and therefore, the purchase price equation shown below is subject to change based in the final determination of the assets acquired and liabilities incurred.

Details of the Argentina Acquisition are:

Purchase price allocation (CDN $)	
Fair value of net assets acquired:	
Working capital	$455,850
Property and equipment	2,837,514
Accrued liabilities	(23,400)
Asset retirement obligation	(344,514)
	$2,925,450
Cost of the Argentina Acquisition:	
Cash consideration	$1,440,600
Notes issued	1,484,850
	$2,925,450

6 Property, plant and equipment

			December 31, 2010
	Cost $	Accumulated depletion & depreciation $	Net book value $
Oil and gas properties	**5,301,392**	**1,469,760**	**3,831,632**
Other fixed assets	**38,402**	**23,677**	**14,725**
	5,339,794	**1,493,437**	**3,846,357**

			March 31, 2010
	Cost $	Accumulated depletion & depreciation $	Net book value $
Oil and gas properties	986,420	-	986,420
	986,420	-	986,420

The Company has not capitalized any general and administrative expense for the period ended December 31, 2010

During fiscal 2008 the Company entered into a Farm-out and Participation Agreement (the “Farm-out and Participation Agreement”). Pursuant to the Farm-out and Participation Agreement, the Company has a right to an 11% participating interest in three production sharing contracts related to unproved oil and gas properties.

(Expressed in Canadian dollars)

Included in oil and gas properties is an amount of $190,000 paid for an agreement which provides the Company an option to increase their participating interest from 11% up to 45% in two exploration blocks in Tunisia, Bazma and Sud Touzer. The Company must commit to participate in the drilling of the wells proposed under the permits. Pursuant to the Option Agreement, the payment is non-refundable and the original expiry date on the option was April 30, 2009 for Bazma and on June 30, 2009 for Sud Touzer. Such deadlines have been extended by the operator and will remain valid until the Authorization for Expenditure ("AFE") for the first well on each block is issued. If another party commits to operator to earn an interest, then the option will become reduced by the interest assumed by the other party. If the option on either block expires unexercised or another party commits to earn an interest, the Company may need to recognize an impairment in future periods.

7 Asset retirement obligation

The Company is legally required to restore its properties to their original condition. Estimated asset retirement costs are based upon engineering estimates of the anticipated method and the extent of site restoration required in accordance with current legislation and industry practices in the various jurisdictions in which the Company has properties.

As of December 31, 2010, the Company estimated the total undiscounted amount of cash flows required to settle its ARO to be $604,000 (December 31, 2009 - $nil), which is estimated to be incurred over the next 14 years. The Company calculated ARO using a discount rate of 7.0% and an inflation rate of 2.0%, which resulted in the fair value of the ARO of $394,126. It is expected that this obligation will be funded from general Company resources at the time the costs are incurred.

	December 31, 2010 **$**
Balance, beginning of period	**-**
Liabilities assumed on Argentina Acquisition	**394,128**
Balance, end of period	**394,128**

8 Convertible notes

	December 31, 2010
Convertible note	267,000
Bifurcation of equity component	(66,214)
Value of warrant	(5,658)
Accretion of equity component	8,277
Accretion of warrant value	707
Liability component of the convertible note	204,111

(Expressed in Canadian dollars)

On June 24, 2010, the Company issued 100 convertible notes ("Note 01") and on September 2, 2010, the Company issued 15 convertible notes ("Note 02 and Note 03"), collectively the "Notes", by way of a private placement for total gross proceeds of $500,000 from Note 01 and $75,000 from Note 02 and Note 03. Each Note consisted of one unsecured convertible note, with a principal value of $5,000, and 5,000 common share purchase warrants (the "Warrants"). The Notes will mature 4 years from the date of issuance, unless earlier redemption or conversion occurs. The principal amount of each Note is convertible into common share of the Company at the option of the holder at any time prior to maturity at a conversion price of $0.20 per share.

The Notes bear simple interest at a rate of 15% per annum, payable in arrears in equal quarterly installments. The Notes will be fully due and payable on the maturity date with the repayment of the principal commencing on September 24, 2011 for Note 01 and December 2, 2011 for Note 02 and Note 03, in 12 equal, quarterly installments. Subsequent to one year from the respective issue dates, the Company has the option to repay the principal balance in full at any time provided written notice is given one-month in advance.

Each Warrant entitles the holder to purchase one additional common share of the Company at a price of $0.50 per share until June 24, 2014 for Note 01 and September 2, 2014 for Note 02 and Note 03, (note 9(c)).

On October 5, 2010, a stakeholder of the Company's convertible debt Note 01 converted $308,000 of debt into 2,566,667 new common shares of the Company at a price of $0.12 per share. The note holder was issued 1,283,333 purchase warrants. Each warrant entitles the holder to purchase one Common Share in the capital of the Company at a price of $0.17 per share for a period of one year from the date of the issue.

The remaining balance of the convertible debt is $267,000

The Notes are a compound financial instrument and as such have been recorded as a liability and as equity. The residual valuation method was used to determine the equity portion of the Notes. Under this approach, the liability component was valued first, and the difference between the proceeds of the Notes and the fair value of the liability was assigned to the equity component. The present value of the liability component was calculated using a discount rate of 8% which approximated the interest rate that would have been applicable to non-convertible debt of the Company at the time the Notes were issued. The fair value of the warrant subsequently reduced the liability portion of the Note. The liability component of the Notes will be accreted to its face value of $267,000 over the four year life for both the equity component and the value of the warrant.

The Company incurred debt issuance costs of $40,000 payable to unrelated parties who assisted in sourcing subscribers for the placement. These costs were expensed through the consolidated statement of loss, comprehensive loss and deficit.

(Expressed in Canadian dollars)

The Notes are secured by the Company's interest in all of the rights, title and interest in all shares of the capital of IPP.

9 Share Capital

a) **Authorized**
Unlimited number voting common shares without par value.
Unlimited number of preferred shares issuable in series and without par value.

b) **Issued**

	Number of Common Shares	Amount $
Outstanding, March 31, 2010	21,618,715	3,136,450
Non-brokered private placements (i)	3,631,217	435,746
Fair value of share purchase warrants (i)	-	(12,202)
Share issue costs (ii)	-	(74,629)
Norwegian private placement (iii)	9,110,729	1,093,287
Share Issue cost (iv)	-	(33,460)
Oren Oil ASA share acquisition (v)	602,413	72,290
Share Issue cost,		380,683
Shares for Oren Oil ASA debt (vi)	1,813,051	217,500
Debt conversion (vii)	2,566,667	308,000
Outstanding, December 31, 2010	39,342,792	5,523,665

(i) During the three and six month period ended September 30, 2010, the Company completed three non-brokered private placement (the "Placements"), issuing 1,805,917 and 3,631,217 units for total proceeds of $216,710 and $435,746, respectively, ($0.12 per unit). Each unit consists of one common share of the Company and one-half of one common share purchase warrant (the "Warrant"). Each whole Warrant entitles the holder to purchase one additional common share of the Company at $0.20 per share, exercisable for 1 year from the date of the Placement. If at any time following four months and one day from the grant of the Warrants, the closing price of the Company's listed shares exceeds $0.30 for 15 consecutive trading days, the Company may give notice to the holders of the warrants that such unexercised warrants will be terminated 30 days following notice. The Company has allocated $12,202 of the unit value to warrants (note 9(c)).

(ii) The Company incurred share issue costs to an unrelated Finder of $74,629 related to the Placements. This includes the value of $1,160 assigned to 199,030 finders warrants (the "Finders Warrants") (note 9(c)). The Finders Warrants entitles the holder to purchase one common share of the Company at $0.20 per share, exercisable for 1 year from the date of the Placement.

(iii) During the three month period ended September 30, 2010, the Company completed two Norwegian private placements (the "Norwegian Placement") of 9,110,729 common shares of the

(Expressed in Canadian dollars)

Company, at a price of $0.12 per share, for aggregate gross proceeds of $1,086,000. The Norwegian Placement was completed in connection with the proposed offer by the Company to purchase the shares of Oren Oil ASA (Oren) (v) and transfer of debt from Oren (vi) to The Company.

(iv) The Company incurred share issue costs of $33,460 related to the Norwegian Placement.

(v) The Company entered into a share acquisition agreement with the Norwegian company, Oren. The Company issued 602,413 shares in exchange for 602,420,666 shares in Oren.

(vi) The Company accepted assignment of some corporate debt in the amount of 1,579,167 Norwegian Kroner (approximately $276,000). NOK 1,297,917.38 of the debt was settled through the issuance of 1,813,051 shares in the Company at $0.12 per share. In consideration for the assignment of debts, the Company obtained 27% of the shares and claims held by Oren in its Russian subsidiary, Saga NEFT LLC. Saga NEFT LLC is part owner of oil and gas assets located in Orenburg, Russia. The current market value of the Russian assets is, at present, uncertain, as considerable deterioration has occurred to these companies, one of which has become insolvent. The shares and the related financing of the Russian companies originally cost Oren an amount nearing USD100 million. The Russian assets have third party verified proven P1 reserves of 10 million barrels of oil and gas. The company has valued 27% of the shares and claims towards Saga NEFT LLC, to $442,805.

Additionally, and still in connection with the Acquisition, the Company purchased a company called Promotes Corporation S.A. (“Promotes” or the “Trust”) which had been set up as a trust for the benefit of the creditors and shareholders of Oren. The Company agreed to act as a consultant of the Trust pursuant to a Management Services Agreement dated September 25, 2010 among the Company, the Trust and Oren.

The Company, under certain conditions, will be entitled to a 50% sale commission out of any sales proceeds from the Russian assets, net of trust company, legal and marketing fees.

Oren and the Company have agreed on a Management Services Agreement, where the Company will represent and maintain Oren’s interests in Russia. In recent weeks The Company, has managed to establish Oren’s claim in Russian courts. This is the majority claim towards the specific assets, and a successful outcome of this process, could be beneficial to the Company.

(vii) On October 5, 2010, a note holder of the Company’s convertible debt Note 01 (note 8) converted $308,000 of debt into 2,566,667 new common shares of the Company at a price of $0.12 per share.

(Expressed in Canadian dollars)

The stakeholder is issued 1,283,333 purchase warrants. Each warrant entitles the holder to purchase one Common Shares in the capital of the Company at a price of $0.17 per share for a period of one year from the date of the issue.

c) **Warrants**

Warrants to acquire common shares outstanding at December 31, 2010 are as follows:

	Number of warrants issued and exercisable	Amount $	Weighted average exercise price $	Weighted average Remaining life (years)
Balance, March 31, 2010	14,308,361	479,283	0.38	0.62
Share purchase warrants (9b(i))	1,815,609	12,202	0.20	1.00
Finders' share purchase warrants (9b(ii))	199,030	1,160	0.20	1.00
Share purchase warrants issued with convertible notes (note 8)	575,000	12,857	0.50	3.99
Debt conversion(9b(vii))	1,283,333		0.17	1.00
Warrants expiring this period	(10,074,333)	(380,683)	0.39	
Balance, December 31, 2010	8,107,000	110,430	0.30	0,86

(i) Issued warrants this period:
- 1,283,333 warrants with exercise price $0.35, issued October 5, 2010, valid until October 5, 2011

(ii) Expired warrants this period:
- 9,221,660 warrants with exercise prize $0.4, issued November 21, 2008, expired November 21, 2010.
- 177,730 agent warrants with exercise prize $0.25, issued November 21, 2008, expired November 21, 2010
- 630,000 warrants with exercise prize $0.3, issued November 18, 2009, expired November 18, 2010
- 45,000 finders fee warrants with exercise prize $0.3, issued November 18, 2009, expired November 18, 2010

The fair value of the share purchase warrants granted during the period are estimated at the grant date using the Black-Scholes option pricing model and have been credited to warrants within shareholders' equity. A weighted average of the assumptions used in the calculation is noted below:

Risk-free rate	1.66%
Expected life	1.67 years
Expected volatility	63.17%
Fair value per warrant	$0.01

(Expressed in Canadian dollars)

d) **Stock options**

The Company established a stock option plan (the “Plan”) for the benefit of directors, officers, key employees and consultants. The maximum number of shares available under the Plan is limited to 10% of the issued common shares at the time of granting the options. The full amount of the grant becomes exercisable on the grant date and expire after 5 years from the date of grant.

During the three and nine months ended December 31, 2010, there were Nil and 1,250,000 stock option granted (December 31, 2009 – 70,000 and 320,000) to directors and advisory committee members, and no cancellations, exercises or expiries. The following table summarizes information about the Company’s stock options outstanding at December 31, 2010:

	Number of options Outstanding and exercisable	**Weighted average exercise price $**	**Weighted average remaining life (years)**
Balance, March 31, 2010	1,565,000	0.13	3.59
Granted, September 28 2010	1,250,000	0.10	4.75
Balance, December 31, 2010	2,815,000	0.12	3.97

The fair value of the stock options granted during the year is estimated at the grant date using the Black-Scholes pricing model. The assumptions used in the calculation are noted below:

	December 31, 2010	**December 31, 2009**
Risk-free rate	1.79%	2.10%
Expected life	5 years	5 years
Expected volatility	65.50%	60%
Fair value per warrant	$0.06	$0.09

Stock based compensation expense for the three and nine month period ended December 31, 2010 was $nil and $69,625 (December 31, 2009 - $5,390 and $28,914), all of which has been recorded as a stock-based compensation expense. The total amount has been recorded as an offsetting credit to contributed surplus.

(Expressed in Canadian dollars)

e) **Agent Options**

As of September 30, 2010, the Company had 728,161 Agent Options outstanding, which were granted on November 21, 2008 to the Agents of the non-brokered private placement related to the Qualifying Transaction. Each Agent Option was exercisable into one common share and one common share purchase warrant ("Agent Warrant") of the Company at $0.25. Each Agent Warrant was exercisable into one common share of the Company at $0.40 per common share. The Agent Options expired unexercised on November 21, 2010.

f) **Per share data**

Basic earnings per share are calculated based on the weighted average number of shares outstanding during the three and nine month period ended December 31, 2010 of 36,884,495 and 30,062,751, respectively. Currently, the effect of potential issuance of common shares upon the exercise of options, warrants or agent options would be anti-dilutive since the Company is in a net loss position and accordingly basic and diluted loss per common share are the same.

10 Capital Management

The Company's objectives when managing capital is to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders. The Company manages its common shares, options and warrants as capital. The Company has just come out of the development stage; however its cash flow from the Argentinean operation will be needed in the near term to finance the operations and to repay the vendor loans, and therefore the Company's principal source of funds will still remain the issuance of common shares. It is the Company's objective to safeguard its ability to continue as a going concern, so that it can continue to explore and develop its projects for the benefit of its stakeholders. The Company's ability to raise future capital through equity is subject to uncertainty and our inability to raise such capital may have an adverse impact over the Company's ability to continue as a going concern.

As part of the capital management program the Company monitors its working capital ratio. The Company's objective is to maintain a working capital ratio of greater than 1:1 defined as the ratio of currents assets divided by current liabilities. At December 31, 2010, the working capital ratio was 0.71:1.

(Expressed in Canadian dollars)

11 Related Parties

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

During the three months ended December 31, 2010:

a) Aggregate consulting fees of $16,200 (December 31, 2009 - $40,630) were charged by directors and officers of the Company and recorded in the consolidated statement of loss, comprehensive loss and deficit.

During the nine months ended December 31, 2010:

b) Aggregate consulting fees of $48,600 (December 31, 2009 - $148,368) were charged by directors and officers of the Company and recorded in the consolidated statement of loss, comprehensive loss and deficit.

c) Aggregate bonus of $252,265 (December 31, 2009 - $nil) were paid to certain directors and officers of the Company and recorded in the consolidated statement of loss, comprehensive loss and deficit. These bonuses were paid upon completion of the Argentina Acquisition.

d) Aggregate legal fees of $7,853 (December 31, 2009 - $15,806) were charged by a director of the Company and recorded in the consolidated statement of loss, comprehensive loss and deficit.

e) Included in accounts payable and accrued liabilities at December 31, 2010 was $nil (March 31, 2010 - $23,284) payable to related parties.

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

12 Accounts receivable

In accounts receivable the Company has valued 27% of the shares and claims towards Saga Neft LLC, at $442,805.

13 General and administrative

G&A costs for the first nine months ended December 31, 2010 have increased from $623,148 (for the first nine months of 2009) to $1,418,785 A significant portion of these costs was incurred during the second quarter and was related to the closing of the acquisition in Argentina, including legal fees, consulting and due diligence fees, plus bonuses paid to management and board members for the successful completion of the acquisition. Most of these costs will be non-recurring.

14 Financial Instruments and Risk Management

The Company's risk management policies are established by the Board of Directors to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's policy.

a) **Fair values**

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and notes payable. The fair values of these financial instruments approximate their carrying value due to their short-term nature.

The Company's cash and cash equivalents have been subject to level 1 valuation.

b) **Credit risk**

Credit risk is the risk of an unexpected loss if a party to a financial instrument fails to meet its commercial obligations. This arises principally from joint venture partners.

$490,000 of the Company's accounts receivable is with the operator of the Tunisian permits, thus exposing the Company to concentration risk. The receivable is a cash call payment made to the operator and is pending utilization as drilling commences. Management believes the risk is mitigated by the reputation of the operator and the operator's intention to continue the development of the Tunisian permits. The Company's maximum credit risk exposure is limited to the carrying value of its accounts receivable of $1,085,482 and cash and cash equivalents of $1,114,085.

Approximately $300,000 of the Company's accounts receivable are due from the purchasers of the Company's petroleum production and are subject to the same industry factors such as commodity price fluctuations and escalating costs. The Company generally extends unsecured credit to these customers and therefore, the collection of accounts receivable may be affected by changes in economic or other conditions. Management believes risk is mitigated by the size and reputation of the companies to which they extend credit. The Company has not experienced any credit loss in the collection of accounts receivable in the period ended December 31, 2010.

As the Company has not entered into any derivative financial instruments, it is not exposed to credit risk associated with possible non-performance by counterparties to any such derivative financial instrument contracts.

(Expressed in Canadian dollars)

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. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

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

(i) **Commodity price risk**
Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Oil prices in Argentina are the results of complicated formulas that are set by refineries based on instructions or decrees from the government and crude oil prices in Argentina are capped by the Government at variable levels. In early 2010, the price was fixed at US $42.00 per barrel but was recently increased to approximately US $50.00 per barrel.

(ii) Interest rate risk
Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. As at December 31, 2010, the Company has interest bearing cash accounts held with an investment grade institutions. A change of one percent on the variable interest rate for the year would not have a significant impact on the Company.

The Company has fixed interest bearing debt (note 8). The Company has after the quarter ended, (note 14 a) obtained 2 million $USD of debt with floating interest.

d) **Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company ensures, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or harm to the Company's reputation.

As at December 31, 2010, the Company's current financial liabilities totalled $2,454,479, and are comprised of accounts payable and accrued liabilities, the current portion of the Notes and the Notes payable. As of December 31, 2010, the Company's cash and cash equivalent balance is not sufficient to meet the Company's obligations.

e) **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. To date the Company has focused on the international market for petroleum and natural gas opportunities where many of the anticipated future expenses will be denominated in United States dollars. A hypothetical change of 10% to the foreign exchange rate between the US dollar and the Canadian dollar applied to the average level of US denominated cash and cash equivalents during the period would have a remote impact on the Company's earnings for the period.

The operational currency of the Argentinean company is the Argentine peso ('Peso"), (AR$). The peso has steadily depreciated against the US$ during the last 5 years, going from 2.98 pesos for 1US$ on January 2006 to 3.97 pesos for 1 US$ on December 31, 2010. The US$ is the currency of reference for the oil sales of the Argentine company to local refineries.

15 Commitments

The Company has entered into a farm-out and participation agreement giving it the right to participate in production sharing contracts in Tunisia which will provide the Company with a participating interest in the respective properties. Should the Company elect to participate in these production sharing contracts, it will be required to participate in the drilling of one exploratory well in each of the Jorf, Bazma and Sud Touzer properties. The current production sharing contracts expire in 2016 for Bazma and 2011 for Jorf and 2017 for Sud Touzer. The operator may renew the production sharing contracts for Bazma and Sud Touzer, although it anticipates undertaking the exploration activities prior to renewal of the production sharing contracts. Further renewals of the blocks will be discussed on a project by project basis with the Energy State Authority of Tunisia. Should the Company elect to participate, its estimated share of the expenditures in U.S. dollars is: $907,000 in Bazma, of which $426,000 has already been advanced to the operator resulting in a net remaining amount of $481,000, $529,000 for Jorf, and $1,531,000 for Sud Touzer.

16 Subsequent events

The Company entered into the following transactions subsequent to December 31, 2010:

a) On January 20, 2011 the Company obtained a loan from a private lender for the amount of USD $2,000,000. The loan matures in two years, but can be extended for additional six months under certain circumstances. The loan is initially unsecured and bears an interest fixed at US Prime plus 6.75% payable quarterly.

   The Company has agreed to grant security over additional oil and gas assets acquired in Argentina, if any and once acquired, using the loan proceeds. Subject to regulatory approval, the lender has the right to participate in a portion of the profit from the eventual sale of any such property.

(Expressed in Canadian dollars)

b) 1,772,500 warrants, issued February 3, 2010, as part of a private placement, expired February 3, 2011.

c) The Company has commenced a workover program in Argentina designed to enhance the productivity of the Don Alberto and Don Ernesto fields. Due to the shortage of available service rigs, Canoel is considering the potential acquisition of one service rig. This would secure the Company access to vital equipment when required, and the Company can also generate extra revenues offering other local producers similar services.

d) The Company is participating in an auction of producing and shut-in gas properties organized by the Italian Ministry of Economic Development. The outcome of the auction is expected before March 31, 2011. For this purpose the company has registered an Italian wholly owned subsidiary called Canoel Italia Srl.