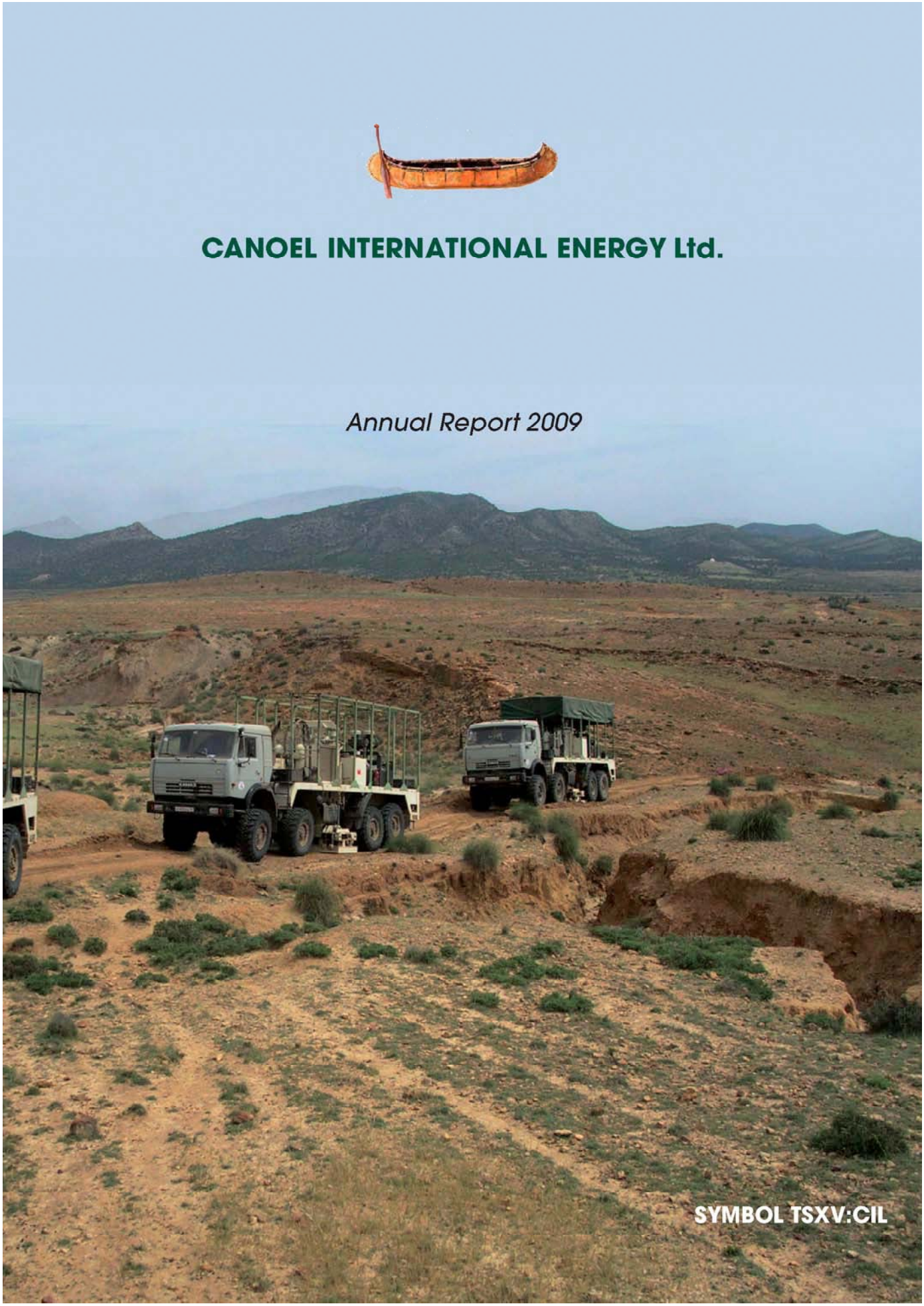
CANOEL INTERNATIONAL ENERGY Ltd.

Annual Report 2009



SYMBOL TSXV:CIL

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LETTER TO SHAREHOLDERS

The year 2008 was a very significant year for our Company. Having been formed in September 2007, the Company completed its IPO and started trading on the TSX Venture Exchange as a Capital Pool Company in April 2008.

The capital pool program, created originally by the Alberta Stock Exchange (now part of the TSX Venture Exchange), allows companies to raise initial capital and trade their shares in a public market. This status positioned the Company to take advantage of opportunities in one of the largest energy markets of the world.

In late 2008, the Company entered into a farmout arrangement under which the Company is entitled to earn an 11% working interest in three oil & gas exploration blocks (Bazma ,Jorf, and Sud Touzer) in Tunisia. Entering into the farmout arrangement constituted the Company's "Qualifying Transaction" under applicable policies of the TSX Venture Exchange and as a result, the Company is no longer subject to rules applicable to Capital Pool Companies and is now a Tier 2 Oil and Gas issuer on the TSX Venture Exchange. In conjunction with the Qualifying Transaction, the Company raised approximately CAN$2.4 million through an offering of its common shares. As a result of the coincidental collapse of the worldwide equity markets in the second half of 2008 and the consequent disinterest of the investment community in oil related or any other securities, the offering proved to be very difficult to complete. I want to thank the Board of Directors and management of the Company for their contributions to the successful conclusion of the fund raising and the other transactions described above.

We are convinced that the prospects for the Tunisian venture are a good choice for our first investment. The characteristics of the exploration blocks fulfill our initial strategy, which was taking minority positions in blocks primarily located in prolific areas presenting the prospect of finding large resources in politically stable jurisdictions with infrastructure to transport oil and gas once discovered.

Activities in Tunisia

In June 2008, Cygam Energy Inc. of Calgary, Alberta, the operator of the three exploration blocks, completed a 60 km 2D seismic acquisition program on the Bazma block to further define a prospect in close proximity to the nearby Tarfa and Baguel producing fields. Seismic interpretation confirmed the presence of one structure ("Frida") with similar geophysical character to the Tarfa field and located approximately 5 kilometres from a producing well as well as pipelines. Several additional drillable prospects were also outlined on the permit. An exploratory well is planned for the second half of 2009. Delivery items with long lead times such as wellhead and casing have already been purchased ahead of drilling. Also in June, 2008, Cygam conducted an additional 200 km seismic program in the north-western portion of the Jorf permit. The presence of two large pinnacle reefs of Permian age was confirmed and a well is scheduled to be drilled on this permit by 2011. Evaluation of several structures on the large Sud Tozeur block continued in 2008. Cygam is attempting to organize a regional geological/geophysical study, together with various other companies which hold offsetting permits and with the Tunisian National Oil Company (ETAP). With the contribution of additional data from surrounding areas, it is expected

that such a study will greatly improve the evaluation of this large and sparsely drilled portion of Tunisia.

Programs for 2009 and beyond; Revised Strategy

Our Company continues to work with Cygam in making detailed geophysical andgeological assessments in order to identify exploration targets within the threeTunisian exploration blocks. Our objective for these prospects in 2009-2010 is to further define high-grade drillable structures and then to make presentations to industry participants with a view to finding additional partners for these projects. In seeking new opportunities we feel that the radical change in our industry requires a different strategy. Instead of focusing on securing minority positions in blocks around the world, we will look to take lead positions in large blocks in prolific countries having high recognition for their oil reserves.

In addition in a parallel way, we are looking to develop the revenue side of our financials by buying existing oil & gas production; geographically, we will do that mainly in North America, where the title is well protected by the law.

The main sources of this type of asset will likely come from existing producers who are over extended and need to sell some assets, hopefully at a distressed sales price.

Canoel is actively looking for other opportunities around the world, focusing on its strength as stated in our offerings, which is the ability to identify opportunities and to secure them in a speedy manner.

Acknowledgements

In closing, I would like to extend sincere thanks to all the shareholders who have been with us since inception and the new shareholders who participated in the 2008 financing for their continued support. I also wish to thank the Company's Board, management and consultants for their dedication and hard work under challenging and often under-staffed conditions. We look forward to moving ahead with our plans in Tunisia, and continuing to seek new opportunities elsewhere. We believe Canoel has real opportunities for success.

On behalf of the Board of Directors,

Andrea Cattaneo
President and C.E.O.
May 14, 2009

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 audited annual financial statements for the year ended March 31, 2009. This MD&A is dated as of May 14th, 2009.

Basis of Presentation

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

Forward-Looking Information

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

- management's belief that its option to increase its interest in the Tunisian exploration blocks will provide greater potential for financing or industry participation;
- the expected commencement date for drilling operations in on the Bazma exploration block and management's expectation that costs of drilling the well will be less than estimated;
- plans and timing for the drilling of exploratory wells on the Jorf and Sud Tozeur exploration blocks;
- management's expectation that general and administrative expenses will decline in future periods;
- management's expectation that permits for the Bazma and Sud Tozeur exploration blocks can be extended if necessary; and
- all of the statements under the heading "Outlook"

These forward-looking statements are subject to certain assumptions, including the assumptions that: the opportunity to participate the exploration and development of the Tunisian exploration

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

OVERALL PERFORMANCE

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

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

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

TUNISIA

During the year the Company incurred $921,212 of expenditures in relation to the Farmout and Participation Agreement, including $431,212 for its share of previously incurred seismic expenditures. The remaining $490,000 is held by Cygam, as operator of the exploration blocks, as a cash call against expenses to be incurred drilling a well on the Bazma block. The Company also paid $190,000 for an option to increase its interest in two of its three exploration blocks, Bazma and Sud Touzer, by 34% to 45%. 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 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.

Bazma

The Bazma exploration permit, in the center of Tunisia, covers an area of 1,616 square kilometres and carries a drilling commitment over a period of four years. The operator is Cygam. During the first quarter of 2008, Cygam completed a comprehensive geophysical interpretation of extensive seismic data on the Bazma permit. Several structures with similar characteristics as the nearby Tarfa and Bague l producing fields were mapped. One structure, initially called "W" and now renamed "Frida", less than 5 km from the Tarfa field, was selected as the first drilling location. In June, 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 2,200 metres, is the main

target on the "Frida" structure. Drilling in Bazma was originally scheduled to occur in the final quarter of 2008; however, a hurricane, which struck the Houston area severely damaged the drilling rig scheduled to be moved to Tunisia and drilling operations had to be cancelled. Cygam is currently finalizing joint venture agreements and evaluating opportunities to contract a drilling rig. Long delivery time items, such as wellhead and casing have been purchased and have been delivered or are in transit in anticipation of this drilling. It is expected that drilling operations will commence in late 2009. Cygam has also signed a farm-out agreement with Timgad Energy, an Egyptian company, to participate as to a 10% working interest in Bazma and additional companies have expressed an interest in participating on a promoted basis.

Jorf

The Jorf exploration permit, located in the center of Tunisia covers an area of 3,768 square kilometres. The operator is Cygam. ETAP has agreed to extend the Jorf permit until August 6, 2011, by committing to drill a new well. Canoel concurs with the operator's geophysical interpretation which indicates that two middle Permian pinnacle reef prospects and one Triassic target are present in the northern portion of the permit. During August 2007, drilling of the shallow Bhayra Rigo 1 well at a location south east of the current Jorf permit confirmed the presence of good seal rocks and of an excellent dolomitized and porous Permian reef, as interpreted through seismic. Burial of potential pinnacle reefs at greater depth (over 3,500 metres) in the northern portion of the Jorf permit should improve the probability that such reefs may have trapped hydrocarbons generated by overlaying and underlying source rocks. An exploratory well is planned for the fourth quarter of 2010.

Sud Tozeur

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

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

OTHER ACTIVITIES

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

SELECTED ANNUAL INFORMATION

	March 31, 2009 $	March 31, 2008 $
Revenue	7,394	-
Net Loss	(467,158)	(12,000)
Per share – basic and diluted	(0.05)	(0.012)
Total assets	2,508,481	898,530
Total long-term liabilities	-	-

Income and Net Loss

The Company is an "exploration stage" oil and gas company and does not have any properties that produce revenue. During the year, the Company's only income was interest on funds held on deposit. General and administrative expenses for the year increased to $399,977 (2008 - $12,000), which were primarily related to professional fees of $182,286 and travel costs of $116,532. These increases in these expenses are primarily due to costs related to initiating and completing the Qualifying Transaction and the Offerings. The costs associated with these activities are beyond the normal operations of the Company, and in the absence of similar activities the general and administrative expenses are expected to decline in future periods. In addition, during the year the Company has grown in size to include additional directors and a full time management and has now offices in London and Calgary.

Total assets

Total assets at year end were $2,508,481 (2008 - $898,530). The increase was the result of expenditures under the Farmout and Participation Agreement and cash from the Offerings.

SUMMARY OF QUARTERLY INFORMATION

The following is a summary of selected financial information for the Company during the periods indicated.

	Three Months Ended			
	March 31, 2009 $	December 31, 2008 $	September 30, 2008 $	June 30, 2008 $
Revenue	1,267	469	1,652	4,006
Net loss	298,305	62,948	26,463	79,442
Per share – basic and diluted	(0.03)	(0.008)	(0.004)	(0.012)

FOURTH QUARTER

As noted under "Selected Annual Information" and "Selected Quarterly Information" above, net loss for the year is due primarily to costs related to completion of the Company's Qualifying

Transaction and the growth of the Company, most of which were incurred during the three months ended March 31, 2009.

General and administrative costs for the three months ended March 31, 2009 increased due to remuneration paid for professional services of $118,420 (including geological engineering costs, legal costs, auditing costs and accounting costs), directors' fees of $18,810 and office expenses of $26,692 related to the Calgary and London offices.

During fiscal 2009, the Company completed its Qualifying Transaction and concurrent financing. In conjunction with these efforts, the Company incurred approximately $69,000 of expenditures, which were assessed in the quarter ending March 31, 2009 and management determined these expenditures were of an expense nature. These costs are related to the Company's efforts in completing the Qualifying Transactions and Offerings, and in the absence of similar activities they are not expected to reoccur in future periods.

LIQUIDITY AND CAPITAL RESOURCES

The Company had a net working capital balance of $1,492,007 at March 31, 2009 consisting of cash on deposit ($1,094,065), prepaid expenditures and funds held by Cygam under a cash call for expenses to be incurred on the Bazma block, net of liabilities. Cash balances in excess of planned requirements were held in banks and highly liquid savings accounts. During the year, this excess cash generated $7,394 in interest income.

The Company is an exploration stage oil and gas Company that engages principally in the acquisition, exploration and development of oil and gas properties. None of the Company's properties currently produce revenue and accordingly the Company is currently unable to self finance all of its proposed operations. Capital expenditures on the Tunisian exploration blocks for the year ended March 31, 2010 are estimated to be approximately $594,000. The Company's ability to pay for these expenditures and satisfy its general and administrative expenses for the year will depend on its ability to raise additional funds from equity financings or find an industry partner to participate in exploration activities. Success will depend, among other things, on oil and gas industry conditions and capital market conditions. The Company has received expressions of interest from third parties to participate in an exploration program on some of the Tunisian permits, however there can be no assurance that an industry partner will be found or that additional equity financing will be available on reasonable terms, or at all.

RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties during the year ended March 31, 2009. Transactions with related parties are recorded at the exchange amount, being the price agreed between the parties.

Aggregate expenses and fees of $105,071 (2008 – $nil) were charged by officers and directors of the Company and recorded in the statement of loss, comprehensive loss and deficit. Expenses and fees were primarily for services that resulted in the Company entering into Farmout and Participation Agreement and certain investors purchasing units in the non-brokered private placement that formed part of the Offerings.

Subsequent to entering into the Farmout and Participation Agreement and closing the Offerings, Andrea Cattaneo who acted as a consultant to assist in the completion of the aforementioned, joined the Board of Directors and was appointed President and Chief Operating Officer of the Company. At the time the contracts for these services were entered into, Mr. Cattaneo was at arm's length to the Company.

Aggregate directors fees of $18,810 (2008 - $nil) were charged by directors of the Company and recorded in the statement of loss, comprehensive loss and deficit.

Aggregate consulting fees of $21,740 (2008 - $nil) were charged by parties related to the Company and recorded in the statement of loss, comprehensive loss and deficit.

An aggregate of $921,212 was paid by the Company to the operator of the Tunisian oil and gas assets for capital spending. Of this amount $490,000 is included in accounts receivable as a cash call receivable and the remaining $431,212 is included in property plant and equipment. The operator has a 12.4% interest in the Company.

An option payment of $190,000 has been made to the operator of the Tunisian oil and gas assets. Under the option, the Company has the opportunity to increase their working interest on two Tunisian permits up to 45%.

COMMITMENTS

Pursuant to the terms of an agreement whereby the Company holds interest in oil and gas assets in Tunisia, the Company has future commitments to drill one well commencing in the third quarter of 2009 and two additional wells in the late part of 2010 or early 2011. The Company's share of funding is estimated to be CAN $3,566,000 of which $490,000 has already been advanced to the operator. This amount, calculated pursuant to the parameters used in previous public documents, is deemed to reduce due to the continuing trend in the international and Tunisian market for the prices of the petroleum services, which lead cost of drilling down.

The terms of the agreements with the Tunisian government agency, ETAP, require Cygam and its farmees to drill one exploratory well under each of the Jorf, Bazma and Sud Touzer permits by August 2011, end of 2016 and end of 2017 respectively. The operator can apply to extend the Bazma and Sud Touzer permits after such renewal date for another period of exploration activity, involving a working program that will be determined as a result of appropriate negotiations with ETAP.

The Company may at any time withdraw its commitment to move ahead with any one of the three permits with the sole consequence of losing its previously paid capital expenses for that particular block. A withdrawal for one block does not affect the Company's rights under any other of the Blocks.

CHANGES IN ACCOUNTING POLICIES

Future accounting and reporting changes

The CICA issued the new Handbook Section 3064, "Goodwill and Intangible Assets", which will replace Section 3062, "Goodwill and Other Intangible Assets". The new standard establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of preproduction and start up costs and requires that these costs be expensed as incurred. The new standard applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008.

International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. PricewaterhouseCoopers has been engaged by the Company to assist with diagnostic review. The primary objective of the diagnostic review in the planning phase of the IFRS conversion project is to understand, identify and assess the overall effort required to produce financial information under IFRS.

Business Combinations, Consolidated Financial Statements and Non Controlling Interest

In January 2009, the CICA issued CICA Handbook Section 1582, Business Combinations, Section 1601, Consolidations, and Section 1602, Non-controlling Interest. These sections replace the former CICA Handbook Section 1581, Business Combinations and Section 1600, Consolidated Financial Statements and establish a new section for accounting for a non control ling interest in a subsidiary. CICA Handbook Section 1582 establishes standards for the accounting for a business combination, and states that all assets and liabilities of an acquired business will be recorded at fair value. Obligations for contingent considerations and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. It provides the Canadian equivalent to IFRS 3, Business Combinations (January 2008). The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.

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

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

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

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

ISSUED SHARES AND CONVERTIBLE, EXERCISABLE AND EXCHANGEABLE SECURITIES

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

Common Shares	15,801,600
Preferred Shares	Nil
Warrants	9,399,330
Stock Options	1,550,000

Notes:

1. 9,221,600 of the Warrants entitle the holder to acquire one additional common share at $0.40 until November 21, 2010 (subject to acceleration in certain events). 177,730 of the Warrants entitle the holder to acquire one common share at $0.25 until November 21, 2010 (subject to acceleration in certain events).
2. 300,000 of the Stock Options entitle the holders to acquire an equal number of common shares at $0.20 per share until April 8, 2013 and the remaining 1,250,000 Stock Options entitle the holders to acquire an equal number of common shares at $0.10 per share until March 13, 2014, in each case subject to earlier termination in certain events.

OUTLOOK

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

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

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 2009 and for 2010 include:

(a) **Bazma Permit**. Drilling of an initial well in Q3, 2009. Drilling is subject to the company obtaining additional financing or finding an industry partner and to rig availability.

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

(c) **Sud Tozeur Permit**. Continue the geophysical interpretation of seismic data. Any drilling is unlikely to be proposed prior to 2011.

OTHER

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

Canoel International Energy Ltd.

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

Management's Responsibility for Financial Reporting

The accompanying financial statements of Canoel International Energy Ltd. (the "Company") have been prepared by and are the responsibility of the management of the Company. The 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 financial statements and related financial reporting matters prior to submitting the 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 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

May 14, 2009
Calgary, Alberta

KPMG LLP
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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the balance sheets of Canoel International Energy Ltd. as at March 31, 2009 and 2008 and the statements of loss, comprehensive loss and deficit and cash flows for the year ended March 31, 2009 and the period from incorporation on September 20, 2007 to March 31, 2008.

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 financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2009 and 2008 and the results of its operations and its cash flows for the year ended March 31, 2009 and the period from incorporation on September 20, 2007 to March 31, 2008 in accordance with Canadian generally accepted accounting principles.

KPMG LLP.

Chartered Accountants

Calgary, Canada
May 14, 2009

Canoel International Energy Ltd.

Balance Sheets

As at March 31, 2009 and 2008

	2009 $	2008 $
Assets		
Current Assets		
Cash and cash equivalents	**1,094,065**	894,779
Accounts receivable	**514,981**	3,751
Prepaid expenditures	**4,588**	-
	1,613,634	898,530
Property, plant and equipment (note 5)	**894,847**	-
	2,508,481	898,530
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**121,627**	82,961
	121,627	82,961
Shareholders' equity		
Share capital (note 7b)	**2,331,344**	806,186
Warrants (note 7c)	**382,567**	-
Contributed surplus (note 7e)	**152,101**	21,383
Deficit	**(479,158)**	(12,000)
	2,386,854	815,569
	2,508,481	898,530

Going concern (note 2)
Subsequent events (note 5)
Commitments (note 10)

Approved by the Board of Directors

Signed Director — Signed Director

James H. Grossman — Andrea Cattaneo

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

Canoel International Energy Ltd.

Statement of Loss, Comprehensive Loss and Deficit

For the year ended March 31, 2009 and the period from incorporation on September 20, 2007 to March 31, 2008

	2009 $	September 20, 2007 – March 31, 2008 $
Revenue		
Interest income	**7,394**	-
	7,394	
Expenses		
General and administrative	**399,977**	12,000
Stock-based compensation (note 7d)	**74,575**	-
	474,552	12,000
Net loss and comprehensive loss	**(467,158)**	(12,000)
Deficit, beginning of period	**(12,000)**	-
Deficit, end of period	**(479,158)**	(12,000)
Basic and diluted loss per share (note 7d)	**(0.05)**	(0.012)
Weighted average shares outstanding during the period - basic	**9,864,405**	964,687

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

Canoel International Energy Ltd.

Statement of Cash Flows

For the year ended March 31, 2009 and the period from incorporation on September 20, 2007 to March 31, 2008

	2009 $	September 20, 2007 – March 31, 2008 $
Cash flows provided by (used in) operating activities:		
Net loss for the period	**(467,158)**	(12,000)
Items not affecting cash:		
Stock-based compensation	**74,575**	-
	(392,583)	(12,000)
Changes in non-cash working capital	**12,848**	12,000
	(379,735)	-
Cash flows provided by (used in) investing activities		
Investment in property and equipment	**(881,144)**	-
Change in non-cash working capital	**(490,000)**	-
	(1,371,144)	-
Cash flows provided by (used in) financing activities		
Proceeds from issuance of common shares, net issue costs	**1,950,165**	827,569
Changes in non-cash financing working capital	**-**	67,210
	1,950,165	894,779
Change in cash and cash equivalents	**199,286**	894,779
Cash and cash equivalents, beginning of period	**894,779**	-
Cash and cash equivalents, end of period	**1,094,065**	894,779
Supplemental cash flow disclosure		
Interest received	**7,394**	-

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

1 Nature of operations

Canoel International Energy Ltd. (the "Company") was incorporated pursuant to the provisions of the British Columbia Business Corporations Act on September 20, 2007. The Company was listed on the TSX Venture Exchange Inc ("TSXV") as a capital pool company on April 10, 2008. On November 21, 2008, the Company completed a Short Form Offering to the public and a non-broker Private Placement, which allowed the Company to complete its Qualifying Transaction in accordance with the applicable policies of the TSXV on December 8, 2008. The Company is a Tier 2 listed Issuer on the TSXV.

The comparative information is for the period from incorporation of September 20, 2007 until March 31, 2008.

2 Going Concern

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

As at March 31, 2009, the Company had not yet achieved profitable operations, has accumulated a deficit of $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 stages. Current oil and gas activities are in the exploration stage and have not identified oil and gas reserves. Current cash resources will not be sufficient to continue the exploration and 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.

3 Significant accounting policies

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

Estimates by management

Estimates by management represent an integral component of these financial statements prepared in accordance with Canadian GAAP. The estimates made in these financial statements reflect management's judgments based on past experiences, present conditions, and expectations of future events. Where estimates were made, the reported amounts for assets, liabilities, revenues and expenses may differ from the amounts that would otherwise be reflected if the ultimate outcome of all uncertainties and future events were known at the time these financial statements were prepared.

The Company uses estimates to calculate depreciation, depletion and accretion expense, to assess impairment of long-lived assets, to estimate asset retirement obligations, to calculate the fair value of stock options and warrants, and to estimate current tax expense.

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 assumptions used in the determination of the fair value of stock options and warrants issued are based on the use of the Black-Scholes pricing model, which includes estimates of the future volatility of the Company's stock price, expected lives of the stock options or warrants, expected dividends and other relevant assumptions.

By their nature, these estimates of are subject to measurement uncertainty, and the impact of differences between actual and estimated amounts on the 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 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. 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 Corporation 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.

(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 commericial 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 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 is measured by comparing the adjusted carrying amount to the estimated, discounted future cash flows of the Company's proved plus probable reserves. 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. Any difference between the actual costs incurred and the recorded liability is recorded as a gain or loss in the statement of loss, comprehensive loss and deficit in the period in which the settlement occurs.

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

Income taxes are accounted for using the liability method of income tax allocation. Under the liability method, future income tax assets and liabilities are recorded to recognize future income tax inflows and outflows arising from the settlement or recovery of assets and liabilities at their carrying values. Future income tax assets are also recognized for the benefits from tax losses and deductions that cannot be identified with particular assets or liabilities, provided those benefits are more likely than not to be realized. Future income tax assets and liabilities are determined based on the substantively enacted tax laws and rates that are anticipated to apply in the period of realization.

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

The Company has established a Stock Option Plan for the benefit of full-time and part-time employees, officers, directors and consultants of the Company.

The fair value of all stock options granted by the Company is recorded as a charge to the statement of loss, comprehensive loss and deficit and a credit to contributed surplus. The stock options vest immediately upon being granted, and the fair value of stock options are recognized

on the date of grant. Any consideration received on the exercise of stock options together with the related portion of contributed surplus is credited to share capital. The fair value of stock options is estimated using the Black-Scholes option pricing model.

Per share amounts

Per share amounts are determined using the weighted average number of shares outstanding during the period. Diluted per share amounts are determined using the treasury stock method. Under this method, the dilutive effect of earnings (loss) per share is recognized on the use of proceeds that could be obtained from exercise of options, warrants and similar instruments, unless anti-dilutive. It assumes that proceeds would be used to purchase common shares at the average market price during the period.

Financial instruments

All 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. Subsequent measurement depends on the initial classification of the instrument. Held-for-trading financial assets 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 measured at amortized cost.

All derivative instruments, including embedded derivatives, are recorded in the balance sheet at fair value unless they qualify for the normal sales and purchases exemption. Changes in the fair value of derivatives that are not exempt are recorded in net earnings (loss). Derivatives that qualify as hedging instruments must be designated as either a “cash flow hedge,” when the hedged item is a future cash flow, or a “fair value hedge,” when the hedged item is a recognized asset or liability. The unrealized gains and losses of the effective portion related to a cash flow hedge are included in other comprehensive income. For a fair value hedge, both the derivative and the hedged risk of the hedged item are recorded at fair value in the balance sheet and the unrealized gains and losses from both items are recorded in net earnings (loss). Any derivative instrument that does not qualify for hedge accounting is marked-to-market at each reporting date and the gains or losses are included in income.

Upon adoption of these standards, 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.

4 Future accounting and reporting changes

Goodwill and Intangible Assets – Section 3064

The Company will adopt new accounting standards for "Goodwill and Intangible Assets". The new standard establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of preproduction and start-up costs and requires that these costs be expensed as incurred. The new standard applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008.

International Financial Reporting Standards ("IFRS")

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

Business Combinations, Consolidated Financial Statements and Non-controlling Interest

In January 2009, the CICA issued CICA Handbook Section 1582, Business Combinations, Section 1601, Consolidations, and Section 1602, Non-controlling Interest. These sections replace the former CICA Handbook Section 1581, Business Combinations and Section 1600, Consolidated Financial Statements and establish a new section for accounting for a non-controlling interest in a subsidiary. CICA Handbook Section 1582 establishes standards for the accounting for a business combination, and states that all assets and liabilities of an acquired business will be recorded at fair value. Obligations for contingent considerations and contingencies will also be 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, which establishes standards for the preparation of consolidated financial statements, and Section 1602, which establishes standards for accounting for a non-controlling interest in a subsidiary, apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year.

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

5 Property, plant and equipment

			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, 2009 there has been no production and accordingly there has been no depletion or depreciation recorded against the assets. During the year, the Company has capitalized $273,635 of costs related to the Farm-out and Participation Agreement, primarily related to legal costs, engineering costs and consulting costs.

Included in oil and gas properties is an amount of $190,000 paid for an agreement which provides the Company an option to increase their participating interest from 11% up to 45% in two exploration blocks of Bazma and Sud Touzer. The 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 option expires on April 30, 2009 for Bazma and on June 30, 2009 for Sud Touzer. The Company is currently seeking to extend the option for each of these properties. If the option on either block cannot be extended or expires unexercised, the Company may need to recognize an impairment in future periods.

6 Future Income Taxes

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

	2009	2008
	$	$
Property and equipment	(22,371)	-
Non-capital loss	154,899	9,305
Share issuance costs	118,362	49,938
Valuation allowance	(250,890)	(59,242)
	-	-

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

	2009	**2008**
	$	**$**
Expected income tax provision (reduction) at 30% (2008 – 30.88%)	(140,147)	(2,749)
Non-deductible items	26,592	-
Change in tax rate and other	25,068	
Valuation allowance	88,487	2,749
	-	-

7 Share Capital

a) Authorized

Unlimited number voting common shares without par value.

Unlimited number of preferred shares issuable in series and without par value.

b) Issued

	Number of Common Shares	Amount $
Outstanding, September 20, 2007	-	-
Private placement (i)	3,080,000	308,000
Public offering (i)	3,500,000	700,000
Share issue costs, net of tax effect	-	(201,814)
Outstanding, March 31, 2008	6,580,000	806,186
Short-form offering (ii)	4,373,600	1,093,400
Non-broker private placement (ii)	4,848,000	1,212,000
Fair value of share purchase warrants ((ii) and note 7c)	-	(368,864)
Share issue costs	-	(411,378)
Outstanding, March 31, 2009	15,801,600	2,331,344

(i) During the period 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, 2009, there were 2,808,000 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 a price of $0.20 per common share.

(ii) On November 21, 2008, the Company completed a short-form offering ("SFO") and the non-broker 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 fair value of the share purchase warrant is estimated at the grant date using the Black-Scholes pricing model and has been credited to warrants within shareholders' equity. The assumptions used in the calculation are noted below:

Risk-free rate	1.86%
Expected life	2 years
Expected volatility	54%
Fair value per warrant	$0.04

c) Warrants

The schedule of warrant activity for the year ended March 31, 2009 is as follows:

	Number of warrants	Weighted average exercise price $	Amount $
Share purchase warrants (note 7b(ii))	9,221,600	0.40	368,864
Engagement Agreement share purchase warrants (i)	177,730	0.25	13,703
Balance, March 31, 2009	9,399,330	0.39	382,567

(i) A consultant of the Company was granted 177,730 share purchase warrants in connection with seeking international oil and gas exploration assets on behalf of the Company, the acquisition of which resulted in the completion of the Qualifying Transaction. Each warrant is exercisable into one common share at a price of $0.25 per share, exercisable for 2 years.

The fair value of $0.077 per share purchase warrant was calculated using the Black-Scholes pricing model at the grant date. The fair value has been credited to warrants within shareholders' equity. The assumptions used in the calculation are noted below:

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

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.

The following table summarizes information about the Company's stock options outstanding at March 31, 2009:

		2009
	Number of options	**Weighted average exercise price $**
Balance, beginning of period	**-**	**-**
Granted	**1,775,000**	**0.13**
Forfeited	**(225,000)**	**0.20**
Balance, end of year	**1,550,000**	**0.12**

During the year, the Company granted 1,775,000 options to employees and directors (2008 – nil). 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:

Risk-free rate	2%
Expected life	5 years
Expected volatility	54%
Fair value per option	$0.04

Stock based compensation expense for the year ended March 31, 2009 was $74,575 (2008 - $nil), 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, 2009:

			Option outstanding
Range of exercise prices ($)	**Number of options outstanding**	**Weighted average remaining contractual life (years)**	**Weighted average exercise price $**
0.10 - 0.20	1,550,000	4.77	0.12

e) Contributed Surplus

	2009 $	2008 $
Balance, Beginning of period	21,383	-
Stock-based compensation (note 7d)	74,575	-
Agent options (i)	56,143	21,383
Balance, End of year	152,101	21,383

(i) Pursuant to the Agency Agreement and the closing of the SFO and the non-broker private placement on November 21, 2008, the Agent were granted 728,161 Agent Unit Options ("Agent Option"). Each Agent Option is exercisable into one common share and 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 (7b(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 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 warrant	$0.077

f) Capital Management

The Company's objectives when managing capital is to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders. The Company manages its common shares, options and warrants as capital. As the Company is in the development stage its principal source of funds is from the issuance of common shares. It is the Company's objective to safeguard its ability to continue as a going concern, so that it can continue to explore and develop its projects for the benefit of its stakeholders. The Company's ability to raise future capital through equity is subject to uncertainty and our inability to raise such capital may have an adverse impact over the Company's ability to continue as a going concern.

As part of the capital management program the Company monitors its working capital ratio. The Company's objective is to maintain a working capital ratio of greater than 1:1 defined as the ratio of currents assets divided by current liabilities. At March 31, 2009, the working capital ratio was 20:1.

8 Related Parties

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

a) Aggregate expenses and fees of $105,071 (2008 – $nil) were charged by officers and directors of the Company and recorded in the statement of loss, comprehensive loss and deficit.
b) Aggregate directors fees of $18,810 (2008 - $nil) were charged by directors of the Company and recorded in the statement of loss, comprehensive loss and deficit.
c) Aggregate consulting fees of $21,740 (2008 - $nil) were charged by parties related to the Company and recorded in the statement of loss, comprehensive loss and deficit.
d) An aggregate of $921,212 was paid by the Company to the operator of the Tunisian oil and gas assets for capital spending. Of this amount $490,000 is included in accounts receivable as a cash call receivable and the remaining $431,212 is included in property plant and equipment. The operator has a 12.4% interest in the Company.
e) An option payment of $190,000 has been made to the operator of the Tunisian oil and gas assets. Under the option, the Company has the opportunity to increase their working interest on the Tunisian assets up to 34%.
f) Transactions with related parties are recorded at the exchange amount, being the price agreed between the parties.

9 Financial Instruments and Risk Management

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

a) Fair values

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

b) Credit risk

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

Virtually all of the Company's accounts receivable are with companies in the petroleum and natural gas industry within Canada and are subject to normal industry credit risks. The Company generally extends unsecured credit to these companies and therefore, the collection of accounts receivable may be affected by changes in economic or other conditions. Management believes the risk is mitigated by the size and reputation of the companies to which they extend credit. The Company's maximum credit risk exposure is limited to the carrying value of its accounts receivable of $514,981.

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

c) Commodity price risk

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

d) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. As at March 31, 2008, the Company has interest bearing cash accounts held with an investment grade institutions. A change of one percent on the interest rate for the year would not have a material impact on the Company.

e) Liquidity risk

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

As at March 31, 2009, the Company's financial liabilities totaled $121,627, and are comprised of accounts payable and accrued liabilities and amounts due to related parties. $42,060 of the

financial liabilities are owed to related individuals and these amounts are subject to the forbearance of the related individuals.

The Company prepares utilizes authorization for expenditures on its non-operated projects manage capital expenditures. To facilitate the capital expenditure program, the Company raised equity during the year, as outlined in note 7b.

f) Currency risk

Foreign currency exchange risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. To date the Company has focused on the international market for petroleum and natural gas opportunities where many of the anticipated future expenses will be denominated in United States dollars. Fluctuations in the exchange rates may have a material impact on the Company.

10 Commitments and contingencies

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. Should the Company elect to participate, its estimated share of the expenditures is: $1,084,000 in Bazma, of which $490,000 has already been advanced to the operator resulting in a net remaining amount of $594,000, $638,000 for Jorf, and $1,844,000 for Sud Touzer.

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