CANOEL INTERNATIONAL ENERGY INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("**MD&A**") is provided by the management of Canoel Energy Inc. ("**Canoel**" or the "**Company**") and should be read in conjunction with the unaudited interim financial statements of the Company for the three and nine months ended December 31, 2009, including the notes thereon, and with the audited annual financial statements for the year ended March 31, 2009 and related MD&A. This MD&A is dated as of February 17, 2010.

Basis of Presentation

All financial information is reported in Canadian dollars and is in accordance with Canadian generally accepted accounting principles ("**Canadian GAAP**") unless otherwise noted.

Forward-Looking Information

Certain information in this MD&A constitutes forward-looking statements or information (collectively referred to herein as "**forward-looking statements**") within the meaning of applicable securities legislation. Forward-looking statements are usually identified by the words "believe", "anticipate", "expect", "plan", "estimate", "target", "continue", "could", "intend", "may", "potential", "predict", "should", "will", "objective", "project", "forecast", "goal", "guidance", "outlook", "effort", "seeks", "schedule" or expressions of a similar nature suggesting future outcome or statements regarding an outlook. In particular, forward-looking statements include:

- management's belief that its option to increase its interest in the Tunisian exploration blocks will provide greater potential for financing or industry participation;

- the expected commencement date for drilling operations in the Bazma exploration block, located in Tunisia, and management's expectation that costs of drilling the well will be less than estimated;

- plans and timing for the drilling of exploratory wells on the Jorf and Sud Tozeur exploration blocks, located in Tunisia;

- management's expectation that general and administrative expenses will decline in future periods;

- management's expectation that there will be no significant monetary impact to the Company as a result of initiating and pursuing legal action against the Mongolian company to enforce the completion of their contractual requirements;

- management's expectation that permits for the Bazma and Sud Tozeur exploration blocks can be extended if necessary; and

- all of the statements under the heading "Outlook"

These forward-looking statements are subject to certain assumptions, including the assumptions that: the opportunity to participate in the exploration and development of the Tunisian exploration blocks, whether directly, or through investment in the Company's shares, will be attractive to potential industry partners or investors; financing for the Company and other participants in proposed exploration activities will be available when required; the price of services and material required to carry-out exploration plans will be as expected; certain items of overhead incurred in the past year were one-time costs and management will be able to reduce and control overhead in subsequent periods; and that any required extensions of the exploration permits can be successfully negotiated with the Tunisian national oil company, ETAP. Forward-looking statements are not guarantees of future performance and the reader should not place undue reliance on these forward-looking statements as there can be no assurances that the assumptions, plans, initiatives or expectations upon which they are based will occur. In addition, forward-looking statements are subject to known and unknown risks, uncertainties and other factors that could cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by forward-looking statements. Such factors include, among others: general economic and business conditions; the price of and demand for oil and natural gas and their effect on the economics of oil and gas exploration; fluctuations in currency and interest rates and their effect on projected profitability of the Company's operations; economic conditions in the countries and regions in which the Company will conduct its operations; political uncertainty; the ability of the Company to implement its business strategy, including exploration and development plans; the impact of competition; the availability and cost of seismic, drilling and other equipment; the Company’s ability to secure adequate transportation and markets for any oil or gas discovered; drilling and operating hazards and other difficulties inherent in the exploration for and production and sale of oil and natural gas; the availability and cost of financing; the success of any exploration and development undertaken; actions by governmental authorities; changes government regulations and the expenditures required to comply with them (including but not limited to the changes in taxes or the royalty or other share of production taken by governmental authorities). Should one or more of these risks or uncertainties materialize, or should any of the Company’s assumptions prove incorrect, actual results may vary in material respects from those projected in the forward-looking statements. Readers are cautioned that the foregoing list of risks, uncertainties and other factors is not exhaustive. Unpredictable or unknown factors not discussed could also have material adverse effects on forward-looking statements. The impact of any one factor on a particular forward-looking statement is not determinable with certainty as such factors are dependent upon other factors, and the Company’s course of action would depend upon its assessment of the future considering all information then available. All forward-looking statements in this MD&A are expressly qualified in their entirety by these cautionary statements. Except as required by law, the Company assumes no obligation to update forward-looking statements should circumstances or Management’s estimates or opinions change.

NATURE OF OPERATIONS

The Company was incorporated under the British Columbia Business Corporations Act on September 20, 2007. In March, 2008, the Company raised $700,000 gross proceeds from an initial public offering of its common shares. The Company’s common shares were subsequently listed on the TSX Venture Exchange ("**TSXV**" or "**Exchange**") as a Capital Pool Company. As a Capital Pool Company, the Company was subject to policies of the Exchange that restricted its business to identifying and evaluating assets or businesses that, if acquired, would constitute the Company's "Qualifying Transaction" under applicable Exchange policies.

In July 2008, the Company entered into a Farm-out and Participation Agreement (the "**Farmout and Participation Agreement**") with Cygam Energy Inc. ("**Cygam**"), a Calgary based public oil and gas exploration company listed on TSXV. Under the Farmout and Participation Agreement the Company has the right to earn an 11% interest in three onshore oil and gas exploration blocks (Bazma, Jorf and Sud Tozeur) in the south-western part of Tunisia by paying between 15.4% and 18.7% of the costs of certain seismic programs previously conducted by Cygam and by paying a share of the costs of drilling the first well on each of the blocks. In order to have the Farmout and Participation Agreement accepted as the Company's Qualifying Transaction, additional funds were required to provide capital for some of the expenditures required to be made by the Company under the Farmout and Participation Agreement and to provide unallocated working capital. In November 2008 the Company raised gross proceeds of $2,305,400 through an offering of units by way of a Short Form Offering Document under Exchange policies and a Non Brokered Private Placement (collectively the "**Offerings**"). Each unit consisted of one common share of the Company and one common share purchase warrant. Each common share purchase warrant entitles the holder thereof to acquire one additional common share of the Company at a price of $0.40 until November 21, 2010 (subject to acceleration in certain circumstances).

Entering into the Farmout and Participation Agreement was subsequently accepted by the Exchange as the Company's Qualifying Transaction and the Corporation is now listed on the Exchange as a Tier 2 Oil and Gas issuer and is no longer subject to the restrictions applicable to Capital Pool Companies.

OPERATIONAL UPDATE

TUNISIA

During the year ended March 31, 2009, the Company incurred $921,212 of expenditures in relation to the Farmout and Participation Agreement, including $431,212 for its share of previously incurred seismic expenditures. The remaining $490,000 is held by Cygam, as operator of the exploration blocks, as a cash call against expenses to be incurred drilling a well on the Bazma block. The Company also paid $190,000 for an option to increase its interest in two of its three exploration blocks, Bazma and Sud Touzer, by 34%, from 11% to 45%. 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 and will remain valid until the Authorization for Expenditure for the first well on each block is issued. If another party commits to Cygam 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. The Company will require additional financing or an industry partner to complete its earning obligations under the Farmout and Participation Agreement. Management believes that the option to increase the Company's interest to potentially 45% will provide greater potential for financing or industry participation because the opportunity to earn a larger interest is more likely to satisfy the acquisition criteria of a broader spectrum of financiers and industry participants.

There has been no additional capital spending in Tunisia during the nine month period ended December 31, 2009.

Bazma

The Bazma exploration permit, in the center of Tunisia, covers an area of 1,616 square kilometres and carries a drilling commitment over a period of four years. The operator is Cygam. During the first quarter of 2008, Cygam completed a comprehensive geophysical interpretation of extensive seismic data on the Bazma permit. Several structures with similar characteristics as the nearby Tarfa and Bague l producing fields were mapped. One structure, initially called "W" and now renamed "Frida", less than 5 km from the Tarfa field, was selected as the first drilling location. In June of 2008, a new 2D seismic survey totalling 50 km was acquired in order to confirm the best drill location on the "Frida" structure and to further define additional structures. The Triassic Tagi, expected at a depth of approximately 2,500 metres, is the main target on the "Frida" structure. Drilling in Bazma was originally scheduled to occur in the final quarter of 2008; however, a hurricane, which struck the Houston area severely damaged the drilling rig scheduled to be moved to Tunisia and drilling operations had to be cancelled. In October of 2009, Cygam announced that drilling operations at the Frida structure to test the Triassic Tagi formation are now planned for mid-2010, subject to rig availability. Long delivery time items, such as wellhead and casing have been purchased and have been delivered or are in transit in anticipation of this drilling. Cygam has also signed a farm-out agreement with Timgad Energy, an Egyptian company, to participate as to a 10% working interest in Bazma and additional companies have expressed an interest in participating on a promoted basis.

On October 14, 2009, Cygam announced that it had signed an Option and Farm-in Agreement (the “Agreement”) with a large U.S. independent oil and natural gas company (the “U.S. Company”) for the Bazma permit. Under the terms of the Agreement, the U.S. Company has agreed to reprocess the existing 2D seismic data and acquire new 2D seismic data on the Bazma permit. The U.S. Company will also have the option to conduct a 3D seismic survey and the option of earning an interest by drilling a deep well on the Bazma permit. If, during the term of the Agreement, Cygam decides to drill a well to test the shallower Triassic Tagi formation, the U.S. Company also has the option to participate in the costs of drilling such a well. In the event the U.S. Company drills a deep well on the Bazma exploration block prior to Cygam drilling the Triassic TAJI test well, and the U.S. Company commits to earn an interest in the Triassic TAJI well prior the Company exercising their option to increase their working interest to 45%, then the option will be decreased proportionately by the interest assumed by the U.S. Company.

Jorf

The Jorf exploration permit, located in the center of Tunisia covers an area of 3,768 square kilometres. The operator is Cygam. ETAP has agreed to extend the Jorf permit until August 6, 2011, by committing to drill a new well. Canoel concurs with the operator's geophysical interpretation which indicates that two middle Permian pinnacle reef prospects and one Triassic target are present in the northern portion of the permit. During August 2007, drilling of the shallow Bhayra Rigo 1 well at a location south east of the current Jorf permit confirmed the presence of good seal rocks and of an excellent dolomitized and porous Permian reef, as interpreted through seismic. Burial of potential pinnacle reefs at greater depth (over

3,500 metres) in the northern portion of the Jorf permit should improve the probability that such reefs may have trapped hydrocarbons generated by overlaying and underlying source rocks. An exploratory well is planned for the fourth quarter of 2010, subject to rig availability.

Sud Tozeur

Cygam completed a preliminary geophysical interpretation of the majority of seismic data on the Sud Tozeur permit in early 2008, inclusive of the 61 km 2-D delineation seismic acquired on the permit in 2007. Several structures have now been outlined, inclusive of two separate anomalies close to a well with Triassic and Ordovician reservoir potential which was drilled in late 1997 by a previous operator. Several additional undrilled structures have also been identified on the permit but they will require further evaluation.

The Sud Tozeur exploration permit, located near the Algerian border and in close proximity to the Sabria and El Franig producing fields, covers an area of 4,380 square kilometres (1,082,283 acres) and carries a drilling commitment over a period of four years. The operator is considering drilling a well at Sud Tozeur in 2011 pending final seismic evaluation and availability of a rig capable to drill a deep Ordovician test to approximately 4,500 metres.

MONGOLIA

During May 2009, and updated in August 2009, the Company entered into an agreement to become the operator of a large oil exploration block in Mongolia. Pending successful completion of negotiations, due diligence and additional capital being raised, the Agreement provides that the Company will acquire all of the shares of a Mongolian Company, which is the holder of the exploration license of Block XXIII (as such block is designated by the Mongolian Petroleum Authority), in exchange for US $1.1 million and the grant to Mongolian Company of a 6% carried interest in the Block. Block XXIII, which is located in the Mongolian part of the Gobi desert, immediately north of the border with China, covers 13,575 square kilometres and includes a structural feature that separates the highly prospective Erlian Basin in China from the East Gobi Basin in Mongolia. The biggest field in that basin, the Ershan field, produces 60,000 bopd. No intensive exploration activities have been carried out in Block XXIII. The Soviets conducted seismic surveys in the 1970s, which have subsequently been reprocessed; but no wells have been drilled in Block XXIII. The Mongolian Petroleum Authority imposes certain minimum work commitments to licenses granted, which are spread over 5 years, with this license anticipating approximately US $46 million over the next 5 years. The Company is not committed to any spending under the work commitment. Under the agreement, a due diligence period existed until December 31, 2009 existing allowing for clarification of legislative and contractual terms with the vendor and local authorities, and to raise the required financings.

As part of its closing due diligence, the Company requested that the Mongolian Company provide evidence that the Mongolian government and regulatory authorities have consented to or approved the transaction, specifically regarding potential issues surrounding the change in shareholder name and nationality that would occur if the Company acquired Block XXIII. The Company has not been provided with such evidence, and therefore has delivered a Notice of Default with the intentions of initiating legal proceedings to enforce the agreement, if the Mongolian Company is not able to meet its commitments. At this time, management does not believe there will be any significant monetary impact to the Company as a result of pursing legal proceedings.

ARGENTINA

On February 12, 2009, the Company signed a Share Purchase Agreement (the “Agreement”) with a U.S. based company for the purchase of two adjacent oil producing properties in Argentina. The transaction was previously announced during September 2009 with the signing of a Memorandum of Understanding. The properties are located in the San Jorge basin in the Patagonia region in southern Argentina, licensed by authorities to produce oil, and are able to produce 55,000 barrels of sweet oil having an API gravity of 18.5 and being non paraffinic. The acquisition is contemplated to be completed through the acquisition of the shares of the companies which own the properties. The purchase price is anticipated to be U.S. $2.4 million in exchange for the acquisition of the shares of the companies, their ongoing businesses, the two concessions and the existing production equipment to ensure the Company will be able to continue the existing income stream immediately upon closing. Pursuant to the Agreement, for a period of three years from the closing date, the Company will provide the U.S. company 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 is currently conducting due diligence procedures with the intention to complete the acquisition by the contractual closing date of April 30, 2010. Closing of the transaction is subject to completion of satisfactory due diligence, financing, and regulatory approval, until which the Company is not committed to any spending.

OTHER ACTIVITIES

In addition to its activities discussed, the Company is actively pursuing the acquisition of oil and gas producing properties in North America, Italy and Argentina in order to provide cash flow to fund its operations, exploration prospects elsewhere in the world and financing for future acquisitions.

SELECTED QUARTERLY FINANCIAL INFORMATION

	December 31 2009 $	September 30, 2009 $	June 30, 2009 $	March 31, 2009 $	December 31, 2008 $
Revenue	153	331	553	1,267	469
Total assets	2,186,644	2,273,304	2,309,309	2,508,481	2,638,913
Cash flow from operations	(270,119)	(186,234)	(196,534)	(160,133)	88,250
Per share (basic and diluted)	(0.02)	(0.01)	(0.01)	(0.016)	0.012
Net loss	(252,099)	(209,148)	(196,534)	(298,305)	(62,948)
Per share (basic and diluted)	(0.02)	(0.01)	(0.01)	(0.03)	(0.008)
Capital expenditures	-	77,560	-	277,199	603,945
General & administrative expenses	244,048	182,013	197,087	399,977	63,417

Income and Net Loss

The Company is an "exploration stage" oil and gas company and does not have any properties that produce revenue. During the three month period ended December 31, 2009, the Company's only income was interest on funds held on deposit. General and administrative expenses for the three month period ended December 31, 2009 increased to $244,048 (December 31, 2008 - $63,417), which were primarily related to professional fees of $58,079 and travel costs of $38,123. The increases in these expenses are primarily due to costs related to seeking and initiating potential international business opportunities. A relevant part of the period's expenses is related to travelling and professional costs for the potential acquisition and operatorship in Block XXIII in Mongolia and for the purchase of two adjacent oil producing properties located in the Patagonia region in southern Argentina. General and administrative costs have significantly declined from $399,977 from the fourth quarter of 2009, which were primarily incurred to complete the Qualifying Transaction and concurrent financing.

Total assets

Total assets at December 31, 2009 were $2,186,644 (March 31, 2009 - $2,508,481). The decrease was due to the general and administrative expenses incurred, which were partially offset by the cash proceeds received upon the August 11, 2009 and December 18, 2009 private placements.

Capital expenditures

During the nine month period ended December 31, 2009, the Company incurred capital spending of $77,560. The full amount of the expenditure was the payment of a Finder's Fee (the "Fee") for the completion of the Qualifying Transaction, specifically for the acquisition of the Sud Touzer exploration block in Tunisia. The Fee was paid a current director and officer of the Company for his consulting efforts prior to his becoming a director or an officer of the Company, and the agreement to pay the Fee was established prior to his becoming a director and officer. The Fee is considered a component of the cost of the acquisition of the exploration block.

LIQUIDITY AND CAPITAL RESOURCES

The Company had a net working capital balance of $614,255 at December 31, 2009 consisting primarily of cash on deposit of $652,134, net of liabilities. Cash balances in excess of planned requirements were held in banks and highly liquid savings accounts. During the three months ended December 31, 2009, this excess cash generated $153 in interest income.

On August 11, 2009, the Company completed a non-brokered private placement, issuing 657,615 common shares for total proceeds of $170,980 ($0.26 per share).

On December 18, 2009, the Company completed a non-brokered private placement, issuing 1,260,000 units for total gross proceeds of $214,200 ($0.17 per unit). Each unit consists of one common share, one-half of one common share purchase warrant ("Year 1 Warrant") and one-half of one common share purchase warrant ("Year 2 Warrant"). Each whole Year 1 Warrant entitles the holder to purchase one additional common share of the Company at $0.30 per share, exercisable for 1 year. Each whole Year 2 Warrant entitles the holder to purchase one additional common share of the Company at $0.40 per share, exercisable for 2 years. If at any time following four months and one day from the grant of the Year 1 Warrants and Year 2 Warrants, the closing price of the Company's listed shares exceeds $0.40 and $0.50, respectively, 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.

In relation to the non-brokered private placement on December 18, 2009, cash commissions of $33,143 and Finder's Warrants totaling 45,000 were issued to an arm's length party for introducing to the Company subscribers to the private placement. Each Finder's Warrant is exercisable for one common share at a price of $0.30 per share, exercisable for 1 year.

The Company is an exploration stage oil and gas Company that engages principally in the acquisition, exploration and development of oil and gas properties. None of the Company's properties currently produce revenue and accordingly the Company is currently unable to self finance all of its proposed operations. 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 oil and gas properties, finding an industry partner to participate in exploration activities and attain future profitable operations. Additional financing is subject to the global financial markets and economic conditions, which have recently been disrupted and volatile and the debt and equity markets have been distressed. These factors, together with the repricing of credit risk and 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.

The Company has received expressions of interest from third parties to participate in an exploration program on some of the Tunisian permits, however there can be no assurance that an industry partner will be found or that additional equity financing will be available on reasonable terms, or at all.

RELATED PARTY TRANSACTIONS

During the three months ended December 31, 2009:

a) Aggregate consulting fees of $40,630 (December 31, 2008 - $nil) were charged by directors and officers of the Company and recorded in the statement of loss, comprehensive loss and deficit.

During the nine months ended December 31, 2009:

b) Aggregate consulting fees of $148,368 (December 31, 2008 - $nil) were charged by directors and officers of the Company and recorded in the statement of loss, comprehensive loss and deficit.

c) Aggregate legal fees of $15,806 (December 31, 2008 - $nil) were charged by a director of the Company.

d) Included in accounts payable and accrued liabilities at December 31, 2009 was $7,548 payable to related parties. These amounts are non-interest bearing and have no specific terms of repayment.

e) Included in accounts receivable at December 31, 2009 was $11,623 receivable from related parties relating to expense advances.

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

The Company's compensation arrangements with directors and officers are limited to the following, and are for services performed in the capacity as directors and officers:

a) The President and CEO is paid annual consulting fees of $64,800, issued in monthly installments.

b) The former Chairmen received $2,583 per month for services as council. This payment ended in September 2009.

c) A corporation of which the CFO is shareholder is paid an hourly fee for accounting services provided to the Company. The CFO does not receive compensation for his services as such.

The following compensation was paid to directors and officers during the periods indicated:

Name	Three month period ended December 31, 2009 ($)	Nine month period ended December 31, 2009 ($)
Andrea Cattaneo (President and CEO)*	34,340	106,973
James Grossman (Chairman & Counsel)	nil	15,806
Stephen Austin (CFO)**	6,290	41,395

Notes:
*For the three and nine months ended December 31, 2009, compensation includes $18,140 and $58,373, respectively, paid to a company owned by the CEO to reimburse it for actual expenses of the Company's London office. These amounts were recorded as consulting fees paid during the period.

**For the three and nine months ended December 31, 2009, compensation of $6,290 and $41,395, respectively, were paid to a company of which the CFO is a shareholder as fees for accounting services provided to the Company. Mr. Austin does not receive any additional fees for acting as CFO.

COMMITMENTS

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 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 case by case basis with the Energy State Authority of Tunisia. 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.

RECENT ACCOUNTING PRONOUNCEMENTS

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 Canada's own 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. PricewaterhouseCoopers has been engaged by the Company to assist with diagnostic review. The primary objective of the diagnostic review in the planning phase of the IFRS conversion project is to understand, identify and assess the overall effort required to produce financial information under IFRS.

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 control ling 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 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.

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 with companies in the petroleum and natural gas industry within Canada and are subject to normal industry credit risks. The Company generally extends unsecured credit to these companies and therefore, the collection of accounts receivable may be affected by changes in economic or other conditions. Management believes the risk is mitigated by the size and reputation of the companies to which they extend credit. The Company's maximum credit risk exposure is limited to the carrying value of its accounts receivable and exploration deposit of $539,208.

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.

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 December 31, 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 December 31, 2009, the Company's financial liabilities totalled $109,982, and are comprised of accounts payable and accrued liabilities and amounts due to related parties. $7,548 of the financial liabilities are owed to related individuals and these amounts are subject to the forbearance of the related individuals.

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

SUBSEQUENT EVENTS

The Company entered into the following transactions subsequent to December, 2009:

a) Through a private placement, the Company issued 3,545,000 units for total proceeds of $602,650 ($0.17 per unit). Each unit consists of one common share, one-half of one common share purchase warrant ("Year 1 Warrant") and one-half of one common share purchase warrant ("Year 2 Warrant"). Each whole Year 1 Warrant entitles the holder to purchase one additional common share of the Company at $0.30 per share, exercisable for 1 year. Each whole Year 2 Warrant entitles the holder to purchase one additional common share of the Company at $0.40 per share, exercisable for 2 years. If at any time following four months and one day from the grant of the Year 1 Warrants and Year 2 Warrants, the closing price of the Company's listed shares exceeds $0.40 and $0.50, respectively, 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.

In connection with the private placement, the Company issued 354,500 common shares at a deemed value of $60,265 ($0.17 per share) to unrelated parties involved in the identification of subscribers.

b) 170,000 stock options were issued to a member of the Advisory Committee and a member of the Board of Directors. The options are exercisable for 5 years at a price of $0.17 per share.

ISSUED SHARES AND CONVERTIBLE, EXERCISABLE AND EXCHANGEABLE SECURITIES

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares issuable in series. As of the date hereof, the Company's issued share capital and the outstanding securities that are convertible into or exercisable or exchangeable for any voting or equity securities of the Company is as follows

Common Shares	17,719,215
Preferred Shares	Nil
Warrants	10,763,361
Stock Options	1,445,000

Notes:

1. 9,221,600 of the Warrants entitle the holder to acquire one additional common share at $0.40 per share until November 21, 2010 (subject to acceleration in certain events). 177,730 of the Warrants entitle the holder to acquire one common share at $0.25 per share until November 21, 2010 (subject to acceleration in certain events). 59,031 of the Warrants entitle the holder to acquire one common share at $0.26 per share until August 11, 2011. 675,000 of the Warrants entitle the holder to acquire one common share at $0.30 per share until December 18, 2010. 630,000 of the Warrants entitle the holder to acquire one common share at $0.40 per share until December 18, 2011.
2. 125,000 of the Stock Options entitle the holders to acquire an equal number of common shares at $0.20 per share until April 8, 2013. 1,000,000 of the Stock Options entitle the holders to acquire an equal number of common shares at $0.10 per share until March 13, 2014. 145,000 of the Stock Options entitle the holders to acquire an equal number of common shares at $0.23 per share until September 15, 2014. 105,000 of the Stock Options entitle the holders to acquire an equal number of common shares at $0.125 per share until September 25, 2014. 70,000 of the Stock Options entitle the holders to acquire an equal number of common shares at $0.15 per share until October 27, 2014. In each case, the expiration is subject to earlier termination in certain events.

OUTLOOK

The Company plans to continue to focus largely on international oil and natural gas exploration opportunities. Management intends to focus its efforts toward acquiring large exploration permits, which offer high exploration potential and the opportunity to act as operator at least for the initial exploration period; and on acquiring producing assets North America and internationally.

In addition the company will continue its search for smaller producing assets in North America, Italy and Argentina.

In Tunisia, the Company intends to conduct a two phase, success based, initial exploration program. The first phase will involve seismic acquisition and interpretation plus the drilling, testing and potential completion of one well on each of the exploration blocks. The second phase will involve the drilling, testing and potential completion of additional wells if and when the Company determines it is warranted.

The Company's plans for 2010 include:

(a) **Bazma Permit**. Drilling of an initial well in mid-2010. Drilling is subject to the company obtaining additional financing or finding an industry partner and to rig availability.

(b) **Jorf Permit**. Drilling one initial well expected to occur in late 2010 on a target identified by interpretation of approximately 200 kilometres of new 2-D seismic on the northern portion of the block.

(c) **Sud Tozeur Permit**. Continue the geophysical interpretation of seismic data. Drilling is likely to commence in 2011.

(d) **Mongolia.** Continue with the due diligence activities for Block XXIII through the initiation of legal proceedings, with the intention to complete the acquisition.

(e) **Argentina.** Continue with the due diligence period and efforts to obtain the required financing for the acquisition of the companies controlling the two Argentina properties.

OTHER

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