Canoel International Energy Ltd.

(A Development Stage Company)

Consolidated Financial Statements
March 31, 2010 and 2009
(expressed in Canadian dollars)

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of Canoel International Energy Ltd. (the "Company") have been prepared by and are the responsibility of the management of the Company. The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles and reflect management's best estimates and judgment based on currently available information.

The Audit Committee of the Board of Directors meets periodically with management and the independent auditors to review the scope and results of the annual audit, and to review the consolidated financial statements and related financial reporting matters prior to submitting the consolidated financial statements to the Board for approval.

The Company's independent auditors, KPMG LLP, who are appointed by the shareholders, conducted an audit in accordance with Canadian generally accepted auditing standards. Their report outlines the scope of their audit and gives their opinion on the consolidated financial statements.

Management has developed and maintains a system of internal controls to provide reasonable assurance that the Company's assets are safeguarded, transactions are authorized and financial information is accurate and reliable.

(Signed) "*Andrea Cattaneo*"
President and Chief Executive Officer

(Signed) "*Stephen Austin*"
Chief Financial Officer

June 15, 2010
Calgary, Alberta

KPMG LLP
Chartered Accountants
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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Canoel International Energy Ltd. (the "Company") as at March 31, 2010 and 2009 and the consolidated statements of loss, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Calgary, Canada
June 15, 2010

Canoel International Energy Ltd.
(a Development Stage Company)
Consolidated Balance Sheets
As at March 31, 2010 and 2009

(Expressed in Canadian dollars)

	2010 $	2009 $
Assets		
Current Assets		
Cash and cash equivalents	**992,599**	1,094,065
Accounts receivable	**547,542**	514,981
Prepaid expenditures	**11,727**	4,588
	1,551,868	1,613,634
Property, plant and equipment (note 6)	**986,420**	894,847
	2,538,288	2,508,481
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**261,566**	121,627
Shareholders' equity		
Share capital (note 8b)	**3,136,450**	2,331,344
Warrants (note 8c)	**479,283**	382,567
Contributed surplus (note 8e)	**195,535**	152,101
Deficit	**(1,534,546)**	(479,158)
	2,276,722	2,386,854
	2,538,288	2,508,481

Going concern (note 2)
Commitments (note 12)
Subsequent events (note 13)

Approved by the Board of Directors

(Signed) "*Emanuel Olympitis*"
Director

(Signed) *"Andrea Cattaneo"*
Director

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

Canoel International Energy Ltd.
(a Development Stage Company)
Consolidated Statements of Loss, Comprehensive Loss and Deficit
For the years ended March 31, 2010 and March 31, 2009

(Expressed in Canadian dollars)

	2010 $	2009 $
Revenue		
Interest income	**1,220**	7,394
Expenses		
General and administrative	**994,797**	399,977
Foreign exchange	**18,377**	-
Stock-based compensation (note 8d)	**43,434**	74,575
	1,056,608	474,552
Net loss and comprehensive loss	**(1,055,388)**	(467,158)
Deficit, beginning of year	**(479,158)**	(12,000)
Deficit, end of year	**(1,534,546)**	(479,158)
Basic and diluted loss per share (note 8f)	**(0.06)**	(0.05)
Weighted average shares outstanding during the year - basic and diluted	**17,173,432**	9,864,405

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

Canoel International Energy Ltd.

(a Development Stage Company)

Consolidated Statement of Cash Flows

For the years ended March 31, 2010 and March 31, 2009

(Expressed in Canadian dollars)

	2010 $	2009 $
Cash flows used in operating activities:		
Net loss for the year	**(1,055,388)**	(467,158)
Items not affecting cash:		
Stock-based compensation	**43,434**	74,575
	(1,011,954)	(392,583)
Changes in non-cash working capital	**100,239**	12,848
	(911,715)	(379,735)
Cash flows used in investing activities		
Investment in property, plant and equipment	**(91,573)**	(881,144)
Change in non-cash working capital	**-**	(490,000)
	(91,573)	(1,371,144)
Cash flows provided by financing activities		
Proceeds from issuance of common shares, net of issue costs	**805,106**	1,950,165
Proceeds from issuance of warrants	**96,716**	-
	901,822	1,950,165
Change in cash and cash equivalents	**(101,466)**	199,286
Cash and cash equivalents, beginning of year	**1,094,065**	894,779
Cash and cash equivalents, end of year	**992,599**	1,094,065
Supplemental cash flow disclosure		
Interest received	**1,220**	7,394

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 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-brokered 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. The Company is a development stage entity as defined by the Canadian Institute of Chartered Accountants ("CICA") Accounting Guideline 11.

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 in exchange for a fee and a percentage of profits. As at March 31, 2010, IPRP exists solely as a shell with no assets and liabilities.

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 March 31, 2010, the Company had not yet achieved profitable operations, has accumulated a deficit of $1,534,546 (2009 - $479,158) 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 stage. 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 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. 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.

3 Significant accounting policies

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") and reflect the following significant accounting policies:

Measurement uncertainty

The Company calculates depreciation, depletion and accretion expense and assesses impairment in long-lived assets and unproven properties in the development stage using management estimates of oil and gas reserves remaining in oil and gas properties, commodity prices and capital costs required to develop those reserves. Estimates of volumes and the related future cash flows are subject to measurement uncertainty. Such reserve estimates are subject to change as additional information becomes available.

Numerous assumptions and judgments are required in the fair value calculation of the asset retirement obligation ("ARO") including the ultimate settlement amounts, inflation factors, credit adjusted discount rates, timing of settlement, and changes in the legal, regulatory, environment and political environments. To the extent future revisions to these assumptions impact the fair value of any existing ARO liability, a corresponding adjustment is made to the oil and gas property.

The Company uses the Black-Scholes option valuation model to value the stock options granted. The Black-Scholes model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable and takes into account on the date of grant: the exercise price and expected life of the option; the price of the underlying security; the expected volatility and dividends (if any) on the underlying security; and the risk-free interest rate. The model requires management to make estimates which are subjective and may not be

(Expressed in Canadian dollars)

representative of actual results. Changes in assumptions can materially affect estimates of fair values.

Future income taxes are based on estimates as to the timing of the reversal of temporary differences and tax rates currently substantively enacted.

By their nature, these estimates are subject to measurement uncertainty, and the impact of differences between actual and estimated amounts on the consolidated financial statements of future periods could be material.

Cash and cash equivalents

Cash and cash equivalents include cash and highly liquid investments held in the form of high quality commercial paper, treasury bills, bankers' acceptances, money market investments and certificates of deposit with investment terms that are less than three months at the time of acquisition. These investments are stated at fair value, which approximates cost plus accrued interest.

Joint interests

The Company's oil and gas operations are conducted jointly with other parties and accordingly, the consolidated financial statements reflect only the Company's proportionate interest in these assets and operations.

Property, plant and equipment

(i) Petroleum and natural gas properties

The Company follows the full cost method of accounting whereby all costs related to the acquisition are initially capitalized on a country by country cost centre basis. Costs capitalized include land acquisition costs, geological and geophysical expenditures, lease rentals, costs of drilling productive and non-productive wells, together with overhead and interest directly related to exploration and development activities, and lease and well equipment. As the Company's oil and gas activities are in the development stage, any incidental revenues are netted against costs until commercial production begins. These costs are evaluated in each reporting period to determine if the costs recorded

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are recoverable. When commercial production begins, these capitalized costs will be depleted following the unit-of-production method based on proved reserves.

Gains or losses are not recognized upon disposition of petroleum and natural gas properties unless such a disposition would alter the rate of depletion and depreciation by more than 20%.

(ii) Depletion

Costs capitalized are depleted and amortized on a cost centre basis using the unit-of-production method based on estimated proved petroleum and natural gas reserves before royalties as determined by independent engineers. For purposes of this calculation, petroleum and natural gas reserves before royalties are converted to a common unit of measure on the basis of their relative energy content where one barrel of oil or liquids equals six thousand cubic feet of gas.

In determining its depletion base, the Company includes estimated future capital costs to be incurred in developing proved reserves and excludes the cost of significant unproved properties until it is determined whether proved reserves are attributable to the unproved properties or impairment has occurred. Unproved properties are evaluated separately for impairment based on management's assessment of future drilling.

During the year there has been no production, and as such a depletion expense was not recognized.

(iii) Ceiling test

Under the full cost method of accounting, a limit is placed on the carrying amount of petroleum and natural gas properties. A ceiling test is performed on a country by country cost centre basis to recognize and measure impairment, if any.

The carrying value of oil and gas properties may not reflect their fair value. In particular, the future value of the oil and gas properties depends on the start-up of commercial production, the ability of the Company to obtain adequate financing and the future profitability of the oil and gas properties. A limit is placed on the carrying value of the net capitalized assets in order to test impairment. Impairment is recognized if the carrying amount of petroleum and natural gas properties, less the cost of unproved properties not subject to depletion (the "adjusted carrying amount"), exceeds the

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estimated undiscounted future cash flows from the Company's proved reserves. The future cash flows are based on forecast prices and costs, as provided by an independent third party. If recognized, the magnitude of the impairment, if any, is measured by comparing the adjusted carrying amount to the estimated, discounted future cash flows of the Company's proved plus probable reserves. The cash flows are discounted at a risk-free interest rate. Any recognized impairment is recorded as additional depletion and amortization expense.

(iv) Other assets

Other assets are carried at cost and amortized over the estimated useful lives of the assets at various rates per annum calculated on a declining balance basis. Amortization is charged at half rates in the year of acquisition.

Asset retirement obligations

The Company recognizes the fair value of an ARO in the period in which a well or related asset is drilled, constructed or acquired and when a reasonable estimate of the fair value can be made. The fair value of the estimated ARO is recorded as a long-term liability, and equals the present value of estimated future cash flows, discounted using a risk-free interest rate adjusted for the Company's credit standing. The liability accretes until the date of expected settlement of the retirement obligations or the asset is sold and is recorded as an accretion expense. The associated asset retirement costs are capitalized as part of the carrying value of the related assets. The capitalized amount is amortized to earnings on a basis consistent with depreciation and depletion of the underlying assets. Actual restoration expenditures are charged to the accumulated obligation as incurred.

On a periodic basis, management will review these estimates and if changes to the estimate are required, these changes will be applied on a prospective basis, and will result in an increase or decrease to the ARO.

During the year the Company did not record an ARO liability as environmental disturbances which would result in a future restoration liability had not occurred.

Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, income tax assets and liabilities are recognized for the estimated tax consequences attributable to differences between the amounts reported in the financial statements and their

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respective tax bases, using income tax rate that are substantively enacted and expected to apply in the periods when the temporary differences are expected to reverse. The effect of a change in rates on future income tax assets and liabilities is recognized in the period that the change occurs. A valuation allowance is recorded against any future tax assets, if it is more likely than not that the asset will not be realized.

Revenue recognition

Revenue from the sale of petroleum and natural gas is recorded on a gross basis when title passes to an external party and is recognized based on volumes delivered to customers at contractual delivery points and rates and when the significant risks and rewards of ownership have been transferred to the buyer and collectability is reasonably assured.

Stock-based compensation

Under the fair value method, compensation cost attributable to all stock options granted are measured at fair value at the date of grant and expensed over the vesting period with a corresponding increase to contributed surplus. Upon the exercise of the stock options, the consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital and the contributed surplus balance is reduced.

The Company has not incorporated an estimated forfeiture rate for stock options that will not vest, rather, the Company accounts for actual forfeitures as they occur.

Per share amounts

Basic per share amounts are calculated using the weighted average number of common shares outstanding during the period. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments. Under the treasury stock method, only options for which the exercise price is less than the market value impact the dilution calculations.

Foreign currency translation

Transactions in foreign currencies are translated to Canadian dollars at the rates in effect on the transaction date. Exchange gains or losses arising on translation or settlement of foreign currency denominated monetary items are charged to earnings in the period they arise.

(Expressed in Canadian dollars)

Financial instruments

Financial instruments are classified into one of the following five categories: held-for-trading, held-to-maturity investments, loans and receivables, available for sale financial assets or other financial liabilities. All financial instruments and derivatives are measured on the balance sheet date at fair value upon initial recognition except for certain related party transactions. Subsequent measurement depends on the initial classification of the instrument. Held-for-trading financial assets and liabilities are measured at fair value, with changes in fair value recognized in net earnings (loss). Available for sale financial instruments are measured at fair value, with changes in fair value recorded in OCI until the instrument is derecognized or impaired. Loans and receivables, held-to-maturity investments and other financial liabilities are recognized at fair value and subsequently measured at amortized cost.

The Company has designated its cash and cash equivalents as held for trading, which are measured at fair value. Accounts receivable are designated as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are designated as other financial liabilities, which are measured at amortized cost.

The Company expenses all transaction costs as incurred in relation to the acquisition of a financial assets or liability.

4 Adoption of new accounting standards

Goodwill and Intangible Assets – CICA Handbook 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 pre-production and start-up costs and requires that these costs be expensed as incurred. Upon adoption at April 1, 2009, there has been no impact to the consolidated financial statements.

Credit risk and fair value of financial assets and financial liabilities – EIC-173

The CICA issued EIC-173 "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" in January 2009 which concludes that an entity's own credit and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. The adoption of this new standard has no material impact on the Company's consolidated financial statements.

(Expressed in Canadian dollars)

Financial Instruments – Disclosures – CICA Handbook Section 3862

The CICA amended Handbook Section 3862 to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurement. Fair values of assets and liabilities in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. The amendments were adopted on March 31, 2010 and result in increased note disclosures for financial instruments.

5 Future accounting and reporting changes

Business Combinations, Consolidated Financial Statements and Non-controlling Interest

In January 2009, the CICA issued CICA Handbook Sections 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 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).

(Expressed in Canadian dollars)

CICA Handbook Sections 1601 and 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.

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.

6 Property, plant and equipment

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

			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 Agreement, the Company has a right to an 11% participating interest in three production sharing contracts related to unproved oil and gas properties. At March 31, 2010 there has been no

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production and accordingly there has been no depletion or depreciation recorded against the assets.

During the year ended March 31, 2010, the Company capitalized $77,560 in a Finder's Fee payment (the "Fee"), pursuant to the Engagement Agreement. This Fee, which was approved for payment during the current year, was made in connection with the acquisition of the Sud Touzer exploration block in Tunisia. The Fee was paid to 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.

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, subsequent to the receipt of an AFE by the Company, another party commits to earn an interest prior to the Company exercising their option, then the option will be decreased 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 Future Income Taxes

a) The significant components of the Company's future tax assets and liabilities are as follows:

	2010	2009
	$	$
Property, plant and equipment	**(44,795)**	(22,371)
Non-capital loss	**465,884**	154,899
Share issuance costs	**118,069**	118,362
Valuation allowance	**(539,158)**	(250,890)
	-	-

(Expressed in Canadian dollars)

b) The provision for income taxes is different from the amount computed by applying the combined Federal and Provincial tax rates to the loss before income taxes. The reasons for the difference follows:

	2010	**2009**
	$	**$**
Expected income tax provision (reduction) at 28.75% (2009 – 30%)	**(303,400)**	(140,147)
Non-deductible items	**15,500**	26,592
Change in tax rate and other	**37,500**	25,068
Valuation allowance	**250,400**	88,487
	-	-

c) The Company has non-capital losses carried forward totaling $1,863,537, which expire as follows:

2022	$ 33,232
2028	586,365
2029	1,243,940
Total	1,863,537

(Expressed in Canadian dollars)

8 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, 2008 (i)	6,580,000	806,186
Short-form offering (ii)	4,373,600	1,093,400
Non-brokered private placement (ii)	4,848,000	1,212,000
Fair value of share purchase warrants (ii)	-	(368,864)
Share issue costs	-	(411,378)
Outstanding, March 31, 2009	15,801,600	2,331,344
Non-brokered private placement (iii)	657,615	170,980
Non-brokered private placement (iv)	4,805,000	816,850
Fair value of share purchase warrants (iv)	-	(91,115)
Share issue costs (iii and iv)	-	(145,454)
Common shares issued to Finder (iv)	354,500	53,845
Outstanding, March 31, 2010	21,618,715	3,136,450

(i) During the year ended March 31, 2008, the Company closed a private placement to issue 3,080,000 common shares at a price of $0.10 per share for gross proceeds of $308,000. At the time of issuance, 3,080,000 common shares were held in escrow pursuant to the requirements of the TSXV. Subsequent to the completion of the Qualifying Transaction on December 8, 2008, 10% of the common shares were released from escrow. As at March 31, 2010, there were 1,872,000 common shares remaining in escrow with the balance to be released at 15% of the original on each of the 6th, 12th, 18th, 24th, 30th, and 36th month following the Qualifying Transaction.

The Company also completed its initial public offering raising gross proceeds of $700,000, pursuant to a Prospectus dated March 5, 2008. A total of 3,500,000 common shares in the capital of the Company were subscribed for at a price of $0.20 per common share.

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(ii) On November 21, 2008, the Company completed a short-form offering ("SFO") and the non-brokered private placement issuing 9,221,600 units for total proceeds of $2,305,400 ($0.25 per unit). Each unit consists of one common share and one share purchase warrant. Each share purchase warrant is exercisable into one common share at a price of $0.40 per share, exercisable for 2 years. There is a forced exercise provision following the expiry of four months plus one day from the date of Closing ("Special Hold Period"). If at any time after the Special Hold Period the closing price of the Company's listed shares exceeds $0.60 for 15 consecutive trading days the exercise period for the share purchase warrant will be shortened to a period of 30 days following notice. The Company has allocated $368,864 of the unit value to the warrant.

(iii) 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). The Company incurred share issue costs to an unrelated Finder of $37,475 related to this private placement.

(iv) On December 18, 2009 and February 3, 2010, the Company completed a non-brokered private placement, issuing 1,260,000 units and 3,545,000, respectively, for total proceeds of $816,850 ($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 from the date of each respective placement. 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 from the date of each respective placement. 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. The Company has allocated $91,115 of the unit value to warrants.

(Expressed in Canadian dollars)

The fair value of the share purchase warrants 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:

	2010	**2009**
Risk-free rate	1.22%	1.86%
Expected life	1.5 years	2 years
Expected volatility	60%	54%
Fair value per warrant	$0.02	$0.04

The Company incurred share issue costs to an unrelated Finder of $107,979 related to this placement. This includes the value of 354,500 common shares issued to Finders.

c) **Warrants**

The schedule of warrant activity for the year ended March 31, 2010 is as follows:

	Number of warrants issued and exercisable	**Amount $**	**Weighted average exercise price $**
Balance, March 31, 2008	-	-	-
Share purchase warrants (note 8b(ii))	9,221,600	368,864	0.40
Engagement Agreement share purchase warrants	177,730	13,703	0.25
Balance, March 31, 2009	9,399,330	382,567	0.39
Share purchase warrants (8b(iv))	4,805,000	91,115	0.35
Finders' share purchase warrants (i), (ii)	104,031	5,601	0.28
Balance, March 31, 2010	14,308,361	479,283	0.38

(i) In relation to the non-brokered private placement on August 11, 2009, Finder's Warrants totaling 59,031 were issued to two unrelated Finder's for introducing to the Company subscribers of the private placement. Each Finder's Warrant is exercisable for one common share at a price of $0.26 per share, exercisable for 2 years.

(ii) In relation to the non-brokered private placement on December 18, 2009, Finder's Warrants totaling 45,000 were issued to an unrelated Finder 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.

(Expressed in Canadian dollars)

The fair value of the Finder's Warrants issued is estimated at the grant date using the Black-Scholes option pricing model. A weighted average of the assumptions used in the calculation for the Finder's Warrants granted during the year ended March 31, 2010 is noted below:

	2010	**2009**
Risk-free rate	1.26%	1.86%
Expected life	1.57 years	2 years
Expected volatility	60%	54%
Fair value per warrant	$0.05	$0.08

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.

The following table summarizes information about the Company's stock options outstanding at March 31, 2010:

	Number of options Outstanding and exercisable	**Weighted average exercise price $**
Balance, March 31, 2008	-	-
Granted	1,775,000	0.13
Cancelled	(225,000)	0.20
Balance, March 31, 2009	1,550,000	0.12
Granted	490,000	0.18
Cancelled	(475,000)	0.14
Balance, March 31, 2010	1,565,000	0.13

(Expressed in Canadian dollars)

During the year, the Company granted 490,000 options to employees and directors (2009 – 1,775,000). The terms of the grant are consistent with the Plan. 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:

	2010	**2009**
Risk-free rate	2.12%	2.00%
Expected life	5 years	5 years
Expected volatility	60%	54%
Fair value per warrant	$0.089	$0.04

Stock based compensation expense for the year ended March 31, 2010 was $43,434 (2009 - $74,575), 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.

The following table summarizes information about the Company's stock options outstanding at March 31, 2010:

	Option outstanding and exercisable		
Range of exercise prices ($)	**Number of options outstanding**	**Weighted average remaining contractual life (years)**	**Weighted average exercise price $**
0.10 - 0.20	1,420,000	4.05	0.12
0.21 – 0.30	145,000	4.45	0.23

e) **Contributed Surplus**

	2010	**2009**
	$	**$**
Balance, Beginning of year	**152,101**	21,383
Stock-based compensation (note 8(d))	**43,434**	74,575
Agent options (i)	-	56,143
Balance, End of year	**195,535**	152,101

(i) Pursuant to the Agency Agreement and the closing of the SFO and the non-broker private placement on November 21, 2008, the Agent was granted 728,161 Agent Unit Options ("Agent Option"). Each Agent Option is exercisable into one common share and

(Expressed in Canadian dollars)

one common share purchase warrant ("Agent Warrant") of the Company for a period of 24 months at $0.25. Each Agent Warrant is exercisable into one common share of the Company at $0.40 per common share until November 21, 2010, with a forced exercise provision following the Special Hold Period (8b(ii)).

The charge to contributed surplus was based on the fair value of the Agent Option estimated at the grant date using the Black-Scholes option pricing model. The assumptions used in the calculation are noted below:

Risk-free rate	1.86%
Expected life	2 years
Expected volatility	54%
Fair value per agent option	$0.077

f) **Per share data**

Basic earnings per share are calculated based on the weighted average number of shares outstanding during the period of 17,173,432 (2009 – 9,864,405). 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.

9 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

(Expressed in Canadian dollars)

ratio of currents assets divided by current liabilities. At March 31, 2010, the working capital ratio was 5.9:1.

10 Related Parties

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

a) Aggregate consulting fees of $178,326 (March 31, 2009 - $21,740) were charged by directors and officers of the Company and recorded in the statement of loss, comprehensive loss and deficit.

b) Aggregate legal fees of $18,334 (March 31, 2009 - $10,023) were charged by a director of the Company.

c) An aggregate of $14,013 (March 31, 2009 - $921,212) was paid by the Company to the operator of the Tunisian oil and gas assets for capital spending. Of this amount $14,013, has been capitalized to property, plant and equipment (2009 - $490,000 was included in accounts receivable as a cash call receivable and the remaining $431,212 was included in property plant and equipment). The Chief Executive Officer of the operator is a current director of the Company.

d) Included in accounts payable and accrued liabilities at March 31, 2010 was $23,284 (March 31, 2009 - $nil) payable to related parties. These amounts are non-interest bearing and have no specific terms of repayment.

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

11 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**

(Expressed in Canadian dollars)

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. 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.

As at March 31, 2010 the Company's receivables consisted of $490,000 (2009 - $490,000) from the operator of the Tunisian permits, $39,444 (2009 - $24,981) of good and service taxes from the Government of Canada, and $18,098 (2009 -$nil) of other trade receivables.

Virtually all of the Company's accounts receivable is with the operator of the Tunsian 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 $547,542 and cash and cash equivalents of $992,599.

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) **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.

(Expressed in Canadian dollars)

(i) **Commodity price risk**

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. The international nature of the Company's operations will result in exposure to fluctuations in commodity prices as the Company continues to develop.

(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 March 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.

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 March 31, 2010, the Company's financial liabilities totaled $261,566, and are comprised of accounts payable and accrued liabilities and amounts due to related parties. As at March 31, 2010, the Company's cash and cash equivalent balance is sufficient to meet the Company's obligations. $23,284 of the financial liabilities are owed to related individuals and these amounts are subject to the forbearance of the related individuals.

The Company's financial liabilities at March 31, 2010 are aged as follows:

Current (less than 90 days)	$	211,004
Past due (more than 90 days)		50,562
Total	$	261,566

(Expressed in Canadian dollars)

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 year would not have a significant impact on the Company's earnings for the year.

12 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 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.

13 Subsequent events

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

a) On June 4, 2010, the Company announced that it has entered into an acquisition agreement (the "Agreement") with Oren Oil ASA ("Oren"). Oren has represented that through the acquisition, the Company will be introduced to opportunities to acquire oil and gas leases within the republic of Russia, which will be assessed through due diligence procedures. Under the Agreement, the Company will make an offer (the "Offer") to the shareholders of Oren to purchase all of their shares of Oren ("Oren Shares") on the basis of one common share in the capital of the Company ("Canoel Share") for every 1,000 Oren Shares tendered

(Expressed in Canadian dollars)

under the Offer. The Company paid a non-refundable deposit of 20,000 Norwegian Kroner ("NOK"), approximately CAD $3,000, upon execution of the Agreement.

In connection with the Offer, the Company intends to offer to all of the Oren shareholders the opportunity to participate in a private placement of Canoel Shares (the "Private Placement") for total gross proceeds of a minimum of NOK 5,000,000 (approximately CAD $800,000). The price per Canoel Share for the Private Placement will be set at a later date and announced in the future.

Completion of the foregoing transactions is subject to approval by the Exchange, and is conditional upon: (i) the receipt by the Company of binding commitments from at least 50.01% of the Oren Shareholders to accept the Offer; and (ii) binding commitments from Oren Shareholders to subscribe for a minimum of NOK 5,000,000 (approximately CAD $800,000) in Canoel Shares pursuant to the Private Placement. Accordingly, this offer is subject to the above requirements and there can be no certainty that this agreement with the Oren shareholders will be completed.

b) 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. Upon completion of the due diligence procedures subsequent to March 31, 2010, certain conditions were not met and the Agreement was terminated.