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 six months ended September 30, 2010, including the notes thereon, and with the audited annual financial statements for the year ended March 31, 2010 and related MD&A. This MD&A is dated as of November 29, 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;

- management's belief that it will be able to exercise their option to increase its interest in the Tunisian exploration blocks to the full 45% if desired;

- management's belief that it will be able to raise the funds required to participate in the Tunisian exploration blocks, including the ability to participate beyond the 11% upon exercising their option to increase their working interest in the Tunisian exploration blocks up to 45%;

- management's belief that the expected commencement date according to the operator for drilling operations in the Bazma exploration block, located in Tunisia, and management's expectation that costs of drilling the well may 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 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 from the Tunisian National Oil Company for the Bazma and Sud Tozeur exploration blocks can be extended if necessary; and

- all of the statements under the heading "Outlook"

- Management intends to focus development efforts on the Don Alberto and Don Ernesto fields, acquired through the Argentina acquisition (the “Argentina Acquisition”). The oil price cap prescribed by the Argentina oil industry is gradually increasing and this oil price increase will improve the Company’s profitability.

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; 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

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

On March 10, 2010, the Company formed Ingenieria Petrolera del Rio de la Plata S.R.L. ("IPRP"), a wholly owned subsidiary of the Company. IPRP was established to negotiate management agreements to operate existing producing properties on behalf of other companies in exchange for a fee and a percentage of profits. As at September 30, 2010, IPRP exists solely as a shell with no assets and liabilities.

On July 22, 2010, the Company acquired 100% of Central Patagonia SRL ("Central Patagonia"); a subsidiary of U.S. based company, thereby acquiring two adjacent oil producing properties in Argentina (the "Argentina Acquisition"). In anticipation of the completion of the Argentina Acquisition, on July 20, 2010 the Company formed a wholly owned US subsidiary, Ingenieria Petrolera Patagonia Ltd. ("IPP") to act as the acquirer of Central Patagonia.

BOE PRESENTATION

The term "barrels of oil equivalent" (boe) may be misleading, particularly if used in isolation. A boe conversion of six thousand cubic feet of natural gas to one barrel of oil (6:1) is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Readers should be aware that historical results are not necessarily indicative of future performance.

FINANCIAL AND OPERATING RESULTS FOR THE SIX MONTH PERIOD

	For the three months ended Sept 30		For the six months ended Sept 30	
	2010	**2009**	**2010**	**2009**
FINANCIAL				
Gross petroleum revenue	435,263	-	435,263	-
Total assets	5,981,639	2,273,304	5,981,639	2,273,304
Cash flow used in operations	(78,210)	(179,652)	(385,769)	(413,537)
Per share (basic)	(0.00)	(0.01)	(0.01)	(0.03)
Per share (diluted)	(0.00)	(0.01)	(0.01)	(0.03)
Net (loss)	(746,670)	(209,148)	(957,729)	(405,682)
Per share (basic)	(0.02)	(0.01)	(0.04)	(0.03)
Per share (diluted)	(0.02)	(0.01)	(0.04)	(0.03)
Capital expenditures	4,255,163	77,560	4,255,163	77,560
Total debt	1,936,477	-	1,936,477	-
OPERATIONS				
Production sales				
Oil (bbls/d) (1)	121.8	-	121.8	-
Average pricing				
Oil and NGL's($/bbl)	50.44	-	50.44	-
Expenses				
Production Expense & transportation ($/boe)	21.48	-	21.48	-
Royalty expense ($/boe)	4.33	-	4.33	-
Net Back Combined ($/boe) (2)	24.63	-	24.63	-

(1) Average daily production for the results of the period as the Argentina Acquisition of producing properties was completed July 22, 2010.

(2) Operating netback is a non-GAAP measurement equal to revenue less operating costs, transportation and royalties.

Financial and Operations Results

The reported operations in Argentina commenced in August 2010, and therefore the results are limited to two months of operations until September 30, 2010 are reported. Within these two month, the oil price has increased from US $46 to US $49 per barrel. The company expects that operating costs may be reduced in future months and that the oil price will continue to steadily improve.

<u>OPERATIONAL UPDATE</u>

TUNISIA

During the three and six month period ended September 30, 2010, the Company incurred $nil of expenditures (March 31, 2010 - $14,013) in relation to the Farmout and Participation Agreement. An amount of $490,000 is held by Cygam, as operator of each of the exploration blocks, as a cash call against expenses to be incurred while drilling a well on the Bazma block. The Company also has an option to increase its interest in two of its three exploration blocks, Bazma and Sud Touzer by 34%, from 11% to 45%. The Company remitted a payment of $190,000 to the operator for this option during the year ended March 31, 2009, which pursuant to the Option Agreement, the payment is non-refundable and had an original expiry date of 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 three and six months ended September 30, 2010.

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. 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 one of the main targets on the "Frida" structure. Additional targets are represented by deeper Ordovician sandstones and unconventional shale reservoirs in the Silurian section.

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. As of September 30, 2010, reprocessing of approximately 2,000 km of older seismic data and processing of approximately 300 km of recently acquired 2D seismic data was completed by the U.S. Company at no cost to Cygam or the Company. The U.S. Company will present its interpretation of all data at the TCM/OCM meeting of November 11, 2010, with ETAP, the Tunisian State Company. It is expected that on that date the U.S. Company will announce its decision on whether to proceed with additional 3D seismic work or with the drilling of a deep well or to terminate the agreement. In the event that the U.S. Company declines to pursue additional activities at Bazma and in Tunisia, the Company intends to keep its option to increase its interest at Bazma.

On November 11, 2010, Cygam and the Tunisian State Company ("ETAP") were notified that the large U.S. independent oil and natural gas company ("the U.S. Company") has decided not to exercise its option to drill a well to test conventional and unconventional Ordovician and Silurian targets. We understand that the U.S. Company has made a significant oil discovery elsewhere which requires major investment for its development. Under the terms of the agreement Cygam will now receive all the seismic data which was acquired, processed and reprocessed by the U. S. Company at no cost to the Company. Interpretation of the seismic data by the U.S. Company indicates that structures of adequate size exist on the permit. Canoel and Cygam will further assess these structures in view of planned drilling operations.

Management believes it will be able to raise the necessary capital to satisfy the additional spending required with an increased interest.

Jorf

The Jorf exploration permit, located in the center of Tunisia covers an area of 3,768 square kilometres. ETAP had agreed to extend the Jorf permit until August 6, 2011, upon commitment by the operator and its partners to drill an exploratory well. The Company 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.

Subsequent to September 30, 2010, Cygam and its partners completed a geochemical analysis on selected samples from existing wells to determine hydrocarbon maturation and migration. The geochemical analysis was incorporated into the geological and geophysical interpretation utilizing new data and new techniques. This study indicated that the probability of hydrocarbon generation, migration and entrapment in the Permian reefs is unfortunately lower than previously assessed and therefore drilling of a deep test would be quite risky. Cygam presented this interpretation to ETAP during a technical workshop held on October 26 and requested that the drilling obligation at Jorf be exchanged for a 3D seismic survey at Sud Tozeur where a large drillable structure has been identified, immediately to the north of the producing El Franig field.

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. Cygam has continued the geophysical interpretation over this very large permit and has identified an excellent prospect immediately to the north of the producing El Franig field. The structure is approximately 28 square kilometres, as defined by older seismic data. Canoel has been advised that the Operator will propose to ETAP that a 200 square kilometres 3D seismic survey be conducted in 2011 as a replacement of the Jorf drilling obligation at Jorf to be followed by the drilling of a deep Ordovician well.

Subsequent to September 30, 2010, Cygam completed further detailing of 2D seismic data in the eastern portion of the permit and confirmed the presence of one structure with conventional and unconventional Silurian and Ordovician potential immediately north of the El Franig field plus several other leads. Cygam submitted an application to ETAP to transform the drilling obligation on the Jorf permit into a 3D seismic commitment at Sud Tozeur. This application proposes a new 3D seismic survey which would cover an area of approximately 200 km^2, located northeast of the El Franig oil field, and would commence in 2011. Canoel and Cygam believe that this new seismic survey is essential to define the exact location to drill a potential deep well which would test Triassic, Silurian and Ordovician targets.

ARGENTINA

On July 22, 2010, the Company signed a Share Purchase Agreement (the "SPA") with a U.S. based privately held company for the purchase of two adjacent oil producing properties located in the San Jorge basin in the Patagonia region of southern Argentina. The transaction was previously announced during September 2009 with the signing of a Memorandum of Understanding. The negotiations continued and various agreements were drafted but the acquisition never reached completion under these drafts due to certain due diligence and financing clauses not being completed within the requisite time period.

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

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

The main assets of Central Patagonia, on which the Company intends to focus development efforts, are two producing fields, Don Alberto and Don Ernesto, (the "Producing Fields"), which produced 51,000 barrels of sweet, non-paraffinic crude oil with 20.5° API gravity. The Company was able to access the existing income stream upon closing.

The two Producing Fields are located in the Patagonia region of Southern Argentina, and specifically in the San Jorge basin, Chubut Province, within the area of Comodoro Rivadavia. The licenses to these fields were granted to Central Argentina under mining codes pursuant to which the licenses do not expire. The wells on the Producing Fields are connected to battery tanks through existing infrastructure, which is now partially owned by IPP. As previously noted the two fields produced approximately 51,000 barrels of oil in 2009, with no associated gas. An independent oil engineering firm in Houston has estimated the total recoverable proved producing reserves at 474,192 bbl as of January 2010. Oil prices in Argentina are the results of complicated formulas that are set by refineries based on instructions or decrees from the government and crude oil prices in Argentina are capped by the Government at variable levels. In early 2010, the price was fixed at US $42.00 per barrel but was recently increased to approximately US $50.00 per barrel.

MONGOLIA

Between May and August 2009, the Company entered into an agreement to become the operator of a large oil exploration block in Mongolia. Under the terms of the agreement, pending successful completion of negotiations, due diligence and additional capital being raised by Canoel, the Company would acquire all of the shares of a Mongolian Company which was the holder of the exploration license of Block XXIII, in exchange for US $1.1 million and the grant to the Seller of a 6% carried interest in the Block. Under the agreement, a due diligence period existed until December 31, 2009 allowing for clarification of legislative and contractual terms with the Seller and local authorities, and for Canoel to raise the required financing.

As part of its closing due diligence, Canoel requested that the Seller provide evidence that the Mongolian government and regulatory authorities had consented to or approved the transaction, specifically regarding potential issues surrounding the change in the Mongolian Company's shareholder, interest, name, and nationality that would occur if and when the Canoel acquired the Mongolian Company. Canoel was not provided with such evidence prior to December 31, 2009, or after that date. Canoel has therefore delivered a Notice of Default with the intention of initiating legal proceedings to enforce the agreement. At this time the

Company is not actively pursuing legal proceedings and management does not believe that there will be any significant monetary impact to the Company as a result of pursing legal proceedings.

OTHER ACTIVITIES

In addition to its activities discussed, the Company is actively pursuing the acquisition of other 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

The following is a summary of selected quarterly information that has been derived from the unaudited financial statements of the Company. This summary should be read in conjunction with unaudited financial statements of the Company as contained in the public record.

Quarterly Financial Information ($000 except per share and unit values)	**Sept 30 2010**	**Jun 30 2010**	**Mar 31 2010**	**Dec 31 2009**	**Sept 30 2009**	**Jun 30 2009**	**Mar 31 2009**	**Dec 31 2008**
Petroleum revenue	435,263	-	-	-	-	-	-	-
Net loss	(746,670)	**211,059**	397,607	252,099	209,148	196,534	298,305	62,948
Net loss per share *	(0.02)	**(0.01)**	(0.02)	(0.02)	(0.01)	(0.01)	(0.03)	(0.008)
Cash flow from operations	(78,210)	**(307,559)**	(221,477)	(270,119)	(186,234)	(233,885)	(160,133)	88,250
Per share *	(0.00)	**(0.01)**	(0.01)	(0.02)	(0.01)	(0.01)	(0.02)	0.01
Total assets	5,981,639	**2,970,449**	2,538,288	2,186,644	2,273,304	2,309,309	2,508,481	2,638,913
Capital expenditures	4,255,163	**-**	14,013	-	77,560	-	277,199	603,945
General & administrative	887,128	**224,877**	371,649	244,048	182,013	197,087	399,977	63,417
Total long-term liabilities	732,406	**364,831**	-	-	-	-	-	-
Average daily sales								
Oil (bbls/d)	121.8	-	-	-	-	-	-	-
Average sales prices								
Oil ($/bbl)	50.44	-	-	-	-	-	-	-
Operating costs ($/boe)	21.48	-	-	-	-	-	-	-
Royalty Expense ($/boe)	4.33	-	-	-	-	-	-	-
Operating netback ($/boe)	24.63	-	-	-	-	-	-	-

***per share amounts are basic and diluted**

Petroleum and Natural Gas Sales

As the Company did not complete the Argentina Acquisition until July 22, 2010, production results are limited to the three month period. Please refer to the previous discussion within the MD&A of production results for this period.

Loss

The increase in the net loss is substantially a direct results of the costs incurred in performing the recent acquisition In Argentina, less the offsetting profit of the Argentinean oil & gas operation. G&A for the quarter increased to $887,128 from $182,013 during the same period in 2009. This increase is primarily due to the costs incurred to complete the Argentina Acquisition.

During the quarter, G&A was primarily due to consulting fee & services, legal and due diligence fees and travel expenditures to Argentina. After completing the acquisition in Argentina, which marked the transition of the company to a producing company, the board decided to pay to management and to some long serving directors bonuses for a total of $252,000.

G&A costs for the first six months ended September 30, 2010 have increased from $379.100 (for the first six months of 2009) to $1,112,005 A significant portion of these costs were incurred during the second quarter, especially related to the closing of the Argentina Acquisition, including legal fees, consulting and due diligence fees, and bonuses paid to management and board members for the successful completion of the Argentina acquisition. Most of these costs will be non recurring.

Total assets

Total assets at September 30, 2010 were $5,981,639 (March 31, 2010 - $2,538,288). The increase was the result of the assets acquired on the Argentina Acquisition and cash proceeds raised during the period from the convertible note and the private placement, which were largely offset by the G&A expenditures.

Cash flow from operation

During the quarter, cash flow used in operating activities were $78,210 or $(0.00) per share, (September 30, 2009 – ($186,234) or $(0.01) per share) due to the incurrence of G&A expenses.

<u>LIQUIDITY AND CAPITAL RESOURCES</u>

The Company had a net working capital balance of $14,738 at September 30, 2010 consisting primarily of cash on deposit of $1,114,085 and accounts receivable of $1,085,482, net of current liabilities of $2,283,374. Cash balances in excess of planned requirements were held in banks and highly liquid savings accounts. During the three months ended September 30, 2010, this excess cash generated $169 in interest income.

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

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

Each Warrant entitles the holder to purchase one additional common share of the Company at a price of $0.50 per share until June 24, 2014 for Note A and September 2, 2014 for Note B.

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

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

During the three month period ended September 30, 2010, the Company completed two Norwegian private placements (the "Norwegian Placement") of 9,110,729 common shares of the Company, at a price of $0.12 per share, for aggregate proceeds of $1,093,287. The Norwegian Placement was completed in connection with the proposed offer by the Company to purchase the shares of Oren Oil ASA. The Company incurred share issue costs to an unrelated party of $33,460 related to the Norwegian Placement.

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 new 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 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 and the operator have 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

Related party transactions are as follows:

During the three months ended September 30, 2010:

a) Aggregate consulting fees of $16,200 (September 30, 2009 - $44,581) were charged by directors and officers of the Company and recorded in the consolidated statement of loss, comprehensive loss and deficit.

b) Aggregate legal fees of $7,500 (September 30, 2009 - $5,292) were charged by a director of the Company and recorded in the consolidated statement of loss, comprehensive loss and deficit.

c) Aggregate bonus of $252,265 (September 30, 2009 - $nil) were paid to certain directors and officers of the Company and recorded in the consolidated statement of loss, comprehensive loss and deficit. These bonuses were paid upon completion of the Argentina Acquisition.

During the six months ended September 30, 2010:

d) Aggregate consulting fees of $32,400 (September 30, 2009 - $107,738) were charged by directors and officers of the Company and recorded in the consolidated statement of loss, comprehensive loss and deficit.

e) Aggregate legal fees of $15,000 (September 30, 2009 - $15,806) were charged by a director of the Company and recorded in the consolidated statement of loss, comprehensive loss and deficit.

f) Aggregate bonus of $252,265 (September 30, 2009 - $nil) were paid to certain directors and officers of the Company and recorded in the consolidated statement of loss, comprehensive loss and deficit. These bonuses were paid upon completion of the Argentina Acquisition.

g) Included in accounts payable and accrued liabilities at September 30, 2010 was $51,305 (March 31, 2010 - $23,284) 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.

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 instalments.

b) A member of the Board of Directors received $2,500 USD per month for services as counsel to the Company.

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

	Six month period ended September 30, 2010 ($)	**Six month period ended September 30, 2009 ($)**
Andrea Cattaneo (President and CEO)*	32,400	32,400
James Grossman (Board member & Counsel)	15,000	15,805

Notes:
*In addition to the 64,800 annual compensation, for the six months ended September 30, 2010 $40,140 (September 30, 2009 - $40,622) was 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.

COMMITMENTS

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

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 for publicly accountable enterprises 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 consolidated 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 is currently assessing the impact of the conversion from Canadian GAAP to IFRS on its results of operations, financial position, and disclosures and is in the process of developing an IFRS changeover plan. The plan will include an assessment of differences between Canadian GAAP and IFRS, accounting policy choices under IFRS, internal controls over financial reporting, potential system changes required, potential corporate governance changes and effects on internal controls and processes including resources and training required for employees. Initial activities include: training sessions for key financial reporting and operation staff; updating the accounting software to include a module to track assets by cash generating unit ("CGU"); and acquisition of written standards and examples of IFRS disclosure. The Company will provide disclosures of the key elements of its plan and progress on the project as the information becomes available during the transition period. The Company does not anticipate that the adoption of IFRS to be a material project given the early stage nature and the current lack of complexity of the Company, and we do not expect that the adoption of IFRS to materially impact the Company's reporting of the underlying cash flows and operating performance.

Below is a summary of significant standards under IFRS that may impact the financial statements of the Company. It is intended to highlight those areas the Company believes to be the most significant. The future impacts of IFRS will also depend on the particular circumstances prevailing in future years. The differences as described below, which include, but are not limited to, those existing based on Canadian GAAP and IFRS today.

IFRS 1 - First-Time Adoption of International Financial Reporting Standards provides the framework for the first time adoption of IFRS and specifies in general that an entity will apply IFRS principles retrospectively. IFRS 1 also specifies that the adjustments that arise on retrospective conversion to IFRS should be recognized directly in retained earnings. Certain optional exemptions and mandatory exceptions to retrospective application are provided under IFRS 1. Analysis of the various accounting policy choices is ongoing and will be undertaken in 2010.

Under IFRS, the accounting for activities of the extractive industry (including oil and gas exploration) is governed by IFRS 6 (for the exploration and evaluation phase) and IAS 16 (for development and production phase). Given the early stage of the Company, the transition is not expected to significantly impact the Company.

Under IFRS, the underlying asset retirement obligation ("ARO") liability may vary from Canadian GAAP given potential variances in the rates used to present value such liabilities. In addition, the unwinding of any present value discount generally will be reflected as a cost of financing under IFRS versus accretion expense under Canadian GAAP. Such differences are not anticipated to materially impact the Company upon transition as currently there is no obligation recorded.

Under IFRS, the asset impairment test is carried out by comparing the asset's carrying amount with its recoverable amount – being the higher of the asset's or CGU fair value less costs to sell and its value in use (generally, using discounted cash flows), with the excess of carrying value being recorded as an impairment loss. The sole use of discounted cash flows may result in more frequent write-downs than under Canadian GAAP.

Under IAS 37 – Provisions, Contingent Liabilities and Contingent Assets - the threshold for recognition of these items are generally lower under IFRS than under Canadian GAAP. Accordingly, there may be some contingent liabilities that may require recognition that otherwise may not have been required under GAAP.

The Company has not determined the full accounting effects of adopting IFRS, since key accounting policy alternatives and implementation decisions are currently being evaluated. As the review of accounting policies is completed, appropriate changes to ensure the integrity of internal control over financial reporting and disclosure controls and procedures will be made. Changes in accounting policies may result in additional controls or procedures being required to address first time adoption issues and ongoing IFRS requirements.

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).

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.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

a) **Fair values**

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and notes payable. The fair values of these financial instruments approximate their carrying value due to their short-term nature. The Company's cash and cash equivalents have been subject to level 1 valuation.

b) **Credit risk**

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

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

Approximately $300,000 of the Company's accounts receivable are due from the purchasers of the Company's petroleum production and are subject to the same industry factors such as commodity price fluctuations and escalating costs. The Company generally extends unsecured credit to these customers and therefore, the collection of accounts receivable may be affected by changes in economic or other conditions. Management believes risk is mitigated by the size and reputation of the companies to which they extend credit. The Company has not experienced any credit loss in the collection of accounts receivable in the period ended September 30, 2010.

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

c) **Market Risk**

Market risk is the risk that changes in foreign exchange rates, commodity prices, and interest rates will affect the Company's net (loss) income or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

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

(i) **Commodity price risk**

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

(ii) **Interest rate risk**

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. As at September 30, 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 September 30, 2010, the Company's current financial liabilities totalled $2,283,374, and are comprised of accounts payable and accrued liabilities, the current portion of the Notes and the Notes payable. As at September 30, 2010, the Company's cash and cash equivalent balance is not sufficient to meet the Company's obligations. $51,305 of the financial liabilities are owed to related individuals and these amounts are subject to the forbearance of the related individuals.

e) **Currency risk**

Foreign currency exchange risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. To date the Company has focused on the international market for petroleum and natural gas opportunities where many of the anticipated future expenses will be denominated in United States dollars. A hypothetical change of 10% to the foreign exchange rate between the US dollar and the Canadian dollar applied to the average level of US denominated cash and cash equivalents during the period would have a remote impact on the Company's earnings for the period.

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

is the currency of reference for the oil sales of the Argentine company to local refineries.

SUBSEQUENT EVENTS

The Company entered into the following transactions subsequent to September 30, 2010:

a) On October 5, 2010, the Company settled $308,000 of the principal portion of Note A through the issuance of 2,566,667 units (the "Units) at $0.12 per Unit. Each Unit consists of one common share of the Company and one half of one share purchase warrant (the "Warrant"). Each whole Warrant entitles the holder to purchase one common share of the Company at a price of $0.17 per share for a period of one year from the date of issue. Note A was cancelled in the amount specified upon the issuance of the Units.

b) On October 1, 2010, the Company announced the acquisition (the "Acquisition") of 602,420,666 shares of Oren Oil ASA ("Oren") from several of Oren's major shareholders. This number of shares (approximately 51% of all the issued and outstanding shares of Oren) was exchanged, on a 1,000 to 1 basis, for 602,420 common shares of the Company (or approximately 1.72% of the Company's total shares). As an integral part of the Acquisition, during the three months ended September 30, 2010, Canoel completed a private placement of its shares to certain of the former Oren shareholders and managers resulting in gross proceeds to Canoel of approximately CAD 1,100,000 with no commission costs. See Note 9 b(iii)

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

   As another part of the Acquisition, Oren assigned to Canoel (with Canoel's acceptance) a portion of Oren's debts in the aggregate amount of Norwegian Kroner ("NOK") 1,579,167 (approximately CDN$ 276,000). Canoel intended to settle a portion of such debts (NOK 1,297,917) through the issuance of shares at a deemed price of NOK 0.73 (approximately CDN$ 0.12 per share). On October 25, Canoel received the approval of the TSX Venture Exchange and issued 1,813,051 common shares to Oren's creditors. In consideration for the assignment of debts and the subsequent issuance of Canoel shares, Oren also transferred to Canoel 27% of the shares held by Oren in its wholly owned Russian subsidiary, Saganeft LLC ("Saganeft"), as well as rights to 27% of a claim Oren has against Saganeft. Subject to the approval of its shareholders and creditors, Oren further agreed to transfer some of its Russian assets and liabilities to Promotes.

   Subsequent to the above mentioned transactions, on October 18, Canoel announced that it sold for a nominal amount all the 602,420,666 shares of Oren that Canoel had purchased from former shareholders of Oren to WG Utvikling AS ("WG"), a limited venture company registered in Oslo, Norway, whose principal businesses are in healthcare and real estate. Oren in its current structure, as sold to WG, has all the characteristics of a shell company with very few assets and few liabilities.

As previously mentioned, in connection with the original purchase of Oren shares, Canoel also acquired 27% of the shares of Saganeft (which is a part owner of certain Russian oil and gas exploration blocks and has a management and consulting role in all the other assets formerly owned by Oren through its subsidiaries in Russia) all of which will be retained by Canoel notwithstanding its sale of the Oren shares to WG. Canoel, under certain conditions, will be entitled to a 50% sale commission out of any sales proceeds from the Russian assets, net of trust company, legal and marketing fees. The shares and the related financing of the Russian companies originally cost Oren an amount nearing US$100,000,000. The current market value of the Russian assets is however uncertain, as considerable deterioration has occurred to these companies, including insolvency for one of them.

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	39,342,799
Preferred Shares	Nil
Warrants	8,782,003
Stock Options	2,815,000

Notes:

1. 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. 1,772,500 of the Warrants entitle the holder to acquire one common share at $0.30 per share until February 3, 2011. 1,772,500 of the Warrants entitle the holder to acquire one common share at $0.40 per share until February 3, 2012. 1,095,180 of the Warrants entitle the holder to acquire one common share at $0.20 per share until June 30, 2011. 500,000 of the Warrants entitle the holder to acquire one common share at $0.50 per share until September 24, 2014. 666,500 of the Warrants entitle the holder to acquire one common share at $0.20 per share until July 13, 2011. 252,959 of the Warrants entitle the holder to acquire one common share at $0.20 per share until September 2, 2011. 75,000 of the Warrants entitle the holder to acquire one common share at $0.50 per share until September 2, 2014. 1,283,333 of the Warrants entitle the holder to acquire one common share at $0.17 per share until October 25, 2010.
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. 950,000 of the Stock Options entitle the holders to acquire an equal number of common shares at $0.10 per share, which expire between March 13, 2014 and March 20, 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 11, 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. 170,000 of the Stock Options entitle the holders to acquire an equal number of common shares at $0.17 per share until February 8, 2015. 1,250,000 of the Stock Options entitle the holders to acquire an equal number of common shares at $0.10 per

share until September 30, 2015. In each case, the expiration is subject to earlier termination in certain events.

OUTLOOK

The Company plans to continue to focus on both international oil and natural gas exploration opportunities as well as continuing its search for smaller producing assets in North America, Italy and Argentina. 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 the producing assets primarily in Argentina, following the successful completion of the first acquisition there.

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 the remainder of 2010 and 2011 include:

(a) **Bazma Permit:** It is expected that the operator will request a one year extension for the Bazma permit. Drilling of an initial well is expected in late 2011, either to test a shallow Triassic TAGI prospect or a deeper Ordovician target. Participation in such drilling operations is subject to the Company obtaining additional financing or finding an industry partner and rig availability. Exercise the option to increase working interest beyond 11%.

(b) **Jorf Permit**: It is expected that the Cygam will request that the drilling obligation at Jorf be exchanged for a 3D seismic survey covering 200 km^2 at Sud Tozeur. If such a request is approved by ETAP and the DGE, the permit may be relinquished due to its newly assessed poor prospectivity.

(c) **Sud Tozeur Permit:** Upon approval by ETAP and the DGE, it is expected that Cygam will conduct a 200 km^2 3D seismic program located northeast of the El Franig oil field. Such program would commence in 2011. Cygam believes that this new seismic survey is essential to define the exact location to drill a potential deep well which would test Triassic, Silurian and Ordovician targets.

(d) **Mongolia:** Continue with legal proceedings, with the intention to complete the acquisition or to obtain compensation expenses incurred.

(e) **Argentina:** With the successful completion of the Argentina Acquisition on July 22, 2010, the Company will focus on managing the acquired properties with the intention to increase the production and cash flows. The Company intends to evaluate certain properties located within the surrounding area for potential acquisition.

(f) **Norway:** In view of the excellent relationship which has been established with Oren’s shareholders and other institutional investors, Canoel will continue to pursue additional financing opportunities in Norway.

OTHER

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