MOUNT DAKOTA ENERGY CORP.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED

JANUARY 31, 2012 AND 2011

MANNING ELLIOTT
CHARTERED ACCOUNTANTS
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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Mount Dakota Energy Corp.

We have audited the accompanying consolidated financial statements of Mount Dakota Energy Corp. which comprise the consolidated statements of financial position as at January 31, 2012, January 31, 2011 and February 1, 2010 and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years ended January 31, 2012 and January 31, 2011, and the related notes comprising 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 International Financial Reporting Standards as issued by the International Accounting Standards Board, 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 consolidated 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 our 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, we consider 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.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Mount Dakota Energy Corp. as at January 31, 2012, January 31, 2011 and February 1, 2010, and its financial performance and cash flows for the years ended January 31, 2012 and January 31, 2011 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 1 to these consolidated financial statements which describes the existence of a material uncertainty that may cast significant doubt about the ability of Mount Dakota Energy Corp. to continue as a going concern.

Manning Elliott LLP

CHARTERED ACCOUNTANTS

Vancouver, British Columbia

May 29, 2012

MOUNT DAKOTA ENERGY CORP.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS AT JANUARY 31, 2012, JANUARY 31, 2011 AND FEBRUARY 1, 2010

(Expressed in Canadian Dollars)

	Note	**January 31, 2012 $**	**January 31, 2011 $** (Note 15)	**February 1, 2010 $** (Note 15)
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents		214,909	1,086	95,129
Accounts receivable		13,345	22,780	37,924
GST/HST recoverable		6,985	28,566	14,075
Prepaid expenses	5	35,196	2,481	1,687
		270,435	54,913	148,815
DEPOSITS		54,052	9,021	13,168
PROPERTY AND EQUIPMENT	4	195,335	378,699	470,047
EXPLORATION AND EVALUATION ASSETS	5	42,394	111,490	35,000
		562,216	554,123	667,030
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable and accrued liabilities		255,234	249,195	186,070
Loan payable	6	10,500	12,500	25,000
Due to related parties	9	1,262,508	1,000,973	766,829
		1,528,242	1,262,668	977,899
DECOMMISSIONING PROVISIONS	7	34,978	10,456	12,324
		1,563,220	1,273,124	990,223
SHAREHOLDERS' DEFICIENCY				
SHARE CAPITAL		5,333,848	5,333,848	5,333,848
CONTRIBUTED SURPLUS		387,101	386,837	385,783
DEFICIT		(6,721,953)	(6,439,686)	(6,042,824)
		(1,001,004)	(719,001)	(323,193)
		562,216	554,123	667,030

NATURE OF OPERATIONS AND GOING CONCERN (Note 1)
COMMITMENTS (Note 14)

Approved and authorized for issue on behalf of the Board on May 29, 2012:

"Gary Claytens"	***"John Kim"***
Gary Claytens, Director	John Kim, Director

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

FOR THE YEARS ENDED JANUARY 31, 2012 AND 2011

(Expressed in Canadian Dollars)

	Note	2012 $	2011 $ (Note 15)
PETROLEUM AND NATURAL GAS REVENUES		219,957	345,335
DIRECT COSTS			
Production costs		142,561	178,642
Crown royalties		23,218	41,647
Private royalties		-	(449)
		165,779	219,840
GROSS OPERATING PROFIT		54,178	125,495
EXPENSES			
Accretion of decommissioning provisions		800	800
Amortization		245	326
Depletion and depreciation		40,888	88,354
Interest and bank charges		5,952	4,507
Legal and accounting	9[b]	49,423	41,333
Management and consulting fees	9[c]	291,449	303,328
Office and miscellaneous		9,062	13,986
Rent	9[a]	42,000	42,000
Share-based payments	8[c] and 9[c]	264	1,054
Transfer agent and filing fees		13,650	14,465
Travel		6,758	12,204
		460,491	522,357
OTHER INCOME (EXPENSE)			
Impairment of exploration and evaluation assets	5	(10,000)	-
Gain on disposal of property and equipment	4	134,046	-
		124,046	-
LOSS AND COMPREHENSIVE LOSS FOR THE YEAR		(282,267)	(396,862)
Net Loss Per Share – Basic and Diluted		$ (0.03)	$ (0.05)
Weighted Average Shares Outstanding		8,460,087	8,460,087

(See accompanying notes to these consolidated financial statements)

MOUNT DAKOTA ENERGY CORP.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED JANUARY 31, 2012 AND 2011

(Expressed in Canadian Dollars)

	Share Capital				
	Number of Shares	Amount	Contributed Surplus	Deficit	Total
		$	$	$	$
As at February 1, 2010	8,460,087	5,333,848	385,783	(6,042,824)	(323,193)
Share-based payments	–	–	1,054	–	1,054
Comprehensive loss	–	–	–	(396,862)	(396,862)
As at January 31, 2011	8,460,087	5,333,848	386,837	(6,439,686)	(719,001)
Share-based payments	–	–	264	–	264
Comprehensive loss	–	–	–	(282,267)	(282,267)
As at January 31, 2012	8,460,087	5,333,848	387,101	(6,721,953)	(1,001,004)

(See accompanying notes to these consolidated financial statements)

MOUNT DAKOTA ENERGY CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JANUARY 31, 2012 AND 2011

(Expressed in Canadian Dollars)

	2012 $	2011 $ (Note 15)
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Net loss for the year	(282,267)	(396,862)
Less items not affecting cash:		
Accretion of decommissioning provisions	800	800
Amortization	245	326
Depletion and depreciation	40,888	88,354
Impairment of exploration and evaluation assets	10,000	-
Gain on sale of property and equipment	(134,046)	-
Share-based payments	264	1,054
	(364,116)	(306,328)
Change in non-cash components of working capital:		
Accounts receivable	9,433	15,144
Prepaid expenses	2,163	(794)
Deposits	(45,031)	4,147
GST/HST recoverable	21,581	(14,491)
Accounts payable and accrued liabilities	41,162	63,125
Due to related parties	261,535	234,144
NET CASH USED IN OPERATING ACTIVITIES	(73,273)	(5,053)
INVESTING ACTIVITIES		
Proceeds from sale of property and equipment	300,000	-
Expenditures on exploration and evaluation assets	(10,904)	(76,490)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	289,096	(76,490)
FINANCING ACTIVITIES		
Repayments of loan payable	(2,000)	(12,500)
NET CASH USED IN FINANCING ACTIVITIES	(2,000)	(12,500)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	213,823	(94,043)
CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR	1,086	95,129
CASH AND CASH EQUIVALENTS – END OF YEAR	214,909	1,086
SUPPLEMENTAL DISCLOSURES		
Interest paid	2,400	1,475
Taxes paid	-	-

(See accompanying notes to these 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 records 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 year ended January 31, 2012, the Company reported a net loss of $282,267, negative cash flow from operating activities of $73,273, an accumulated deficit of $6,721,953, and a working capital deficiency of $1,257,807. 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. STATEMENT OF COMPLIANCE

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. These are the Company's first IFRS annual consolidated financial statements for year the ending January 31, 2012. Subject to certain IFRS transition elections disclosed in Note 15, the Company has consistently applied the same accounting policies in its opening IFRS Statement of Financial Position at February 1, 2010 and throughout all periods presented, as if the policies have always been in effect.

3. SIGNIFICANT ACCOUNTING POLICIES

[a] Basis of consolidation

These consolidated financial statements include the accounts of the Company and 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.

[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 fair value through profit or loss 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

[c] Use of estimates

The preparation of these consolidated 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 the recovery of accounts receivable, amortization, depreciation, depletion and impairment of property and equipment and exploration and evaluation assets, petroleum and natural gas reserves, decommissioning provisions, deferred income tax assets and liabilities, and assumptions used in valuing options and warrants in share-based payments calculations. Actual results could differ from these estimates.

[d] Property and equipment

Property and equipment includes crude oil and natural gas development and production assets, including costs incurred in developing oil and natural gas reserves and maintaining or enhancing production from such reserves and directly attributable general and administrative costs. Property and equipment is measured at cost, less accumulated depletion and depreciation and accumulated impairment losses.

Gains and losses on disposal of an item of property and equipment, including crude oil and natural gas interests, are determined by comparing the proceeds from disposal with the net carrying amount of property and equipment and are recognized within “gain or loss on sale of assets” in income (loss).

Subsequent measurement

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property and equipment are recognized as oil and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in earnings as incurred. Capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing on or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized at the time of replacement or sale. The costs of the day-to-day servicing of property and equipment are recognized in earnings as incurred.

Depletion and depreciation

The net carrying value of development or production assets is depleted on a field by field basis using the unit of production method by reference to the ratio of production in the year to the related proven reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers at least annually.

Proved and probable reserves are estimated by independent reserve engineers in accordance with Canadian Securities Regulation National Instrument 51-101. Production and reserves of natural gas are converted to equivalent barrels of crude oil on the basis of six thousand cubic feet of gas to one barrel of oil. Changes in reserve estimates used in prior periods, such as proved and probable reserves, that affect the unit-of-production calculations do not give rise to prior year adjustments and are dealt with on a prospective basis.

Other assets such as furniture and computer equipment recorded at cost and depreciated using the straight–line method based on their estimated useful lives of 3 years, net of any estimated residual value. Depreciation methods, useful lives and residual values are reviewed at each reporting date.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

[e] Exploration and evaluation costs

Pre-license costs are recognized as an expense when incurred. Exploration and evaluation costs (“E&E”), including the costs of acquiring licenses, exploratory drilling and completion costs and directly attributable general and administrative costs are initially capitalized as either tangible or intangible exploration and evaluation assets according to the nature of the asset acquired. These costs are accumulated in cost centers by field or exploration area pending determination of technical feasibility and commercial viability. Ongoing carrying costs including the costs of non-producing lease rentals are capitalized to exploration and evaluation assets.

The technical feasibility and commercial viability of extracting a resource is considered to be determinable when proved reserves are determined to exist. A review of each exploration license or area is carried out, at least annually, to ascertain whether proved reserves have been discovered. Upon determination of proved reserves, exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from E&E assets to property and equipment.

E&E assets are regularly reviewed for impairment or whenever events or changes in circumstances indicate that the carrying amount of reserve properties may exceed its recoverable amount. When an impairment review is undertaken, the recoverable amount is assessed by reference to the higher of value in use (being the present value of expected future cash flows of the relevant cash-generating unit) and fair value less costs to sell. If the carrying amount of an asset exceeds the recoverable amount an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

[f] Impairment

The carrying amounts of the Company’s property 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 if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGU’s are allocated to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

[g] Provisions

(i) Legal matters

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 probable that an outflow of economic benefits will be required to settle the obligation. Provisions 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.

(ii) Decommissioning liabilities

The Company's activities give rise to dismantling, decommissioning and site disturbance re-mediation activities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

Decommissioning provisions are measured at the present value of management's best estimate of expenditure required to settle the present obligation at the statement of financial position date. Subsequent to initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows are recorded against the related asset. Actual costs incurred upon settlement of the decommissioning provisions are charged against the provision to the extent the provision was established.

[h] Revenue recognition

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

[i] 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.

[j] 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. Deferred income tax assets are recognized to the extent that it is probable the asset will 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

[k] Financial instruments

All financial assets are initially recorded at fair value and classified into one of four categories: held to maturity, available for sale, loans and receivable or at fair value through profit or loss ("FVTPL"). All financial liabilities are initially recorded at fair value and classified as either FVTPL or other financial liabilities. Financial instruments comprise cash and cash equivalents, accounts receivable, accounts payable, loans payable and due to related parties. At initial recognition management has classified financial assets and liabilities as follows:

(i) Financial assets

The Company has classified its cash and cash equivalents at FVTPL. A financial instrument is classified at FVTPL if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at FVTPL if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Financial instruments at FVTPL are measured at fair value and changes therein are recognized in income.

The Company has classified its accounts receivable as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

(ii) Financial liabilities

The Company has classified its accounts payable, loan payable and due to related parties as other financial liabilities. Accounts payable and due to related parties are recognized at the amount required to be paid less, when material, a discount to reduce the payable to fair value. Loan payable is measured at amortized cost using the effective interest method. The Company derecognizes a financial liability when it its contractual obligations are discharged, cancelled or expire.

[l] Share-based payments

The Corporation grants options to purchase common shares to directors, officers, employees, consultants and certain service providers under its stock option plan. Share-based payments are measured at the fair value of the instruments issued and amortized over the vesting periods. The amount recognized as a share-based payment expense during a reporting period is adjusted to reflect the number of awards expected to vest. The offset to this recorded cost is to contributed surplus.

The fair value of employee stock options is measured using the Black Scholes Option Pricing Model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behavior), expected dividends, and the risk-free interest rate (based on short term government bonds). A forfeiture rate is estimated on the grant date and is subsequently adjusted to reflect the actual number of options that vest.

[m] 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 Consolidated Statements of Comprehensive Loss and the Consolidated Statements of Changes in Equity.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

[n] 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 years ended January 31, 2012 and 2011, 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.

[o] New accounting standards issued but not yet effective

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB or the International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for accounting periods beginning after February 1, 2013, or later periods. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below.

New accounting standards effective February 1, 2013

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*.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

[o] New accounting standards issued but not yet effective (continued)

New accounting standards effective February 1, 2013 (continued)

Amendments to IAS 1 *Presentation of Financial Statements* - The IASB has amended IAS 1 to require entities to separate items presented in other comprehensive income ("OCI") into two groups, based on whether or not items may be reclassified into profit or loss in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately.

Each of the new standards, IFRS 10 to 13 and the amendments to other standards, is effective for the Company beginning on February 1, 2013 with early adoption permitted. The Company has not yet begun the process of assessing the impact that the new standards will have on its consolidated financial statements or whether to early adopt any of the new requirements.

New accounting standards effective February 1, 2015

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.

IFRS 9 is effective for annual periods beginning on or after January 1, 2015 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 consolidated financial statements or whether to early adopt any of the new requirements.

(Expressed in Canadian Dollars)

4. PROPERTY AND EQUIPMENT

		Petroleum and natural gas properties		Furniture and computer equipment		Total
Cost:						
Balance, February 1, 2010	$	468,674	$	10,372	$	479,046
Additions		-		-		-
Disposals		(2,668)		-		(2,668)
Balance, January 31, 2011	$	466,006	$	10,372	$	476,378
Additions		30,252		-		30,252
Disposals		(266,975)		-		(266,975)
Balance, January 31, 2012	$	229,283	$	10,372	$	239,655
Accumulated depletion, depreciation and amortization:						
Balance, February 1, 2010	$	-	$	(8,999)	$	(8,999)
Depletion, depreciation and amortization		(88,354)		(326)		(88,680)
Balance, January 31, 2011	$	(88,354)	$	(9,325)	$	(97,679)
Depletion, depreciation and amortization		(40,888)		(245)		(41,133)
Disposals		94,492		-		94,492
Balance, January 31, 2012	$	(34,750)	$	(9,570)	$	(44,320)
Net book value:						
As at February 1, 2010	$	468,674	$	1,373	$	470,047
As at January 31, 2011	$	377,652	$	1,047	$	378,699
As at January 31, 2012	$	194,533	$	802	$	195,335

During the year ended January 31, 2012 the Company disposed of its Garrington well for gross proceeds of $300,000. A gain on sale of $134,046 was recorded in conjunction with this sale.

(Expressed in Canadian Dollars)

5. EXPLORATION AND EVALUATION ASSETS

		2012		2011
Opening balance	$	111,490	$	35,000
Additions		10,904		76,490
Dispositions		(70,000)		-
Impairment		(10,000)		-
Balance, end of period	$	42,394	$	111,490

Exploration and evaluation assets include the Alsike II and Alsike IV petroleum and natural gas projects. During the year ended January 31, 2012, 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 by the farmee towards further well development. As of January 31, 2012, $35,122 of the balance has been advanced through a previously outstanding accounts payables balance and the remaining balance has been recorded as prepaid expenses. Additionally, during the year ended January 31, 2012 the Company abandoned its Alsike III petroleum and natural gas project and all associated costs have been considered impaired.

6. 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 year ended January 31, 2012, the Company paid $2,000 in principal and $2,400 in interest.

7. DECOMMISSIONING PROVISIONS

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

		2012		2011
Opening balance	$	10,456	$	12,324
Accretion expense		800		800
Revision in estimates		30,252		(2,668)
Settlement of provision on sale of property		(6,530)		-
Ending balance	$	34,978	$	10,456

(Expressed in Canadian Dollars)

8. SHARE CAPITAL

(a) Authorized Share Capital

Unlimited	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) Disclosures on any shares issued are provided in the Consolidated Statements of Changes in Equity.

As at January 31, 2012, 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 Company did not grant any options during the years ended January 31, 2012 and 2011. During the year ended January 31, 2012, the Company recognized compensation cost of $264 (2011 - $1,054) as share-based payments expense related to the vesting of options previously granted.

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	1,076,000	$0.15
Expired	(230,000)	$0.15
Outstanding, January 31, 2012	846,000	$0.15

The following table summarizes stock options outstanding as at January 31, 2012:

	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	2.72	$0.10	50,000	$0.10
$0.15	796,000	1.50	$0.15	796,000	$0.15
$0.10 – $0.15	846,000	1.57	$0.15	846,000	$0.15

Stock options outstanding as at January 31, 2012 will expire between August 1, 2013 and October 20, 2014.

(Expressed in Canadian Dollars)

9. RELATED PARTY TRANSACTIONS AND BALANCES

The Company has identified its directors and certain senior officers as its key management personnel. The compensation costs for key management personnel and companies related to them were recorded as follows:

(a) Rent totalling $42,000 (2011 – 42,000) for office premises provided by a company controlled by a director of the Company.

(b) Accounting expense totalling $15,630 (2011 - $12,360) provided by a company controlled by a director of the Company.

(c) The remuneration of the Company's directors and other key management:

	2012	2011
Management fees	$ 288,000	$ 288,000
Share-based payments	264	1,054
Total	$ 288,264	$ 289,054

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. 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. INCOME TAXES

The following table reconciles the amount of income tax recoverable on application of the combined statutory Canadian federal and provincial income tax rates:

	2012	2011
Canadian statutory income tax rate	25.00%	27.90%
Expected income tax recovery	$ 70,567	$ 110,725
Non-deductible expenses and others	(357)	(6,000)
Change in tax rates	-	(11,714)
Change in unrecognized deferred income tax assets	(70,210)	(93,011)
Income tax recovery	$ -	$ -

Significant components of the Company's potential deferred income tax assets are as follows:

	2012	2011
Non-capital losses carried forward	$ 264,722	$ 236,613
Capital losses carried forward	34,437	34,437
Resource pools	305,885	269,935
Equipment	19,555	19,493
Alberta royalty tax deductions	61,772	61,772
Other	8,743	2,654
	695,114	624,904
Unrecognized deferred income tax assets	(695,114)	(624,904)
Net deferred income tax assets	$ -	$ -

(Expressed in Canadian Dollars)

10. INCOME TAXES (continued)

The Company has non-capital losses for income tax purposes of $1,083,000 which may be carried forward and offset against deferred taxable income. The non-capital losses expire as follows:

Year	Amount
2026	$ 26,000
2027	143,000
2028	82,000
2030	379,000
2031	341,000
2032	112,000
	$1,083,000

In assessing the realizability of deferred income tax assets, management considers whether it is probable that some portion of the deferred income tax assets will be realized. The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred income tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The amount of deferred income tax assets considered realizable could change materially in the near term based on future taxable income during the carry forward period.

11. CAPITAL MANAGEMENT

The Company defines capital as all components of shareholders' equity and amounts due to related parties. 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.

12. 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.

(Expressed in Canadian Dollars)

13. FINANCIAL INSTRUMENTS AND RISK

Financial Instruments

As at January 31, 2012, 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 fair value through profit or loss, 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.

	January 31, 2012	January 31, 2011	February 1, 2010
Fair value through profit or loss	214,909	1,086	95,129
Loans and receivables	13,345	22,780	37,924
Other financial liabilities	1,528,242	1,262,668	977,899

IFRS 7 *Financial Instruments – Disclosures*, establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. IFRS 7 prioritizes the inputs into three levels that may be used to measure fair value:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical unrestricted assets or liabilities.

Level 2 – Inputs that are observable, either directly or indirectly, but do not qualify as Level 1 inputs (i.e. quoted prices for similar assets or liabilities).

Level 3 – Prices or valuation techniques that are not based on observable market data and require inputs that are both significant to the fair value measurement and unobservable.

The fair values of the Company's financial assets and liabilities as of January 31, 2012 were calculated as follows:

	Balance at January 31, 2012 $	Quoted Prices in Active Markets for Identical Assets (Level 1) $	Significant Other Observable Inputs (Level 2) $	Significant Unobservable Inputs (Level 3) $
Financial Assets:				
Cash and cash equivalents	214,909	214,909	–	–

The Company believes that the recorded value of accounts payable approximate their current fair values because of their nature and relatively short maturity dates or durations.

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:

(Expressed in Canadian Dollars)

13. FINANCIAL INSTRUMENTS AND RISK (continued)

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. However, as at January 31, 2012 cash and cash equivalents substantially exceed the amounts covered by federal deposit insurance. The Company continuously monitors accounts receivable to minimize risk. As at January 31, 2012 the Company's maximum risk exposure to credit risk is the carrying value of cash and cash equivalents and accounts receivable of $228,254.

Liquidity Risk

The Company manages liquidity risk by maintaining adequate cash and credit facilities with financial institutions. The Company continuously monitors and reviews both actual and forecasted cash flows. As at January 31, 2012, the Company had a working capital deficiency of $1,257,807.

Contractual undiscounted cash flow requirements for financial liabilities as at January 31, 2012 are as follows:

	Less Than 1 Month $	1 – 3 Months $	4 months to Less Than 1 Year $	Years 2 – 4 $	Total $
Accounts payable and accrued liabilities	255,234	–	–	–	255,234
Loan payable	–	–	10,500	–	10,500
Due to related parties	1,262,508	–	–	–	1,262,508
Surface lease agreements	–	–	12,000	24,000	36,000
	1,517,742	–	22,500	24,000	1,564,242

Foreign Exchange Risk

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

Interest Rate Risk

The Company is exposed to interest rate price risk on its loan payable as it bears interest at a fixed rate. The Company has elected not to actively manage this risk.

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.

(Expressed in Canadian Dollars)

14. COMMITMENTS

On February 1, 2010 and March 6, 2010, the Company entered into surface lease agreements with a third party whereby the Company will pay annual consideration of $4,000 for the Alsike I property and annual consideration of $8,000 for the Alsike II property respectively for a total of five years. Total consideration paid at the end of five years will be $60,000. As at January 31, 2012, the Company has made payments of $24,000. Required payments are as follows:

2013	$ 12,000
2014	12,000
2015	12,000
	$ 36,000

15. FIRST-TIME ADOPTION OF IFRS

For all periods up to and including the year ended January 31, 2011, the Company prepared its consolidated financial statements in accordance with Canadian generally accepted accounting principles (GAAP). The Company has prepared consolidated 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 consolidated financial statements, the Company's opening consolidated 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 consolidated statement of financial position as at February 1, 2010 and January 31, 2011 and the consolidated statement of comprehensive loss for the year ended January 31, 2011.

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.

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] Petroleum and natural gas properties

The Company elected an IFRS 1 exemption whereby the Canadian GAAP full cost pool was measured upon transition to IFRS at the amount determined under Canadian GAAP as at February 1, 2010. Cost included in the full cost pool on February 1, 2010 were allocated on a pro-rata basis to the underlying assets on the basis of proved reserves values as at February 1, 2010. 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. 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.

15. FIRST-TIME ADOPTION OF IFRS (continued)

[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.

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 year ended January 31, 2011 have been reconciled to IFRS, with the resulting differences explained:

Petroleum and natural gas properties

Under Canadian GAAP, the Company followed the full cost method of accounting for expenditures on petroleum and natural gas properties. All costs associated with the exploration for and the development of petroleum and natural gas reserves were capitalized in country-based cost centers. Under IFRS, pre-exploration costs are recognized in the profit or loss as incurred. Costs incurred after the legal right to explore has been obtained and before technical feasibility and commercial viability have been determined are capitalized as E&E assets. Once an exploration area has been deemed to be technically feasible and commercially viable, E&E costs are reclassified to property and equipment.

The following reclassifications were made from petroleum and natural gas properties under Canadian GAAP:

At February 1, 2010, $468,674 was reclassified from petroleum and natural gas properties to property and equipment and $35,000 was reclassified from petroleum and natural gas properties to E&E assets.

At January 31, 2011, $369,574 was reclassified from petroleum and natural gas properties to property and equipment and $111,490 was reclassified from petroleum and natural gas properties to E&E assets.

For the year ended January 31, 2011 a reduction of depletion and depreciation of $8,078 with a corresponding increase in property and equipment was recorded due to differences in the costs subject to depletion and depreciation from the reclassifications noted above.

(Expressed in Canadian Dollars)

15. FIRST-TIME ADOPTION OF IFRS (continued)

The February 1, 2010 Canadian GAAP statement of financial position 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
EXPLORATION AND EVALUATION ASSETS	–	35,000	35,000
PROPERTY AND EQUIPMENT	1,373	468,674	470,047
PETROLEUM AND NATURAL GAS PROPERTIES	503,674	(503,674)	–
	667,030	–	667,030
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
DECOMISSIONING PROVISIONS	12,324	–	12,324
	990,223	–	990,223
SHAREHOLDERS' DEFICIENCY			
SHARE CAPITAL	5,333,848	–	5,333,848
CONTRIBUTED SURPLUS	385,783	–	385,783
DEFICIT	(6,042,824)	–	(6,042,824)
	(323,193)	–	(323,193)
	667,030	–	667,030

(Expressed in Canadian Dollars)

15. FIRST-TIME ADOPTION OF IFRS (continued)

The Canadian GAAP statement of financial position 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
EXPLORATION AND EVALUATION ASSETS	–	111,490	111,490
PROPERTY AND EQUIPMENT	1,047	377,652	378,699
PETROLEUM AND NATURAL GAS PROPERTIES	481,064	(481,064)	–
	546,045	8,078	554,123
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
	1,262,668		1,262,668
DECOMMISSIONING PROVISIONS	10,456	–	10,456
	1,273,124	–	1,273,124
SHAREHOLDERS' DEFICIENCY			
SHARE CAPITAL	5,333,848	–	5,333,848
CONTRIBUTED SURPLUS	386,837	–	386,837
DEFICIT	(6,447,764)	8,078	(6,439,686)
	(727,079)	8,078	(719,001)
	546,045	8,078	554,123

(Expressed in Canadian Dollars)

15. FIRST-TIME ADOPTION OF IFRS (continued)

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

	Year 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 decommissioning provisions	800	–	800
Amortization	326	–	326
Depletion and depreciation	96,432	(8,078)	88,354
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 payments	1,054	–	1,054
Transfer agent and regulatory	14,465	–	14,465
Travel	12,204	–	12,204
	530,435	(8,078)	522,357
LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	(404,940)	8,078	(396,862)

The Company has not presented a consolidated statement of cash flows as 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.