Canoel International Energy Ltd.

Consolidated Financial Statements
As at and for the three months ended June 30, 2012
(unaudited)

Notice of No Auditor Review of Interim Financial Statements

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed these unaudited interim financial statements as at and for the three months ended June 30, 2012 and 2011.

Managements' Responsibility for Financial Reporting

The accompanying consolidated financial statements of Canoel International Energy Ltd. (the "Company") as at and for the three months ended June 30, 2012 and 2011 have been prepared by and are the responsibility of the management of the Company and are approved by the board of directors of the Company. The consolidated financial statements are prepared in accordance with International Financial Reporting standards ("IFRS") and reflect management's best estimates and judgments based on currently available information.

(signed)"Andrea Cattaneo"	(Signed)"John Arne Farstad"
President and Chief Executive Officer	Chief Financial Officer

August 27, 2012

Calgary, Alberta

Canoel International Energy Ltd.

Consolidated Interim Statements of Financial Position
(Expressed in Canadian dollars)
(unaudited)

	Note	**June 30, 2012** $	March 31, 2012 $
ASSETS			
Current assets			
Cash and cash equivalents		**971,326**	1,447,708
Trade and other receivables		**660,597**	1,030,203
Inventory	6	**42,665**	87,887
Prepaid expenses		**46,124**	34,763
		1,720,712	2,600,561
Non-current assets			
Property and equipment	8	**4,556,051**	4,683,617
Total assets		**6,276,763**	7,284,178
LIABILITIES			
Current liabilities			
Trade and other payables		**1,715,104**	2,271,937
Note payable	11	**573,345**	536,323
Loan payable	12	**2,036,200**	1,995,000
Oil share agreement	7	**652,658**	647,358
		4,977,307	5,450,618
Non-current liabilities			
Decommissioning obligation	10	**1,372,143**	1,612,075
Convertible notes	13	**1,122,092**	1,348,722
Derivative liability	13	**70,450**	36,067
Total liabilities		**7,541,992**	8,447,482
EQUITY			
Share capital	14	**5,677,030**	5,464,242
Warrants	14	**860,306**	573,571
Contributed surplus		**867,862**	857,912
Accumulated other comprehensive loss		**(333,133)**	(251,748)
Deficit		**(8,337,294)**	(7,807,281)
Total equity		**(1,265,229)**	(1,163,304)
Total equity and liabilities		**6,276,763**	7,284,178

Going concern (note 2), Commitments (note 2)
Subsequent event (note 22)

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

Canoel International Energy Ltd.

Consolidated Interim Statements of Comprehensive Loss and Other Comprehensive Loss
For the three months ended June 30
(Expressed in Canadian dollars)
(unaudited)

	Note	**2012**	2011
		$	$
Oil and gas revenue		**441,626**	614,932
Royalties		**(33,297)**	(63,233)
		408,329	551,699
Other revenue		**51,697**	–
		460,026	551,699
Expenses			
Operating		**307,510**	350,101
Transportation		**17,133**	8,942
General and administrative		**350,197**	287,692
Business development		**59,993**	–
Foreign exchange		**14,771**	(12,349)
Depletion and depreciation	8	**53,454**	98,079
Loss on change in fair value of convertible notes	13	**37,479**	–
Loss on conversion of notes	13	**9,689**	–
		850,226	732,465
Finance income		**–**	459
Finance expense		**139,813**	114,336
Net finance expense	5	**(139,813)**	(113,877)
Loss for the period		**(530,013)**	(294,643)
Other comprehensive loss			
Foreign currency translation on foreign operations		**81,385**	32,680
Net loss and comprehensive loss for the period		**(611,398)**	(327,323)
Net loss per share			
Basic and diluted	14	**(0.01)**	(0.01)
Weighted average shares outstanding			
Basic and diluted		**53,065,316**	40,520,814

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

Canoel International Energy Ltd.

Consolidated Interim Statements of Cash Flows
For the three months ended June 30
(Expressed in Canadian dollars)
(unaudited)

	Note	**2012**	2011
		$	**$**
Operating activities			
Net loss for period		**(530,013)**	(294,643)
Items not involving cash:			
Unrealized foreign exchange gain		**(24,548)**	(10,120)
Royalties on oil share agreement		**(7,925)**	–
Depletion and depreciation		**53,454**	98,079
Loss on fair value of convertible debt		**37,479**	–
Loss on conversion of notes		**9,689**	–
Finance expense		**55,681**	51,571
Reclassification from operating expense to PP&E		**(120,024)**	–
		(526,207)	(155,113)
Foreign exchange on translation		**54,404**	15,756
Change in non cash working capital	16	**(118,632)**	(21,973)
		(590,435)	(161,330)
Investing activities			
Expenditures on property and equipment		**(138,968)**	(189,600)
Change in non cash working capital	16	**(47,758)**	799,132
		(186,726)	609,532
Financing activities			
Repayment of borrowings		**–**	(660,353)
Proceeds from issue of share capital		**315,000**	–
Change in non-cash working capital	16	**13,024**	(970,421)
		328,024	(1,630,774)
Change in cash and cash equivalents		**(449,137)**	(1,182,572)
Effect of foreign translation on cash and cash equivalents		**(27,245)**	(18,094)
Cash and cash equivalents, beginning of period		**1,447,708**	1,806,453
Cash and cash equivalents, end of period		**971,326**	605,787
Interest paid		**77,811**	12,192

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

Canoel International Energy Ltd.

Consolidated Interim Statements of Changes in Equity
(Expressed in Canadian dollars)
(unaudited)

	Share capital		Equity component of convertible debt	Warrants	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total equity
	Number	Amount						
Balance - April 1, 2011	39,342,792	5,112,214	69,424	114,033	750,221	(76,306)	(4,622,821)	1,346,765
Debt conversion	2,016,666	242,000	(69,424)	–	6,535	–	–	179,111
Issuance of convertible notes	–	–	75,800	–	–	–	–	75,800
Non-brokered private placements	11,200,034	670,722	–	–	–	–	–	670,722
Fair value of share purchase warrants	–	(560,694)	–	560,694	–	–	–	–
Warrants expired	–	–	–	(101,156)	101,156	–	–	–
Adjustment to convertible notes to hybrid instrument	–	–	(75,800)	–	–	–	–	(75,800)
Net loss for the year	–	–	–	–	–	–	(3,184,460)	(3,184,460)
Other comprehensive loss for the year	–	–	–	–	–	(175,442)	–	(175,442)
Balance - March 31, 2012	52,559,492	5,464,242	–	573,571	857,912	(251,748)	(7,807,281)	(1,163,304)
Debt conversion	2,091,130	209,113	–	–	–	–	–	209,113
Warrants expired	–	–	–	(9,950)	9,950	–	–	–
Non-brokered private placements	5,250,000	300,360	–	–	–	–	–	300,360
Fair value of share purchase warrants	–	(296,685)	–	296,685	–	–	–	–
Net loss for the period	–	–	–	–	–	–	(530,013)	(530,013)
Other comprehensive loss for the period	–	–	–	–	–	(81,385)	–	(81,385)
Balance – June 30, 2012	59,900,622	5,677,030	–	860,306	867,862	(333,133)	(8,337,294)	(1,265,229)

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

1 Nature of operations

Canoel International Energy Ltd. ("Canoel" or the "Company") was incorporated pursuant to the provisions of the British Columbia Business Corporations Act on September 20, 2007. The address of the Company's registered office is 15th Floor, 850 - 2nd Street S.W., Calgary, Alberta T2P 0R8, Canada. The Company is primarily involved in the exploration for, development of and production of petroleum and natural gas properties in Argentina.

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.

On July 22, 2010, the Company acquired 100% of Central Patagonia SRL ("Central Patagonia"), a subsidiary of two U.S. based companies, Central Patagonia Corporation (since renamed Petrolera Patagonia Corporation) and CPC Holdings (since renamed PP Holdings), thereby acquiring two adjacent oil producing properties in Argentina (the "Argentina Acquisition"). Central Patagonia SRL has since been renamed Petrolera Patagonia SRL. In anticipation of the completion of the Argentina Acquisition, on July 20, 2010 the Company formed a wholly owned U.S subsidiary, Ingenieria Petrolera Patagonia Ltd. ("IPP") to act as the acquirer of the two US companies controlling Central Patagonia.

On March 23, 2011, Canoel established Canoel Italia S.R.L ("Italia S.R.L.") a wholly owned subsidiary of the Company, to have an operating entity as required by the Ministry of Economic Development in order to place bids on oil & gas properties.

2 Going Concern

As at June 30, 2012, the Company had not yet achieved profitable operations, has a working capital deficit of $3,256,595 (March 31, 2012 – $2,850,057) and an accumulated deficit of $8,337,294 (March 31, 2012 - $7,807,281) since its inception, and expects to incur further losses in the development of its business. Current cash resources will not be sufficient to continue the exploration and development activities. These matters raise significant 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, and attain future profitable operations in Argentina. Additional financing is subject to the global financial markets and economic conditions, and volatility in the debt and equity markets. These factors 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.

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

(Expressed in Canadian dollars)

3 Basis of presentation

a) Statement of compliance

These interim financial statements have been prepared by management in accordance with IAS 34 *Interim Financial Reporting* from International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. These financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the audited financial statements for Canoel International Energy Ltd. for the year ended March 31, 2012.

These financial statements were authorized for issue by the Board of Directors on August 27, 2012.

Operating expenses in the statement of operations are presented as a combination of function and nature in conformity with industry practice. Depletion and depreciation are presented on a separate line by their nature, while operating expenses and net general and administrative expenses are presented on a functional basis. Significant expenses such as salaries, wages and fees and share-based compensation are presented by their nature in the notes to the financial statements.

b) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments and share based payments, which are measured at fair value.

4 Significant accounting policies

The interim financial statements have been prepared following the same accounting policies as described in note 4 of the consolidated financial statements for the year ended March 31, 2012.

5 Finance income and expense

	June 30, 2012	June 30, 2011
Income:		
Interest income on cash and cash equivalents	$ –	$ 459
Expenses:		
Interest expense	84,132	62,765
Accretion on decommissioning obligation	51,663	51,571
Accretion on convertible notes	4,019	–
	139,813	114,336
Net finance expense	$ (139,813)	$ (113,877)

(Expressed in Canadian dollars)

6 Inventory

As at June 30, 2012, inventory of $42,665 (March 31, 2012 – $87,887) consists of crude oil that has been produced but not yet sold.

7 Business combination

On July 22, 2010, a Share Purchase Agreement (the "Agreement") was signed to acquire a 100% interest in Central Patagonia in order to obtain additional production. Pursuant to the Agreement, IPP completed the Argentina 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$3,316,616. Of the total purchase price, US$1,400,000 was advanced in cash consideration by the Company through IPP on the closing date and US$1,368,161 is repayable under two different promissory notes (collectively the "Notes"). The first note was due to Central Argentina on the maturity date of July 22, 2011 and bears an interest rate of 7.5% per annum, payable quarterly. Using its option, IPP decided to repay a portion of the amount of the First Note prior to its maturity date. In return for a payment of US$675,000 made on June 1, 2011, Canoel signed an agreement with Central Argentina to postpone any payment for capital, interest and additional fees until July 22, 2012. The remaining amount was fully paid on October 1, 2011. The second promissory note for the amount of US$443,003, which was due to Central Argentina on February 12, 2011, was fully paid on that date. Pursuant to the Agreement, adjustments were calculated in favor of Canoel in the amount of US$74,842; this amount was deducted from the value of the Second Promissory Note, prior to its repayment. This loan had an interest rate of 7.5% per annum until November 22, 2010, at which point the interest rate increased to 15% per annum. At its option, the Company may repay any amount of the Notes prior to the respective maturity dates. The Notes are secured by a first lien on the equity interests and all personal and real property of CPC, CPC Holdings and Central Patagonia. At June 30,, 2012, the remaining balance on the note payable related to this transaction is nil (March 31, 2011 - $969,600).

Contingent consideration included in the Agreement is as follows:

For a period of three years commencing November 30, 2010, the Company 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 US$42.00, but is less than or equal to US$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 US$52.00. The Company calculated a NPV of this obligation at the time of the business combination to be $564,470 (US$ 548,455) based on a 7.5 percent discount rate and estimated future production and estimated future sale price.

The value of the oil share agreement at June 30, 2012 is $652,658 (March 31, 2012 - $647,358).

Calculation of the purchase price	$
Cash	1,440,880
Promissory note	1,029,200
Promissory note	378,911
Oil share consideration	564,470
	3,413,461

(Expressed in Canadian dollars)

7 Business combination (continued)

Allocated as follows	$
Property and equipment	5,132,620
Working capital	492,117
Decommissioning obligation	(2,211,276)
	3,413,461

Working capital includes receivables acquired in the amount of $864,511. Receivables acquired were primarily trade receivables. The carrying value approximates the fair value due to the short period to maturity. Transaction costs in the amount of $135,600 were recorded in general and administrative expense on the statement of comprehensive loss in the year ended March 31, 2011. There were no other transactions relating to the business combination recorded separately or contingent consideration associated with this transaction.

The results of operations of Petrolera Patagonia included in the consolidated interim financial statements of the Company from July 22, 2010 are as follows:

	June 30, 2011
Revenue (net of royalties)	551,699
Expenses	515,665
Net revenue	36,034

8 Property and equipment

Cost	**Oil and gas properties $**	**Furniture & fixtures $**	**Total $**
Balance - April 1, 2011	4,928,323	92,065	5,020,388
Additions	895,054	48,816	943,870
Other	21,707	–	21,707
Decommissioning obligation	(659,038)	–	(659,038)
Foreign currency translation	(130,888)	–	(130,888)
Balance - March 31, 2012	5,055,158	140,881	5,196,039
Additions	256,643	2,349	258,992
Other	(13,096)	–	(13,096)
Decommissioning obligation	(270,676)	–	(270,676)
Foreign currency translation	(49,332)	–	(49,332)
Balance - June 30, 2012	4,978,697	143,230	5,121,927

(Expressed in Canadian dollars)

8 Property and equipment (continued)

Accumulated depletion and depreciation	Oil and gas properties $	Furniture & fixtures $	Total $
Balance - April 1, 2011	(186,118)	(3,857)	(189,975)
Depletion and depreciation	(299,025)	(23,422)	(322,447)
Balance - March 31, 2012	(485,143)	(27,279)	(512,422)
Depletion and depreciation	(47,161)	(6,293)	(53,454)
Balance - June 30, 2012	(532,304)	(33,572)	(565,876)
Carrying value			
March 31, 2012	4,570,015	113,602	4,683,617
June 30, 2012	4,446,393	109,658	4,556,051

Depletion for the three months ended June 30, 2012 included estimated future development costs of $8,150,000 for proved and probable reserves (June 30, 2011 - $472,000).

Cash generating units ("CGU") are defined by geographic area. The Company has the following cash generating units: Argentina and other. The other cash generating unit includes furniture and fixtures and other insignificant properties.

As at June 30, 2012 and March 31, 2012, the Company completed an impairment review on its cash generating units in property and equipment and determined that there was no impairment. The impairment review was conducted by comparing carrying value to recoverable amount. Carrying value is calculated for the cash generating units as the cost less depletion and depreciation and impairment losses. Recoverable amount is defined as the higher of fair value less costs to sell and value in use.

The Company had calculated the recoverable amount of the cash generating units using fair value less costs to sell which is based on a third party reserve report which estimates future cashflows over the remaining reserves using a 10% discount rate. For the year ended March 31, 2012, the benchmark price was $56.58.

As at June 30, 2012 and March 31, 2012, recoverable amount using proved and probable reserves significantly exceeded carrying value. Therefore, a sensitivity analysis on the variables considered would not impact the conclusion that there would be no impairment.

9 Exploration and evaluation assets

Balance - April 1, 2011	$	691,218
Loss on the sale of exploration and evaluation assets		(69,939)
Disposal		(621,279)
Balance – June 30, 2012 and March 31, 2012	$	–

(Expressed in Canadian dollars)

9 Exploration and evaluation assets (continued)

On August 5, 2011, the Company divested its interest in the Tunisian blocks which it acquired in late November 2008. Pursuant to the Termination and Release Agreement, CYGAM Energy Inc. ("CYGAM") had agreed to pay $621,278, an amount equal to those costs paid by Canoel pursuant to the Farmout Agreement, in exchange for the assignment and transfer of any rights earned by Canoel under the Farmout Agreement or the Memorandum of Understanding. CYGAM had agreed to pay $50,000 of the Termination Fee to Canoel within 5 days of the approval of the Termination and Release Agreement by the board of directors of both of CYGAM and Canoel. The Company received the remaining balance of $571,278 on March 28, 2012. Further, Canoel has surrendered its deposit of $490,000 paid to CYGAM pursuant to the terms of the Farmout Agreement (the "Deposit") and CYGAM has paid $117,600 to Canoel resulting in a loss upon termination of this agreement of $372,400.

10 Decommissioning Obligation

The following table presents the reconciliation of the carrying amount of the obligation associated with the reclamation and abandonment of the Company's property and equipment:

		June 30, 2012		March 31, 2012
Balance - beginning of period	$	1,612,075	$	2,169,937
Additions		–		398,685
Current provision in finance expense		51,663		213,989
Change in estimate		(270,676)		(1,057,723)
Foreign currency translation		(20,919)		(112,813)
Balance - end of period	$	1,372,143	$	1,612,075

The following significant assumptions were used to estimate the asset retirement obligation:

	June 30, 2012	March 31, 2012
Undiscounted cash flows	$12 million	$12.3 million
Risk free rate	14.79%	13.55%
Inflation rate	9.9%	9.8%
Weighted average expected timing of cash flows	15.75 years	16 years

11 Notes payable

On September 15, 2011, the Company obtained a loan for $544,414 (US$500,000). The loan is secured by a mortgage on the oil and gas properties in Argentina and bears interest at a fixed rate of interest of 11%. The loan matures in December 2012 and payments of interest only are required until maturity. As at June 30, 2012, the balance in the note payable is $573,345 including accrued interest (March 31, 2012 - $536,323).

(Expressed in Canadian dollars)

12 Long term Debt

On January 20, 2011, the Company obtained a loan from a private lender for US$2,000,000. The loan matures in January 2013. The loan can be extended for an additional six months to July 2013 if the Company is in negotiations with a third party to sell its oil and gas properties. The loan is unsecured and bears interest at the fixed U.S Prime rate of 3.25% plus 6.75%. Payments are interest only on a quarterly basis commencing on April 21, 2011. The Company has agreed to grant security over additional oil and gas assets acquired in Argentina, if any and once acquired, using the loan proceeds. Subject to regulatory approval the lender has the right to participate in a portion of the profit from the eventual sale of any such property. As at June 30, 2012, no additional Argentinean properties have been purchased. The balance is recorded in loan payable in current liabilities for $2,036,200 (March 31, 2012 - $1,995,000).

13 Convertible notes

Compound instrument

	Face value $	Debt component $	Equity component $
Balance, March 31, 2011	267,000	204,111	69,424
Settlement	(267,000)	(204,111)	(69,424)
Balance, June 30, 2012 and March 31, 2012	–	–	–

On June 24, 2010, the Company issued 100 convertible notes (“Note 0.1”) and on September 2, 2010, the Company issued 15 convertible notes (“Note 0.2 and Note 0.3”), collectively the “Notes”, by way of a private placement for total gross proceeds of $500,000 from Note 0.1 and $75,000 from Note 0.2 and Note 0.3. Each Note consists 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 early redemption or conversion occurs. The principal amount of each Note is convertible into common shares 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 warrants associated with Note 0.1 have an exercise price of $0.50 and are exercisable until June 24, 2014. The warrants associated with Notes 0.2 and 0.3 have an exercise price of $0.50 and are exercisable until September 2, 2014. The Notes bear interest at a rate of 15% per annum, payable in arrears in equal quarterly installments. 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 0.1 and December 2, 2011 for Note 0.2 and Note 0.3, in 12 equal, quarterly installments. 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.

The fair value of the liability component was estimated to be $419,863 using a discount rate of 18% which approximated the interest rate that would have been applicable to non-convertible debt of the Company at the time the Notes were issued. The fair value of the warrant subsequently reduced the liability portion of the Note. On October 5, 2010, a stakeholder of the Company’s Note 0.1 convertible debt converted $308,000 of debt into 2,566,667 common shares at a price of $0.12 per share under a settlement agreement. The stakeholder was also issued an additional 1,283,333 purchase warrants. Each warrant entitled the holder to purchase one common share in the capital of Canoel at a price of $0.17 per share until October 5, 2011 which expired unexercised. The remaining balance of the convertible debt after this conversion is $267,000.

(Expressed in Canadian dollars)

13 Convertible notes (continued)

On April 25, 2011, a stakeholder of the Company's Note 0.1 convertible debt converted $192,000 of debt into 1,600,000 common shares at a price of $0.12 per share. The stakeholder was issued 800,000 purchase warrants. Each warrant entitled the holder to purchase one Common Shares in the capital of the Company at a price of $0.17 per share until April 25, 2012 which expired unexercised. The Company has allocated $9,950 of the unit value to warrants (note 19(d)).

On September 14, 2011, a stakeholder of the Company's Note 0.2 convertible notes converted $50,000 of debt into 416,666 common shares at a price of $0.12 per share. The stakeholder was issued 800,000 purchase warrants. Each warrant entitles the holder to purchase one Common Shares in the capital of the Company at a price of $0.17 per share until September 14, 2012. The Company has allocated $39,562 of the unit value to warrants (note 19(d)).

On July 4, 2011, the Canoel repaid Note 0.3 in the amount of $ 25,000.

<u>Hybrid instruments:</u>

	Face value $	Debt component $	Derivative liability $
Issued (i)	210,239	196,412	16,758
Issued (ii)	1,195,219	1,033,249	42,804
Change in fair value	–	–	(23,494)
Accretion expense	–	6,812	–
Foreign exchange	–	112,249	
Balance - March 31, 2012	1,405,458	1,348,722	36,067
Change in fair value		–	37,479
Accretion expense		4,019	–
Conversion	(209,113)	(196,328)	(3,096)
Foreign exchange	(35,928)	(34,321)	–
Balance – June 30, 2012	1,160,417	1,122,092	70,450

i) On July 20, 2011, the Company completed a private placement of convertible notes for aggregate gross proceeds of NOK $1,200,000 (CAD$213,170). Each note bears interest at a simple interest rate of 12% per annum, payable in arrears in equal quarterly installments commencing October 20, 2011. These notes are unsecured and mature on July 18, 2014. At the option of the holder of the notes, the principal and any unpaid interest of a note may be converted into common shares of Canoel at a price of $0.15 per common share at any time prior to maturity. The exercise price was amended to $0.10 per common share and the notes were converted to 2,091,130 common shares for $209,113 on April 11, 2012

(Expressed in Canadian dollars)

13 Convertible notes (continued)

The fair value of the notes at the time of conversion on April 11, 2012 and as at March 31, 2012 was determined with the following assumptions:

	April 11, 2012	March 31, 2012
Risk free interest rate	1.21%	1.33%
Expected life in years	2.3	2.3
Expected volatility	172%	161%

At April 11, 2012, the derivative liability was measured at $3,096 (March 31, 2012 - $5,237) and the convertible liability is measured at $196,328 (March 31, 2012 - $196,925). The conversion resulted in the recognition of a loss on conversion of $9,689 in the statement of loss and comprehensive loss.

ii) On December 16, 2011, Canoel completed a private placement of convertible notes for aggregate gross proceeds of $1,080,000 Swiss francs (approximately CDN$1,075,890). Each note bears interest at a simple interest rate of 9% per annum, payable in arrears in equal quarterly installments commencing April 11, 2012. Interest is accrued and presented in trade and other payables.

These notes are unsecured and mature on January 11, 2015. At the option of the holder of the notes, the principal and any unpaid interest of a Note may be converted into common shares of Canoel at a price of CDN$0.15 per common share at any time prior to maturity.

The fair value of the notes as at June 30, 2012 and March 31, 2012 were determined with the following assumptions:

	June 30, 2012	March 31, 2012
Risk free interest rate	1.03%	1.33%
Expected life in years	2.5	2.7
Expected volatility	189%	170%

On initial recognition, the derivative was valued at $42,804 which resulted in the residual of $1,033,249 being allocated to the convertible note. This is measured at amortized cost and will accrete up to the face value of $1,075,890 until the maturity date, which is January 11, 2015. The effective interest rate of these notes is 9%. At June 30, 2012, the derivative liability is measured at $70,450 (March 31, 2012 - $30,830) and the convertible liability is measured at $1,122,092 (March 31, 2012 - $1,151,797).

(Expressed in Canadian dollars)

14 Share Capital

a) Issued

	Number of Common Shares	Amount $
Balance – April 1, 2011	39,342,792	5,112,214
Debt conversion (i)	1,600,000	192,000
Fair value of share purchase warrants (i)	–	(9,950)
Debt conversion (ii)	416,666	50,000
Fair value of share purchase warrants (ii)	–	(39,652)
Non-brokered private placement (iii)	1,100,000	110,000
Fair value of share purchase warrants (iii)	–	(73,903)
Non-brokered private placement (iv)	6,100,034	360,722
Fair value of finders fee warrants (iv)	–	(3,826)
Fair value of share purchase warrants (iv)	–	(265,236)
Non-brokered private placement (v)	4,000,000	200,000
Fair value of share purchase warrants (v)	–	(168,127)
Balance - March 31, 2012	52,559,492	5,464,242
Debt conversion (note 13)	2,091,130	209,113
Non-brokered private placement (vi)	5,250,000	315,000
Fair value of share purchase warrants (vi)	–	(283,509)
Fair value of finders fee warrants (vi)	–	(13,176)
Share issue costs	–	(14,640)
Balance – June 30, 2012	59,900,622	5,677,030

(i) On April 21, 2011, a stakeholder of the Company's Note 0.1 convertible debt (note 13) converted $192,000 of debt into 1,600,000 common shares at a price of $0.12 per share. The stakeholder was issued 800,000 purchase warrants. Each warrant entitles the holder to purchase one Common Share in the capital of the Company at a price of $0.17 per share until April 25, 2012. The Company has allocated $9,950 of the unit value to warrants (note 14(b)).

(ii) On September 14, 2011, a stakeholder of the Company's Note 0.2 convertible notes (note 13) converted $50,000 of debt into 416,666 common shares at a price of $0.12 per share. The stakeholder was issued 800,000 purchase warrants. Each warrant entitles the holder to purchase one Common Share in the capital of the Company at a price of $0.17 per share until September 14, 2012. The Company has allocated $39,562 of the unit value to warrants (note 14(b)).

(iii) On September 23, 2011, the Company issued 1,100,000 common shares at a price of $0.10 per share, for aggregate gross proceeds of $110,000. In conjunction with this issuance, 1,100,000 warrants were issued with an exercise price of $0.15 and are exercisable until September 23, 2014. The Company has allocated $73,903 of the unit value to warrants (note 14(b)).

(Expressed in Canadian dollars)

14 Share Capital (continued)

a) Issued (continued)

(iv) On November 24, 2011, the Company issued 6,100,034 common shares at a price of $0.06 per share, for aggregate gross proceeds of $360,722 which includes foreign exchange of $5,280. In conjunction with this issuance, 6,100,034 warrants were issued with an exercise price of $0.10 and are exercisable until November 23, 2013. The company has allocated $265,236 of the unit value to warrants (note 14(b)). The Company issued 88,000 common share purchase warrants as a finders fee, with the same terms as above, in connection with this private placement. The company has allocated $3,826 of value to these warrants (note 14(b)).

(v) On March 30, 2012, the Company issued 4,000,000 units at a price of $0.05 for aggregate cash proceeds of $200,000. Each unit includes one common share and one warrant. Each warrant can be used to purchase one common share for $0.10 per common share and is exercisable any time until March 28, 2014. The Company has allocated $168,127 of the unit value to the warrants.

(vi) On June 28, 2012, the Company issued 5,250,000 common shares at a price of $0.06 per share, for aggregate gross proceeds of $315,000. In conjunction with this issuance, 5,250,000 warrants were issued with an exercise price of $0.10 and are exercisable until June 27, 2013. The Company has allocated $283,509 of the unit value to warrants (note 14(b)). The Company issued 244,000 common share purchase warrants, with the same terms as above, and $14,460 as finders fee for this transaction. The Company has allocated $13,176 of value to these warrants (note 14(b)).

b) Warrants

Warrants to acquire common shares are outstanding as follows:

	Number of warrants	Amount $	Weighted average exercise price $
Balance – April 1, 2011	6,334,503	114,033	0.30
Debt conversion (14b(i))	800,000	9,950	0.17
Debt conversion (14b(ii))	800,000	39,652	0.17
Warrants issued (14b(iii)	1,100,000	73,903	0.15
Warrants expired	(5,759,503)	(101,156)	0.28
Warrants issued (14 (iv))	6,188,034	269,062	0.10
Warrants issued (14 (v))	4,000,000	168,127	0.10
Balance – March 31, 2012	13,463,034	573,571	0.13
Warrants issued (14 (vi))	5,250,000	283,509	0.10
Warrants issued (14 (vi))	244,000	13,176	0.10
Warrants expired (14 (i))	(800,000)	(9,950)	0.17
Balance – June 30, 2012	18,157,034	860,306	0.12

(Expressed in Canadian dollars)

14 Share Capital (continued)

b) Warrants (continued)

The following summarizes information about the warrants outstanding as at June 30, 2012, all of which are exercisable.

Range of exercise prices ($)	Number of warrants outstanding	Weighted average remaining life (years)	Weighted average exercise price ($)
0.10 – 0.15	16,782,034	1.34	0.10
0.17– 0.50	1,375,000	0.96	0.31
	18,157,034	1.31	0.12

The fair value for warrants granted was calculated using the Black-Scholes pricing model using the following assumptions calculated on a weighted average basis:

	June 30, 2012	March 31, 2012
Share price	$0.09	$0.07
Exercise price	$0.10	$0.11
Risk-free rate	0.97%	1.05%
Expected life	1	1.9 years
Expected volatility	175%	152 %
Fair value per warrant	$0.05	$0.04

c) Stock options

During the three months ended June 30, 2012 and 2011, there were no stock options granted. The following table summarizes information about the Company's stock options outstanding as at June 30, 2012:

	Number of options outstanding and exercisable	Weighted average exercise price ($)
Balance – April 1, 2011	3,715,000	0.11
Forfeited	(915,000)	0.12
Balance - June 30, 2012 and March 31, 2012	2,800,000	0.11

Share based compensation expense for the three months ended June 30, 2012 and 2011 is nil. The following table summarizes information about the Company's stock options outstanding, all of which are exercisable, at June 30, 2012:

Range of exercise prices ($)	Number of options outstanding	Weighted average remaining duration (years)	Weighted average exercise price ($)
0.00-0.10	2,410,000	2.97	0.10
0.11-0.20	245,000	2.37	0.15
0.21-0.30	145,000	2.24	0.23
	2,800,000	2.88	0.11

(Expressed in Canadian dollars)

14 Share Capital (continued)

d) Per share data

Basic earnings per share is calculated based on the weighted average number of shares outstanding for the three months ended June 30, 2012 of 53,065,316 (June 30, 2011 – 40,520,814) respectively. Currently, the effect of potential issuance of common shares upon the exercise of options, warrants, and conversion of convertible notes of would be anti-dilutive and accordingly basic and diluted loss per common share is the same.

15 Supplemental disclosure

Income statement presentation

The statement of loss and comprehensive loss is prepared primarily by nature of expense with the exception of employee compensation cost which is included in operating and general and administrative expenses. The following table details the amounts of total employee compensation included in the statements of loss and comprehensive loss:

		June 30, 2012		June 30, 2011
Operating expenses	$	140,385	$	106,660
General and administrative		158,899		76,340
Total employee compensation costs	$	299,284	$	183,000

16 Non cash working capital

		June 30, 2012	June 30, 2011
Trade and other receivables	$	369,606	(450,836)
Inventory		45,222	(12,991)
Prepaid expenses		(11,361)	61,194
Trade and other payables		(556,833)	209,371
	$	(153,366)	(193,262)

The change in non-cash working capital has been allocated to the following activities:

		June 30, 2012		June 30, 2011
Operating	$	(118,632)	$	(21,973)
Financing		(47,758)		799,132
Investing		13,024		(970,421)
	$	(153,366)	$	(193,262)

(Expressed in Canadian dollars)

17 Capital Management

The Company's objective when managing capital is to safeguard the entity's ability to continue as a going concern, so that it can continue to explore and develop its projects to provide returns for shareholders and benefits for other stakeholders. The Company manages its working capital, long term debt, and shareholders equity as capital.

		June 30, 2012		March 31, 2012
Working capital deficit	$	(3,256,595)	$	(2,850,057)
Long term debt		1,122,092		1,348,722
Shareholders equity (deficit)		(1,265,229)		(1,163,304)

The Company has just come out of the development stage; however its cash flow from the Argentinean operation will be needed in the near term to finance the operations and to repay the vendor loans, and therefore the Company's principal source of funds will still remain the issuance of common shares. The Company's ability to raise future capital through equity is subject to uncertainty and the inability to raise such capital may have an adverse impact over the Company's ability to continue as a going concern.

For the three months ended June 30, 2012, there have been no changes in the approach to capital management. There are no external restrictions on capital.

18 Related party transactions

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

For the three months ended June 30, 2012:

a) Aggregate consulting fees of $48,139 (June 30, 2011 - $63,000) and office rent of $5,975 (June 30, 2011 – nil) were charged by directors and officers of the Company and recorded in general and administrative expenses.

b) Included in trade and other payables as at June 30, 2012 was $18,000 (March 31, 2012 - $12,988) payable to related parties.

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

19 Financial Instruments and Risk Management

The Company's financial instruments include cash and cash equivalents, trade and other receivables, trade and other payables, note payable, convertible notes, long term debt, derivative liability, and oil share agreement liability. The carrying values of cash and cash equivalents, trade and other receivables, and trade and other payables approximate their fair values due to their relatively short periods to maturity. The carrying value of the Company's note payable, loan payable, and oil share agreement approximates the fair value. The Company's long-term debt bears interest at floating market rates and, accordingly, the fair value approximates the carrying amount.

(Expressed in Canadian dollars)

19 Financial Instruments and Risk Management (continued)

The Company has exposure to credit risk, liquidity risk and market risk as a result of its use of financial instruments. The Company has policies and processes for measuring and managing these risks. Further quantitative disclosures are included throughout these financial statements.

For the three months ended June 30, 2012 there have been no significant changes in these risks or the approach to managing the risks since those disclosed in the Company's annual audited financial statements.

a) Credit risk

Credit risk is the risk of an unexpected loss if a customer or counter party to a financial instrument fails to meet its commercial obligations.

As at June 30, 2012, trade and other receivables are comprised of $182,283 for the sale of oil (March 31, 2012 - $322,225), $51,697 for the provision consulting services to a third party (March 31, 2012 - $nil), nil from shareholders (March 31, 2012 - $116,017), $204,398 for stamp tax provision and other tax withholdings (March 31, 2012 - $570,337), $100,000 for the recoverable costs associated to Oren, $25,938 for GST (March 31, 2012 – $21,624), and other receivables of $96,281 The receivable related to the sale of oil is held with a large company who participates in the oil and gas industry in Argentina and was collected subsequent to the quarter. The Company acts as an advisor for the disposal of the Russian assets owned by Oren ASA and received confirmation that a $100,000 is to be recovered between September 30, 2012 and December 15, 2012.

The Company's maximum credit risk exposure is limited to the carrying value of its trade and other receivables of $660,597 (March 31, 2012 - $1,030,203) and cash and cash equivalents of $971,326 (March 31, 2012 - $1,447,708).

The Company considers its receivables to be aged as follows:

	June 30, 2012	March 31, 2012
Current	$ 299,658	$ 851,401
31 to 90 days	317,582	32,433
90+ days	43,357	146,369
	$ 660,597	$ 1,030,203

b) Liquidity risk

Liquidity risk is the risk that the Company will incur difficulties meeting its financial obligations as they are due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and distressed conditions without incurring unacceptable losses or risking harm to the Company's reputation.

19 Financial Instruments and Risk Management (continued)

b) Liquidity risk (continued)

As at June 30, 2012, the Company's current financial liabilities total $4,977,307 (March 31, 2012 - $5,450,618), and are comprised of trade and other payables, the note payable, loan payable, and oil share agreement. As of June 30, 2012, the Company's cash and cash equivalent balance is not sufficient to meet the Company's obligations. It is expected that further debt and equity financings will be required in order to continue with developing the Company's assets and meet future obligations. There can be no assurance that such financings will be available to the Company. As of June 30, 2012, contractual maturities for financial liabilities are as follows:

		Carrying value	Contractual cashflows	Less than one year	One to two years	Two to four years
Trade and other payables	$	1,715,104	1,715,104	1,715,104	–	–
Note payable		573,345	573,345	573,345	–	–
Oil share agreement liability		652,658	652,658	652,658	–	–
Loan payable		2,036,200	2,138,010	2,138,010		
Convertible note (Swiss Francs)		1,122,092	1,253,932	90,464	90,464	1,073,004
	$	6,099,399	6,333,049	5,169,581	90,464	1,073,004

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.

(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. From early 2010, the price has gradually increased from US$42.00 per barrel to US$52.60 per barrel at March 31, 2011, US$63.00 per barrel at March 31, 2012, and US$60 per barrel at June 30, 2012.

(Expressed in Canadian dollars)

19 Financial Instruments and Risk Management (continued)

c) Market Risk (continued)

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 June 30, 2012, the Company has interest bearing cash accounts held with 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. The Company has fixed interest on convertible notes (note 13). As at June 30, 2012, the Company has $2,036,200 (March 31, 2012 - $1,995,000) of debt with floating interest (note 12), hence a variation of 1 percent represents approximately $5,100 (June 30, 2011 – $4,900) in savings or added cost for the Company.

(iii) 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. The following significant rate changes applied at June 30:

	Closing rate		Average rate	
	2012	2011	2012	2011
Peso	0.2253	0.2350	0.2272	0.2371
US dollars	1.0181	0.9643	1.0102	0.9680
Swiss Franc	1.0745	–	1.0789	

The following represents the estimated impact on profit or loss and equity. This analysis is based on foreign currency exchange rate variances that the Company considered reasonably possible for the three months ended June 30, 2012 and 2011. All other variables such as interest rate are held constant. There have been no changes in the method of calculating the sensitivity to change in foreign exchange rates.

	June 30, 2012			June 30, 2011		
	Rate change	Profit (loss)	Equity	Rate change	Profit (loss)	Equity
Peso	5%	–	105,570	6%	–	92,318
US dollars	6%	115,385	(56,004)	6%	95,073	4,702
Swiss Franc	11%	127,651	–	–	–	–
		243,035	49,566		95,073	97,020

(Expressed in Canadian dollars)

20 Commitments

The Company subleases premises in London, UK, under an operating lease on a month to month basis which requires payments of approximately $58,000 per annum.

21 Operating segments

The Company's operations are conducted in one business sector, the oil and natural gas industry. Geographical areas are used to identify Company's reportable segments. A geographic segment is considered a reportable segment once its activities are regularly reviewed by the Company's management. The Company has three reportable segments which are as follows:

- Argentina
- Tunisia - All assets associated with this segment were disposed in August 2011.
- Other – Segment includes Canoel Italia, the corporate assets and the operations in the Canadian entity. None of these individual segments meet the quantitative thresholds for determining reportable segments in 2012 or 2011.

The accounting policies used in the preparation of the information of the reportable segments is the same as those described in note 3. Information regarding the results of each reportable segment is included below. Performance is measured on segment profit before income tax which is reviewed by senior management. Information for the three months ended June 30, 2012 and 2011 is as follows:

		Argentina		**Tunisia**	**Other**		**Total**	
		2012	2011	2011	**2012**	2011	**2012**	2011
Revenue from external customers	$	**441,626**	614,932		**51,697**	–	**493,323**	614,932
Operating and transportation		**324,643**	359,043		**–**	–	**324,643**	359,043
Royalties		**41,303**	63,233		**(8,006)**	–	**33,297**	63,233
General and administrative		**130,111**	23,907		**280,079**	263,785	**410,190**	287,692
Depletion and depreciation		**53,454**	98,079		**–**	–	**53,454**	98,079
Other expenses		**71,712**	34,636		**130,040**	66,892	**201,752**	101,528
Reportable segment profit (loss)	$	**(179,597)**	36,034		**(350,416)**	(330,677)	**(530,013)**	(294,643)
Property and equipment	$	**4,550,961**	4,891,003	691,218	**5,090**	–	**4,556,051**	5,582,221
Other assets		**786,548**	1,377,379		**934,164**	888,213	**1,720,712**	2,265,592
Total liabilities		**3,552,590**	3,543,577		**3,989,402**	3,142,717	**7,541,992**	6,686,294
Capital expenditures	$	**138,294**	189,600		**674**	–	**138,968**	189,600

22 Subsequent events

On July 11, 2012, the Company completed the second tranche of its private placement and issued 2,725,000 units at $0.06 per unit for aggregate gross proceeds of $163,500. Each unit consists of one common share of Canoel and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share at an exercise price of $0.10 per common share at any time on or before one year from the date the warrants were issued. In connection with this tranche, the Company paid a finder's fee of $13,080 and granted 218,000 common share purchase warrants with the same terms as above.

On August 6, 2012, the Company completed the third tranche of its private placement and issued 2,166,666 units at $0.06 per unit for aggregate gross proceeds of $130,000. Each unit consists of one common share of Canoel and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share at an exercise price of $0.10 per common share at any time on or before one year from the date the warrants were issued. Of the total units issued, 1,000,000 units were purchased by a corporation whose owner is a director of Canoel.