MOUNT DAKOTA ENERGY CORP.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED

JANUARY 31, 2011 AND 2010

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 balance sheets as at January 31, 2011 and 2010, and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended, 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 Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the 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, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

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

Manning Elliott LLP

CHARTERED ACCOUNTANTS

Vancouver, British Columbia

May 27, 2011

MOUNT DAKOTA ENERGY CORP.

CONSOLIDATED BALANCE SHEETS

AS AT JANUARY 31, 2011 AND 2010

	2011	2010
ASSETS		
CURRENT ASSETS		
Cash	$ 1,086	$ 95,129
Accounts receivable	22,780	37,924
GST/HST recoverable	28,566	14,075
Prepaid expenses	2,481	1,687
	54,913	148,815
DEPOSITS	9,021	13,168
EQUIPMENT (Note 3)	1,047	1,373
PETROLEUM AND NATURAL GAS PROPERTIES (Note 4)	481,064	503,674
	$ 546,045	$ 667,030
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 249,195	$ 186,070
Loan payable (Note 6)	12,500	25,000
Due to related parties (Note 7)	1,000,973	766,829
	1,262,668	977,899
ASSET RETIREMENT OBLIGATIONS (Note 8)	10,456	12,324
	1,273,124	990,223
SHAREHOLDERS' DEFICIT		
SHARE CAPITAL (Note 9)	5,333,848	5,333,848
CONTRIBUTED SURPLUS (Note 10)	386,837	385,783
DEFICIT	(6,447,764)	(6,042,824)
	(727,079)	(323,193)
	$ 546,045	$ 667,030

NATURE OF OPERATIONS AND GOING CONCERN (Note 1)
COMMITMENTS (Note 18)

See accompanying notes to the consolidated financial statements

Approved on Behalf of the Board of Directors:

"Gary Claytens" — Gary Claytens, Director

"S. John Kim" — S. John Kim, Director

MOUNT DAKOTA ENERGY CORP.

CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT

FOR THE YEARS ENDED JANUARY 31, 2011 AND 2010

	2011	2010
PETROLEUM AND NATURAL GAS REVENUES	$ 345,335	$ 333,362
DIRECT COSTS		
Production costs	178,642	207,551
Crown royalties	41,647	22,024
Private royalties (recovery)	(449)	779
	219,840	230,354
GROSS OPERATING PROFIT	125,495	103,008
EXPENSES		
Accretion of asset retirement obligation	800	1,000
Amortization	326	434
Depletion and depreciation	96,432	61,444
Interest and bank charges	4,507	10,372
Legal and accounting (Note 15(c))	41,333	42,245
Management and consulting fees (Note 15(b))	303,328	316,135
Office and miscellaneous	13,986	20,586
Rent (Note 15(a))	42,000	42,000
Stock-based compensation (Note 11)	1,054	40,960
Transfer agent and filing fees	14,465	13,709
Travel	12,204	6,282
	530,435	555,167
LOSS BEFORE OTHER ITEMS	(404,940)	(452,159)
OTHER ITEMS		
Foreign exchange gain	–	26,730
Gain on derecognition of pipeline transportation commitment (Note 16)	–	176,886
Gain on disposal of petroleum and natural gas property (Note 4)	–	185,578
Other income	–	4,550
	–	393,744
LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	(404,940)	(58,415)
DEFICIT, BEGINNING OF THE YEAR	(6,042,824)	(5,984,409)
DEFICIT, END OF THE YEAR	$ (6,447,764)	$ (6,042,824)
LOSS PER SHARE (Note 13)		
Basic and diluted	$ (0.05)	$ (0.01)

See accompanying notes to the consolidated financial statements

MOUNT DAKOTA ENERGY CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JANUARY 31, 2011 AND 2010

	2011	**2010**
CASH PROVIDED BY (USED FOR):		
OPERATING ACTIVITIES		
Loss for the year	$ (404,940)	$ (58,415)
Items not involving cash:		
Accretion of asset retirement obligation	800	1,000
Amortization	326	434
Depletion and depreciation	96,432	61,444
Stock-based compensation	1,054	40,960
Gain on disposal of petroleum and natural gas property	–	(185,578)
Gain on derecognition of pipeline transportation commitment	–	(176,886)
Unrealized foreign exchange gain	–	(26,715)
	(306,328)	(343,756)
Changes in operating assets and liabilities:		
Accounts receivable	15,144	18,942
GST/HST recoverable	(14,491)	(14,075)
Prepaid expenses	(794)	2,429
Deposits	4,147	2,558
Accounts payable and accrued liabilities	63,125	3,791
Due to related parties	234,144	208,000
	(5,053)	(122,111)
INVESTING ACTIVITIES		
Proceeds from the sale of petroleum and natural gas properties	–	350,000
Expenditures on petroleum and natural gas properties	(76,490)	(12,150)
	(76,490)	337,850
FINANCING ACTIVITIES		
Increase (decrease) in loan payable	(12,500)	25,000
Decrease in bank indebtedness	–	(145,610)
	(12,500)	(120,610)
INCREASE (DECREASE) IN CASH DURING THE YEAR	(94,043)	95,129
CASH, BEGINNING OF YEAR	95,129	–
CASH, END OF YEAR	$ 1,086	$ 95,129
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for:		
Interest	$ 1,475	$ 8,499
Income taxes	–	–
Non-cash investing and financing activities:		
Proceeds from sale of petroleum and natural gas properties applied against accounts payable	$ –	$ 20,000

See accompanying notes to the 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.

As at January 31, 2011, the Company had a working capital deficiency of $1,207,755 and had accumulated losses of $6,447,764 since inception. 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. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a consolidated basis and include the accounts of the Company and its wholly-owned Canadian subsidiary, Simez Energy Resources Inc. ("Simez"). All significant inter-company balances and transactions have been eliminated upon consolidation.

(b) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of estimates relate to the recoverability or valuation of accounts receivable and petroleum and natural gas properties, petroleum and natural gas reserves, the utilization of future income tax assets, tax rates, asset retirement obligations and stock-based compensation. Actual results may differ from those estimates.

(c) Equipment

Equipment is stated at cost less accumulated amortization which is recorded over the useful lives of the equipment on the declining balance basis, with a half-year's provision in the year of acquisition, at the following annual rates:

Computer equipment	30%
Office equipment	20%

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Petroleum and Natural Gas Properties

The Company follows the full cost method of accounting for petroleum and natural gas operations whereby all costs relating to acquisition, exploration and development activities are capitalized. These costs include land acquisition costs, geological and geophysical expenses, and the cost of drilling both productive and non-productive wells and directly related overhead. Proceeds from the disposal of properties are deducted from the full cost pool without recognition of a gain or loss unless such a sale would significantly alter the rate of depletion and depreciation.

(e) Depletion and Depreciation

Depletion of petroleum and natural gas properties is provided for each cost center using the unit-of-production method based on production volumes before royalties in relation to total estimated proved reserves as determined by independent engineers calculated in accordance with National Instrument 51-101. Natural gas reserves and production are converted at the energy equivalent of six thousand cubic feet to one barrel of oil.

The costs of acquiring and evaluating unproved properties are excluded from depletion calculations. Properties are assessed periodically to ascertain whether impairment has occurred. When a property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion.

The Company applies a ceiling test to capitalized costs to ensure that such costs are recoverable and do not exceed their fair value. The test is applied in a two-stage process. The first stage requires the carrying amounts of cost centres to be tested for recoverability using undiscounted future cash flows from proved reserves and management’s best estimate of forward indexed prices. When the carrying amount of a cost centre is not recoverable, the second stage of the process will determine the impairment whereby the cost centre would be written down to its fair value. The second stage requires the calculation of discounted future cash flows from proved plus probable reserves. The fair value is estimated using accepted present value techniques, which incorporate risks and other uncertainties when determining expected cash flows.

(f) Asset Retirement Obligations

The Company accounts for asset retirement obligations under CICA Handbook section 3110, “Asset Retirement Obligations”. Under the standard, a liability is recognized for the future retirement obligations associated with the Company’s petroleum and natural gas properties. The fair value of the obligation is recorded on a discounted basis. This amount is capitalized as part of the cost of the related property and subject to depletion and depreciation.

(g) Long-Lived Assets

The recoverability of long-lived assets, which includes equipment and petroleum and natural gas properties, is assessed when an event occurs indicating impairment. Recoverability is based on factors such as future asset utilization and the future undiscounted cash flows expected to result from the use or sale of the related assets. An impairment loss is recognized in the period when it is determined that the carrying amount of the asset will not be recoverable. At that time the carrying amount is written down to fair value.

(h) Translation of Foreign Currencies

Transactions and balances in currencies other than the Canadian dollar are translated using the temporal method. Under this method, monetary assets and liabilities are translated at the exchange rates prevailing at the balance sheet dates. Non-monetary assets and liabilities are translated at rates prevailing on the dates they are acquired or incurred. Revenues and expenses are translated at average rates for the period. Gains and losses arising on currency translation are included in income.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Flow-through Common Shares

Resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share issues are renounced to investors in accordance with income tax legislation. The estimated tax benefits transferred to shareholders are recorded as future income taxes recovered and reduce share capital at the time of renouncement. The Company has not issued flow-through shares in 2011 or 2010.

(j) Revenue Recognition

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.

(k) Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Future income tax assets and liabilities are determined based on temporary differences between the accounting and tax bases of existing assets and liabilities, and are measured using the tax rates expected to apply when these differences reverse. A valuation allowance is recorded against any future tax asset if it is more likely than not that the asset will not be realized.

(l) Stock-Based Compensation

The Company has a plan for granting stock options to management, directors, employees and consultants. The Company recognizes compensation expense for this plan under the fair value based method in accordance with CICA Handbook section 3870 “Stock-Based Compensation and Other Stock-Based Payments”. Under this method, the fair value of each option grant is estimated on the date of the grant and amortized over the vesting period, with the resulting amortization credited to contributed surplus. The Company estimates the fair value of each grant using the Black-Scholes option-pricing model. Consideration paid on the exercise of stock options is recorded as share capital.

(m) Earnings/Loss per Share

Basic earnings/loss per share is computed by dividing net earnings/loss by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding using the treasury stock method, to reflect the potential dilution of securities that could result from the exercise of “in-the-money” stock options and warrants.

(n) Joint Interests

Substantially all of the Company’s exploration, development and production activities are conducted jointly with others and, accordingly, the financial statements reflect only the Company’s proportionate interest in such activities.

(o) Financial Instruments

(i) Accounts Receivable

Accounts receivable are classified as loans and receivables, are non-interest bearing and are stated at carrying values, which approximate fair values due to the short terms to maturity. Where necessary, accounts receivables are net of allowances for uncollectable amounts.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Financial Instruments (continued)

(ii) Accounts Payable

Accounts payable are classified as other financial liabilities, are non-interest bearing and are stated at carrying values, which approximate fair values due to the short terms to maturity.

(iii) Loan Payable

Loan payable is classified as other financial liabilities and is measured at amortized cost using the effective interest rate method.

(iv) Due to Related Parties

Amounts due to related parties are classified as other financial liabilities and are stated at carrying values, which approximate fair values as the amounts are due on demand.

(p) Recent Accounting Pronouncements

Recent Canadian accounting pronouncements that have been announced but are not yet effective are as follows:

(i) International Financial Reporting Standards

In February 2008, the CICA Accounting Standards Board confirmed that public companies will be required to prepare interim and annual financial statements under IFRS for fiscal years beginning on or after January 1, 2011. The Company is currently assessing the impact of adopting IFRS and has not yet determined the effect on the Company's financial statements.

(ii) CICA 1582, "Business Combinations", CICA 1601, "Consolidated Financial Statements" and CICA 1602, "Non-Controlling Interests"

In January 2009, the CICA issued Section 1582 "Business Combinations" to replace Section 1581. Prospective application of the standard is effective January 1, 2011, with early adoption permitted. This new standard effectively harmonizes the business combinations standard under Canadian GAAP with International Financial Reporting Standards ("IFRS"). The new standard revises guidance on the determination of the carrying amount of the assets acquired and liabilities assumed, goodwill and accounting for non-controlling interests at the time of a business combination. The CICA concurrently issued Section 1601 "Consolidated Financial Statements" and Section 1602 "Non-Controlling Interests," which replace Section 1600 "Consolidated Financial Statements."

Section 1601 provides revised guidance on the preparation of consolidated financial statements and Section 1602 addresses accounting for non-controlling interests in consolidated financial statements subsequent to a business combination. These standards are effective January 1, 2011, unless they are early adopted at the same time as Section 1582 "Business Combinations." The Company is currently assessing the impact of adopting these standards and has not yet determined its effect on its financial statements.

(iii) CICA 3251, "Equity"

In August 2009, Section 3251 Equity was issued in response to issuing Section 1602 Non-controlling Interests. The amendments require non-controlling interests to be recognized as a separate component of equity. The amendments apply only to entities that have adopted Section 1602. The adoption of this section is not expected to have a material impact on the financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Recent Accounting Pronouncements (continued)

(iv) CICA 1625, "Comprehensive Revaluation of Assets and Liabilities"

In August 2009, Section 1625 Comprehensive Revaluation of Assets and Liabilities was issued for consistency with new Section 1582 Business Combinations. The amendments apply prospectively to comprehensive revaluations of assets and liabilities occurring in fiscal years beginning on or after January 1, 2011. The adoption

3. EQUIPMENT

	Cost	Accumulated Amortization	2011 Net Carrying Value	2010 Net Carrying Value
Computer equipment	$ 4,545	$ 4,188	$ 357	$ 510
Office equipment	5,827	5,137	690	863
	$ 10,372	$ 9,325	$ 1,047	$ 1,373

4. PETROLEUM AND NATURAL GAS PROPERTIES

	Cost	Accumulated Depletion/ Depreciation	2011 Net Carrying Value	2010 Net Carrying Value
Canada	$ 1,024,978	$ 543,914	$ 481,064	$ 503,674

As at January 31, 2011, the cost of unproved properties of $111,490 (January 31, 2010 – $35,000) was excluded from the calculation of depletion and depreciation.

No interest or general and administrative costs have been capitalized during the years ended January 31, 2011 and 2010.

During the year ended January 31, 2010, management concluded that the Company will not be able to recover its expenditures on the Provost well and decided to abandon the well. No gain or loss was recognized on this property.

On July 27, 2009, the Company also disposed of its uneconomical Garrington West well, located in Alberta, Canada for gross proceeds of $20,000 and the assumption of the related asset retirement obligation which had a carrying value of $2,796 on the date of sale. No gain or loss was recognized on the disposition of this property.

On November 5, 2009, the Company entered into a Farm-In Agreement and an Assignment of Surface Rights agreement with an effective date of November 1, 2009 related to its Rosevear well pursuant to which the Company disposed of its interest in its Rosevear well in exchange for gross proceeds of $350,000 and a non-convertible overriding royalty of 12.5% of production. The Company recorded a net gain of $185,578 on the disposition of this property.

4. PETROLEUM AND NATURAL GAS PROPERTIES (continued)

The Company performed a ceiling test on its petroleum and natural gas properties as at January 31, 2011 and determined that there was no impairment. The oil, natural gas, and natural gas liquid future prices used in the ceiling test are based on January 31, 2011 commodity price forecasts derived from the Company's independent reserve evaluations and are summarized as follows:

Year	Light/Medium oil ($/bbl)	Natural gas ($/mcf)	NGLs ($/bbl)
2011	82.75	3.96	91.78
2012	83.50	4.39	92.67
2013	80.78	4.61	91.68
2014	79.43	6.12	92.33
2015	80.68	6.32	93.89
2016	81.87	6.43	95.37
2017	83.07	6.54	96.88
2018	84.30	6.65	98.41
2019	85.54	6.77	99.96
2020	86.80	6.88	101.54

5. BANK INDEBTEDNESS AND OTHER INDEBTEDNESS

On March 15, 2007, the Company obtained an operating line of credit facility of $100,000 from a Canadian financial institution, bearing interest at a variable rate equal to the institution's prime rate, plus 4%. The line of credit facility is secured by the Company's assets under a general security agreement. As of October 1, 2008, the line of credit facility has been increased to $150,000. During November 2009, the Company repaid its overdraft and continued maintaining the credit facility. In February 2010, the credit facility was reduced to $80,000 and in May 2010, the credit facility was cancelled.

6. LOAN PAYABLE

On April 30, 2009, the Company entered into a loan agreement with an unrelated third party under which the Company received proceeds of $25,000. The loan bears interest at 6% per annum and is unsecured and repayable on April 30, 2011. During the year, the Company paid $1,475 in interest and repaid $12,500.

7. 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.

8. 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:

	2011	2010
Balance, beginning of year	$ 12,324	$ 14,120
Accretion expense	800	1,000
Obligations settled during the year (Note 4)	–	(2,796)
Revision in estimates	(2,668)	–
Balance, end of year	$ 10,456	$ 12,324

9. SHARE CAPITAL

(a) Authorized Share Capital

UnlimitedCommon 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, 2009, 2010 and 2011	8,460,087	$ 5,333,848

As at January 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, 2009	1,106,000	$0.15
Granted	50,000	0.10
Outstanding, January 31, 2010	1,156,000	0.15
Expired	(80,000)	0.14
Outstanding, January 31, 2011	1,076,000	$0.15

9. SHARE CAPITAL (continued)

(d) Stock Options (continued)

The following table summarizes stock options outstanding as at January 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	3.7	$0.10	41,675	$0.10
0.15	1,026,000	2.1	0.15	1,026,000	0.15
$0.10 – $0.15	1,076,000	2.2	$0.15	1,067,675	$0.15

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

10. CONTRIBUTED SURPLUS

	2011	2010
Balance, beginning of year	$ 385,783	$ 344,823
Stock-based compensation (Note 11)	1,054	40,960
Balance, end of year	$ 386,837	$ 385,783

11. STOCK-BASED COMPENSATION

During the year ended January 31, 2010, the Company granted 50,000 stock options to a director of the Company. The Company did not grant any options during the year ended January 31, 2011. The weighted average fair value of each option granted in 2010 was $0.03 computed using the Black-Scholes option-pricing model on the date of grant using the following weighted average assumptions:

	2010
Risk-free interest rate (%)	2.7
Expected dividend yield (%)	–
Expected stock option lives (years)	5.0
Expected stock price volatility (%)	96

During the year ended January 31, 2011, the Company recognized compensation cost of $1,054 (2010 – $40,960) as stock-based compensation expense related to the vesting of options previously granted.

12. INCOME TAXES

In assessing the realizability of future tax assets, management considers whether it is more likely than not that some portion of all of the future tax assets will not be realized. The ultimate realization of future 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 future tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The amount of future tax asset considered realizable could change materially in the near term based on future taxable income during the carry-forward period.

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

	2011	2010
Future income tax assets:		
Non-capital losses carried forward	$ 236,613	$ 157,128
Capital losses carried forward	34,437	34,437
Resource pools	271,955	255,770
Equipment	19,493	19,412
Alberta royalty tax deductions	61,772	61,772
Other	2,654	3,119
Total gross future income tax assets	626,924	531,638
Valuation allowance	(626,924)	(531,638)
Net future income tax assets	$ –	$ –

(b) At January 31, 2011, the Company has non-capital losses carried forward for income tax purposes available to reduce taxable income in future years of $971,000 expiring as follows:

2027	$ 26,000
2028	143,000
2029	82,000
2030	379,000
2031	341,000
	$ 971,000

(c) The reconciliation of income tax attributable to operations computed at the statutory tax rates to income tax recovery, using a 27.9% (2010 – 28.9%) statutory tax rate, is as follows:

	2011	2010
Expected income tax recovery	$ 113,000	$ 17,000
Permanent differences	(6,000)	(12,000)
Change in tax rates	(11,714)	(362)
Change in valuation allowance	(95,286)	(4,638)
Income tax recovery	$ –	$ –

13. LOSS PER SHARE

The weighted average number of shares outstanding used in the computation of basic and diluted loss per share for the year ended January 31, 2011 was 8,460,087 (2010 – 8,460,087). Outstanding stock options have not been considered in the computation of diluted loss per share as they are anti-dilutive.

14. FINANCIAL INSTRUMENTS

(a) Fair Values of Financial Instruments

The Company has various financial instruments including cash, accounts receivable, accounts payable, loan payable and due to related parties. The carrying values of these financial instruments approximate their fair values due to their nature or short terms to maturity.

(b) Fair Value Measurements

CICA 3862 "Financial Instruments – Disclosures", requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. CICA 3862 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. CICA 3862 prioritizes the inputs into three levels that may be used to measure fair value:

Level 1

Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2

Level 2 applies to assets or liabilities for which there are inputs other than quoted prices that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

Level 3

Level 3 applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

14. FINANCIAL INSTRUMENTS (continued)

(b) Fair Value Measurements (continued)

The fair value of cash is determined based on "Level 1" inputs, which consist of quoted prices in active markets for identical assets. The fair values of loan payable and due to related parties are determined based on "Level 2" inputs which consist of model-driven valuations in which significant inputs can be corroborated by observable market data.

Assets measured at fair value on a recurring basis were presented on the Company's balance sheet as of January 31, 2011 as follows:

	Fair Value Measurements Using			
	Quoted Prices in Active Markets For Identical Instruments (Level 1) $	Significant Other Observable Inputs (Level 2) $	Significant Unobservable Inputs (Level 3) $	Total $
Assets:				
Cash	1,086	–	–	1,086

(c) Financial Risks

(i) Credit Risk

Credit risk arises from the non-performance by counterparties of contractual financial obligations. The Company's credit risk is primarily attributable to its cash and accounts receivable. Cash is held with an investment grade financial institution as assessed by external rating agencies. The deposits held with this institution may exceed the amount of insurance provided on such deposits. A substantial portion of the Company's accounts receivable are with joint venture partners in the oil and gas industry and are subject to normal industry credit risks. The Company manages credit risk for receivables through established credit monitoring activities. As at January 31, 2011, the Company's maximum exposure to credit risk is the carrying value of cash and accounts receivable of $23,866.

(ii) Commodity Price Risk

The Company's revenues are subject to normal industry commodity price risks. The Company has not entered into any physical product arrangements, futures or options to mitigate these risks.

(iii) Foreign Currency Risk

As at January 31, 2011, the Company's financial instruments are all denominated in Canadian dollars.

14. FINANCIAL INSTRUMENTS (continued)

(c) Financial Risks (continued)

(iv) 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, 2011, the Company had a working capital deficiency of $1,207,755.

Contractual undiscounted cash flow requirements for financial liabilities as at January 31, 2011 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	249,195	–	–	–	249,195
Loan payable	–	12,500	–	–	12,500
Due to related parties	1,000,973	–	–	–	1,000,973
Surface lease agreements	–	–	12,000	36,000	48,000
	1,250,168	12,500	12,000	36,000	1,310,668

(v) 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.

15. RELATED PARTY TRANSACTIONS

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

(a) Rent totalling $42,000 (2010 - $42,000) for office premises provided by a company controlled by a director of the Company.

(b) Management and consulting fees totalling $288,000 (2010 - $298,000) for management services provided by companies controlled by directors of the Company.

(c) Accounting expense totalling $12,360 (2010 - $12,360) 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.

16. GAIN ON DERECOGNITION OF PIPELINE TRANSPORTATION COMMITMENT

Under the terms of a well connect agreement, Mount Dakota Energy Corp. (the "Company") committed to transporting 5,000,000 mcf (thousand cubic feet) of product using a pipeline owned by an independent third party. As at January 31, 2010, the Company had transported 1,513,117 mcf; however, the well was non-producing and the Company had abandoned the well. As at January 31, 2009, the Company's estimated obligation under this commitment of $160,937 (US$130,758) was accrued in pipeline transportation commitment in the balance sheet. As at January 31, 2010, these obligations had been outstanding for over six years without any claims being made by the creditors against the Company. Accordingly, management considered these obligations to be no longer payable under the statute of limitations in the appropriate legal jurisdiction and a gain on the derecognition of the pipeline transportation commitment of $176,886 was recorded.

17. 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.

18. 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, 2011, the Company has made payments of $12,000. Required payments are as follows:

Year	Amount
2012	$ 12,000
2013	12,000
2014	12,000
2015	12,000
	$ 48,000