# MOUNT DAKOTA ENERGY CORP.

## CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## FOR THE NINE MONTHS ENDED

## OCTOBER 31, 2011 AND 2010

**NOTICE TO READER**
**UNAUDITED INTERIM FINANCIAL STATEMENTS**

Management has prepared the condensed consolidated statements of financial position of Mount Dakota Energy Corp. as at October 31, 2011, January 31, 2011 and February 1, 2010 and the condensed consolidated statements of operations and comprehensive loss , change of equity and cash flows for the nine-month period ended October 31, 2011 and 2010. In accordance with National Instrument 51-102 released by the Canadian Securities Administrator, the Company discloses that they have not been audited or reviewed. Readers are cautioned that these statements may not be appropriate for their purposes.

Vancouver, B.C.
December 28, 2011

Mount Dakota Energy Corp.

**MOUNT DAKOTA ENERGY CORP.**

**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**

**FOR THE NINE MONTHS ENDED OCTOBER 31, 2011 AND 2010**

**(Expressed in Canadian Dollars - Unaudited)**

| | | **Three Months Ended October 31,** | | **Nine Months Ended October 31,** | |
|---|---|---|---|---|---|
| | | **2011** | **2010** | **2011** | **2010** |
| | Note | **$** | **$** | **$** | **$** |
| PETROLEUM AND NATURAL GAS REVENUES | | 70,044 | 84,606 | 192,919 | 261,056 |
| DIRECT COSTS | | | | | |
| Production costs | | 60,623 | 37,390 | 107,619 | 137,030 |
| Crown royalties | | 4,470 | 11,628 | 15,896 | 26,953 |
| Private royalties | | - | - | - | (449) |
| | | 65,093 | 49,018 | 123,515 | 163,534 |
| GROSS OPERATING PROFIT | | 4,951 | 35,588 | 69,404 | 97,521 |
| EXPENSES | | | | | |
| Accretion of asset retirement obligation | | 200 | 200 | 600 | 600 |
| Amortization | | 61 | 81 | 184 | 244 |
| Depletion and depreciation | | 44,330 | 20,080 | 72,000 | 60,240 |
| Engineer fee | | - | - | 3,449 | 3,825 |
| Interest and bank charges | | 902 | 374 | 2,114 | 4,236 |
| Legal and accounting | 14[c] | 10,562 | 3,508 | 32,415 | 38,009 |
| Management and consulting fees | 14[b] | 72,000 | 76,828 | 216,000 | 229,828 |
| Office and miscellaneous | | 4,545 | 4,454 | 8,608 | 11,094 |
| Rent | 14[a] | 10,500 | 10,500 | 31,500 | 31,500 |
| Stock-based compensation | | - | 317 | 264 | 790 |
| Transfer agent and filing fees | | 606 | 2,829 | 12,134 | 14,260 |
| Travel | | 3,812 | 1,339 | 3,812 | 10,934 |
| | | 144,976 | 120,510 | 393,639 | 405,558 |
| LOSS AND COMPREHENSIVE LOSS FOR THE YEAR | | (140,025) | (84,922) | (324,235) | (308,037) |
| Net Loss Per Share – Basic and Diluted | | $ (0.02) | $ (0.01) | $ (0.04) | $ (0.03) |
| Weighted Average Shares Outstanding | | 8,460,087 | 8,460,087 | 8,460,087 | 8,460,087 |

(See accompanying notes to these condensed consolidated financial statements)

**MOUNT DAKOTA ENERGY CORP.**

**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION**

**AS AT OCTOBER 31, 2011, JANUARY 31, 2011 AND FEBRUARY 1, 2010**

**(Expressed in Canadian Dollars - Unaudited)**

| | Note | October 31, 2011 $ | January 31, 2011 $ | February 1, 2010 $ |
|---|---|---|---|---|
| ASSETS | | | | |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents | | 9,568 | 1,086 | 95,129 |
| Accounts receivable | | 16,928 | 22,780 | 37,924 |
| GST/HST recoverable | | 33,754 | 28,566 | 14,075 |
| Prepaid expenses | | 35,098 | 2,481 | 1,687 |
| | | 95,349 | 54,913 | 148,815 |
| DEPOSITS | | 13,606 | 9,021 | 13,168 |
| EQUIPMENT | 5 | 864 | 1,047 | 1,373 |
| EXPLORATION AND EVALUATION ASSETS | 6 | 54,304 | 111,490 | 35,000 |
| PROPERTY, PLANT & EQUIPMENT | 7 | 222,102 | 294,102 | 373,651 |
| | | 386,224 | 470,573 | 572,007 |
| LIABILITIES | | | | |
| CURRENT LIABILITIES | | | | |
| Accounts payable and accrued liabilities | | 258,243 | 249,196 | 186,070 |
| Loan payable | 8 | 12,500 | 12,500 | 25,000 |
| Due to related parties | 9 | 1,230,949 | 1,000,973 | 766,829 |
| | | 1,501,692 | 1,262,669 | 977,899 |
| ASSET RETIREMENT OBLIGATION | 10 | 11,056 | 10,456 | 12,324 |
| | | 1,512,748 | 1,273,125 | 990,223 |
| SHAREHOLDERS' EQUITY | | | | |
| ISSUED CAPITAL | 11 | 5,333,848 | 5,333,848 | 5,333,848 |
| CONTRIBUTED SURPLUS | 12 | 387,100 | 386,836 | 385,783 |
| DEFICIT | | (6,847,471) | (6,523,236) | (6,137,847) |
| | | (1,126,523) | (802,552) | (418,216) |
| | | 386,224 | 470,573 | 572,007 |

Approved and authorized for issue on behalf of the Board on December 28, 2011:

| | |
|---|---|
| ***"Gary Claytens"*** | ***"S. John Kim"*** |
| Gary Claytens, Director | S. John Kim, Director |

(See accompanying notes to these condensed consolidated financial statements)

**MOUNT DAKOTA ENERGY CORP.**

**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY**

**(Expressed in Canadian Dollars - Unaudited)**

| | Issued Capital Shares | Issued Capital Amount | Contributed Surplus | Acc. Other Comp. Income | Deficit | Equity |
|---|---|---|---|---|---|---|
| | | $ | $ | $ | $ | $ |
| **Balance, February 1, 2010** | **8,460,087** | **5,333,848** | **385,783** | – | **(6,137,847)** | **(418,216)** |
| Option grants | – | – | 790 | – | – | 790 |
| Comprehensive gain (loss) | – | – | – | – | (308,037) | (308,037) |
| **Balance, October 31, 2010** | **8,460,087** | **5,333,848** | **386,255** | – | **(6,445,884)** | **(725,463)** |
| **Balance, February 1, 2011** | **8,460,087** | **5,333,848** | **386,836** | – | **(6,523,236)** | **(802,552)** |
| Option grants | – | – | 264 | – | – | 264 |
| Comprehensive loss | – | – | – | – | (324,235) | (324,235) |
| **Balance, October 31, 2011** | **8,460,087** | **5,333,848** | **387,100** | – | **(6,847,471)** | **(1,126,523)** |

**MOUNT DAKOTA ENERGY CORP.**

**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS**

**FOR THE NINE MONTHS ENDED OCTOBER 31, 2011 AND 2010**

**(Expressed in Canadian Dollars - Unaudited)**

| | **Three Months Ended October, 31** | | **Nine Months Ended October, 31** | |
|---|---|---|---|---|
| | 2011 $ | 2010 $ | 2011 $ | 2010 $ |
| OPERATING ACTIVITIES | | | | |
| Net loss for the year | (140,025) | (84,922) | (324,235) | (308,037) |
| Less items not affecting cash | | | | |
| Accretion of asset retirement obligation | 200 | 200 | 600 | 600 |
| Amortization | 61 | 81 | 183 | 244 |
| Depletion and depreciation | 44,330 | 20,080 | 72,000 | 60,240 |
| Stock based compensation | - | 317 | 264 | 790 |
| | (95,435) | (64,243) | (251,188) | (246,163) |
| Change in non-cash components of working capital | | | | |
| Accounts receivable | (5,468) | (2,480) | 5,852 | 8,247 |
| Prepaid expenses & deposits | (34,254) | (1,148) | (37,203) | (2,470) |
| GST/HST recoverable | (11,117) | (8,659) | (5,188) | (5,805) |
| Accounts payable and accrued liabilities | (5,118) | 7,737 | 9,046 | 56,408 |
| Due to related parties | 88,251 | 74,739 | 229,976 | 160,203 |
| NET CASH USED BY OPERATING ACTIVITIES | (63,142) | 5,946 | (48,704) | (29,579) |
| INVESTING ACTIVITIES | | | | |
| Expenditures on petroleum and natural gas properties | 69,900 | (6,128) | 57,186 | (52,264) |
| NET CASH USED BY INVESTING ACTIVITIES | 69,900 | (6,128) | 57,186 | (52,264) |
| FINANCING ACTIVITIES | | | | |
| Loans | - | (12,500) | - | (12,500) |
| NET CASH USED BY FINANCING ACTIVITIES | - | (12,500) | - | (12,500) |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 6,759 | (12,682) | 8,482 | (94,343) |
| CASH AND CASH EQUIVALENTS – BEGINNING OF PERIOD | 2,809 | 13,468 | 1,086 | 95,129 |
| CASH AND CASH EQUIVALENTS – END OF PERIOD | 9,568 | 786 | 9,568 | 786 |
| SUPPLEMENTAL DISCLOSURES | | | | |
| Interest paid | 800 | 250 | 1,800 | 3,409 |
| Taxes paid | - | - | - | - |

(See accompanying notes to these condensed consolidated financial statements)

## 1. NATURE OF OPERATIONS AND GOING CONCERN

Mount Dakota Energy Corp. (the “Company”) is incorporated under the laws of British Columbia and is primarily engaged in the acquisition and development of petroleum and natural gas properties and the production of petroleum and natural gas through participation agreements in Canada.

The head office, principal address and record office of the Company are located at Suite 1601 – 1166 Alberni Street, Vancouver, British Columbia, V6E 3Z3. The Company’s registered address is at the same address.

For the nine-month period ended October 31, 2011, the Company reported a net loss of $324,235, negative cash flow from operating activities of $48,704, an accumulated deficit of $6,847,471, and a working capital deficiency of $1,406,344. These factors raise substantial doubt about the Company’s ability to continue as a going concern. The continuance of the Company’s operations is dependent on obtaining and maintaining sufficient debt or equity financing in order to realize the recoverability of the Company’s investments in petroleum and natural gas properties, which is dependent upon the existence of economically recoverable reserves and market prices for petroleum and natural gas.

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company is currently dependent on loans from companies controlled by directors and its other creditors to maintain its operations. Management is of the opinion that sufficient working capital will be obtained from operations or external financing to meet the Company’s liabilities and commitments as they become due, although there is a risk that additional financing will not be available on a timely basis or on terms acceptable to the Company.

## 2. BASIS OF PREPARATION

These condensed interim consolidated financial statements, including comparatives, have been prepared using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board and in accordance with International Accounting Standard (“IAS”) 34 *Interim Financial Reporting*. These interim financial statements do not include all of the information required for full annual financial statements. The disclosures concerning the transition from Canadian GAAP to IFRS are included in Note 18.

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, profit and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods.

## 3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

### New accounting standards effective February 1, 2012

**Amendments to IFRS 7 *Financial Instruments: Disclosures*** - In October 2010, the IASB issued amendments to IFRS 7 that improve the disclosure requirements in relation to transferred financial assets. The amendments are effective for annual periods beginning on or after July 1, 2011, with early adoption permitted. The Company does not anticipate this amendment to have a significant impact on its condensed interim financial statements.

**IAS 12 *Income taxes*** - In December 2010, the IASB issued an amendment to IAS 12 that provides a practical solution to determining the recovery of investment properties as it relates to the accounting for deferred income taxes. This amendment is effective for annual periods beginning on or after July 1, 2011, with early adoption permitted. The Company does not anticipate this amendment to have a significant impact on its condensed interim financial statements.

### New accounting standards effective February 1, 2013

**IFRS 9 *Financial Instruments*** - IFRS 9 was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: Amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at the fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent not clearly representing a return of investment; however, others gains and losses (including impairments) associated with such instruments remain in accumulated other comprehensive income indefinitely.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, *Financial Instruments – Recognition and Measurement*, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income.

In May 2011, the IASB issued the following standards which have not yet been adopted by the Company:

**IFRS 10 *Consolidated Financial Statements*** - IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 *Consolidation - Special Purpose Entities* and parts of IAS 27 *Consolidated and Separate Financial Statements.*

**IFRS 11 *Joint Arrangements*** - IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities - Non-monetary Contributions by Venturers*.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**IFRS 12** ***Disclosure of Interests in Other Entities*** **-** IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

**IFRS 13** ***Fair Value Measurement*** - IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

**Amendments to other standards** - In addition, there have been other amendments to existing standards, including IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*. IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 to IFRS 13.

Each of the new standards, IFRS 9 to 13 and the amendments to other standards, is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its condensed interim financial statements or whether to early adopt any of the new requirements.

## 4. SIGNIFICANT ACCOUNTING POLICIES

[a] Basis of consolidation

These condensed consolidated interim financial statements are prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* under International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board, and include its wholly-owned Canadian subsidiary, Simez Energy Resources Inc. ("Simez"). The Company acquired all of the outstanding common shares of Simez on May 11, 2007 for nominal consideration. All significant inter-company balances and transactions have been eliminated upon consolidation. These are the Company's second IFRS condensed interim financial statements for a portion of the period covered by the Company's first IFRS annual financial statements for year ending January 31, 2012. Subject to certain IFRS transition elections disclosed in Note 18, the Company has consistently applied the same accounting policies in its opening IFRS balance sheet at February 1, 2010 and throughout all periods presented, as if the policies have always been in effect. These condensed consolidated interim financial statements do not contain all of the information required for full annual financial statements. The Company prepared its previous 2011 annual and interim financial statements in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and these condensed interim financial statements should be read in conjunction with the Company's 2011 annual financial statements considering the IFRS transition disclosures included in Note 18.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

[b] Cash and cash equivalents

Cash and cash equivalents include cash in bank accounts and cashable securities that on acquisition have a term to maturity of three months or less, or may be redeemed during this period. Cash and cash equivalents are highly liquid marketable securities and deposits, which are designated as held-for trading and are recorded at their fair values with changes recognized in net loss. Fair values are determined by reference to quoted market prices at the balance sheet date. The Company considers all highly liquid instruments with a maturity of three months or less at the time of issuance to be cash equivalents.

[c] Use of estimates

The preparation of these condensed interim financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses for the periods reported. Significant areas requiring the use of management estimates include the determination of impairment of oil and natural gas properties, asset retirement obligations, deferred income tax assets and liabilities, and assumptions used in valuing options and warrants in share-based compensation calculations. Actual results could differ from these estimates.

[d] Equipment

Equipment is stated at cost which includes the acquisition price and any direct costs to bring the asset into productive use at its intended location.

Amortization of equipment is calculated using the straight-line method to amortize the cost, net of any estimated residual value, over their estimated useful lives as follows:

| | |
|---|---|
| Office equipment | 3.3 years |
| Leasehold improvements | 3.3 years |

Where an item of plant and equipment comprises significant components with different useful lives, the components are accounted for as separate items of plant and equipment. Subsequent costs to replace parts of an item of equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and the cost of the item can be measured reliably. The costs of day-to-day servicing are recognized in profit or loss as incurred. These costs are more commonly referred to as “maintenance and repairs.”

[e] Pre-license costs

Pre-license exploration cost are costs incurred before the legal right to explore a specific area have been obtained. These costs are expensed in the period in which they are incurred as exploration and evaluation expense.

**4. SIGNIFICANT ACCOUNTING POLICIES** (continued)

[f] Exploration and evaluation costs (E&E)

Once the legal right to explore has been acquired, cost directly associated with the exploration project are capitalized as either tangible or intangible exploration and evaluation assets according to the nature of the asset acquired. Such E&E costs may include undeveloped land acquisition, geological, geophysical and seismic, exploratory drilling and completion, testing, decommissioning and directly attributable internal costs. E&E costs are not depleted and are carried forward until technical feasibility and commercial viability is determined. The technical feasibility and commercial viability is considered to be established when proved and/or probable reserves are determined to exist. All such carried costs are subject to technical, commercial and management review at least once a year to confirm the continued intent to develop or otherwise extract value form the exploratory activity. When this is no longer the case, the impairment costs are charged to exploration and evaluation expense. Upon determination of proved and/or probable reserves, E&E assets are attributed to those reserves are first tested for impairment and then reclassified to oil and gas development within property, plant and equipment, net of any impairment.

E&E assets are assessed for impairment if facts and circumstances suggest that the carrying amount exceeds the recoverable amount, and upon transfer to property, plant and equipment whereby they are allocated to cash-generating units based on geographical proximity and other factors.

[g] Property, plant and equipment

Property, plant and equipment includes the costs of oil and gas development and production that are not exploration and evaluation assets. Property, plant and equipment is recorded at cost less accumulated depletion and depreciation and accumulated impairment losses, net of recovered impairment losses.

[h] Oil and natural gas development and production assets

Development and production assets are capitalized on an area-by-area basis and include all costs associated with the development and production of oil and natural gas reserves. These costs may include proved property acquisitions, development drilling, completion, gathering and infrastructure, decommissioning costs, amounts transferred from exploration and evaluation assets and directly attributable internal costs. Borrowing costs are capitalized during the construction phase of qualifying assets.

Expenditures related to renewals or betterments that improve the productive capacity or extend the life of an asset are capitalized. Maintenance and repairs are expensed as incurred.

Accumulated costs are depleted using the unit-of-production method based on estimated proved plus probable reserves. Costs subject to depletion include estimated future costs to be incurred in developing proved plus probable reserves and exclude residual amounts. Depletion is calculated based on individual components (i.e. fields or combinations thereof and other major components with different useful lives).

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

[i] Impairment

The carrying amounts of the Company's property, plant and equipment are reviewed at each reporting date for indicators of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the amount of the impairment, if any. The recoverable amount of an asset is evaluated at the cash generating unit level ("CGU"), which is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets. The recoverable amount of a CGU is the greater of its fair value less costs to sell and its value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in arm's length transaction between knowledgeable and willing parties, less the costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognized in earnings for the period to the extent that the carrying amount of the asset exceeds the recoverable amount.

Impairment losses recognized in prior period are assessed at each reporting date for any indication that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the carrying amount of the asset does not exceed the carrying amount that would have been determined, net of depletion and depreciation, had no impairment loss been recognized for the asset. A reversal of the impairment loss is recognized immediately in earnings.

E&E assets are assessed for impairment when they are reclassified to property, plant and equipment, or if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

[j] Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probably that an outflow of economic benefits will be required to settle the obligation. Provision are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

[k] Revenue from petroleum and natural gas is recognized when title passes to an external party, and there is persuasive evidence of a contract or other arrangement and collectability is reasonably assured.

[l] Foreign currency translation

The presentation currency and functional currency of the Company is the Canadian dollar. Monetary assets and liabilities are translated at the exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical rates. The resulting exchange gains or losses are recognized in income.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

[m] Income taxes

The Company utilizes the asset and liability method of accounting for income taxes. Under the liability method, deferred income taxes and liabilities are recognized to reflect the expected deferred tax consequences arising from temporary differences between the carrying value and the tax bases of the Deferred 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. A valuation allowance is recorded against any deferred income tax asset if it is probable that the asset will not be realized.

The following temporary differences do not result in deferred tax assets or liabilities:

- the initial recognition of assets or liabilities, not arising in a business combination, that does not affect accounting or taxable profit
- goodwill
- investments in subsidiaries, associates and jointly controlled entities where the timing of reversal of the temporary differences can be controlled and reversal in the foreseeable future is not probable.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

[n] Financial instruments

The Company classifies financial assets and liabilities as held-for-trading, available-for-sale, loans and receivables or other financial liabilities depending on their nature. Financial assets and financial liabilities are recognized at fair value on their initial recognition, except for those arising from certain related party transactions which are accounted for at the transferor’s carrying amount or exchange amount.

Financial assets and liabilities classified as held-for-trading are measured at fair value, with gains and losses recognized in net income. Financial assets classified as held-to-maturity, loans and receivables, and financial liabilities other than those classified as held-for-trading are measured at amortized cost, using the effective interest method of amortization. Financial assets classified as available-for-sale are measured at fair value, with unrealized gains and losses being recognized as other comprehensive income until realized, or if an unrealized loss is considered other than temporary, the unrealized loss is recorded in income. The Company has elected to account for transaction costs related to the issuance of financial instruments as a reduction of the carrying value of the related financial instruments.

[o] Stock-based compensation

The Company has a plan for granting stock options to management, directors, employees and consultants as described in Note 11(c). The share option plan allows Company employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as an employee or consultant expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provide services similar to those performed by a direct employee.

Stock options issued to employees or those providing similar services, the fair value is measured at grant date and each tranche is recognized on a straight line basis over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Stock options issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of the goods or services received.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

[p] Comprehensive loss

Comprehensive loss is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that would not normally be included in net profit such as unrealized gains or losses on available-for-sale investments, gains or losses on certain derivative instruments and foreign currency gains or losses related to self-sustaining operations. The Company's comprehensive loss, components of other comprehensive income, and cumulative translation adjustments are presented in the Condensed Consolidated Statements of Comprehensive Loss and the Condensed Consolidated Statements of Shareholders' Equity.

[q] Loss per share

The Company uses the treasury stock method in computing loss per share. Under this method, basic loss per share is computed by dividing losses available to common shareholders by the weighted average number of common shares outstanding during the period. For the periods ended October 31, 2011 and 2010, the existence of stock options causes the calculation of fully diluted loss per share to be anti-dilutive. Accordingly, fully diluted loss per share is equal to basic loss per share.

[r] Critical accounting estimates

Critical accounting estimates are estimates and assumptions made by management that may result in material adjustments to the carrying amount of assets and liabilities within the next financial year.

(i) Impairment of oil and gas properties and equipment.

(ii) Stock-based payment transactions as described in Note 11(c).

(iii) Going concern

The assessment of the Company's ability to execute its strategy by funding future working capital requirements involves judgement. The Directors monitor future cash requirements to assess the Company's ability to meet these future funding requirements. Further information regarding going concern is outlined in Note 1.

(iv) Exploration and evaluation expenditure

The application of the Company's accounting policy for exploration and evaluation expenditure requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If information becomes available after expenditure is capitalized suggesting that the recovery of expenditure is unlikely, the amount capitalized is written off in the profit or loss in the period the new information becomes available.

## 5. EQUIPMENT

| | Cost | Accumulated Amortization | October 31, 2011 Net Carrying Value | January 31, 2011 Net Carrying Value |
|---|---|---|---|---|
| Computer equipment | $ 4,545 | $ 4,268 | $ 277 | $ 357 |
| Office equipment | 5,827 | 5,240 | 587 | 690 |
| | $ 10,372 | $ 9,508 | $ 864 | $ 1,047 |

## 6. EXPLORATION AND EVALUATION ASSETS

| | | Nine Months Ended October 31, 2011 | | Year Ended January 31, 2011 |
|---|---|---|---|---|
| Balance, beginning of period | $ | 111,490 | $ | 35,000 |
| Additions | | (57,186) | | 76,490 |
| Balance, end of period | $ | 54,304 | $ | 111,490 |

Exploration and evaluation assets include the Alsike II, Alsike III and Alsike IV oil and gas projects. Exploration and evaluation assets consist of the Company's exploration projects which are pending the determination of proven and probable reserves. Additions represent the Company's share of costs incurred on exploration and evaluation assets during the period. Exploration and evaluation assets are not amortized. The impairment of intangible exploration assets, and any eventual reversal thereof, is recognized as additional depletion and amortization expense in the statement of operations. During the nine month period ended October 31, 2011, the Company entered into a Farm-In Agreement, whereas the farmee will farm in a 10% working interest in the Alsike II well in consideration of $70,000 of expenditures spent by the farmee towards the further well development, of which $35,122 have been advanced previously and debited against accounts payables as of October 31, 2011.

## 7. PETROLEUM AND NATURAL GAS PROPERTIES

| | | Cost | | Accumulated Depletion/ Depreciation | | **October 31, 2011** Net Carrying Value | | **January 31, 2011** Net Carrying Value |
|---|---|---|---|---|---|---|---|---|
| Canada | $ | 913,488 | $ | 691,386 | $ | 222,102 | $ | 294,102 |

No interest or general and administrative costs have been capitalized during the period ended October 31, 2011.

## 8. LOAN PAYABLE

On April 30, 2009, the Company entered into a two year loan agreement with an unrelated third party under which the Company received proceeds of $25,000 repayable on April 30, 2011. During the year ended January 31, 2011, the Company repaid $12,500 of the outstanding principal. On May 1, 2011, the Company negotiated an extension of the agreement. Under the new terms, the Company is to pay a onetime extension payment of $1,000 and continuous monthly interest payments of $200 for as long as the loan principal is outstanding. During the nine month period ended October 31, 2011, the Company paid $1,800 in interest.

## 9. DUE TO RELATED PARTIES

Amounts due to related parties are payable to companies controlled by two directors of the Company and are non-interest bearing, unsecured and due on demand.

## 10. ASSET RETIREMENT OBLIGATIONS

The following table presents the reconciliation of the opening and closing aggregate carrying amount of the obligation associated with the retirement of petroleum and natural gas properties:

| | | Nine Months Ended October 31, 2011 | | Year Ended January 31, 2011 |
|---|---|---|---|---|
| Balance, beginning of period | $ | 10,456 | $ | 12,324 |
| Accretion expense | | 600 | | 800 |
| Revision in estimates | | – | | (2,668) |
| Balance, end of period | $ | 11,056 | $ | 10,456 |

## 11. SHARE CAPITAL

(a) Authorized Share Capital

100,000,000 Common shares without par value
100,000,000 Class A preference shares with a par value of $10 per share
100,000,000 Class B preference shares with a par value of $50 per share

(b) Issued and Outstanding Share Capital

| | Number of Shares | | Amount |
|---|---|---|---|
| Balance, January 31, 2010, 2011 and October 31, 2011 | 8,460,087 | $ | 5,333,848 |

As at October 31, 2011, no Class A or B preference shares have been issued.

(c) Stock Options

The Company has a stock option plan (the “Plan”) whereby it may grant stock options to its directors, officers, employees and consultants. The number of stock options available under the Plan shall not exceed 20% of the issued and outstanding common shares of the Company. The exercise price of each stock option granted generally equals the market price on the date of the grant. Stock options generally vest over an eighteen-month period from the date of grant and carry a maximum term of five years as determined by the Company’s board of directors.

The following table summarizes the continuity of the Company’s stock options outstanding:

| | Number of Shares | Weighted Average Exercise Price |
|---|---|---|
| Outstanding, January 31, 2010 | 1,156,000 | $0.15 |
| Expired | (80,000) | 0.14 |
| Outstanding, January 31, 2011 and October 31, 2011 | 1,076,000 | $0.15 |

## 11. SHARE CAPITAL

(d) Stock Options (continued)

The following table summarizes stock options outstanding as at October 31, 2011:

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Exercise Price | Number of Shares | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Number Exercisable | Weighted Average Exercise Price |
| $0.10 | 50,000 | 2.97 | $0.10 | 50,000 | $0.10 |
| 0.15 | 1,026,000 | 1.4 | 0.15 | 1,026,000 | 0.15 |
| $0.10 – $0.15 | 1,076,000 | 1.6 | $0.15 | 1,076,000 | $0.15 |

Stock options outstanding as at October 31, 2011 will expire between November 1, 2011 and October 20, 2014.

## 12. CONTRIBUTED SURPLUS

| | Nine Months Ended October 31, 2011 | Year Ended January 31, 2011 |
|---|---|---|
| Balance, beginning of period | $ 386,836 | $ 385,782 |
| Stock-based compensation | 264 | 1,054 |
| Balance, end of period | $ 387,100 | $ 386,836 |

## 13. LOSS PER SHARE

The weighted average number of shares outstanding used in the computation of basic and diluted loss per share for the period ended October 31, 2011 was 8,460,084 (2010 – 8,460,084). Outstanding stock options have not been considered in the computation of diluted loss per share as they are anti-dilutive.

## 14. RELATED PARTY TRANSACTIONS

During the period ended October 31, 2011 and 2010, the Company recorded the following transactions with related parties:

(a) Rent totalling $31,500 (2010 - $31,500) for office premises provided by a company controlled by a director of the Company.

(b) Management and consulting fees totalling $216,000 (2010 - $216,000) for management services provided by companies controlled by directors of the Company.

(c) Accounting expense totalling $12,270 (2010 - $9,270) provided by a company controlled by a director of the Company.

The above transactions have been in the normal course of operations and are recorded at their exchange amounts, which is the consideration agreed upon by the related parties.

## 15. CAPITAL MANAGEMENT

The Company defines capital as all components of shareholders' equity. The Company's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can ultimately provide returns for shareholders and benefits for other stakeholders. The board of directors does not establish quantitative return on capital criteria for management due to the nature of the Company's business. The Company does not pay dividends and is not subject to any externally imposed capital requirements.

## 16. SEGMENTED INFORMATION

The Company operates in one industry segment, namely acquisition and development of petroleum and natural gas properties and the production of petroleum and natural gas through participation agreements in Alberta, Canada.

## 17. FINANCIAL INSTRUMENTS AND RISK

### Financial Instruments

As at October 31, 2011, the Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, loan payable and due to related parties.

The Company classifies its cash and cash equivalents as held-for-trading, its accounts receivable as loans and receivables and its accounts payable, loan payable and due to related parties as other financial liabilities. The fair values of these financial instruments approximate their carrying values because of their current nature.

The Company's financial instruments at October 31, 2011, January 31, 2011 and February 1, 2010 classified as "Level One – Quoted prices in active markets" are cash and cash equivalent.

The Company thoroughly examines the various financial instrument risks to which it is exposed, and assesses the impact and likelihood of those risks. Where material, these risks are reviewed and monitored by management. There have not been any significant changes from the previous year as to how these risks are reviewed and monitored by management. The types of financial instrument risk exposures and the objectives and policies for managing these risks exposures is described below:

### Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash and cash equivalents and accounts receivable. To minimize the credit risk related to cash and cash equivalents, the Company places these instruments with high credit quality financial institutions. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by reputable financial institutions with which it keeps its bank accounts. The Company continuously monitors accounts receivable to minimize risk.

### Liquidity Risk

The Company ensures its holding of cash is sufficient to meet its short-term general and administrative expenditures. All of the Company's financial liabilities have contractual maturities of 30 days or are due on demand and are subject to normal trade terms. The Company does not have investments in any asset backed deposits.

## 17. FINANCIAL INSTRUMENTS AND RISK (continued)

### Foreign Exchange Risk

The Company's functional currency is the Canadian dollar. The Company is not exposed significant currency risk.

### Interest Rate Risk

At October 31, 2011, the Company is not exposed to reductions in interest rates, which could impact expected returns from the Company's investment of corporate funds in short-term, commercial paper upon maturity of such instruments.

### Commodity Price Risk

The Company's ability to raise capital to fund exploration or development activities is subject to risks associated with fluctuations in the market price of its commodities. The Company closely monitors commodity prices to determine the appropriate course of actions to be taken.

## 18. IFRS

For all periods up to and including the year ended January 31, 2011, the Company prepared its financial statements in accordance with Canadian generally accepted accounting principles (GAAP). The Company has prepared financial statements which comply with IFRS applicable for periods beginning on or after February 1, 2011 as described in the accounting policies. In preparing these financial statements, the Company's opening statement of financial position was prepared as at February 1, 2010, the Company's date of transition to IFRS.

This note explains the principal adjustments made by the Company in restating its Canadian GAAP statement of financial position as at February 1, 2010 and January 31, 2011 and the statement of operations for the nine month period ended October 31, 2010.

IFRS 1 *First-time Adoption of International Financial Reporting Standards* sets forth guidance for the initial adoption of IFRS. Under IFRS 1 the standards are applied retrospectively at the transitional statement of financial position date with all adjustment to assets and liabilities taken to retained earnings unless certain exemptions are applied.

## 18. IFRS (continued)

The Company has applied the following exemptions to its opening statement of financial position dated February 1, 2010:

[a] Share-based payment transactions

The Company elected under IFRS 1 to apply IFRS 2, *Share-Based Payments* only to equity instruments that were issued after November 7, 2002 and had not vested by the Transition Date

[b] Exploration and evaluation assets

The Company has elected under IFRS 1 to apply the exemption from full retrospective application of IFRS 6 based on amounts calculated under previous Canadian GAAP. Exploration and evaluation assets were reclassified from the full cost pool to exploration and evaluation assets at the amount that was recorded under Canadian GAAP. The remaining book value of the full cost pool was allocated to property, plant and equipment at the amount that was recorded under Canadian GAAP. On transition, an impairment test was completed for each CGU and no impairment was recorded.

[c] Business combinations

The Company elected under IFRS 1 to not to apply IFRS 3, *Business Combinations* retrospectively to any business combinations that may have occurred prior to its Transition Date and such business combinations have not been restated.

[d] Compound financial instruments

The Company has elected under IFRS 1 not to retrospectively separate the liability and equity components of any compound instruments for which the liability component is no longer outstanding at the Transition Date.

[e] Estimates

In accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous GAAP, unless there is objective evidence that those estimates were in error. The Company's IFRS estimates as of February 1, 2010 are consistent with its Canadian GAAP estimates for the same date.

IFRS employs a conceptual framework that is similar to Canadian GAAP. However, significant differences exist in certain matters of recognition, measurement and disclosure. While adoption of IFRS has not changed the Company's actual cash flows, it has resulted in changes to the Company's reported financial position and results of operations. In order to allow the users of the financial statements to better understand these changes, the Company's Canadian GAAP statement of operations, statement of comprehensive loss, statement of financial position and statement of cash flows for the nine months ended October 31, 2010 and the year ended January 31, 2011 have been reconciled to IFRS, with the resulting differences explained.

**18. IFRS (continued)**

[i] Stock-based Compensation

*IFRS*

- Each tranche of an award with different vesting dates is considered a separate grant for the calculation of fair value, and the resulting fair value is amortized over the vesting period of the respective tranches.
- Forfeiture estimates are recognized in the period they are estimated, and are revised for actual forfeitures in subsequent periods.

*Canadian GAAP*

- The Company had elected to recognize the fair value of stock-based awards with graded vesting method during 2010, which is the same requirement under IFRS.
- Forfeitures of awards are recognized as they occur.

[ii] Accounts payable, accrued liabilities and provisions

*IFRS* – a provision is a liability of uncertain timing or amount. Provisions are disclosed separately from liabilities and accrued liabilities and require additional disclosure.

*Canadian GAAP* – Accounts payable, accrued liabilities and provisions are disclosed on the statement of financial position as a single line item.

[iii] Other comprehensive loss

Other comprehensive loss consists of the change in the cumulative translation adjustment (“CTA”). Due to other IFRS adjustments, the balances that are used to calculate the CTA are different in accordance with IFRS than in accordance with Canadian GAAP. As a result, CTA and other comprehensive profit (loss) are different in accordance with IFRS than in accordance with Canadian GAAP.

[iv] Impairment

*IFRS* – If indication of impairment is identified, the asset’s carrying value is compared to the asset’s discounted cash flows. If the discounted cash flows are less than the carrying value, the asset is impaired by an amount equal to the difference between the discounted cash flows and the carrying value.

*Canadian GAAP* – If indication of impairment is identified, the asset’s carrying value is compared to the asset’s undiscounted cash flows. If the undiscounted cash flows are less than the carrying value, the asset is impaired by an amount equal to the difference between the discounted cash flows and the carrying value. The Company completed an impairment review of its assets at February 1, 2010 and at January 31, 2011 and October 31, 2011, and concluded that the assets were not impaired in accordance with IFRS.

[v] Presentation

The presentation of the cash flow statement in accordance with IFRS differs from the presentation of the cash flow statement in accordance with Canadian GAAP. The transition from previous GAAP to IFRS has had no effect upon the reported cash flows generated by the Company. The reconciling items between the previous GAAP presentation and the IFRS presentation have no net impact on the cash flows generated.

## 18. IFRS (continued)

The February 1, 2010 Canadian GAAP balance sheet has been reconciled to IFRS as follows:

| | February 1, 2010 | | |
|---|---|---|---|
| | Canadian GAAP | Effect of transition to IFRS | IFRS |
| **ASSETS** | | | |
| CURRENT ASSETS | $ | $ | $ |
| Cash and cash equivalents | 95,129 | – | 95,129 |
| Accounts receivable | 37,924 | – | 37,924 |
| GST/HST recoverable | 14,075 | – | 14,075 |
| Prepaid expenses | 1,687 | – | 1,687 |
| | 148,815 | – | 148,815 |
| DEPOSITS | 13,168 | – | 13,168 |
| EQUIPMENT | 1,373 | – | 1,373 |
| EXPLORATION AND EVALUATION ASSETS | – | 35,000 | 35,000 |
| PROPERTY, PLANT & EQUIPMENT | – | 373,651 | 373,651 |
| PETROLEUM AND NATURAL GAS PROPERTIES | 503,674 | (503,674) | – |
| | 667,030 | (95,023) | 572,007 |
| **LIABILITIES** | | | |
| CURRENT LIABILITIES | | | |
| Accounts payable and accrued liabilities | 186,070 | – | 186,070 |
| Loan payable | 25,000 | – | 25,000 |
| Due tom related parties | 766,829 | – | 766,829 |
| | 977,899 | | 977,899 |
| ASSET RETIREMENT OBLIGATIONS | 12,324 | – | 12,324 |
| | 990,223 | – | 990,223 |
| **SHAREHOLDERS' DEFICIT** | | | |
| ISSUED CAPITAL | 5,333,848 | – | 5,333,848 |
| CONTRIBUTED SURPLUS | 385,783 | – | 385,783 |
| DEFICIT | (6,042,824) | (95,023) | (6,137,847) |
| | (323,193) | (95,023) | (418,216) |
| | 667,030 | (95,023) | 572,007 |

## 18. IFRS (continued)

The Canadian GAAP statement of operation and comprehensive loss for the twelve months ended January 31, 2011 has been reconciled to IFRS as follows:

| | 12 months ended January 31, 2011 | | |
|---|---|---|---|
| | Canadian GAAP | Effect of transition to IFRS | IFRS |
| | $ | $ | $ |
| PETROLEUM AND NATURAL GAS REVENUES | 345,335 | – | 345,335 |
| DIRECT COSTS | | | |
| Production costs | 178,642 | – | 178,642 |
| Crown royalties | 41,647 | – | 41,647 |
| Private royalties (recovery) | (449) | – | (449) |
| | 219,840 | – | 219,840 |
| GROSS OPERATING PROFIT | 125,495 | – | 125,495 |
| ADMINISTRATIVE EXPENSES | | | |
| Accretion of asset retirement obligation | 800 | – | 800 |
| Amortization | 326 | – | 326 |
| Depletion and depreciation | 96,432 | (19,571) | 76,861 |
| Interest and bank charges | 4,507 | – | 4,507 |
| Legal and accounting | 41,333 | – | 41,333 |
| Management and consulting fees | 303,328 | – | 303,328 |
| Office and miscellaneous | 13,986 | – | 13,986 |
| Rent | 42,000 | – | 42,000 |
| Share-based compensation | 1,054 | – | 1,054 |
| Transfer agent and regulatory | 14,465 | – | 14,465 |
| Travel | 12,204 | – | 12,204 |
| | 530,435 | (19,571) | 510,864 |
| LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD | (404,940) | 19,571 | (385,369) |

**18. IFRS (continued)**

The Canadian GAAP balance sheet at January 31, 2011 has been reconciled to IFRS as follows:

| | January 31, 2011 | | |
|---|---|---|---|
| | Canadian GAAP | Effect of transition to IFRS | IFRS |
| **ASSETS** | | | |
| CURRENT ASSETS | $ | $ | $ |
| Cash and cash equivalents | 1,086 | – | 1,086 |
| Accounts receivable | 22,780 | – | 22,780 |
| GST/HST recoverable | 28,566 | – | 28,566 |
| Prepaid expenses | 2,481 | – | 2,481 |
| | 54,913 | – | 54,913 |
| DEPOSITS | 9,021 | – | 9,021 |
| EQUIPMENT | 1,047 | – | 1,047 |
| EXPLORATION AND EVALUATION ASSETS | – | 111,490 | 111,490 |
| PROPERTY, PLANT & EQUIPMENT | – | 294,102 | 294,102 |
| PETROLEUM AND NATURAL GAS PROPERTIES | 481,064 | (481,064) | – |
| | 546,045 | (75,472) | 470,573 |
| **LIABILITIES** | | | |
| CURRENT LIABILITIES | | | |
| Accounts payable and accrued liabilities | 249,195 | – | 249,195 |
| Loan payable | 12,500 | – | 12,500 |
| Due tom related parties | 1,000,973 | – | 1,000,973 |
| | 1,262,669 | | 1,262,669 |
| ASSET RETIREMENT OBLIGATIONS | 10,456 | – | 10,456 |
| | 1,273,125 | – | 1,273,125 |
| **SHAREHOLDERS' DEFICIT** | | | |
| ISSUED CAPITAL | 5,333,848 | – | 5,333,848 |
| CONTRIBUTED SURPLUS | 386,837 | – | 386,836 |
| DEFICIT | (6,447,764) | (75,472) | (6,523,236) |
| | (727,079) | (75,472) | (802,552) |
| | 546,045 | (75,472) | 470,573 |

## 18. IFRS (continued)

The Canadian GAAP statement of operations and comprehensive loss for the nine months ended October 31, 2010 has been reconciled to IFRS as follows:

| | 9 months ended October 31, 2010 | | |
|---|---|---|---|
| | Canadian GAAP | Effect of transition to IFRS | IFRS |
| | $ | $ | $ |
| PETROLEUM AND NATURAL GAS REVENUES | 261,056 | – | 261,056 |
| DIRECT COSTS | | | |
| Production costs | 137,030 | – | 137,030 |
| Crown royalties | 26,953 | – | 26,953 |
| Private royalties (recovery) | (449) | – | (449) |
| | 163,534 | – | 163,534 |
| GROSS OPERATING PROFIT | 97,521 | – | 97,521 |
| ADMINISTRATIVE EXPENSES | | | |
| Accretion of asset retirement obligation | 600 | – | 600 |
| Amortization | 244 | – | 244 |
| Depletion and depreciation | 45,900 | 14,340 | 60,240 |
| Engineer fees | 3,825 | – | 3,825 |
| Interest and bank charges | 4,236 | – | 4,236 |
| Legal and accounting | 38,009 | – | 38,009 |
| Management and consulting fees | 229,828 | – | 229,828 |
| Office and miscellaneous | 11,094 | – | 11,094 |
| Rent | 31,500 | – | 31,500 |
| Share-based compensation | 790 | – | 790 |
| Transfer agent and regulatory | 14,260 | – | 14,260 |
| Travel | 10,934 | – | 10,934 |
| | 391,218 | 14,340 | 405,558 |
| LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD | (293,697) | (14,340) | (308,037) |

## 18. IFRS (continued)

The Canadian GAAP statement of operations and comprehensive loss for the three months ended October 31, 2010 has been reconciled to IFRS as follows:

| | 3 months ended October 31, 2010 | | |
|---|---|---|---|
| | Canadian GAAP | Effect of transition to IFRS | IFRS |
| | $ | $ | $ |
| PETROLEUM AND NATURAL GAS REVENUES | 84,606 | – | 84,606 |
| DIRECT COSTS | | | |
| Production costs | 37,390 | – | 37,390 |
| Crown royalties | 11,628 | – | 11,628 |
| Private royalties (recovery) | - | – | - |
| | 49,018 | – | 49,018 |
| GROSS OPERATING PROFIT | 35,587 | – | 35,587 |
| ADMINISTRATIVE EXPENSES | | | |
| Accretion of asset retirement obligation | 200 | – | 200 |
| Amortization | 81 | – | 81 |
| Depletion and depreciation | 15,300 | 4,780 | 20,080 |
| Engineer fees | - | – | - |
| Interest and bank charges | 374 | – | 374 |
| Legal and accounting | 3,508 | – | 3,508 |
| Management and consulting fees | 76,828 | – | 76,828 |
| Office and miscellaneous | 4,453 | – | 4,453 |
| Rent | 10,500 | – | 10,500 |
| Share-based compensation | 317 | – | 317 |
| Transfer agent and regulatory | 2,829 | – | 2,829 |
| Travel | 1,338 | – | 1,338 |
| | 115,729 | 4,780 | 120,509 |
| LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD | (80,141) | (4,780) | (84,922) |

## 18. IFRS (continued)

The Canadian GAAP balance sheet at October 31, 2010 has been reconciled to IFRS as follows:

| | October 31, 2010 | | |
|---|---|---|---|
| | Canadian GAAP | Effect of transition to IFRS | IFRS |
| **ASSETS** | | | |
| CURRENT ASSETS | $ | $ | $ |
| Cash and cash equivalents | 786 | – | 786 |
| Accounts receivable | 29,677 | – | 29,677 |
| GST/HST recoverable | 19,880 | – | 19,880 |
| Prepaid expenses | 8,304 | – | 8,304 |
| | 58,647 | – | 58,647 |
| DEPOSITS | 9,021 | – | 9,021 |
| EQUIPMENT | 1,129 | – | 1,129 |
| EXPLORATION AND EVALUATION ASSETS | – | 87,263 | 87,263 |
| PROPERTY, PLANT & EQUIPMENT | – | 313,412 | 313,412 |
| PETROLEUM AND NATURAL GAS PROPERTIES | 510,038 | (510,038) | – |
| | 578,834 | (109,363) | 469,471 |
| **LIABILITIES** | | | |
| CURRENT LIABILITIES | | | |
| Accounts payable and accrued liabilities | 242,478 | – | 242,478 |
| Loan payable | 12,500 | – | 12,500 |
| Due tom related parties | 927,032 | – | 927,032 |
| | 1,182,010 | | 1,182,010 |
| ASSET RETIREMENT OBLIGATIONS | 12,924 | – | 12,924 |
| | 1,194,934 | – | 1,194,934 |
| **SHAREHOLDERS' DEFICIT** | | | |
| ISSUED CAPITAL | 5,333,848 | – | 5,333,848 |
| CONTRIBUTED SURPLUS | 386,573 | – | 386,573 |
| DEFICIT | (6,336,521) | (109,363) | (6,445,884) |
| | (616,101) | (109,363) | (725,463) |
| | 578,834 | (109,363) | 469,471 |

## 19. SUBSEQUENT EVENTS

The Company sold its entire share of the Garrington Well for $300,000 effective November 1, 2011. The closing date for the transaction is January 6, 2012.

As of November 1, 2011, 200,000 options expired exercisable at $0.15 per share.