NETCO SILVER INC.
(formerly known as Netco Energy Inc.)

Consolidated Financial Statements
(Expressed in Canadian dollars)

December 31, 2011 and 2010

Index

CHARTERED ACCOUNTANTS
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Independent Auditor's Report

To the Shareholders of
Netco Silver Inc.

We have audited the accompanying consolidated financial statements of Netco Silver Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010, and January 1, 2010, and the consolidated statements of comprehensive loss, changes in shareholders' equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Netco Silver Inc. and its subsidiaries as at December 31, 2011, December 31, 2010, and January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Emphasis of matter
Without modifying our opinion, we draw attention to Note 1 to the consolidated financial statements which describe the material uncertainty that may cast significant doubt about the ability of Netco Silver Inc. to continue as a going concern.

"MacKay LLP"

Chartered Accountants
Vancouver, British Columbia
April 24, 2012

Netco Silver Inc.
(formerly known as Netco Energy Inc.)

Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

	Notes	**December 31, 2011**	December 31, 2010 (note 14)	January 1, 2010 (note 14)
ASSETS				
Current assets				
Cash		**$ 249,036**	$ 63,861	$ 88,408
Accounts receivable		**10,452**	-	-
Harmonized sales tax recoverable		**7,152**	2,424	2,643
Prepaid expenses		**3,571**	-	-
Loan receivable	12	**-**	-	333,054
		270,211	66,285	424,105
Non-current assets				
Exploration and evaluation assets	7	**227,786**	126,118	287,303
		227,786	126,118	287,303
		$ 497,997	$ 192,403	$ 711,408
LIABILITIES AND EQUITY				
Current liabilities				
Accounts payable and accrued liabilities		**$ 88,405**	$ 55,118	$ 196,815
Decommissioning obligation	8	**-**	-	113,139
Loan	12	**-**	7,030	-
		88,405	62,148	309,954
Non-current liablities				
Loan	12	**-**	-	24,223
		88,405	62,148	334,177
SHAREHOLDERS' EQUITY				
Share capital	9	**18,041,108**	17,276,465	17,155,345
Contributed surplus	9	**717,380**	495,807	495,807
Deficit		**(18,348,896)**	(17,642,017)	(17,273,921)
		409,592	130,255	377,231
		$ 497,997	$ 192,403	$ 711,408

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

Nature and continuance of operations (note 1)
Committments (note 7)

Approved on behalf of the Board:

"Andrew Gourlay" **Director**

"Michael Sweatman" **Director**

Netco Silver Inc.
(formerly known as Netco Energy Inc.)

Consolidated Statements of Comprehensive Loss

(Expressed in Canadian dollars)

Year Ended December 31,	Notes		**2011**		2010 (note 14)
GENERAL AND ADMINISTRATION EXPENSES					
Director and officer fees	12	**$**	**15,500**	$	12,000
Office and general	12		**83,275**		108,996
Professional fees			**135,972**		29,049
Management fees	12		**77,690**		-
Transfer agent and filing			**32,188**		17,915
Share-based compensation	9		**206,743**		-
Write down of exploration and evaluation assets	7		**138,465**		204,928
			689,833		372,888
Loss before other items			**(689,833)**		(372,888)
OTHER ITEMS					
Foreign exchange loss			**(17,046)**		(1,461)
Interest income			**-**		3,949
			(17,046)		2,488
Loss before income tax			**(706,879)**		(370,400)
Current income tax recovery			**-**		2,304
Comprehensive loss for the period		**$**	**(706,879)**	$	(368,096)
Basic and diluted loss per share		**$**	**(0.02)**	$	(0.01)
Weighted average shares outstanding			**37,095,275**		32,710,672

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

Netco Silver Inc.
(formerly known as Netco Energy Inc.)

Consolidated Statement of Changes in Shareholders' Equity

(Expressed in Canadian dollars)

	Share Capital	Contributed Surplus	Deficit	Total
Balance as at January 1, 2010 (note 14)	$ 17,155,345	$ 495,807	$ (17,273,921)	$ 377,231
Issue of share capital	121,120	-	-	121,120
Total comprehensive loss for the year	-	-	(368,096)	(368,096)
Balance as at December 31, 2010 (note 14)	**$ 17,276,465**	**$ 495,807**	**$ (17,642,017)**	**$ 130,255**

	Share Capital	Contributed Surplus	Deficit	Total
Balance as at January 1, 2011	$ 17,276,465	$ 495,807	$ (17,642,017)	$ 130,255
Share-based compensation	-	206,743	-	206,743
Issue of share capital	764,643	-	-	764,643
Finder's warrants	-	14,830	-	14,830
Total comprehensive loss for the year	-	-	(706,879)	(706,879)
Balance as at December 31, 2011	**$ 18,041,108**	**$ 717,380**	**$ (18,348,896)**	**$ 409,592**

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

Netco Silver Inc.

(formerly known as Netco Energy Inc.)

Consolidated Statements of Cash Flows

(Expressed in Canadian dollars)

Year Ended December 31,		**2011**		2010 (note 14)
CASH FLOWS PROVIDED BY (USED IN):				
Operating activities				
Net loss for the period from continuing operations	**$**	**(706,879)**	$	(368,096)
Adjustment for items not involving cash:				
Foreign exchange loss		**17,046**		1,461
Share based compensation		**206,743**		-
Write down of exploration and evaluation assets		**138,465**		204,928
		(344,625)		(161,707)
Changes in non-cash working capital:				
Decrease (increase) in accounts receivable		**(10,452)**		-
Increase (decrease) in accounts payable		**(14,528)**		(38,007)
Decrease in harmonized sales tax recoverable		**(4,728)**		219
Increase in prepaid		**(3,571)**		-
Settlement of asset retirement obligation		**-**		(110,860)
		(377,904)		(310,355)
Investing activities				
Acquistion of exploration and evaluation assets		**(146,068)**		(43,506)
Decrease (increase) in loans receivable				333,054
		(146,068)		289,548
Financing activities				
Decrease (increase) in loans payable		**(7,030)**		-
Issuance of common shares		**733,223**		-
		726,193		-
Foreign exchange on cash		**(17,046)**		(3,740)
Change in cash		**185,175**		(24,547)
Cash, beginning of year		**63,861**		88,408
Cash, end of year	**$**	**249,036**	$	63,861

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

Supplemental cash flow information

The Company made no cash payments for interest and income taxes

The Company received no cash receipts for income taxes (2010 - $2,304)

Non-cash investing and financing activity

During the year ended December 31, 2011, the Company issued 400,000 (2010 - nil) common shares with a value of $46,250 (2010 - nil) pursuant to mineral exploration property agreements and issued nil (2010 - 1,000,000) common shares for the settlement of $nil (2010 - $121,120) of debt.

During the year ended December 31, 2011, the Company issued 370,720 (2010 - nil) finder's warrants valued at $14,830 (2010 - $nil).

1. NATURE AND CONTINUANCE OF OPERATIONS

Netco Silver Inc. (the "Company") is a publicly listed company incorporated in Canada with limited liability under the legislation of the Provinces of British Columbia and Alberta. The Company's shares are listed on the TSX Venture Exchange. The head office, principal address is 609 Granville Street, Suite 880, Vancouver, British Columbia, Canada, V7Y 1G5.

The consolidated financial statements of the Company as at and for the year ended December 31, 2011 comprise the Company and its subsidiaries (together referred to as the "Group"). The Group primarily is involved in the petroleum and natural gas and mining business.

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Group will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

The Group currently has no source of revenues, has working capital of $181,806 (December 31, 2010 - $4,137, January 1, 2010 - $114,151) and a deficit of $18,348,896 (December 31, 2010 - $17,642,017, January 1, 2010 - $17,273,921). These circumstances lend significant doubt as to the ability of the Company to meet its obligations as they come due, and accordingly, the appropriateness of the use of accounting principles applicable to a going concern. The Group's ability to continue as a going concern is dependent upon achieving profitable operations and upon obtaining additional financing. The outcome of these matters cannot be predicted at this time. These financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue in business.

2. BASIS OF PREPARATION

(a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These are the Group's first full annual IFRS consolidated financial statements.

The preparation of these consolidated financial statements resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under Canadian generally accepted accounting principles ("GAAP"). The accounting policies set out below have been applied consistently to all years presented in these financial statements. They also have been applied in preparing an opening IFRS statement of financial position at January 1, 2010, as required by IFRS 1.

The disclosures concerning the transition from Canadian GAAP to IFRS are included in note 14.

These consolidated financial statements were approved by the Board of Directors on April 24, 2012.

2. BASIS OF PREPARATION (continued)

(b) Functional and presentation currency:

These consolidated financial statements are presented in Canadian dollars, which is the Group's functional currency.

(c) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis except for financial assets classified as fair value through profit or loss which are stated at their fair value.

In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

(d) Use of estimates and judgments:

The preparation of financial statements in compliance with IFRS requires management to make certain judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates and assumptions.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected.

Significant accounting estimates

a. The inputs used in accounting for share- based payments in profit or loss;
b. The assessment of indications of impairment of each property and related determination of the net realizable value and write-down of those properties where applicable;
c. The tax basis of assets and liabilities and related deferred income tax assets and liabilities;
d. Amounts of provisions, if any, for decommissioning obligations; and
e. Rates of depletion and accretion of petroleum and natural gas interests.

2. BASIS OF PREPARATION (continued)

(d) Use of estimates and judgments (continued):

Significant accounting judgments

a. The determination of categories of financial assets and financial liabilities has been identified as an accounting policy which involves judgments or assessments made by management; and

b. The analysis of the functional currency for each entity of the Group. In concluding that the Canadian dollar is the functional currency of the parent and its subsidiary companies, management considered the currency that mainly influences the cost of providing goods and services in each jurisdiction in which the Company operates. As no single currency was clearly dominant management also considered secondary indicators including the currency in which funds from financing activities are denominated and the currency in which funds are retained.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by the Group.

(a) Basis of consolidation

(i) Subsidiaries:

The consolidated financial statements of the Company include its wholly-owned subsidiaries, Green River Petroleum (USA) Inc., incorporated in the State of Wyoming and in the State of Washington, USA and Netco Argentina S.A., incorporated in Argentina. All inter-company transactions and balances have been eliminated on consolidation.

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of a subsidiary are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Jointly controlled operations and jointly controlled assets:

Many of the Group's resource activities and oil and natural gas activities involve jointly controlled assets. The consolidated financial statements include the Group's share of these jointly controlled assets and a proportionate share of the relevant revenue and related costs.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of consolidation (continued)

(iii) Transactions eliminated on consolidation:

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

(b) Foreign Currency

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on dates of transactions. At each financial position reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

(c) Financial instruments

Financial Assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held-to-maturity, available-for-sale, loans-and-receivables or at fair value through profit or loss (“FVTPL”).

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through profit and loss. Regular way purchases and sales of FVTPL financial assets are accounted for at trade date, as opposed to settlement date. The Group has classified its cash and cash equivalents as FVTPL.

Financial assets classified as loans-and-receivables and held-to-maturity are measured at amortized cost. The Group’s accounts and loan receivables are classified as loans-and-receivables.

Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary. The Group has not classified any financial asset as available-for-sale.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial instruments (continued)

Financial Assets (continued)

Transactions costs associated with FVTPL and available-for-sale financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other-financial-liabilities.

Financial liabilities classified as other-financial-liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other-financial-liabilities are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The Group's accounts payable and accrued liabilities and loan are classified as other-financial-liabilities.

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized through profit and loss. The Group has not classified any financial liabilities as FVTPL.

The Group is not engaged in any financial derivative contracts.

(d) Cash and cash equivalents:

Cash and cash equivalents comprise cash on hand, and cash equivalents with original maturities of three months or less that are readily convertible into cash and which are subject to insignificant risk of changes in value.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Exploration and evaluation assets

Exploration and evaluation ("E&E") costs are those expenditures incurred on properties for which technical feasibility and commercial viability have not been determined. Exploration and evaluation costs, including the costs of acquiring licenses, acquisition of rights to explore, geological and geophysical, drilling, sampling, trenching and survey costs, decommissioning and often directly attributable internal costs, initially are capitalized as exploration and evaluation assets. The costs are accumulated in cost centres by well, field or exploration area and not depreciated pending determination of technical feasibility and commercial viability.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units.

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

(f) Property, plant and equipment

Items of property, plant and equipment, which include oil and natural gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Development and production assets are grouped into Cash Generating Units ("CGU's") for impairment testing.

Gains and losses on disposal of an item of property, plant and equipment, including oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized net within "other income" or "other expenses" in profit or loss.

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property, plant 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 profit or loss as incurred. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Property, plant and equipment (continued)

The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

Depletion and depreciation:

The net carrying value of development or production assets is depleted using the unit of production method by reference to the ratio of production in the year to the related proven reserves. These estimates are reviewed by independent reserve engineers at least annually.

Proven reserves are estimated using independent reserve engineer reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. There should be a minimum 90 percent statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as proven and a maximum 10 percent statistical probability that it will be less. Such reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon:

- a reasonable assessment of the future economics of such production;
- a reasonable expectation that there is a market for all or substantially all the expected oil and natural gas production; and
- evidence that the necessary production, transmission and transportation facilities are available or can be made available.

Reserves may only be considered proven if future economic feasibility is supported by either actual production or conclusive formation test. The area of reservoir considered proven includes (a) that portion delineated by drilling and defined by gas-oil and/or oil-water contacts, if any, or both, and (b) the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geophysical, geological and engineering data. In the absence of information on fluid contacts, the lowest known structural occurrence of oil and natural gas controls the lower proved limit of the reservoir.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Impairment

(i) Financial assets:

A financial asset, other than those designated as FVTPL is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar characteristics.

All impairment losses are recognized in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

(ii) Non-financial assets:

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the CGU). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

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. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proven and probable reserves. 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 first to reduce the carrying amount of any goodwill allocated to the units and then 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 periods 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)

(h) Decommissioning obligations

When the Group's activities give rise to dismantling, decommissioning and site disturbance remediation activities, provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

Decommissioning obligations 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 the 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 capitalized. Actual costs incurred upon settlement of the asset retirement obligations are charged against the provision.

(i) Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that if the income tax expense related to items recognized directly in equity, the income tax expense would also be recognized in equity. Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the statement of financial position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Share capital

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares, share warrants and options are classified as equity instruments.

Incremental costs directly attributable to the issue of new shares or options are recognized as a deduction from equity.

Valuation of equity units issued in private placements

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component.

The fair value of the common shares issued in the private placements was determined to be the more easily measurable component and were valued at their fair value, as determined by the closing quoted bid price on the announcement date. The balance, if any, was allocated to the attached warrants. Any fair value attributed to the warrants is recorded in contributed surplus.

(k) Share-based payments

Where equity-settled share options are awarded to employees, the fair value of the options at the date of grant is charged to the statement of comprehensive loss/income over the vesting period. Performance vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether these vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the statement of comprehensive loss over the remaining vesting period.

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in the statement of comprehensive loss/income, unless they are related to the issuance of shares. Amounts related to the issuance of shares are recorded as a reduction of share capital.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Share-based payments (continued)

When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by use of a valuation model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioral considerations.

All equity-settled share-based payments are reflected in contributed surplus, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in contributed surplus is credited to share capital, adjusted for any consideration paid.

Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense.

(l) Earnings (loss) per share

Basic earnings per share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed similar to basic earnings (loss) per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive.

(m) Revenue recognition

Revenue from the sale of minerals, petroleum and natural gas is recorded when title passes to an external party and is based on volumes delivered to customers at contractual delivery points, and rates and collectability are reasonably assured. The costs associated with the delivery, including operating and maintenance costs, transportation and production-based royalty expenses, are recognized during the same period in which the related revenue is earned and recorded.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) New accounting standards and interpretations not yet adopted

Amendments to IFRS 7, Financial Instruments: Disclosures are effective for annual periods beginning on or after July 1, 2011. These amendments increase the disclosure with regards to the transfer of financial assets, especially if there is a disproportionate amount of transfer transactions that take place around the end of a reporting period.

IFRS 9 – Financial Instruments

In an effort to reduce the complexity of accounting for financial instruments, the IASB is engaged in a project to replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities, which may affect the Company's accounting for its financial assets. Under this guidance, entities have the option to recognize financial liabilities at fair value through earnings. If this option is elected, entities would be required to reverse the portion of the fair value change due to a company's own credit risk out of earnings and recognized the change in other comprehensive income. The standard is not applicable until January 1, 2013 but is available for early adoption.

IFRS 10 – Consolidation

IFRS 10 was issued on May 12, 2011. This standard 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 SIC12, Consolidation – Special Purpose Entities, and parts of IAS 27, Consolidated and Separate Financial Statements. The standard is not applicable until January 1, 2013 but is available for early adoption.

IFRS 13 – Fair Value Measurement

IFRS 13 was issued on May 12, 2011. This 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. The standard is not applicable until January 1, 2013 but is available for early adoption.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) New accounting standards and interpretations not yet adopted (continued)

IAS 12 – 'Income Taxes' – Amendments Regarding Deferred Tax: Recovery of Underlying Assets

These amendments are applicable to annual reporting periods beginning on or after January 1, 2012 and a practical approach for the measurement of deferred tax relating to investment properties measured at fair value, property, plant and equipment and intangible assets measured using the revaluation model. The measurement of deferred tax for these specified assets is based on the presumption that the carrying amount of the underlying asset will be recovered entirely through sale, unless the entity has clear evidence that economic benefits of the underlying asset will be consumed during its economic life.

IFRS 11 - 'Joints Arrangements'

This standard replaces IAS 31: 'Interest in Joint Ventures' and applies for annual periods beginning on or after January 1, 2013. This new standard introduces new rules which classify joint arrangements as either a joint operation or joint venture. Under the new standard, proportionate consolidation is not allowed and all joint ventures must be equity accounted. All joint arrangements held by the Company will need to be reassessed to determine whether the joint operation or joint venture classification is appropriate, and the potential impacts of a change on the presentation of the Financial Statements.

IFRS 12 - 'Disclosure of Interests in other Entities'

This new standard is applicable for annual reporting periods beginning on or after January 1, 2013. This standard clarifies the disclosure requirements for all forms of interests in other entities including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.

IFRIC 20 – 'Stripping Costs in the Production Phase of a Surface Mine'

The Interpretation is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. The Interpretation clarifies when production stripping should lead to the recognition of an asset and how that asset should be measured, both initially and in subsequent periods.

The Group is currently assessing the impact that these revised or new standards will have on the financial statements.

(Expressed in Canadian Dollars)

4. DETERMINATION OF FAIR VALUES

Estimates of the fair value of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgement, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values. At December 31, 2011, the Group's financial instruments include cash, accounts receivable, and accounts payable and accrued liabilities. These items are recognized on the statement of financial position at their carrying value which approximated their fair value due to their short-term nature.

All financial instruments measured at fair value are categorized into a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy are described below:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table sets forth the Group's financial assets measured at fair value by level within the fair value hierarchy.

December 31, 2011	Level 1	Level 2	Level 3	Total
Assets:				
Cash	$ 249,036	$ -	$ -	$ 249,036

December 31, 2010	Level 1	Level 2	Level 3	Total
Assets:				
Cash	$ 63,861	$ -	$ -	$ 63,861

January 1, 2010	Level 1	Level 2	Level 3	Total
Assets:				
Cash	$ 88,408	$ -	$ -	$ 88,408

5. FINANCIAL RISK MANGEMENT

(a) Overview

The Group's activities expose it to a variety of financial risks that arise as a result of its exploration, development, production, and financing activities such as:

- market risk
- credit risk
- liquidity risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk.

The Board of Directors oversees management's establishment and execution of the Group's risk management framework. Management has implemented and monitors compliance with risk management policies. The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Group's activities.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, foreign currency risk and other price risk.

(i) Interest rate risk

The Group's cash is held in bank accounts and due to the short-term nature of these financial instruments fluctuations in market interest rates do not have an impact on the fair value as at December 31, 2011.

The Group's sensitivity to interest rates is currently immaterial due to the short term maturity of its monetary assets and liabilities.

(Expressed in Canadian Dollars)

5. FINANCIAL RISK MANGEMENT (continued)

(b) Market risk (continued)

(ii) Foreign currency risk

Currency risk is the risk to the Group's earnings that arises from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Group does not use derivative instruments to reduce its exposure to foreign currency risk.

At December 31, 2011, the Group had the following financial assets and liabilities:

	US Dollars	Argentine Pesos
Cash	$ 332	305,211
Accounts receivable	$ -	248,658
Accounts payable	$ 19,963	128,133

At December 31, 2011 US dollar amounts were converted at a rate of $1.00 US dollars to $1.0170 Canadian dollars and Argentine pesos amounts were converted at a rate of 1.00 Argentine pesos to $0.2148 Canadian dollars.

(iii) Other price risk

Other price risk is the risk that the fair or future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk. The Group is not exposed to significant other price risk.

(c) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a loss for the other party by failing to discharge an obligation. The Group’s cash and accounts receivable are exposed to credit risk. The credit risk on cash is considered small because the funds have been placed with major Canadian and Argentinean financial institutions. Management believes that the credit risk related to its accounts receivable is remote.

(d) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group’s approach to managing liquidity risk is to ensure, as far as possible, that it will have sufficient liquidity to meet liabilities when due.

At December 31, 2011, the Group had a cash balance of $249,036, accounts receivable of $10,452 and harmonized sales tax receivable of $7,152. The Group has accounts payable and accrued liabilities of $88,405.

(Expressed in Canadian Dollars)

6. CAPITAL MANAGEMENT

The Group considers its capital structure to include working capital and shareholders' equity. Management's objective is to ensure that there is sufficient capital to minimize liquidity risk and to continue as a going concern. Management reviews its capital management approach on an ongoing basis and believes that its approach, given the relative size of the Group is reasonable.

The Group is not subject to any external capital restrictions and the Group did not change its approach to capital management during the period.

7. EXPLORATION AND EVALUATION ASSETS

Exploration and evaluation (E&E) assets consist of the Group's exploration projects which are pending the determination of proven and/or probable reserves, commercial viability or to be technically feasible.

	December 31, 2011	December 31, 2010	January 1, 2010
Argentina, Toruel property			
Mineral resource interest	$ 227,786	$ -	$ -
United States, Columbia River Basin			
Oil and natural gas interest	-	126,118	287,303
Net carrying amount	$ 227,786	$126,118	$287,303

Reconciliation of activity during the years:	
Balance, January 1, 2010	$ 287,303
Additions	43,743
Write down	(204,928)
Balance, December 31, 2010	126,118
Additions	240,133
Write down	(138,465)
Balance, December 31, 2011	$ 227,786

7. EXPLORATION AND EVALUATION ASSETS (continued)

United States - Columbia River Basin (unproven):

Effective August 1, 2007, the Company acquired by way of an Acquisition and Exploration Agreement with joint venture partners EnCana Oil & Gas (USA) Inc. ("EnCana"), SWEPI LP ("Shell") and Exxel Energy (USA) Inc. ("Exxel") an undivided 7.5% working interest in leases in the Columbia River Basin for US$8,000,000 including a working interest in the Brown 7-24 exploration well drilled in Grant County, Washington.

The Brown 7-24 well was abandoned in May 2010 and all costs associated with the well have been expensed.

During the year ended December 31, 2011, the Company has written off the Columbia River Basin property.

Ownership in petroleum and natural gas interests involve certain inherent risks due to the difficulties in determining the validity of certain interests as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many petroleum and natural gas interests. The Company has investigated the ownership of its interests and, to the best of its knowledge, they are in good standing.

Argentina, Toruel property:

In March 2011, the Company entered into an option agreement (the "Agreement") with Marifil Mines Ltd. ("Marifil") whereby Marifil granted the Company an option (the "Option") to acquire up to a 75% interest in Marifil's Toruel property located in the Rio Negro Province of the Republic of Argentina (the "Property"). Under the terms of the Agreement, the Company can earn a 50% interest in the Property during the period of March 3, 2011 to March 3, 2014 by paying Marifil an aggregate of US$200,000 in cash (US$50,000 paid) issuing Marifil 3,150,000 of its common shares (400,000 common shares issued), and expending US$2,800,000 on the Property. The Company can earn a further 10% interest during the period from March 3, 2014 to March 3, 2015 by providing Marifil with a pre-feasibility study on the Property and paying Marifil US$100,000 on each of the fourth and fifth anniversaries of the Agreement date. The Company can earn a further 10% interest in the Property during the period from March 3, 2016 to March 3, 2017 by providing Marifil with a feasibility study on the Property. Upon completion of the feasibility study, all further expenditures relating to the Property will be shared by the Company and Marifil, with 70% covered by the Company and 30% by Marifil. However, at Marifil's sole option, it can elect to be carried through to the commencement of commercial production on the Property, in which case the Company will earn an additional 5% interest, bringing its total interest in the Property to 75%. In the event the Company fails to provide Marifil with a feasibility study by March 3, 2017, the Company's interest in the Property may be reduced to 49% at Marifil's sole option.

During the year ended December 31, 2011, there were no indications, events or changes in circumstance which would cause the Company to question whether the carrying amount of the Toruel assets may not be recoverable, as such there is no provision for impairment recorded.

(Expressed in Canadian Dollars)

8. DECOMMISSIONING OBLIGATIONS

Balance, January 1, 2010	$ 113,139
Liabilities incurred (discharged)	(113,139)
Balance, December 31, 2010 & 2011	**$ -**

As at December 31, 2011 the Group has liquidated all of its decommissioning liabilities. All reclamation work was completed in May 2010 and expensed during fiscal year 2010.

No decommissioning liability has been accrued at December 31, 2011 for the Group's properties as there has been no activity on the properties that would obligate the Group to do so.

9. SHARE CAPITAL

(a) Authorized

Unlimited number of common shares without par value.
Unlimited number of preferred shares without par value.

(b) Issued:

	Year ended December 31, 2011		Year ended December 31, 2010	
	Number of Shares	Amount	Number of Shares	Amount
Common shares:				
Balance, beginning of year	33,683,275	$ 17,276,465	32,683,275	$ 17,155,345
Transactions during the year:				
Private placement, net of share issue costs	6,240,000	718,393	-	-
Marifil option agreement	400,000	46,250	-	-
Shares for debt (Note 12)	-	-	1,000,000	121,120
Balance, end of year	**40,323,275**	**$ 18,041,108**	**33,683,275**	**$ 17,276,465**

On June 22, 2011, the Company closed a non-brokered private placement financing (the "Financing") of units (each, a "Unit"). The Company has issued 6,240,000 Units, at a price of $0.125 per Unit, for aggregate gross proceeds of $780,000. Each Unit consists of one common share and one-half of one share purchase warrant (each, a "Warrant"), with each whole Warrant entitling the holder to acquire one common share at an exercise price of $0.22 for a period of two years from the closing of the Financing.

(Expressed in Canadian Dollars)

9. SHARE CAPITAL (continued)

(b) Issued (continued):

In connection with the Financing, the Company paid aggregate finder's fee of $46,778 and issued a total of 370,720 finder's warrants. The finder's warrants entitle the holder to acquire one common share at an exercise price of $0.125 for a period of two years. A total fair value cost of $14,830 has been recognized as share issuance costs and has been recorded in contributed surplus in recognition of the fair value of the finder's warrants.

Also, on June 22, 2011, in connection with the closing of the Transaction (described above in Note 7), the Company issued a total of 150,000 common shares of the Company to Marifil in accordance to the terms of the Option Agreement. On October 18, 2011, the Company issued an additional 250,000 common shares to Marifil as required under the terms of the Option Agreement with Marifil with respect to the Toruel Property. The price per share was based on the closing price on date of issuance, for a total value of $46,250.

(c) Contributed surplus:

		Year ended December 31, 2011		Year ended December 31, 2010
Balance, beginning of year	**$**	**495,807**	$	495,807
Share-based compensation		**206,743**		-
Finder's warrants		**14,830**		-
Balance, end of year	**$**	**717,380**	$	495,807

(d) Stock Options

The Company has a stock option plan in accordance with the policies on the TSX Venture Exchange whereby, from time to time at the discretion of the board of directors, stock options are granted to directors, officers and certain consultants.

Under the plan up to 6,415,600 common shares are reserved for the issuance of stock options. The exercise price of each option is based on the market price of the Company's common stock at the date of the grant less an applicable discount. The options can be granted for a maximum term of 10 years. The maximum number of options that may be granted to any one person must not exceed 5% of the common shares issued and outstanding at the time of grant unless disinterested shareholder approval is obtained. Any options granted to Consultants or persons performing Investor Relations under the Amended Stock Option Plan shall vest to the optionee as follows: 25% at date of grant, 25% six months from date of grant, 25% nine months from date of grant and the remaining 25% twelve months from the date of grant. All other options granted under the Amended Stock Option Plan shall have vesting terms set at the discretion of the Board of Directors.

(Expressed in Canadian Dollars)

9. SHARE CAPITAL (continued)

(d) Stock Options (continued)

On March 4, 2011, the Company granted a total of 525,000 stock options to officers, directors and consultants of the Company. Each option is exercisable into one common share at a price of $0.12 for a period of five years.

On April 28, 2011, the Company granted 200,000 stock options to a director and a consultant of the Company. Each option is exercisable into one common share of the Company at a price of $0.165 per shares for a period of five years.

On October 18, 2011, the Company granted a total of 1,125,000 stock options to directors and advisors/consultants at an exercise price of $0.15 per share for a period of 5 years.

On December 8, 2011, the Company granted a total of 50,000 stock options to a Consultant at an exercise price of $0.15 per share for a period of 5 years.

For the year ended December 31, 2011, $206,743 (2010 – $Nil) has been recorded as share-based compensation relating to options issued and fully vested during the period. The fair value of stock options was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions: Dividend yield 0%, expected annual volatility 146%; risk-free interest rate 1.99%; market share price of $0.12; forfeiture rate of 0% and expected life of 5 years. The weighted average fair value of options granted was $0.11 per option. Expected volatility was based on the historical share price volatility over the past 5 years. The expected life of the option was calculated based on the history of option exercises.

A summary of the stock option activity is as follows:

	December 31, 2011		December 31, 2010	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Balance, beginning of year	750,000	$0.40	750,000	$0.40
Issued	1,900,000	0.14	-	-
Expired/Cancelled	(750,000)	(0.40)	-	-
Balance, end of year	1,900,000	$0.14	750,000	$0.40

(Expressed in Canadian Dollars)

9. SHARE CAPITAL (continued)

(d) Stock Options (continued)

As at December 31, 2011, the Company has outstanding directors' and employees' incentive stock options enabling the holders to acquire additional common shares as follows:

Number of options outstanding	Number of options exercisable	Exercise Price	Expiry Date
525,000	525,000	$ 0.12	March 4, 2016
200,000	150,000	$0.165	April 28, 2016
1,125,000	1,125,000	$0.15	October 18, 2016
50,000	50,000	$0.15	December 9, 2016
1,900,000	1,850,000		

(e) Warrants

	December 31, 2011		December 31, 2010	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Balance, beginning of year	13,395,000	$0.40	13,395,000	$0.40
Issued	3,490,720	$0.21	-	-
Expired/Cancelled	(4,395,000)	($0.43)	-	-
Balance, end of year	12,490,720	$0.34	13,395,000	$0.40

As at December 31, 2011, the Company has outstanding share purchase warrants entitling the holders to acquire additional common shares, as follows:

Number of Warrants	Exercise Price	Expiry Date
5,000,000	$0.28	June 29, 2012
4,000,000	$0.52	September 4, 2012
3,120,000	$0.22	June 22, 2013
370,720	$0.125	June 22, 2013
12,490,720		

(Expressed in Canadian Dollars)

10. INCOME TAXES

Income tax expense varies from the amount that would be computed from applying the combined federal and provincial income tax rate to loss before taxes as follows:

	2011	2010
Loss for the year before income tax	$ (706,879)	$ (370,400)
Statutory Canadian corporate tax rate	26.50%	28.50%
Anticipated tax recovery	(187,323)	(105,564)
Change in tax rates resulting from:		
Effect of tax rate change	4,734	5,794
Effect of jurisdictional tax rate difference	(14,618)	(11,268)
Unrecognized items for tax	54,787	-
Tax benefits not realized	142,420	108,734
Current income tax expense (recovery)	$ -	$ (2,304)

The significant components of the Company's deferred tax assets are as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Exploration and evaluation assets	$ 2,765,728	$ 2,872,033	$ 2,914,447
Non-capital loss carry forwards	1,373,494	1,123,578	931,503
Capital loss carry forwards	122,355	122,355	122,355
Other	1,659	1,784	51,389
	4,263,236	4,119,751	4,019,694
Unrecognized deferred tax assets	(4,263,236)	(4,119,751)	(4,019,694)
Deferred income taxes	$ -	$ -	$ -

At December 31, 2011, the Company has available non-capital tax losses for Canadian income tax purposes of $1,233,199 and net operating losses for US income tax purposes of $2,949,124 (US$2,648,249) available for carry-forward to reduce future years' taxable income, if not utilized, expiring as follows:

	Canada	United States
2018	$ -	$ 1,387,021
2027	113,090	152,685
2028	378,101	280,495
2029	259,831	367,360
2030	166,062	442,758
2031	316,115	318,805
	$ 1,233,199	$ 2,949,124

(Expressed in Canadian Dollars)

11. SEGMENTED REPORTING

The Group's activities are in two industry segments comprised of exploration, development and production of petroleum, natural gas reserves and mineral exploration.

Petroleum and natural gas and mineral resource interests (exploration and evaluation assets) by geographical segment are as follows:

December 31, 2011	United States	Argentina	Total
Petroleum and natural gas	$ -	$ -	$ -
Mineral resource	$ -	$ 227,786	$ 227,786

December 31, 2010	United States	Argentina	Total
Petroleum and natural gas	$ 126,118	$ -	$ 126,118
Mineral resource	$ -	$ -	$ -

January 1, 2010	United States	Argentina	Total
Petroleum and natural gas	$ 287,303	$ -	$ 287,303
Mineral resource	$ -	$ -	$ -

12. RELATED PARTY TRANSACTIONS

The aggregate amount of expenditures made to parties not at arm's length to the Group for the years ended December 31, 2011 and 2010

December 31,	**2011**	2010
Compensation of key management:		
Directors fees	$ 15,500	$ 12,000
Management fees	77,690	-
Share-based compensation	206,743	-
Rent paid/accrued to a company owned by a former director and officer of the Company: - included in accounts payable: 2011- $nil	26,500	2,500
Administrative and consulting fees paid/accrued to a company owned by a former director: - included in accounts payable: 2011 - $nil (2010 - $3,360, January 1, 2010 - $76,765)	-	95,700
Loan owed to a company owned by a former director (January 1, 2010 - $24,223)	$ -	$ 7,030

12. RELATED PARTY TRANSACTIONS (continued)

During the year ended December 31, 2010, Canadian Nexus Ventures, a company wholly-owned by a former director and officer of the Company, loaned the Company $6,988 with interest in the amount of $303 accruing at Royal Bank prime rate + 2%, which was due on December 31, 2011. On September 30, 2011, the Company repaid the full amount of the loan and accrued interest totalling $7,291.

On January 5, 2009, the Company loaned XXL Energy Corp. ("XXL"), related by a former director, US$300,000. On May 27, 2010, XXL Energy made payment in full satisfaction of the loan.

On December 31, 2009, the Company entered into a loan agreement with a company, wholly-owned by a former director of the Company. The principal advances, under this loan, bore interest at 15% compounded quarterly based on the amounts advanced. The loan was due and payable on August 26, 2012. The Company was advanced $42,070 and had accrued interest of $5,323 on this loan. On November 5, 2010, a Debt Settlement Agreement was reached which resulted in full satisfaction of both the $47,394 owing under this loan and an additional amount of $73,727 owed to this related company, with the issuance of 1,000,000 common shares.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties, unless otherwise noted.

13. SUBSEQUENT EVENTS

In February 2012, the Company announced a non-brokered private placement financing of 6,435,000 units at a price of $0.125 per unit for gross proceeds of $804,375. Each unit consisting of one common share of the Company and one half of one common share purchase warrant. Each whole share purchase warrant entitling the holder to purchase an additional common share at $0.22 per share for a period of 24 months from closing of the financing. The share purchase warrants contain a provision that if the Company's common shares trade at a closing price in excess of $0.30 on the TSXV (or such other exchange on which the Company's shares are then principally traded) for a period of 10 consecutive trading days, the Company may issue a notice accelerating the expiry date to 30 days from the date of such notice. Finders' fees consisting of cash and/or securities are payable in connection with the non-brokered private placement financing, in accordance with the policies of the TSXV. All securities issued in connection with the non-brokered private placement financing are subject to a four-month hold period in accordance with the applicable Canadian securities laws. The closing of the private placement was subject to the approval of the TSXV.

In February 2012, the Company issued an additional 250,000 common shares and paid US$50,000 to Marifil as required under the terms of the Agreement with Marifil with respect to the Toruel Property. The shares are subject to a four month hold period under applicable securities law.

13. SUBSEQUENT EVENTS (continued)

On February 29, 2012, the Company closed the first tranche of the non-brokered private placement financing, pursuant to which the Company issued 4,775,000 units at a price of $0.125 per unit for gross proceeds of $596,875. In connection the closing of the first tranche, the Company paid aggregate cash commissions of $35,700 and issued an aggregate of 285,600 finder's warrants, with each finder's warrant exercisable into one common share at a price of $0.125 per share for a period of 18 months.

On March 2, 2012, the Company closed the final tranche of the non-brokered private placement financing, pursuant to which the Company issued 1,660,000 units at a price of $0.125 per unit for gross proceeds of $207,500. In connection with the closing of the final tranche, the Company paid aggregate cash commissions of $4,375 and issued an aggregate of 35,000 finder's warrants, with each finder's warrant exercisable into one common share at a price of $0.125 per share for a period of 18 months.

On April 12, 2012, the Company granted a total of 240,000 stock options to an officer and consultants at an exercise price of $0.15 per share for a period of 5 years.

14. TRANSITION TO IFRS

IFRS 1 *First-time Adoption of International 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 adjustments to assets and liabilities taken to retained earnings (deficit) unless certain exemptions are applied.

The Group has applied the following optional exemptions to its opening statement of financial position dated January 1, 2010:

(a) Business combinations:

The Group has elected not to retrospectively apply IFRS 3 to business combinations that occurred before the date of transition to IFRS.

(b) Share-based payment transactions:

The Company has elected not to retrospectively apply IFRS 2 to equity instruments that were granted and that vested before the transition date. As a result of applying this exemption, the Company has only applied the provision of IFRS 2 to all outstanding equity instruments that were unvested prior to the date of transition to IFRS, of which there were none.

(c) Petroleum and natural gas interests and resource property:

In accordance with IFRS, the Group reclassified their interest in petroleum and natural gas interests as exploration and evaluation assets, with no change to the recorded amount.

14. TRANSITION TO IFRS (continued)

(c) Petroleum and natural gas interests and resource property (continued):

The Group has reviewed all changes required under IFRS and determined that there are no material adjustments required to the prior period financial statements. The reconciliations follow below.

Additionally, in accordance with IFRS 1, the estimates previously made by the Group under pre-changeover Canadian GAAP were not revised for the application of IFRS except where necessary to reflect any difference in accounting policy or where there was objective evidence that those estimates were in error. As a result the Company has not used hindsight to revise estimates.

(Expressed in Canadian Dollars)

14. TRANSITION TO IFRS (continued)

The Canadian GAAP statement of financial position at December 31, 2010 has been reconciled to IFRS as follows:

	Note	December 31, 2010 Canadian GAAP	Effect of transition to IFRS	IFRS
ASSETS				
Current				
Cash		**$ 63,861**	$ -	$ 63,861
Harmonized sales tax recoverable		**2,424**	-	2,424
Loan receivable		**-**	-	-
		66,285	-	66,285
Petroleum and natural gas interests		**126,118**	-	126,118
		$ 192,403	$ -	$ 192,403
LIABILITIES				
Current				
Accounts payable and accrued liabilities		**$ 55,118**	$ -	$ 55,118
Asset retirement obligation		**-**	-	-
Loan		**7,030**	-	7,030
		62,148	-	62,148
Long Term				
Loan		**-**	-	-
		62,148	-	62,148
SHAREHOLDERS' EQUITY				
Share capital		**17,276,465**	-	17,276,465
Contributed surplus		**495,807**	-	495,807
Deficit		**(17,642,017)**	-	(17,642,017)
		130,255	-	130,255
		$ 192,403	$ -	$ 192,403

(Expressed in Canadian Dollars)

14. TRANSITION TO IFRS (continued)

The Canadian GAAP statement of income and comprehensive income for the year end December 31, 2010 has been reconciled to IFRS as follows:

	Note	December 31, 2010 Canadian GAAP	Effect of transition to IFRS	IFRS
GENERAL AND ADMINISTRATION EXPENSES				
Director and officer fees		**$ 12,000**	$ -	$ 12,000
Office and general		**108,996**	-	108,996
Professional fees		**29,049**	-	29,049
Transfer agent and filing		**17,915**	-	17,915
Write down of petroleum and natural gas interests		**204,928**	-	204,928
		372,888	-	372,888
Loss before other items		**(372,888)**	-	(372,888)
OTHER ITEMS				
Foreign exchange gain (loss)		**(1,461)**	-	(1,461)
Interest income		**3,949**	-	3,949
		2,488	-	2,488
Loss before income tax		**(370,400)**	-	(370,400)
Current income tax recovery		**2,304**	-	2,304
Loss from continuing operations		**(368,096)**	-	(368,096)
Discontinued operations		**-**	-	-
Net loss and comprehensive loss for the year		**(368,096)**	-	(368,096)
Basic and diluted net (loss) per share		**$ (0.01)**		$ (0.01)
Weighted average shares outstanding - basic and diluted		**32,710,672**		32,710,672

(Expressed in Canadian Dollars)

14. TRANSITION TO IFRS (continued)

The Canadian GAAP statement of financial position at January 1, 2010 has been reconciled to IFRS as follows:

	Note	January 1, 2010 Canadian GAAP	Effect of transition to IFRS	IFRS
ASSETS				
Current				
Cash		**$ 88,408**	$ -	$ 88,408
Goods and services tax recoverable		**2,643**	-	2,643
Loan receivable		**333,054**	-	333,054
		424,105	-	424,105
Petroleum and natural gas interests		**287,303**	-	287,303
		$ 711,408	$ -	$ 711,408
LIABILITIES				
Current				
Accounts payable and accrued liabilities		**$ 195,032**	$ -	$ 195,032
Accounts payable of discontinued operations		**1,783**	-	1,783
Asset retirement obligation		**113,139**	-	113,139
		309,954	-	309,954
Long Term				
Loan		**24,223**	-	24,223
		334,177	-	334,177
SHAREHOLDERS' EQUITY				
Share capital		**17,155,345**	-	17,155,345
Contributed surplus		**495,807**	-	495,807
Deficit		**(17,273,921)**	-	(17,273,921)
		377,231	-	377,231
		$ 711,408	$ -	$ 711,408