

Canoel International Energy Ltd.

Financial Statements

First Quarter Ended June 30, 2009

(Expressed in Canadian dollars)

Notice to the Reader

The accompanying unaudited interim financial statements of Canoel International Energy Ltd. for the three months ended June 30, 2009 have been prepared by management and approved by the Board of Directors of the Corporation. These statements have not been reviewed by the Company's external auditors.

Approved on behalf of Canoel International Energy Ltd.,

Andrea Cattaneo
Chief Executive Officer

Stephen Austin
Chief Financial Officer

Dated August 28, 2009

Canoel International Energy Ltd.

Balance Sheets

As at June 30, 2009 and March 31, 2009

(Expressed in Canadian dollars)

	June 30, 2009 (Unaudited) \$	March 31, 2009 (Audited) \$
Assets		
Current Assets		
Cash and cash equivalents	860,180	1,094,065
Accounts receivable	53,958	514,981
Prepaid expenditures	10,324	4,588
	<u>924,462</u>	<u>1,613,634</u>
Exploration deposit (note 10)	490,000	-
Property, plant and equipment (note 6)	894,847	894,847
	<u>1,384,847</u>	<u>894,847</u>
	<u>2,309,309</u>	<u>2,508,481</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	118,989	121,627
Shareholders' equity		
Share capital (note 7)	2,331,345	2,331,344
Warrants (note 7c)	382,567	382,567
Contributed surplus	152,101	152,101
Deficit	(675,693)	(479,158)
	<u>2,190,320</u>	<u>2,386,854</u>
	<u>2,309,309</u>	<u>2,508,481</u>

Andrea Cattaneo
Director

James Grossman
Director

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

Canoel International Energy Ltd.

Interim Statement of Loss, Comprehensive Loss and Deficit
For the three months ended June 30, 2009 and 2008

(Unaudited - expressed in Canadian dollars)

	June 30, 2009	June 30, 2008
	\$	\$
Revenue		
Interest income	553	4,006
	<u>553</u>	<u>4,006</u>
Expenses		
General and administrative	197,087	34,248
Stock-based compensation	-	49,200
	<u>197,087</u>	<u>83,448</u>
Net loss and comprehensive loss	196,534	79,442
Deficit, beginning of year	479,159	12,000
Deficit, end of year	675,693	91,442
Basic and diluted loss per share	\$(0.01)	\$(0.01)
Weighted average shares outstanding during the period	15,801,600	6,580,000

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

Canoel International Energy Ltd.

Interim Statement of Cash Flows

For the three months ended June 30, 2009 and 2008

(Unaudited – expressed in Canadian dollars)

	June 30, 2009	June 30, 2008
	\$	\$
Cash flows provided by (used in) operating activities:		
Net loss for the year	(196,534)	(79,442)
Items not affecting cash:		
Stock-based compensation	-	49,200
	<u>(196,534)</u>	<u>(30,242)</u>
Changes in non-cash working capital		
Change in accounts receivable	(28,977)	(829)
Change in prepaids	(5,736)	(12,750)
Change in accounts payable and accrued liabilities	(2,638)	(28,314)
	<u>(233,885)</u>	<u>(72,135)</u>
Cash flows provided by (used in) investing activities		
Investment in property and equipment	(490,000)	-
Changes in non-cash working capital	490,000	-
	<u>-</u>	<u>-</u>
Cash flows provided by (used in) financing activities		
Financing fees	-	(13,259)
	<u>-</u>	<u>-</u>
Change in cash and cash equivalents	<u>(233,885)</u>	<u>(85,394)</u>
Cash and cash equivalents, beginning of year	<u>1,094,065</u>	<u>894,779</u>
Cash and cash equivalents, end of year	<u>860,180</u>	<u>809,385</u>

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

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Notes to the Financial Statements

For the three months ended June 30, 2009

(Unaudited – 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 was listed on the TSX Venture Exchange Inc (“TSXV”) as a capital pool company on April 10, 2008. On November 21, 2008, the Company completed a Short Form Offering to the public and a non-broker Private Placement, which allowed the Company to complete its Qualifying Transaction in accordance with the applicable policies of the TSXV on December 8, 2008. The Company is a Tier 2 listed Issuer on the TSXV.

2 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, 2009, with the additions described in note 4. 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.

The results of operations for the three months ended June 30, 2009 are not necessarily indicative of those to be expected for the entire year ending March 31, 2010.

3 Going Concern

These 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 meet its obligations and continue its operations for its next fiscal year. Realization values may be substantially different from carrying values as shown and these 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 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 June 30, 2009, the Company had not yet achieved profitable operations, has accumulated a deficit of \$675,693 since its inception, and expects to incur further losses in the development of its business, which is typical of an oil and gas exploration company in the developmental stages. Current oil and gas activities are in the exploration stage and have not identified oil and gas reserves. Current cash resources will not be sufficient to continue the exploration and

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(Unaudited – expressed in Canadian dollars)

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 oil and gas properties and attain future profitable operations.

4 Adoption of new accounting standards

Goodwill and Intangible Assets – Section 3064

The CICA issued the new Handbook Section 3064, Goodwill and Intangible Assets, which replaced Section 3062, Goodwill and Other Intangible Assets. The new standard establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of preproduction and start-up costs and requires that these costs be expensed as incurred. There has been no impact upon adoption in the financial statements.

5 Future accounting and reporting changes

International Financial Reporting Standards (“IFRS”)

In 2006, the Canadian Accounting Standards Board (“AcSB”) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canadian GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. The Company has begun assessing the adoption of IFRS for 2011; the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

Business Combinations, Consolidated Financial Statements and Non-controlling Interest

In January 2009, the CICA issued CICA Handbook Section 1582, Business Combinations, Section 1601, Consolidations, and Section 1602, Non-controlling Interest. These sections replace the former CICA Handbook Section 1581, Business Combinations and Section 1600, Consolidated Financial Statements and establish a new section for accounting for a non-controlling interest in a subsidiary. CICA Handbook Section 1582 establishes standards for the accounting for a business combination, and states that all assets and liabilities of an acquired business will be recorded at fair value. Obligations for contingent considerations and contingencies will also be

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(Unaudited – expressed in Canadian dollars)

recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. It provides the Canadian equivalent to IFRS 3, Business Combinations (January 2008). The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.

CICA Handbook Section 1601 establishes standards for the preparation of consolidated financial statements.

CICA Handbook Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in the preparation of consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS IAS 27, Consolidated and Separate Financial Statements (January 2008).

CICA Handbook Section 1601 and Section 1602 apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year.

All three sections must be adopted concurrently. The Company is current evaluating the impact of the adoption of these sections.

6 Property and equipment

	June 30, 2009		
	Cost	Accumulated depletion & depreciation	Net book value
	\$	\$	\$
Oil and gas properties	894,847		894,847
	894,847		894,847

	March 31, 2009		
	Cost	Accumulated depletion & depreciation	Net book value
	\$	\$	\$
Oil and gas properties	894,847	-	894,847
	894,847	-	894,847

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

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Agreement, the Company has a right to an 11% participating interest in three production sharing contracts related to unproved oil and gas properties. At June 30, 2009 there has been no production and accordingly there has been no depletion or depreciation recorded against the assets.

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 of Bazma and Sud Touzer. The Corporation must commit to participate in the drilling of the wells proposed under the permits. Pursuant to the Option Agreement, the payment is non-refundable but will remain open as long as the interest is available. If the option on either block expires unexercised, the Company may need to recognize an impairment in future periods.

7 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 \$
Balance, June 30, 2009 and March 31, 2009	15,801,600	2,331,345

c) Warrants

Warrants to acquire common shares outstanding at June 30, 2009 are as follows:

Number of warrants outstanding	Exercise price (\$)	Expiry date
9,221,600	0.40	November 21, 2010
177,730	0.25	November 21, 2010

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.

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During the period ended June 30, 2009, there were no stock option grants, exercises, cancellations or expiries. The following table summarizes information about the Company's stock options outstanding at June 30, 2009:

Range of exercise prices	Number of options outstanding	Weighted average remaining contractual life (years)	Option outstanding
			Weighted average exercise price \$
	1,550,000	4.52	0.12

e) 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. As the Company is in the development stage its principal source of funds is from 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 current assets divided by current liabilities. At June 30, 2009, the working capital ratio was 8:1.

8 Related Parties

The Corporation utilizes the services of a lawyer who is a director. During the three months ended June 30, 2009, services obtained from him aggregated \$10,514 (June 30, 2008 - \$nil), of which none was payable at period end.

During the three months ended June 30, 2009, aggregate directors fees of \$9,453 (June 30, 2008 - \$nil) were charged by directors of the Corporation. Fees of \$4,088 are included in accounts payable.

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The Corporation has incurred \$63,157 for accounting and other consulting services provided by companies controlled by certain officers and directors (June 30, 2008 - \$nil). Of this, \$7,798 was payable at June 30, 2009.

None of these amounts were capitalized. All related party transactions were incurred during the normal course of operations on terms and conditions and are measured at the exchange amount, which is the fair value of the consideration agreed between the parties.

9. 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, and accounts payable and accrued liabilities. The fair values of these financial instruments approximate their carrying value due to their short-term nature.

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.

Virtually all of the Company's accounts receivable are advances to consultants and recoverable taxes from the government. The Company's maximum credit risk exposure is limited to the carrying value of its accounts receivable of \$53,958.

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.

c) 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. The nature of the Company's operations will result in exposure to fluctuations in commodity prices.

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d) 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 June 30, 2009, the Company has interest bearing cash accounts held with an investment grade institutions. A change of one percent on the interest rate for the year would not have a material impact on the Company.

e) 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 June 30, 2009, the Company's financial liabilities totaled \$118,989, and are comprised of accounts payable and accrued liabilities and amounts due to related parties.

The Company prepares authorization for expenditures on its non-operated projects to manage capital expenditures.

f) 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. Fluctuations in the exchange rates may have a material impact on the Company.

10. Commitments

a) The Company has entered into a farm-out and participation agreement giving it the right to participate in production sharing contracts which will provide the Company with a participating interest in the respective properties. Should the Company elect to participate, its estimated share of the expenditures is: \$1,084,000 in Bazma, of which \$490,000 has already been advanced to the operator resulting in a net remaining amount of \$594,000, \$638,000 for Jorf, and \$1,844,000 for Sud Touzer.

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b) On May 27, 2009, Canoel announced that it would become the controlling shareholder of a Mongolian company, holder of exploration license XXIII, by purchasing it from a party that would continue as a partner with a 6% carried interest. Subject to the completion of due diligence and financing, the Corporation may acquire the company for a consideration of US \$1.1 million.

The Production Sharing Contract with the Petroleum Authority of Mongolia contemplates an exploration commitment of approximately US \$46 million over a period of five years, with the greater portion of such commitment being required in years 3 through 5.

The share purchase would also require the approval of the TSX.

11. Subsequent events

On August 11, 2009, the Corporation announced that it had issued, by way of private placement, 657,315 common shares at \$.26 per share for gross proceeds of \$170,960. It paid cash commissions of \$13,316 and issued options allowing the purchasers to buy 59,031 common shares at \$0.26 each, which expire August 11, 2011.