MONARCH ENERGY LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Monarch Energy Limited

We have audited the accompanying consolidated financial statements of Monarch Energy Limited which comprise the consolidated balance sheets as at September 30, 2011 and 2010 and the consolidated statements of operations, comprehensive loss and deficit, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Monarch Energy Limited as at September 30, 2011 and 2010 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about Monarch Energy Limited's ability to continue as a going concern.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Accountants

January 30, 2012

MONARCH ENERGY LIMITED

CONSOLIDATED BALANCE SHEETS
AS AT SEPTEMBER 30
(Expressed in Canadian dollars)

	2011	2010
Assets		
Current assets:		
Cash	$ 11,947	$ 428,926
Amounts receivable	15,610	11,310
Prepaid expenses	5,470	10,000
	33,027	450,236
Equipment (Note 5)	1,400	1,997
Mineral properties (Note 7)	367,000	-
Reclamation bond	27,634	27,634
	$ 429,061	$ 479,867
Liabilities and Shareholders' Equity (Deficiency)		
Current liabilities:		
Accounts payable and accrued liabilities	$ 376,745	$ 1,592,369
Due to related parties (Note 10)	44,803	103,008
	421,548	1,695,377
Asset retirement obligation (Note 8)	61,669	57,932
	483,217	1,753,309
Shareholders' equity (deficiency):		
Capital stock (Note 9)	19,466,341	15,943,341
Contributed surplus (Note 9)	1,636,009	1,271,009
Deficit	(21,156,506)	(18,487,792)
	(54,156)	(1,273,442)
	$ 429,061	$ 479,867

Nature and continuance of operations (Note 1)

Approved on behalf of the Board:

Draft Director ***Draft*** Director

See accompanying notes to consolidated financial statements.

MONARCH ENERGY LIMITED

CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS and DEFICIT
AS AT SEPTEMBER 30
(Expressed in Canadian dollars)

	2011	2010
Revenue		
Petroleum and natural gas sales	$ 133,650	$ 169,875
Direct costs		
Transportation costs	2,199	6,306
Royalties	21,698	15,034
Production expenses	114,992	188,016
Depletion	147,909	45,406
	(286,798)	(254,762)
	(153,148)	(84,887)
Expenses		
Accretion of asset retirement obligation (Note 8)	3,737	6,632
Amortization	597	886
Consulting	78,354	11,547
Filing fees	25,168	12,194
Foreign exchange (gain) loss	20,254	(60,365)
Investor relations	6,926	1,446
Management fees	28,000	52,500
Office and miscellaneous	10,197	5,124
Printing	12	1,559
Professional fees	123,506	93,522
Project evaluation	-	27,242
Rent	22,725	25,403
Stock-based compensation (Note 9)	365,000	-
Transfer agent fees	14,687	9,856
Travel	8,456	368
	(707,619)	(187,914)
Loss before other items	(860,767)	(272,801)
Other items		
Interest income	92	154
Write-off of mineral properties (Note 7)	(3,179,429)	-
Gain on sale of asset	-	98,271
Gain on settlement of debt (Note 10)	21,897	-
Gain on sale of subsidiaries (Note 14)	1,349,493	-
	(1,807,947)	98,425
Net income and comprehensive loss for the year	(2,668,714)	(174,376)
Deficit, beginning of year	(18,487,792)	(18,313,416)
Deficit, end of year	$ (21,156,506)	$ (18,487,792)
Loss per share, basic and diluted	$ (0.04)	$ (0.01)
Weighted average number of common shares outstanding, basic and diluted	71,952,743	53,226,852

See accompanying notes to consolidated financial statements.

MONARCH ENERGY LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
AS AT SEPTEMBER 30
(Expressed in Canadian dollars)

	2011	2010
Cash flows used in operating activities:		
Net loss for the year	$ (2,668,714)	$ (174,376)
Items not involving cash:		
Accretion of asset retirement obligation	3,737	6,632
Depletion	147,909	45,406
Amortization	597	886
Gain on sale of asset	-	(98,271)
Stock-based compensation	365,000	-
Unrealized gain on foreign exchange	-	(73,731)
Gain on forgiveness of debt	(21,897)	-
Gain on disposal of subsidiaries	(1,349,493)	-
Write-off of mineral properties	3,179,429	-
Changes in non-cash operating working capital:		
Amounts receivable	(4,300)	10,021
Accounts payable and accrued liabilities	(10,116)	12,077
Due to related parties	(36,308)	33,627
Prepaid expenses	4,530	(9,228)
Reclamation bond	-	(100)
Net cash used in operating activities	(389,626)	(247,057)
Cash flows from (used in) investing activities:		
Addition of mineral properties	(23,429)	-
Additions to oil & gas properties	(3,925)	-
Disposal of petroleum interest, net of commission	-	655,906
Proceeds from sale of subsidiaries (Note 14)	1	-
Net cash from (used in) investing activities	(27,353)	655,906
Increase (decrease) in cash	(416,979)	408,849
Cash, beginning of year	428,926	20,077
Cash, end of year	$ 11,947	$ 428,926
Supplementary information:		
Income taxes paid	$ -	$ -
Interest paid	-	-

Supplemental disclosure with respect to cash flows (Note 11)

See accompanying notes to consolidated financial statements.

1. NATURE AND CONTINUANCE OF OPERATIONS

Monarch Energy Limited (the "Company") was incorporated in British Columbia and is engaged in the exploration and development of petroleum, natural gas and mineral properties.

The Company is in the process of exploring its petroleum and natural gas properties, and mineral property interests, and has yet to determine whether its properties contain reserves that are economically recoverable. The recoverability of amounts shown for mineral properties is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete exploration and development of its properties, confirmation of the Company's interest in the underlying permits and licenses, and future profitable production or proceeds from the disposition of the Company's properties.

During the current year, the Company consolidated its common shares on the basis of one new share for every 1.75 old shares held (Note 9). All references to share and per share amounts have been retroactively restated to reflect the consolidation.

These consolidated financial statements have been prepared assuming the Company will continue on a going-concern basis. The Company has incurred losses since inception and the ability of the Company to continue as a going-concern depends upon its ability to develop profitable operations and to raise adequate financing through the capital markets.

The current market conditions and volatility increase the uncertainty of the Company's ability to continue as a going concern given the need to both curtail expenditures and to raise additional funds. The Company is experiencing, and has experienced, negative operating cash flows. The Company will continue to search for new or alternate sources of financing but anticipates that the current market conditions may impact the ability to source such funds.

There can be no assurance that the Company will be able to continue to raise funds in which case the Company may be unable to meet its obligations. Should the Company be unable to realize on its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts recorded on the balance sheets.

	2011	2010
Working capital deficiency	$ (388,521)	$ (1,245,141)
Deficit	(12,156,506)	(18,487,792)

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The significant accounting policies adopted by the Company are as follows:

2. SIGNIFICANT ACCOUNTING POLICIES (continued):

Use of estimates

The consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles. It requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of estimates include the impairment and recoverability of mineral properties, useful lives of equipment in the calculation of amortization, inputs used in the calculation of stock-based compensation and the valuation allowance applied to future income taxes. Actual results could differ from those estimates.

Principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Monoil Limited and Monoil UK Limited until January 6, 2011, when the Company sold its UK subsidiaries: Monoil Limited and Monoil UK Limited.

All intercompany balances have been eliminated upon consolidation.

Foreign currency translation

The Company's foreign operations are of an integrated nature. Monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date and non-monetary assets and liabilities are translated at historical exchange rates. Revenues and expenses are translated at rates of exchange prevailing on the dates of the underlying transaction. Gains and losses on translation are included in the statement of operations and comprehensive income (loss).

Cash and equivalents

Cash is comprised of cash on hand.

Cash equivalents are short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

Financial instruments

All financial instruments are classified into one of 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 in the balance sheet at fair value except for loans and receivables, held-to maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income (loss). Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income (loss) until the instrument is derecognized or impaired.

2. SIGNIFICANT ACCOUNTING POLICIES (continued):

Financial instruments (continued):

The Company has classified its cash as held-for-trading. Amounts receivable are classified as loans and receivables. Accounts payable and accrued liabilities and due to related parties are classified as other liabilities, which are measured at amortized cost. The Company's reclamation bond has been classified as held to maturity, and is measured at amortized cost.

The Company also provides required disclosure about the inputs used in making fair value measurements, including their classification within a hierarchy that prioritizes their significance. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
Level 3 – Inputs that are not based on observable market data.

The Company has included disclosure recommended by this section in Note 3 to these consolidated financial statements.

Petroleum and natural gas properties

The Company follows the full cost method of accounting for petroleum and natural gas operations in accordance with Canadian guidelines. Under this method, all costs associated with the acquisition of, exploration for and development of petroleum and natural gas reserves are capitalized in cost centers on a country-by-country basis. Such costs include property acquisition costs, geological and geophysical studies, carrying charges on non-producing properties, costs of drilling productive wells, and overhead expenses directly related to these activities.

Depletion is calculated for producing properties by using the unit-of-production method based on estimated proved reserves, before royalties, as determined by management of the Company or independent consultants. Sales or dispositions of petroleum and natural gas properties are credited to the respective cost centers and a gain or loss is recognized when all properties in a cost center have been disposed of, unless such sale or disposition significantly alters the relationship between capitalized costs and proved reserves of petroleum and natural gas attributable to the cost center. Costs of abandoned properties are accounted for as adjustments of capitalized costs and written off to expense.

Undeveloped properties are excluded from the depletion calculation until the quantities of proved reserves can be determined.

A ceiling test is applied to each cost center and for the aggregate of all cost centers by comparing the net capitalized costs to the estimated future net revenues from production of estimated proved reserves without discount, plus the costs of unproved properties net of impairment. Any excess capitalized costs are written off to expense. Further, the ceiling test for the aggregate of all cost centers is required to include the effects of future removal and site restoration costs, general and administrative expenses, financing costs and income taxes. The calculation of future net revenues is based upon prices, costs and regulations in effect at each year end.

2. SIGNIFICANT ACCOUNTING POLICIES (continued):

Petroleum and natural gas properties (continued):

Unproved properties are assessed for impairment on an annual basis by applying factors that rely on historical experience. In general, the Company may write-off any unproved property under one or more of the following conditions:

a) there are no firm plans for further drilling on the unproved property;

b) negative results were obtained from studies of the unproved property;

c) negative results were obtained from studies conducted in the vicinity of the unproved property; or

d) the remaining term of the unproved property does not allow sufficient time for further studies or drilling.

Mineral properties

All costs related to the acquisition, exploration and development of mineral properties are capitalized by property. If economically recoverable ore reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the unit of production method. When a property is abandoned, all related costs are written off to operations. If, after management review, it is determined that the carrying amount of a mineral property is impaired, that property is written down to its estimated net realizable value.

A mineral property is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

The amounts shown for mineral properties do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

Asset retirement obligations

The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability.

Changes in the liability for an asset retirement obligation due to the passage of time will be measured by applying an interest method of allocation. The amount will be recognized as an increase in the liability and an accretion expense in the statement of operations. Changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease in the carrying amount of the liability for an asset retirement obligation and the cost of the related long-lived asset.

2. SIGNIFICANT ACCOUNTING POLICIES (continued):

Impairment of long-lived assets

A long-lived asset is tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of a long-lived asset exceeds its fair value. For purposes of recognition and measurement of an impairment loss, a long-lived asset is grouped with other assets and liabilities to form an asset group at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Estimates of future cash flows used to test recoverability of a long-lived asset include only the future cash flows that are directly associated with, and that are expected to arise as a direct result of, its use and eventual disposition.

Amortization

Equipment is recorded at cost less accumulated amortization. Amortization of computer equipment is provided at 45% per annum and office equipment is provided at 20% per annum on a declining balance basis.

Future income taxes

Future income taxes are calculated using the asset and liability method. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

Stock-based compensation

The Company recognizes compensation expense for all stock options granted, using the fair value based method of accounting. The fair value of stock options granted is expensed over their vesting period with a corresponding increase to contributed surplus. Upon exercise of stock options, the consideration paid by the option holder, together with the amount previously recognized in contributed surplus, is recorded as an increase to capital stock. The Company uses the Black-Scholes option valuation model to calculate the fair value of share purchase options at the date of grant. Option pricing models require the input of highly subjective assumptions, including the expected price volatility. Changes in these assumptions can materially affect the fair value estimate.

Basic and diluted loss per share

Basic loss per share has been calculated using the weighted average number of common shares outstanding during the year.

2. SIGNIFICANT ACCOUNTING POLICIES (continued):

Basic and diluted loss per share (continued):

Diluted loss per share has been calculated using the weighted average number of common shares that would have been outstanding during the respective period had all of the stock options and warrants outstanding at year-end having a dilutive effect been converted into shares at the beginning of the year and the proceeds used to repurchase the Company's common shares at the average market price for the year. Since the Company is in a loss position, this would be anti-dilutive, therefore, diluted loss per share is the same as basic loss per share.

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Revenue recognition

Revenue from oil and gas operations is recognized when oil and natural gas are shipped, title passes and collection of the sale is reasonably assured.

Comparative figures

Certain comparative figures have been reclassified, where applicable, to conform with the current year's presentation.

Flow-through common shares

Canadian tax legislation permits a company to issue flow-through shares whereby the deduction for tax purposes relating to qualified resource expenditures is claimed by the investors rather than the Company. Recording these expenditures for accounting purposes gives rise to taxable temporary differences.

When flow-through expenditures are renounced, a portion of the future income tax assets that were not recognized in previous years, due to the recording of a valuation allowance, be recognized as a recovery of income taxes in the statement of operations.

Future accounting standards

International Financial Reporting Standards ("IFRS")

In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's existing 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 October 1, 2010 will require the restatement for comparative purposes of amounts reported by the Company for the year ended September 30, 2011.

The Company has begun assessing the adoption of IFRS for 2011, and the financial reporting impact of the transition to IFRS is not expected to be significant other than increased disclosures in the notes of the financial statements. The Company is prepared to adopt IFRS effective October 1, 2011.

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3. FINANCIAL INSTRUMENTS

The fair value of the Company's amounts receivable, accounts payable and accrued liabilities, and due to related parties approximate carrying value, which is the amount recorded on the consolidated balance sheet. The Company's other financial instruments, cash and reclamation bond, under the fair value hierarchy are based on level one quoted prices in active markets for identical assets or liabilities.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. Amounts receivable consist primarily of input tax credits receivable from the Government of Canada. The Company believes it has no significant credit risk.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at September 30, 2011, the Company had a cash balance of $11,947 to settle current liabilities of $421,548. The Company expects to fund these liabilities through the issuance of capital stock over the coming year.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

a) Interest rate risk

The Company has cash balances, and is not at a significant risk to fluctuating interest rates. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. As of September 30, 2011, the Company did not have any investments in investment-grade short-term deposit certificates.

b) Foreign currency risk

As at September 30, 2011, the Company's expenditures are predominantly in Canadian dollars, and any future equity raised is expected to be predominantly in Canadian dollars. During the year ended September 30, 2011, the Company sold its subsidiaries in the United Kingdom. As a result, the Company does not believe it has significant foreign currency risk.

(Expressed in Canadian dollars)

3. **FINANCIAL INSTRUMENTS** (continued):

Market risk (continued):

c) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of petroleum, natural gas, mineral properties, individual equity movements and the stock market to determine the appropriate course of action to be taken by the Company.

4. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, and development of petroleum and natural gas properties and mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. In the management of capital, the Company includes components of shareholder's equity.

The Company is dependent upon external financings to fund activities. In order to carry out planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the year ended September 30, 2011. The Company is not subject to externally imposed capital requirements.

5. EQUIPMENT

	2011			2010		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer equipment	$ 5,264	$ 4,833	$ 431	$ 5,264	$ 4,480	$ 784
Office equipment	2,679	1,710	969	2,679	1,466	1,213
	$ 7,943	$ 6,543	$ 1,400	$ 7,943	$ 5,946	$ 1,997

(Expressed in Canadian dollars)

6. PETROLEUM AND NATURAL GAS PROPERTIES

	2011	2010
Unproved properties – United Kingdom		
North Sea Project (Quad 15/18a)		
Consulting	$ -	$ 52,451
Drilling and testing	-	3,902,202
Travel	-	1,516
	-	3,956,169
Written off	-	(3,398,534)
	-	557,635
Disposal of interest	-	(557,635)
Total	$ -	$ -
Proved property - Canada		
Lyle/Thorn Areas		
Geological, geophysical and land	$ 268,985	$ 121,076
Asset retirement obligations	37,352	37,352
	306,337	158,428
Depletion	(306,337)	(158,428)
Total	$ -	$ -

During the year, the Company acquired additions of $147,909 to its proved properties in Canada. Management estimates that the future costs associated with the exploration on the proved properties exceeds the future cash inflows as a result the property was fully depleted.

7. MINERAL PROPERTIES

	2011	2010
Odd Twins property		
Acquisition costs - shares	$ 3,156,000	$ -
Consulting	23,429	-
	3,179,429	-
Write-off of property	(3,179,429)	-
	-	-
Centremaque property		
Acquisition costs - shares	367,000	-
	367,000	-
Total	$ 3,546,429	$ -

(Expressed in Canadian dollars)

7. MINERAL PROPERTIES (continued):

Odd Twins Property

During the year ended September 30, 2011, the Company entered into a Letter of Intent with Tectonics Inc. ("Tectonics"), of Calgary, Alberta, for the acquisition of an interest in mineral properties located on and offshore Long Point, on the Port au Port Peninsula, Newfoundland and Labrador. The acquisition is a related party transaction, as the principal of Tectonics is George S. Langdon, who is the President and a director of the Company. The Company obtained a 60% working interest by issuing 39,450,000 of its common shares, and has agreed to enter into a joint venture with the holder of the remaining 40% interest for the exploration, development and exploitation of the licensed area. The Company has decided to let these claims lapse as it was their decision not to further pursue the property, and as a result, all costs associated with this property were written off to operations.

Centremaque Property

During the current fiscal year, the Company entered into an option agreement with Golden Valley Mines Ltd. (TSX/V: GZZ) of Val-d'Or, Quebec to earn up to a 70% interest in the Centremaque Prospect, situated in Bourlamaque Township, Quebec. Terms of the acquisition include a work commitment of $2,250,000 over three years ($250,000 by July 26, 2012; $500,000 by July 26, 2013 and $1,500,000 by July 26, 2014). In addition, the Company has to complete a Definitive Feasibility Study ("DFS") for the Property at its sole cost, within 10 years of signing, to earn a 70% interest, leaving Golden Valley Mines Ltd. with a free carried interest of 30%. The Company issued 9,175,008 of its common shares as well as cash payment of $35,000 in connection with this option agreement to be paid on or before February 29, 2012.

8. ASSET RETIREMENT OBLIGATION

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the obligation associated with the retirement of oil and gas properties.

		2011		2010
Asset retirement obligation, beginning of year		57,932	$	51,300
Accretion expense		3,737		6,632
Asset retirement obligation, end of year	$	61,669	$	57,932

The undiscounted amount of cash flows, required over the estimated reserve life of the underlying assets, to settle the obligation, adjusted for inflation, is estimated at $66,924 (2010 - $60,906). The obligation was calculated using a credit-adjusted risk free discount rate of 10% and an inflation rate of 2%. It is expected that this obligation will be funded from general Company resources at the time the costs are incurred with the majority of costs expected to occur between 2011 and 2015.

(Expressed in Canadian dollars)

9. CAPITAL STOCK AND CONTRIBUTED SURPLUS

a) Authorized capital stock: unlimited number of common shares without par value

b) Common shares issued and outstanding:

	Number of Shares	Capital Stock	Contributed Surplus
Balance, September 30, 2009 and 2010	53,226,852	$ 15,943,341	$ 1,271,009
Stock-based compensation			365,000
Issue shares for mineral property – Odd Twin	39,450,000	3,156,000	-
Issue shares for mineral property – Centremaque	9,175,008	367,000	-
Balance, September 30, 2011	101,851,860	$ 19,466,341	$ 1,636,009

As at September 30, 2011 there are no shares held in escrow.

During the current year, the Company consolidated its common shares on the basis of one new share for every 1.75 old shares. All share amounts are shown on a post-consolidated basis.

During the year ended September 30, 2011:

- The Company issued 39,450,000 common shares for the acquisition of an interest in the Odd Twins Property (Note 7).
- The Company issued 9,175,008 common shares for the acquisition of an interest in the Centremaque Property (Note 7).

No shares were issued during the year ended September 30, 2010.

Share purchase warrants

The Company had no outstanding share purchase warrants as at September 30, 2011 and 2010.

Stock options

The Company has a stock option plan under which it is authorized to grant options to directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common shares of the Company. Under the plan, the exercise price of each option equals the market price, minimum price, or a discounted price of the Company's shares as calculated on the date of grant. The options can be granted for a maximum term of 5 years. Options issued to consultants vest at 25% every three months. Options to directors and employees fully vest immediately upon granting but the common shares on exercise are subject to a four month hold period from the date of grant.

(Expressed in Canadian dollars)

9. CAPITAL STOCK AND CONTRIBUTED SURPLUS (continued):

Stock options (continued):

The Company measures stock-based compensation costs using the fair value-based method for employee and non-employee stock options. Compensation costs have been determined based on the fair value of the options at the grant date using the Black-Scholes option-pricing model. Compensation expense of $365,000 was recorded in the statement of operations during the fiscal year ended September 30, 2011 (2010 - $Nil) for 5,300,000 options granted. The fair value per option granted during the year is $0.07 (2010 - $Nil). The following weighted average assumptions were used for the Black-Scholes valuation of stock options granted during the year:

	2011	2010
Risk-free interest rate	1.57%	-
Expected life of options	5 years	-
Annualized volatility	218%	-
Dividend rate	0	-

The continuity of common share stock options for the fiscal year ended September 30, 2011 is as follows:

Expiry date	Exercise Price	September 30, 2010	Granted	Cancelled	Exercised	September 30, 2011
October 23, 2011	$ 0.35	485,714	-	485,714	-	-
March 11, 2012	0.53	371,429	-	371,429	-	-
May 21, 2012	0.53	757,143	-	757,143	-	-
February 1, 2016	0.10	-	5,300,000	-	-	5,300,000
		1,614,286	5,300,000	1,614,286	-	5,300,000
Weighted average exercise price		$ 0.47	$ 0.10	$ 0.47		$0.10
Weighted average remaining life						4.33 years

As at September 30, 2011, all options were fully vested.

As at September 30, 2011, the weighted average remaining contractual life of the stock options is 4.33 years and the weighted average exercise price is $0.10.

(Expressed in Canadian dollars)

9. CAPITAL STOCK AND CONTRIBUTED SURPLUS (continued):

Stock options (continued):

The continuity of common share stock options for 2010 is as follows:

Expiry Date	Exercise Price	September 30, 2009	Granted	Exercised	Cancelled	September 30, 2010
October 23, 2011	$ 0.35	485,714	-	-	-	485,714
March 11, 2012	0.53	371,429	-	-	-	371,429
May 21, 2012	0.53	757,143	-	-	-	757,143
		1,614,286	-	-	-	1,614,286
Weighted average exercise price		$ 0.47	-	-	-	$ 0.47

10. RELATED PARTY TRANSACTIONS AND BALANCES

The amounts charged to the Company for the services provided have been determined by negotiation among the parties and, in certain cases, are covered by signed agreements. These transactions were in the normal course of operations and were measured at the exchange value, which represented the amount of consideration established and agreed to by the related parties.

The Company entered into the following transactions with related parties:

a) Paid or accrued consulting fees totaling $16,440 (2010 - $52,500) to a company controlled by a director of the Company.

b) Paid or accrued consulting fees totaling $40,000 (2010 - $Nil) to a director of the Company.

c) Paid or accrued management fees totaling $28,000 (2010 - $Nil) to a director of the Company.

d) Amounts due to related parties consist of $44,803 (2010 - $103,008) to companies controlled by current and former directors of the Company.

e) Granted 5,300,000 stock options (2010 – $Nil) to directors and consultants of the Company with a fair value of $365,000 (2010 - $Nil).

f) Recorded again on the settlement of debt regarding unpaid director fees of $21,897 (2010 – $Nil) with a former director of the Company.

These amounts due to related parties are non-interest bearing, with no fixed terms of repayment.

(Expressed in Canadian dollars)

11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The significant non-cash transaction for the year ended September 30, 2011 is as follows:

a) Issued 39,450,000 common shares to acquire Odd Twin mineral property with value of $3,156,000.
b) Issued 9,175,008 common shares to acquire Centremaque mineral property with value of $367,000.
c) Included in accounts payable and accrued liabilities is $143,985 (2010 - $Nil) capitalized to oil and gas properties.

There were no other significant non-cash transactions for the year ended September 30, 2011.

12. INCOME TAXES

A reconciliation of income taxes (recovery) at statutory rates with the reported taxes is as follows:

	2011	2010
Loss before income taxes	$ (2,668,714)	$ (174,376)
Expected income tax (recovery)	$ (721,000)	$ (50,351)
Non-deductible expenses	957,000	15,282
Deductible items	(71,000)	(126,944)
Sale of subsidiaries	1,410,000	-
Differences in foreign tax rates	-	14,331
Unrecognized benefits of non-capital losses	(1,575,000)	147,682
Total income tax recovery	$ -	$ -

Details of future income tax assets are as follows:

	2011	2010
Equipment	$ 34,000	$ 34,010
Share issuance costs	2,000	67,628
Non-capital losses available for future periods	1,108,000	767,351
Resource expenditures	1,060,000	240,548
Capital losses available for future periods	1,306,000	-
	3,510,000	1,109,537
Valuation allowance	(3,510,000)	(1,109,537)
Net future income tax assets	$ -	$ -

The Company has incurred operating losses for Canadian income tax purposes of approximately $4,431,000 which can be carried forward to reduce taxable income in future years. Unless utilized, these losses will expire through 2031. Subject to certain restrictions, the Company also has resource expenditures available to reduce taxable income in future years. Future tax benefits, which may arise as a result of these losses, have not been recognized in these financial statements and have been offset by a valuation allowance.

(Expressed in Canadian dollars)

13. SEGMENTED INFORMATION

The Company operates in one reportable operating segment, being petroleum, natural gas and mineral exploration and development, and in the following geographic areas:

	Canada	Great Britain	Total
2011			
Revenue for the year	$ 133,650	$ -	$ 133,650
Net loss for the year	(2,668,714)	-	(2,668,714)
Capital assets	396,034	-	396,034
2010			
Revenue for the year	$ 169,875	$ -	$ 169,875
Income (loss) for the year	(356,354)	181,978	(174,376)
Capital assets	29,631	-	29,631

14. SALE OF SUBSIDIARIES

On January 6, 2011, the Company entered into an agreement with a third party to sell its' UK subsidiaries Monoil Limited and wholly owned subsidiary Monoil UK Limited. For the consideration of USD$1, a third party company will assume all interests or equity of any person (including any right to acquire, option or right of pre-emption) or any mortgage, charge, pledge, lien, assignment, hypothecation, security, interest, title, retention or any other security or arrangement.

Proceeds on Disposition	$ 1
Less: Net liabilities at date of sale	
Accounts payable	(1,284,426)
	(1,284,425)
Add: Foreign exchange on sale	(65,068)
Gain on sale	$ 1,349,493