MOONCOR OIL & GAS CORP.

Consolidated Interim Financial Statements

(An Exploration Stage Company)

September 30, 2011

The accompanying financial statements for Mooncor Oil & Gas Corp. have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") consistently applied. Only changes in accounting policies have been disclosed in these unaudited consolidated interim financial statements. Recognizing that the Company is responsible for both integrity and objectivity of the financial statements, management is satisfied that these financial statements have been fairly presented. In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited interim financial statements for the period ended September 30, 2011.

MOONCOR OIL & GAS CORP.
(An Exploration Stage Company)

September 30, 2011

Mooncor Oil & Gas Corp.
(An Exploration Stage Enterprise)
Consolidated Interim Statements of Financial Position
(Unaudited, expressed in Canadian dollars) (see note 2)

As at		September 30, 2011 (Unaudited)		December 31, 2010 (Audited) (note 22)		January 1, 2010 (Audited) (note 22)
ASSETS						
Current Assets:						
Cash and cash equivalents	$	1,087,370	$	238,104	$	1,909,827
Segregated cash (note 4)		40,739		40,581		40,500
Sundry receivable		78,149		92,694		67,592
Portfolio investments (note 5)		-		59,738		79,660
Prepaid expenses		15,015		18,430		147,119
		1,221,273		449,547		2,244,698
Other Assets:						
Equipment (note 6)		6,907		7,332		7,400
Intangible asset (note 7)		20,625		37,500		70,000
Investment in East Coast Energy Inc		-		-		18,656
Deposits (note 8)		321,702		252,580		218,773
Convertible Debenture - East Coast Energy Inc		-		-		235,649
Exploration and evaluation assets (note 9)		5,025,497		4,309,863		5,139,043
		5,374,731		4,607,275		5,689,521
	$	6,596,004	$	5,056,822	$	7,934,219
LIABILITIES						
Current Liabilities:						
Accounts payable and accrued liabilities	$	543,313	$	184,350	$	603,106
Convertible debentures payable (note 10 and 19)		960,839		1,018,716		2,440,292
Deferred premium on flow-through shares		40,627		5,829		-
		1,544,779		1,208,895		3,043,398
Deferred Income Taxes		28,668		-		-
SHAREHOLDERS' EQUITY						
Capital stock (note 11)		17,438,109		14,088,818		13,632,581
Contributed surplus (note 12)		1,472,935		1,229,693		1,071,315
Equity component of convertible debenture		142,998		142,998		111,974
Warrants (note 13)		2,064,820		2,856,753		2,045,363
Accumulated other comprehensive loss		(142,985)		(120,585)		(100,662)
Deficit		(15,953,320)		(14,349,750)		(11,869,750)
		5,022,557		3,847,927		4,890,821
	$	6,596,004	$	5,056,822	$	7,934,219

GOING CONCERN (note 1)
COMMITMENTS (note 18)

These consolidated interim financial statements are authorized for issue by the Board of Directors on November 29, 2011.
They are signed on the Company's behalf by:

"Alan Myers" Director

"Nick Tsimidis" Director

The accompanying notes form an integral part of these consolidated interim financial statements.

Mooncor Oil & Gas Corp.
(An Exploration Stage Enterprise)
Consolidated Interim Statements of Comprehensive Loss
(Unaudited, expressed in Canadian dollars) (see note 2)

	Three months ended		Nine months ended	
	September 30, 2011	September 30, 2010 (note 22)	September 30, 2011	September 30, 2010 (note 22)
INCOME	$ 35,401	$ 1,428	$ 107,222	$ 1,557
EXPENSES				
Consulting (note 15)	191,296	76,500	553,520	231,500
Office and general	(83,556)	43,298	174,060	220,270
Professional fees (note 15)	24,283	40,526	267,047	98,606
Stock based compensation (note 12 and 14)	153,106	24,684	243,242	73,341
Travel	12,106	11,020	84,369	62,521
Insurance	6,059	2,402	15,198	6,134
Secretary fees	-	-	1,370	-
Part XII.6 tax expense	44,942	-	44,942	-
Amortization	6,280	7,973	18,700	23,919
	354,516	206,403	1,402,448	716,291
Loss before undernoted	(319,115)	(204,975)	(1,295,226)	(714,734)
Write-down of exploration and evaluation assets	(193,059)	(11,960)	(203,157)	21,815
Realized gain (loss) on disposal of marketable securities	6,610	-	320	-
Finance income (expense):				
Interest - convertible debenture	(25,897)	167,417	(76,839)	92,327
Interest income		-		-
Loss before income taxes	(531,461)	(49,518)	(1,574,902)	(600,592)
Recovery of future income taxes (note 16)	(28,668)	-	(28,668)	-
Net Loss for the period	(560,129)	(49,518)	(1,603,570)	(600,592)
Unrealized gain (loss) on portfolio investments	15,035	1,060	(22,400)	(43,815)
Comprehensive loss for the period	$ (545,094)	$ (48,458)	$ (1,625,970)	$ (644,407)
Weighted Average Shares Outstanding - basic and diluted	117,995,688	101,351,038	121,953,956	101,567,271
Net loss per share - basic and diluted	$ (0.005)	$ (0.000)	$ (0.013)	$ (0.006)

The accompanying notes form an integral part of these consolidated interim financial statements.

Mooncor Oil & Gas Corp.
(An Exploration Stage Enterprise)
Consolidated Interim Statements of Changes in Equity
(Unaudited, expressed in Canadian dollars) (see note 2)

	Capital Stock	Contributed Surplus	Equity component of convertible debenture	Warrants	Accumulated Other Comprehensive Loss	Deficit	Total Equity
Balance at January 1, 2010 (note 22)	$ 13,632,581	$ 1,071,315	$ 111,974	$ 2,045,363	$ (100,662)	$ (11,869,750)	$ 4,890,821
Capital stock, net of share issue costs	(13,681,995)	-	-	-	-	-	(13,681,995)
Stock-based compensation	-	(1,071,315)	-	-	-	-	(1,071,315)
Convertible debenture	-	-	-	-	-	-	-
Warrants:	-	-	-	-	-	-	-
Expired warrants transferred to capital stock	300,413	-	-	(300,413)	-	-	-
Warrants exercised	4,995	-	-	(4,995)	-	-	-
FV of warrants issued	(226,013)	-	-	226,013	-	-	-
FV of broker warrants issued	(29,981)	-	-	29,981	-	-	-
Unrealized gain (loss) on marketable securities	-	-	-	-	1,245,318	-	1,245,318
Loss for the period	-	-	-	-	-	11,981,724	11,981,724
Balance at September 30, 2010 (note 22)	$ -	$ -	$ 111,974	$ 1,995,949	$ 1,144,656	$ 111,974	$ 3,364,553
Balance at December 31, 2010 (note 22)	$ 14,088,818	$ 1,229,693	$ 142,998	$ 2,856,753	$ (120,585)	$ (14,349,750)	$ 3,847,927
Capital stock, net of share issue costs	2,589,545	-	-	-	-	-	2,589,545
Stock-based compensation	-	243,242	-	-	-	-	243,242
Convertible debenture	-	-	-	-	-	-	-
Warrants:	-	-	-	-	-	-	-
FV of warrants issued	(1,394,624)	-	-	1,394,624	-	-	-
FV of broker warrants issued	(139,779)	-	-	139,779	-	-	-
Flow-through share premium	(32,188)			-		-	(32,188)
Expired warrants transferred to capital stock	2,263,737	-	-	(2,263,737)	-	-	-
Expired broker warrants transferred to capital stock	217,889	-	-	(217,889)	-	-	-
Extended warrants revaluation	(155,290)	-	-	155,290	-	-	-
Unrealized gain (loss) on marketable securities	-	-	-	-	(22,400)	-	(22,400)
Loss for the period	-	-	-	-	-	(1,603,570)	(1,603,570)
Balance at September 30, 2011	$ 17,438,109	$ 1,472,935	$ 142,998	$ 2,064,820	$ (142,985)	$ (15,953,320)	$ 5,022,557

The accompanying notes form an integral part of these consolidated interim financial statements.

Mooncor Oil & Gas Corp.
(An Exploration Stage Enterprise)
Consolidated Interim Statements of Cash Flows
(Unaudited, expressed in Canadian dollars) (see note 2)

	Nine months ended	
	September 30, 2011	September 30, 2010
		(note 22)
Cash flows from operating activities		
Net loss	$ (1,603,570)	$ (600,592)
Write-down of evaluation and exploration assets	193,059	42,737
Stock-based compensation	243,242	73,341
Realized gain on disposal of marketable securities	(320)	-
Deferred taxes	28,668	-
Convertible debenture	(56,478)	95,053
Amortization	18,700	23,919
	(1,176,699)	(365,542)
Changes in non-cash working capital items		
Segregated cash	(158)	-
Sundry receivables	14,545	(12,578)
Prepaid expense	3,415	23,976
Deposits	(69,122)	(46)
Accounts payable and accrued liabilities	358,963	(143,983)
		-
	(869,056)	(498,173)
Cash flows from investing activities		
Purchase of equipment	(1,400)	-
Proceeds disposal of portfolio investments	38,870	-
Additions to exploration and evaluation assets	(908,693)	(603,648)
	(871,223)	(603,648)
Cash flows from financing activities		
Convertible debenture	-	(1,500,000)
Issuance of capital stock, net of share issuance costs	2,581,610	1,198,266
Shares held for cancellation	-	(14,320)
Exercise of warrants	7,935	4,995
	2,589,545	(311,059)
Net change in cash and cash equivalents	849,266	(1,412,880)
Cash and cash equivalents, start of period	238,104	1,909,827
Cash and cash equivalents, end of period	$ 1,087,370	$ 496,947
Supplemental Information		
Income tax paid	$ -	$ -
Interest paid	$ 76,839	$ 101,253
Fair value of broker warrants issued	$ 7,060	$ -

The accompanying notes form an integral part of these consolidated interim financial statements.

1. Nature of operations and going concern

Mooncor Oil & Gas Corp. (the "Company") is continued under the Business Corporations Act (Ontario) and is an exploration stage company. The Company's principle assets are exploration and evaluation assets made on properties which are not yet in substantial commercial production. The Company is in the process of exploring its oil and gas properties and has not determined whether the properties will contain economically recoverable resources.

These interim consolidated financial include all accounts of the Company and its wholly-owned subsidiaries, Mooncor Energy Inc. and DRGN Energy Inc.

Going concern

These consolidated financial statements have been prepared using the going concern basis of accounting, which contemplates that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. The continuation as a going concern is dependant upon the discovery of economically recoverable resources, the ability of the Company to obtain necessary financing to continue exploration and development, the ability of the Company to secure and maintain title and beneficial interest in its properties, entering into agreements with others to explore and develop its properties, and upon future profitable production or proceeds from disposition of such properties. Failure to continue as a going concern would then require that stated amounts of assets and liabilities be reflected on a liquidation basis of valuation that could differ materially from the going concern basis of accounting.

2. Basis of preparation

The Company prepares its consolidated financial statements (the "financial statements") in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB") which includes International Financial Reporting Standards, International Accounting Standards ("IAS"), and interpretations of the International Financial reporting Interpretation Committee ("IFRIC"). These standards are collectively referred to as IFRS. The Canadian Accounting Standards Board ("AcSB") requires that Canadian publicly accountable entities prepare their financial statements in accordance with IFRS for fiscal years beginning on or after January 1, 2011. Accordingly, the Company commenced reporting on this basis in the current fiscal period. In these financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

These unaudited consolidated interim financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34 and IFRS 1. Subject to certain transition elections disclosed in note 19, the Company has consistently applied the same accounting policies in its opening IFRS balance sheet at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect.

The policies applied in these consolidated interim financial statements are based on IFRS issued and effective as of November 29 2011, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these interim consolidated financial statements.

The consolidated interim financial statements should be read in conjunction with the Company's Canadian GAAP annual financial statements for the year ended December 31, 2010, and the Company's interim financial statements for the quarters ended March 31, 2011 and June 30, 2011 prepared in accordance with IFRS applicable to interim financial statements.

Basis of measurement

The consolidated interim financial statements have been prepared on the historical cost basis, except for financial instruments.

Basis of consolidation

Business combinations that occurred prior to January 1, 2010 were not accounted for in accordance with IFRS 3, Business Combinations ("IFRS 3") or IAS 27, Consolidated and Separate Financial Statements, as the Company in the transition year chose to apply the IFRS 1 exemption discussed in note 22.

For business combinations occurring since January 1, 2010, the Company has adopted the requirements of IFRS 3R. The consideration transferred by the Company to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Company, which includes the fair value of any assets or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

The Company recognizes identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognized in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of a) fair value of consideration transferred, b) the recognized amount of any non-controlling interest in the acquire and c) acquisition-date fair value of any existing equity interest in the acquire, over the acquisition-date fair values of identifiable net assets. If the fair values of identifiable net assets exceeds the sum calculated above the excess amount (i.e. gain on a bargain purchase) is recognized in profit or loss immediately.

Use of estimates and judgment

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies. Areas of significant accounting estimates and judgments include exploration and evaluation assets, share-based payments, the fair value of warrants and options issued, and the determination and recoverability of future tax amounts. Financial results as determined by future events could differ from those estimates.

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

3. Significant accounting policies

The accounting policies set out below have been applied consistently by the Company to all periods presented in these consolidated interim financial statements and in preparing the opening IFRS statement of financial position at January 1, 2010 for the purposes of the transition to IFRS.

3. Significant accounting policies (cont'd)

Basis of consolidation

A) Joint interest operations

Some of the Company's exploration and development activities are conducted jointly with industry partners and accordingly the financial statements reflect only the Company's proportionate interest in the operations.

B) Transactions eliminated on consolidation

Intercompany balances and transactions are eliminated in preparing the consolidated financial statements.

Cash and cash equivalents

Cash and cash equivalents consists of cash in bank.

Portfolio investments

Portfolio investments consist of securities traded on active markets. These securities are measured at fair value, which is determined using quoted market prices.

Equipment

Equipment is measured at historical cost less accumulated amortization and impairment over its expected useful life as follows:

Computer equipment	30% declining balance
Furniture and fixtures	30% declining balance

Each asset is reviewed for impairment annually, consisting of a comparison of the fair value of the asset and its carrying value.

Intangible assets

Intangible assets are assets acquired which lack physical substance and which meet specified criteria for recognition apart from goodwill. Intangible assets are comprised mainly of a database compilation of technical information.

Each intangible asset with an indefinite life is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test consists of a comparison of the fair value of the intangible asset with its carrying amount. Any impairment loss in the carrying amount compared with the fair value is charged to income in the period in which the loss is incurred.

Intangible assets have a finite useful life and are amortized over the expected useful life as follows:

Database	5 years, sum of the year's digits

3. Significant accounting policies (cont'd)

Exploration and evaluation assets

The Company accounts for exploration and evaluation ("E&E") costs, having regard to the requirements of IFRS 6 – "Exploration for and Evaluation of Mineral Resources". E&E assets typically relate to unproved properties. The company follows the full cost method of accounting for exploration and development expenditures wherein all costs related to the acquisition, exploration and development of petroleum and natural gas reserves are capitalized until the property to which they relate is placed into production, sold or abandoned. Such costs include lease acquisition costs, geological and geophysical costs, costs of drilling both productive and non-productive wells, and overhead charges directly related to exploration and development activities.

E&E assets are not depleted and are carried forward until technical feasibility and commercial viability is determined, which is considered to be when proved 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 proved and/or probable reserves have been discovered. Upon determination of proved and probable reserves, E&E assets attributable to those reserves are first tested for impairment and then reclassified to a separate category within property, plant and equipment. When E&E costs are determined to have no future economic benefit, they are expensed to the statement of comprehensive income (loss).

The amounts shown for the carrying amount of these assets represent costs to date less write-downs and recoveries and do not necessarily reflect present or future values of the particular properties. Recovery of these costs is uncertain and is dependent upon achieving commercial production from the properties and proceeds from the sale thereof.

Asset retirement obligations

Asset retirement obligations related to the Company's oil and gas properties are capitalized as exploration and evaluation assets and amortized over the estimated useful lives of the corresponding oil and gas properties.

At September 30, 2011 management has determined that there are no material asset retirement obligations to the Company.

3. Significant accounting policies (cont'd)

Impairment of long-lived assets

The carrying amounts of the Company's long-lived assets, other than E&E assets, are reviewed at each statement of financial position date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Recoverability of assets to be held and used are measured by a comparison of the carrying value of the asset to future discounted net cash flows expected to be generated by the asset.

An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recorded in profit and loss. Impairment losses recognized in prior periods are assessed at each reporting period for any indication 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, however, not to an amount higher than the carrying amount that would have been determined.

Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss, except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, 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 balance sheet 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 not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. 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.

Flow-through shares

The Company, from time to time, issues flow-through shares to finance a portion of its capital expenditure program. Pursuant to the terms of the flow-through share agreements, the tax deductions associated with the expenditures are renounced to the subscribers. The difference between the value ascribed to flow-through shares issued and the value that would have been received for common shares at the date of issuance of the flow-through shares is initially recognized as a liability on the statement of financial position. When the expenditures are

3. Significant accounting policies (cont'd)

Flow-through shares (cont'd)

incurred, the liability is drawn down, a deferred tax liability is recorded equal to the estimated amount of deferred income tax payable by the Company as a result of the renunciation, and the difference is recognized in profit and loss.

Per share information

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on loss per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. For the years presented, this calculation proved to be anti-dilutive.

Basic and diluted loss per common share are calculated using the weighted average number of common shares outstanding during the period.

Share purchase warrants and other shares reserved for issuance

The Company has reserved shares for issuance in accordance with applicable corporate and securities laws. Consideration received on the issuance of reserved shares will be credited to capital stock and will be valued at either the fair value of the consideration received or shares issued, whichever is more readily determinable.

Share issuance costs

Costs incurred in connection with the issuance of capital stock are charged to capital stock as a reduction of the equity proceeds received.

Stock-based compensation

The Company accounts for its stock-based compensation using the fair value method of accounting for stock options granted to directors, officers, employees, consultants and service providers to the Company, using the Black-Scholes option-pricing model. Stock-based compensation is measured at fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. Consideration paid upon the exercise of stock options, together with corresponding amounts previously recognized in contributed surplus, is recorded as an increase to capital stock. The amount recognized as expense is adjusted for an estimated forfeiture rate for options that will not vest, which is adjusted as actual forfeitures occur, until the shares are fully vested.

Financial instruments

The Company has designated its cash and cash equivalents and segregated cash as held-for-trading, which is measured at fair value and unrealized and realized gains and losses are included in net income in the period in which they arise.

Portfolio investments are classified as available-for-sale which is measured at fair value and unrealized gains and losses are included in other comprehensive income until the gains and losses are realized. The gains and losses realized on the disposal of these instruments are transferred to and recognized in profit or loss when realized.

3. Significant accounting policies (cont'd)

Financial instruments (cont'd)

Sundry receivable is classified under loans and receivables, which are measured at amortized cost using the effective interest method.

Prepaid expenses and deposits are capitalized expenses for which the future economic benefit is the receipt of goods or services.

Accounts payable and accrued liabilities and convertible debentures are classified as other financial liabilities, which are initially measured at amortized cost using the effective interest method.

Future accounting changes

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Company:

IFRS 9 – "Financial instruments ("IFRS 9") was issued by the IASB on November 12, 2009 and will replace IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). IFRS 9 replaces the multiple rules in IAS 39 with a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2013. The Company is assessing the impact of IFRS 9 on its consolidated financial statements.

IFRS 13 – "Fair Value Measurement" ("IFRS 13") is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosure requirements for 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. IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company has not yet determined the impact of the amendments to IFRS 13 on its financial statements.

4. Segregated cash

The Company has reserved $40,739 (2010 - $40,500) in order to secure a letter of credit to the Saskatchewan Energy Resource Board. The letter of credit may be extended in one year periods on the anniversary date unless terminated in writing by the lender. These funds have been segregated in a Guaranteed Investment Certificate (GIC). The GIC bears interest at 0.2% and matures September 3, 2012.

5. Portfolio investments

The Company held the following portfolio of securities. The investments are classified as available for sale and are measured at fair value.

	September 30, 2011		
	Number of Securities	Cost of Securities	Quoted Market Value
Greentree Gas & Oil Ltd. (common shares)	980,000	$ 133,250	$ -
		$ 133,250	$ -

	December 31, 2010		
	Number of Securities	Cost of Securities	Quoted Market Value
Greentree Gas & Oil Ltd. (common shares)	980,000	$ 133,250	$ -
Stealth Ventures Ltd. (common shares)	254,500	30,448	44,538
Gran Tierra Energy Inc. (August 28, 2011 Warrants) (formerly Petrolifera Petroleum Ltd.)	20,000	8,690	1,400
Torque Energy Inc. (common shares)	46,000	7,060	13,800
		$ 179,448	$ 59,738

The shares of Greentree Gas & Oil Ltd have been delisted from trading on the TSX Venture Exchange.

During the period, the Company disposed of all of its other holdings of portfolio investments. The portfolio had been primarily acquired in previous years in conjunction with proposed or actual transactions related to oil and gas properties.

6. Equipment

Equipment consists of:

	Cost	Accumulated Amortization	Net
Balance - January 1, 2010	$ 17,571	$ (10,171)	$ 7,400
Additions	2,408	-	2,408
Amortization	-	(2,476)	(2,476)
Balance - December 31, 2010	19,979	(12,647)	7,332
Additions	1,400	-	-
Amortization	-	(1,825)	(1,825)
Balance – September 30, 2011	$ 21,379	$ (14,472)	$ 6,907

7. Intangible assets

In 2008, the Company acquired for cash, a proprietary database of technical data on shale gas properties located in Alberta and northeast British Columbia.

	Cost	Accumulated Amortization	Net
Balance - January 1, 2010	$ 150,000	$ (80,000)	$ 70,000
Amortization	-	(32,500)	(32,500)
Balance - December 31, 2010	150,000	(112,500)	37,500
Amortization	-	(16,875)	(16,875)
Balance – September 30, 2011	$ 150,000	$ (129,375)	$ 20,625

8. Deposits

Deposits represent amounts paid to the Energy Resources Conservation Board and represent amounts required by the Government of Alberta to be set aside by the Company for potential remediation. This relates to the oil wells at Lloydminster, Alberta and the project at Bashaw, Alberta (written down in 2009). These amounts are shown at cost.

9. E&E assets

Although the Company has taken steps to verify title to its property interests, in accordance with industry standards, these procedures do not guarantee the Company's title. Properties may be subject to unregistered prior agreements or inadvertent non-compliance with regulatory requirements.

The Company's E&E assets are unproven and consist of:

	Dec 31, 2010	Additions	Write-offs	Sep 30, 2011
Lloydminster (i)	$ 450,206	$ 193,059	$ (193,059)	$ 450,206
Hamburg - Chinchaga (ii)	3,378,517	323,195	-	3,701,712
South Western Ontario (iii)	481,140	392,439	-	873,579
	$ 4,309,863	$ 908,693	$ (193,059)	$ 5,025,497

9. E&E assets (cont'd)

	Jan 1, 2010	Additions	Write-offs	Dec 31, 2010
Lonestar	$ 1,588,387	$ 16,564	$ (1,604,951)	$ -
Lloydminster (i)	393,905	56,301	-	450,206
Hamburg - Chinchaga (ii)	2,924,130	454,387	-	3,378,517
South Western Ontario (iii)	232,621	248,519	-	481,140
	$ 5,139,043	$ 775,771	$ (1,604,951)	$ 4,309,863

(i) Lloydminster (Alberta)

On February 11, 2008, the Company acquired two suspended wells and related P&NG rights in the Lloydminster area of Alberta from an arm's length industry vendor for cash proceeds of $400,000. The Company has a 60% working interest in one well subject to a 1% royalty on 100% production and a 3% royalty on 60% of production as well as a 100% working interest in the other well, subject to a convertible royalty with 5-15% on oil production and 15% on gas production plus a 1% royalty on 100% production and a 3% royalty on 60% of production until payout at which time the Company will hold a 60% working interest. Limited production revenues have been earned to date as the wells continue to sand out and accordingly these assets continue to be shown as E&E assets. The Company has entered into an agreement with a service company to address these issues. The Company continues to expense costs incurred on this project.

During the period, the Company entered into a non-binding letter of intent to dispose to Madeira Minerals Ltd., ("Madeira"), all of the Company's right, title and interest in the two Lloydminster oil wells. Madeira is a capital pool company, and the transaction is intended to constitute Madeira's qualifying transaction under Policy 2.4 of the TSX Venture Exchange. Madeira will acquire the leases by issuing an aggregate of six million common shares of its capital stock to the Company at a deemed price of $0.20 per share. The transaction is subject to a number of conditions precedent which include completion of due diligence reviews by the parties, successful negotiation of a definitive purchase agreement (completed subsequent to the period), completion of a concurrent financing by Madeira, and receipt of all required regulatory and exchange approvals. Any gain realized on disposal of these wells, representing the share consideration of Madeira over the carrying value, will be recorded on closing of the proposed transaction.

(ii) Hamburg - Chinchaga (Alberta)

During 2008, the Company acquired for cash of $617,925, 56,960 acres of 100% working interest lands on a shale gas play in Hamburg – Chinchaga, Alberta. This property was acquired at Crown land sales. The Company also acquired a cased, suspended wellbore and four associated sections (2,560 acres net) of land on this shale gas play (included in the acreage mentioned above). During 2009, the Company acquired an additional 46,720 acres (73 sections) of 100% working interest land in the above area for $993,098 and incurred $875,987 in exploration work and a pilot well program and ancillary work.

During 2009, the Company engaged Macquarie Tristone (the acquisitions and divestitures business of Macquarie Capital Markets Canada Ltd.) as its exclusive advisor in respect to a potential transaction (farm-out, sale and/or other similar transaction) of all or any portion of the Company's interest in the above lands. The advisor was not successful in identifying a potential transaction and the parties mutually agreed to terminate their relationship during 2010. The Company continues to seek other potential opportunities and partners; however no definitive agreements have been entered into by the Company to this date.

9. Exploration and evaluation assets (cont'd)

(iii) South Western Ontario

During 2008, the Company acquired 3,833 acres in Southwestern Ontario, from arm's length individuals. The terms of the transaction were lease agreements on freehold land for a three year minimum period.

During 2010, the Company acquired an additional 18,737 acres (18,592 net) in Southwestern Ontario from an arm's length company for $100,000. The leases acquired are immediately adjacent to 3,833 acres acquired in 2008. The leases acquired were prepaid to end of term, the majority of which expire in late 2011. The Company continues to acquire acres by entering into lease agreements with property owners.

During 2010, the Company announced its intention to spin-off its Southwestern Ontario assets into DRGN Energy Inc. ("DRGN"), a wholly-owned subsidiary of the Company. The Company also announced its intention to complete a private placement into DRGN in connection with the above. However the spin-off and private placement have not yet been completed to date. The Company continues to explore options as to the best strategy to spin out these assets.

10. Convertible debentures payable

The carrying value of the convertible debentures payable is as follows:

Balance, January 1, 2010	$ 2,440,292
Interest accrued	141,947
Interest and principal paid	(1,588,492)
Interest accreted	55,993
Equity component on extension of debentures	(31,024)
Balance, December 31, 2010	$ 1,018,716
Interest accrued	59,409
Interest paid	(68,225)
Equity component on extension of debentures	(49,061)
Balance, September 30, 2011	$ 960,839

In 2007, the Company issued two separate convertible debentures having a total face value of $2,000,000 and maturing on March 28, 2010. The debentures are secured against all property and assets of the Company and bear interest at 10% per annum. Principal and interest is payable at maturity.

On March 28, 2010, the Company negotiated an extension to the expiry of its Debentures to June 11, 2010 with an additional extension to December 11, 2010 (the "Maturity Date") subject to the Company reducing the outstanding principal balance of both Debentures to not less than $1,000,000. The outstanding principal of each Debenture is convertible into units of the Company at $0.225 per unit until December 11, 2010. Each unit consists of one common share and one-half of one warrant. Each whole warrant shall be exercisable for one common share at $0.225 per share until the Maturity Date. In addition, the Company issued to each holder 500,000 warrants ("Compensation Warrants") exercisable for one common share at $0.225 until the Maturity Date.

10. Convertible debentures payable (cont'd)

On November 26, 2010, pursuant to a second extension agreement, the maturity date of the Debentures was extended from December 11, 2010 to June 11, 2011. In consideration for the extension, the Company agreed to extend the expiry date of the Compensation Warrants to each Debenture holder from December 11, 2010 to June 11, 2011.

In April 2011, the Company negotiated an extension of its two convertible debentures from June 11, 2011 to December 31, 2011. In consideration for the extension, Mooncor has agreed to extend the expiry date of the 500,000 compensation warrants previously issued to each Debenture holder from June 11, 2011 to December 31, 2011. Each compensation warrant entitles the holder thereof to purchase one common share in the capital of Mooncor at $0.225 per share

11. Capital stock

Authorized - Unlimited Common shares without par value Issued - Common shares	Number of shares	Amount
Balance at January 1, 2010	97,916,638	$ 13,632,581
Warrants exercised for cash	222,111	38,317
Broker warrants exercised for cash	568,807	51,193
Shares issued for cash (A)	7,905,345	1,321,103
Less:		
Share issue costs	-	(122,837)
Fair value of warrants	-	(353,740)
Fair value of broker warrants	-	(77,118)
Flow-through share premium	-	(5,829)
Fair value of expired broker warrants	-	8,562
Fair value of expired warrants	-	293,347
Fair value of exercised warrants	-	89,510
Fair value of issued warrants	-	(93,818)
Fair value of extended warrants	-	(678,133)
Shares cancelled, normal course issuer bid	(100,000)	(14,320)
Balance at December 31, 2010	106,512,901	$ 14,088,818
Broker warrants exercised for cash	47,175	7,935
Shares issued for cash (B)	14,217,824	2,661,200
Less:		
Share issue costs	-	(280,499)
Fair value of warrants	-	(1,289,351)
Fair value of broker warrants	-	(132,719)
Flow-through share premium	-	(29,578)
Fair value of extended warrants	-	(153,789)
Shares issued for cash (C)	1,176,056	220,690
Less:		
Share issue costs	-	(19,781)
Fair value of warrants	-	(105,273)
Fair value of broker warrants	-	(7,060)
Flow-through share premium	-	(2,610)
Fair value of extended warrants	-	(1,500)
Fair value of expired warrants	-	2,263,737
Fair value of expired broker warrants	-	217,889
Balance at September 30, 2011	121,953,956	$ 17,438,109

Private placements

A) In August 2010, the Company completed a non-brokered private placement financing (the "Private Placement") for $1,321,103 by issuing 3,395,300 common share units ("Units") and 4,510,045 "flow-through" units ("FT Units") at a price of $0.15 per Unit and $0.18 per FT Unit. Each Unit consisted of one common share in the capital of the

11. **Capital stock** (cont'd)

Private placements

A) Company (a "Common Share") and one common share purchase warrant (a "Warrant") of the Company. Each FT Unit consisted of one flow-through common share of the Company and one-half of one Warrant. Each whole Warrant entitles the holder thereof to acquire one Common Share at an exercise price of $0.25 per Common Share until 24 months from closing. In connection with the Private Placement, the Company paid cash commissions and fiscal advisory fees to registered agents equal to $100,719 and issued 749,535 finders warrants (each finders warrant exercisable for one Unit at $0.15 per Unit expiring 24 months from closing).

B) In March 2011, the Company completed a brokered private placement financing, by issuing 10,818,110 common share units ("Units") and 3,399,714 "flow-through" units ("FT Units") at a price of $0.18 per Unit and $0.21 per FT Unit respectfully. Each Unit consists of one common share in the capital of the Company (a "Common Share") and one common share purchase warrant (a "Warrant") of the Company. Each FT Unit consists of one flow-through common share of the Company and one-half of one Warrant. In connection with the financing, Mooncor paid cash commissions of $229,590, as well as $50,909 in legal counsel fees, and issued compensation warrants to purchase 1,233,450 Units at an exercise price of $0.18 per Unit exercisable for a period of 24 months following the closing of the financing.

C) In April 2011, the Company completed a non-brokered private placement financing by issuing 876,056 common share units ("Units") and 300,000 "flow-through" units ("FT Units") at a price of $0.18 per Unit and $0.21 per FT Unit for gross proceeds of $220,690. Each Unit consists of one common share in the capital of the Company (a "Common Share") and one common share purchase warrant (a "Warrant") of the Company. Each FT Unit consists of one flow-through common share of the Company and one-half of one Warrant. Each whole Warrant entitles the holder thereof to acquire one Common Share at an exercise price of $0.30 per Common Share until April 26, 2013. Certain officers and directors of the Company subscribed for an aggregate of $29,710 of Units. In connection with the above financing, the Company paid cash commissions of $19,781, and issued compensation warrants to purchase 57,075 Units at an exercise price of $0.18 per Unit exercisable until April 26, 2013

Normal course issuer bid

During 2010, the Company received approval from the TSXV for a notice filed by the Company of its intention to make a normal course issuer bid ("NCIB") to purchase up to 4,895,831 common shares commencing on February 22, 2010 and terminating on February 21, 2011. The maximum price paid per repurchased share shall be no more than $0.25 per share. During 2010, 100,000 common shares were acquired for $14,320 and which were cancelled. No shares were acquired during 2011. The Company did not renew the NCIB on February 21, 2011.

Escrow shares

At September 30, 2011, 1,883,536 (2010 - 3,866,563) of the issued common shares are held in escrow. These shares are subject to the escrow requirements of the TSXV and will be released from escrow in stages in accordance with the rules of the TSXV and in accordance with the applicable escrow agreements.

12. Contributed surplus

Balance, January 1, 2010	$ 1,071,315
Stock-based compensation	158,378
Balance, December 31, 2010	$ 1,229,693
Stock-based compensation	243,242
Balance, September 30, 2011	$ 1,472,935

13. Warrants

	Number of warrants	Fair value
Balance, December 31, 2010	29,645,944	$ 2,856,753
March private placement		
Warrants issued	12,517,967	1,289,351
Broker warrants issued	1,233,450	132,719
April private placement		
Warrants issued	1,026,056	105,273
Broker warrants issued	57,075	7,060
Expired warrants transferred to Capital Stock	(11,971,654)	(2,263,737)
Expired broker warrants transferred to Capital Stock	(1,544,738)	(217,889)
Extended warrants revaluation	-	155,290
Balance, September 30, 2011	30,961,100	$ 2,064,820

The Company had the following warrants outstanding at September 30, 2011:

Number of warrants	Type of shares	Exercise price	Expiry date
1,494,334	Common shares	0.20	November 14, 2011 (A)
275,000	Common shares	0.20	December 12, 2011
500,000	Common shares	0.20	December 18, 2011
1,366,112	Common shares	0.20	December 19, 2011
3,201,250	Common shares	0.35	February 6, 2012 (B)
2,890,000	Common shares	0.35	April 9, 2012 (B)
1,326,000	Common shares	0.20	August 3, 2012
3,746,445	Common shares	0.25	August 9, 2012
577,8786	Common shares	0.25	August 20, 2012
12,517,967	Common shares	0.30	March 29, 2013
1,026,056	Common shares	0.30	April 26, 2013
28,921,040	Total warrants		

13. Warrants (cont'd)

Broker warrants

221,700	Common shares plus ½ share purchase warrant	0.15	August 3, 2012
455,589	Common shares plus ½ share purchase warrant	0.15	August 9, 2012
72,246	Common shares plus ½ share purchase warrant	0.15	August 20, 2012
1,233,450	Common shares plus ½ share purchase warrant	0.18	March 29, 2013
57,075	Common shares plus ½ share purchase warrant	0.18	April 26, 2013
2,040,060	Total broker warrants		
30,961,100	Total warrants and broker warrants outstanding		

(A) 1,494,334 warrants expired unexercised on November 14, 2011.

(B) The expiry date of these warrants were extended to the date indicated, during the period.

The fair values of the warrants were estimated at the date of grant using the Black-Scholes options pricing model with the following assumptions:

	2011	2010
Risk-free interest rates	1.21 - 1.89%	1.09% - 1.33%
Dividend yield	Nil	Nil
Expected stock price volatility	117 - 123%	100%
Warrants life	2 year	2 year

14. Stock options

On June 10, 2010, the shareholders of the Company approved an amended stock option plan (the "Plan") to enable directors, officers, employees and consultants of the Company to purchase common shares. Under the Plan, all options granted to an executive or employee shall vest and become fully exercisable ½ at the date of grant and ½ one year from the date of grant. All options granted to consultants shall vest and become fully exercisable 1/3 at the time of grant and 1/3 after each subsequent year. All options granted to optionees performing investor relations activities shall vest and become fully exercisable ¼ three months from the date of grant, ¼ six months from the date of grant, ¼ nine months from the date of grant and the final ¼ nine months from the date of grant. All options granted under the Plan shall expire no later than at the close of business ten years from the date of grant. The Plan provides that the number of common shares reserved for issuance upon exercise of options granted shall not exceed 10% of total issued and outstanding shares of the Company. There are no changes to the Plan in the current period.

The following summarizes the stock option activities:

	Number of Options	Weighted Average Exercise Price
Balance, December 31, 2010	10,570,834	0.21
Forfeited during the period	(2,319,334)	0.18
Granted during the period	3,048,500	0.21
Balance, September 30, 2011	11,300,000	0.21

The Company had the following stock options outstanding at September 30, 2011:

Number of options	Grant date	Exercise price	Vested options	Expiry date
400,000	Oct. 30, 2007	$ 0.23	400,000	May 8, 2012
200,000	May 14, 2009	0.315	200,000	May 8, 2012
500,000	Dec. 24, 2008	0.15	500,000	June 6, 2012
150,000	April 8, 2011	0.195	75,000	June 6, 2012
125,000	May 2, 2008	0.23	125,000	June 6, 2012
375,000	May 4, 2011	0.23	187,500	June 6, 2012
142,375	Nov. 19, 2010	0.25	71,187	June 6, 2012
125,000	May 14, 2009	0.315	125,000	June 6, 2012
250,000	Sept. 28, 2007	0.50	250,000	Sept. 28, 2012
1,100,000	Oct. 30, 2007	0.23	1,100,000	Oct. 29, 2012
700,000	Jan. 30, 2008	0.14	700,000	Jan. 30, 2013
751,500	May 2, 2008	0.23	751,500	May 2, 2013
1,750,000	Dec. 24, 2008	0.12	1,750,000	Dec. 24, 2013
1,100,000	May 14, 2009	0.315	1,100,000	May 14, 2014
300,000	Dec. 3, 2009	0.21	199,998	Dec. 3, 2014
807,625	Nov. 19, 2010	0.25	380,083	Dec. 3, 2014
1,550,000	April 8, 2011	0.195	599.998	April 8, 2021
787,500	May 4, 2011	0.23	393,750	May 4, 2021
186,000	May 11, 2011	0.23	93,000	May 11, 2021
11,300,000			8,402,618	

14. Stock options (cont'd)

The fair value of the stock options was estimated at the date of grant using the Black-Scholes options pricing model with the following assumptions:

	Sep 30, 2011	Sep 30, 2010
Risk-free interest rates	1.7%	2.17%-2.43%
Dividend yield	NIL	NIL
Estimated forfeiture rate	5%	5%
Expected stock price volatility	96.23%	100%
Option life	10 years	5 years

15. Related party transactions

During the nine month period ended September 30, 2011, the Company had the following transactions with officers, directors or entities under the control or significant influence of officers and directors that have not been disclosed elsewhere in the consolidated financial statements:

- Included in professional fees are legal fees and disbursements of $39,453 (2010 - $82,128) to Garfinkle, Biderman LLP, a law firm in which Barry M. Polisuk and Robbie Grossman (the secretary and assistant secretary respectively) are partners of the law firm. At September 30, 2011, $6,398 (2010 - $Nil) of this amount is included in accounts payable and accrued liabilities. Included in share issue costs are $38,304 paid to Garfinkle, Biderman, relating to legal services and disbursements, rendered in connection with the private placements undertaken during the period.

- Included in professional fees are $107,500 (2010 - $73,288) paid to Nick Tsimidis, a director and officer, or to related companies for CFO services pursuant to a consulting agreement. In addition, Nick Tsimidis' professional accounting firm was reimbursed $36,977 for costs incurred, including costs relating IFRS planning, conversion, and implementation, report writing, and related assistance and other matters..

- Fees in the amount of $172,500 were paid to Darrell Brown (2010 – $127,500), of which $112,500 have been capitalized (2010 - $112,500) to various E&E assets during the period. These services are provided pursuant to a consulting agreement.

- Fees in the amount of $311,200 were accrued to Richard Cohen and Clark Avenue Consulting Inc, a company controlled by Richard Cohen (2010 - $93,125) for consulting services rendered during the period, of which $140,575 has been paid and $170,625 remains outstanding. In June 2011, Richard Cohen passed away. Pursuant to the management agreement between the Company, Richard Cohen and Clark Avenue Company Inc., a company controlled by Richard Cohen, the Company is obligated to (i) pay Clark Avenue Company Inc. $195,000, being the monthly contractual fees for 24 months, and (ii) to cause the immediate vesting of any unvested stock options. The amount has been accrued in the financial statements. The Company will offset the amount outstanding of $170,625 by $46,865, which is owed to the Company by Clark Avenue and included in sundry receivable at period end.

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.

16. Income taxes

The following table reconciles income taxes calculated at combined Canadian federal and provincial tax rates with the income tax expense in the financial statements:

	Sep 30, 2011	Sep 30, 2010
Loss before income tax	1,699,532	$ 600,592
Statutory rate	29%	29%
Expected income tax expense (recovery)	(492,864)	(174,172)
Non-deductible expenses and other	395,951	39,400
Share issue costs	(16,563)	(4,980)
Amortization of equipment	14,217	3,262
Flow-through expenditures	2,610	5,829
Change in effective tax rates	19,627	130,661
Income tax expense (recovery)	$ 28,668	$ -

Deferred Tax Balances

The temporary differences that give rise to deferred income tax assets and deferred income tax liabilities are presented below:

Deferred Tax Assets	Sep 30, 2011	December 31, 2010
Non-capital losses	$ 2,244,759	$ 1,745,095
Deferred exploration expenditures	611,114	471,053
Share issue costs	267,439	210,326
Property and equipment	7,562	11,685
Valuation allowance	(3,159,562)	(2,447,159)
	$ (28,668)	$ -

Loss Carry Forwards

As at Sep 30, 2011, the Company has approximately $8,339,936 (2010 - $6,965,248) unutilized non-capital losses for income tax purposes which may be used to reduce future taxable income. The Company also has approximately $49,816 of unutilized capital losses for income tax purposes.

17. Income taxes (cont'd)

Loss Carry Forwards (cont'd)

These non-capital losses expire as follows:

Year of Expiry	Amount
2014	$ 213,502
2015	49,644
2026	583,580
2027	1,421,038
2028	1,797,276
2029	2,264,184
2030	679,048
2031	1,331,664
	$ 8,339,936

18. Commitments

Gross overriding royalties

In addition to the gross overriding royalty ("GOR") agreements entered into in connection with the various oil and gas projects undertaken, the Company has entered into the following GOR agreements:

- **Database**

  As part of the purchase of the database of technical information (refer to Note 7), the Company entered into a GOR agreement with the vendor. Pursuant to the agreement, the Company has committed to pay royalties equal to 3% on all production from the lands included in the database.

- **Study**

  On December 22, 2008, the Company entered into an agreement with an arm's length party to obtain consulting services to study certain pieces of land under development by the Company. Pursuant to the agreement, the Company has committed to pay a GOR equal to 5% on all production from the lands included in the study.

Lease commitments

The Company entered into a lease agreement for its Calgary, Alberta field office premises beginning on October 1, 2008 and expiring September 29, 2011. Due to economic circumstances in 2010, the Company attempted to renegotiate lease terms with its landlord but was unable to do so and vacated these premises. During the period, the Company and the landlord agreed to settle this matter for $75,000.

During the period, the Company entered into a lease agreement for its London, Ontario field office premises covering a period of 12 months and three weeks. Annual rent is $13,600. The lease expires July 31, 2012.

18. Commitments (cont'd)

Flow-through shares

The Company is committed to expending $726,799 by December 31, 2012.

19. Capital disclosures

The Company's objectives when managing capital are as follows:

- To safeguard the Company's ability to continue as a going concern.
- To raise sufficient capital to finance its exploration and development activities on its mineral exploration properties.
- To raise sufficient capital to meet its general and administrative expenditures.

The Company manages its capital structure and makes adjustments to it based on general economic conditions, short term working capital requirements, and planned exploration and development.

The Company utilizes annual capital and operating expenditure budgets to facilitate the management of its capital requirement. These budgets are approved by management and updated for changes in the budgets' underlying assumptions as necessary.

There were no changes in the Company's approach to managing capital during the period.

In order to maintain or adjust the capital structure, the Company considers the following:

i) incremental investment and acquisition opportunities;
ii) equity and debt capital available from capital markets;
iii) equity and debt credit that may be obtainable from the marketplace as a result of growth in reserve values;
iv) availability of other sources of debt with different characteristics than the existing bank debt;
v) the sale of assets;
vi) limiting the size of the investment program; and
vii) new share issuances if available on favorable terms.

Except as otherwise disclosed herein, the Company is not subject to any external financial covenants at September 30, 2011.

20. Financial instruments

Fair Value of Financial Instruments

The fair values of cash and cash equivalents, segregated cash, sundry receivable, and accounts payable and accrued liabilities approximate their carrying values due to the relatively short term maturities of these instruments. The fair value of convertible debentures payable are determined using the effective interest method as disclosed in Notes 9 and the portfolio investments are reported at market prices as disclosed in Note 5.

20. Financial instruments (cont'd)

Fair value hierarchy

Level 1 - Quoted prices 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 or indirectly
Level 3 - Inputs for the assets or liability that are not based on observable market data

The Company's portfolio investments are Level 1 (Note 5).

Risk management

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has implemented and monitors compliance with risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions in relation to the Company's activities.

Unless otherwise noted, it is management's opinion that the Company is not exposed to significant price, credit, liquidity, or cash flow risks arising from the financial instruments.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Financial instruments that potentially subject the Company to credit risk consist of cash and cash equivalents, sundry receivable and prepaid expenses. Cash and cash equivalents are held at large Canadian Financial Institutions. A significant portion of sundry receivable pertains to HST refunds with the Canada Revenue Agency. The Company does not have any outstanding audit issues with the Canada Revenue Agency which would affect the recovery of these amounts. Prepaid expenses represent amounts on deposit with a financial institution, on behalf of the Province of Alberta, to cover potential environmental clean up liabilities, in accordance with regulations in that Province. The Company is not aware of any issues which would impact the recovery of these deposits.

The Company has no significant concentration of credit risk arising from operations. Management believes the risk of loss to be remote.

The carrying amount of accounts receivable and cash and cash equivalents represents the maximum credit exposure.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company maintains a majority of its surplus funds in interest bearing accounts with Canadian financial institutions, which pay interest at a floating rate. The interest on the convertible debentures payable is fixed.

20. Financial instruments (cont'd)

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses which may damage the Company's reputation.

The Company monitors and reviews current and future cash requirements and matches the maturity profile of financial assets and liabilities. This is generally accomplished by ensuring that cash is always available to settle financial liabilities. Except for the convertible debentures payable, all of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

Currency risk

Substantially all of the Company's operations are in Canada. Management believes the foreign exchange risk derived from any currency conversions is negligible and therefore does not hedge its foreign exchange risk.

Revenues received from sales of petroleum and natural gas products are impacted by the relationship between the Canadian dollar and United States dollar since oil prices are denominated in United States dollars in worldwide markets.

Market risk

Market risk is the risk that fluctuations in currency rates, interest rates, and commodity prices will affect a company's income or the value of its financial assets and liabilities. The objective of market risk management is to manage and control market risk exposures within acceptable limits while maximizing returns. The Canadian markets for petroleum and natural gas are impacted by changes in the exchange rate between the Canadian and United States dollar, but also world economic events that dictate the levels of supply and demand. Management has prioritized exploration rather than production projects in order to minimize the impact of fluctuating commodity prices on the Company's results.

21. Subsequent events

Subsequent to the period, the Company engaged Dundee Securities Ltd. to act as lead agent, (and including PowerOne Capital Markets Limited), on a reasonable commercial efforts basis, in connection with a proposed private placement of up to $5 million through the issuance of common share units ("Units") and "flow-through" units ("FT Units") at a price of $0.13 per Unit and $0.14 per FT Unit. Each Unit is to consist of one common share in the capital of the Company (a "Common Share") and one common share purchase warrant (a "Warrant") of the Company. Each FT Unit is to consist of one flow-through common share (a "FT Share") and one-half of one Warrant. Each FT Share will qualify as a "flow-through share" for the purposes of the Income Tax Act (Canada). Each whole Warrant shall entitle the holder thereof to acquire one Common Share at an exercise price of $0.20 per Common Share for a period of 24 months following the closing of the financing. All securities issued pursuant to the financing will be subject to a four-month hold period. Closing is subject to receipt of all necessary regulatory approvals.

The net proceeds will be used by the Company for exploration on its Muskwa/Duvernay shale gas play at Hamburg, Alberta and working capital.

22. Reconciliation of Canadian GAAP to IFRS

As stated in note 2, these unaudited consolidated interim financial statements have been prepared in accordance with IFRS 1, "First-time Adoption of International Financial Reporting" and with IAS 34, "Interim Financial Statements". Previously the Company prepared its interim and annual consolidated financial statements in accordance with Canadian GAAP.

The accounting policies set out in note 3 have been applied in preparing the interim financial statements for the period ended September 30, 2011, the comparative information presented in these interim financial statements for both period ended September 30, 2010 and year ended December 31, 2010.

In preparing its opening IFRS balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with previous Canadian GAAP. An explanation of how the transition from previous Canadian GAAP to IFRSs has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

The Company has applied the following transition exceptions and exemptions to full retrospective application of IFRS:

- To apply the requirements of IFRS 3, Business Combinations, prospectively from the transition date (note 19 (i)); and
- To apply the requirements of IFRS 2, Share-based payments, only to equity instruments granted after November 7, 2002 which had not vested as of the transition date (note 19 (vi)).

IFRS mandatory exceptions

Estimates cannot be created or revised using hindsight. The estimates previously made by the Company under Canadian GAAP were not revised for the application of IFRS except where necessary to reflect any difference in accounting policies.

(i) Basis of consolidation

In accordance with IFRS 1, if a company elects to apply IFRS 3 Business Combinations retrospectively, IAS 27, Consolidated, and Separate Financial Statements must also be applied retrospectively. As the Company elected to apply IFRS 3 prospectively, the Company has also elected to apply IAS 27 prospectively.

(ii) Exploration and evaluation assets

Under Canadian GAAP, the Company capitalized all costs of acquisition, exploration, and development of oil and gas reserves were capitalized as oil and gas properties and deferred exploration expenditures. Under IFRS, for presentation purposes, such costs are capitalized as exploration and evaluation assets. Once the exploration area achieves technical feasibility and commercial viability, exploration and evaluation costs are moved to property, plant, and equipment.

(iii) Summary of effect on current and deferred taxes

The adjustments had no bottom line impact on income taxes. A valuation allowance is taken on all existing deferred tax balances due to the uncertainty of their utilization. There is no impact on the consolidated financial statements as a result of the conversion to IFRS.

22. Reconciliation of Canadian GAAP to IFRS (cont'd)

(iv) Finance income and expenses

Under IFRS, a separate category of expenses is required in the statement of comprehensive income for finance income (expense). The items under Canadian GAAP that were reclassified as finance income (expense) were interest income and expense related to financing costs.

(v) Flow-through shares

Under Canadian GAAP, the proceeds from the issuance of flow-through shares are recognized as shareholders' equity. Under IFRS, the amount recorded to share capital from the issuance of flow-through shares reflects the fair market value of "regular" common shares. The difference between the total value of a flow-through share issuance and the fair market value of regular common share issuance (premium) is initially accrued as a deferred obligation when the flow-through shares are issued. Pursuant to the terms of the flow-through share agreements, the tax deductions associated with the expenditures are renounced to the subscribers. Accordingly, on renunciation with the Canada Revenue Agency, a deferred tax liability is recorded equal to the estimated amount of deferred income taxes payable by the Company as a result of the renunciations, the obligation on issuance of flow-through shares is reduced and the difference is recognized in profit or loss. There is no impact to share capital on renunciation of flow-through shares.

(vi) Share-based payments

Under Canadian GAAP, the Company recognized an expense related to share-based payments on a straight-line basis through the date of full vesting and did not incorporate a forfeiture multiple on the grant date. Under IFRS, the Company is required to recognize the expense over the individual vesting periods for the graded vesting awards and estimate a forfeiture rate.

(vii) Consolidated statement of cash flows

The transition from Canadian GAAP to IFRS has had no effect upon the reported cash flows generated by the Company. The reconciling items between the Canadian GAAP presentation and the IFRS presentation have no net impact on the cash flows generated.

(Unaudited, expressed in Canadian dollars)

22. Reconciliation of Canadian GAAP to IFRS (cont'd)

Reconciliation of statements of financial position as previously reported under Canadian GAAP.

	Note	September 30, 2010		
		Cdn GAAP	Adj	IFRS
ASSETS				
Current Assets:				
Cash and cash equivalents		496,948	-	496,948
Segregated cash		40,500	-	40,500
Sundry receivable		80,169	-	80,169
Shares held for cancellation		14,320	-	14,320
Portfolio investment		35,845	-	35,845
Prepaid expenses		123,143	-	123,143
		790,925	-	790,925
Non-current Assets:				
Equipment		5,981	-	5,981
Intangible asset		47,500	-	47,500
Investment in East Coast Energy Inc.		18,656	-	18,656
Deposits		218,819	-	218,819
Convertible debenture - East Coast Energy Inc.		235,649	-	235,649
Exploration and evaluation assets	(ii)	5,699,955	-	5,699,955
		7,017,485	-	7,017,485
LIABILITIES				
Current Liabilities:				
Accounts payable and accrued liabilities		464,121	-	464,121
Convertible debentures payable		1,035,345	-	1,035,345
Deferred premium on flow-through shares	(v)	-	5,829	5,829
		1,499,466	5,829	1,505,295
Non-current Liabilities:				
Deferred income taxes	(iii)	-		-
		-	-	-
SHAREHOLDERS' EQUITY				
Capital stock	(v)	14,851,983	22,447	14,874,430
Contributed surplus	(vi)	1,024,851	119,805	1,144,656
Equity component of convertible debenture		111,974	-	111,974
Warrants		1,995,949	-	1,995,949
Accumulated other comprehensive loss		(144,477)	-	(144,477)
Deficit	(v), (vi)	(12,322,261)	(148,081)	(12,470,342)
		5,518,019	(5,829)	5,512,190
		7,017,485	-	7,017,485

(Unaudited, expressed in Canadian dollars)

22. Reconciliation of Canadian GAAP to IFRS (cont'd)

Reconciliation of statements of comprehensive loss as previously reported under Canadian GAAP.

		Three Months Ended September 30, 2010			Nine Months Ended September 30, 2010		
	Note	Cdn GAAP	Adj	IFRS	Cdn GAAP	Adj	IFRS
Income		1,428	-	1,428	1,557	-	1,557
Expenses							
Consulting		76,500	-	76,500	231,500	-	231,500
Interest expense	(iv)	(167,417)	167,417	-	(92,327)	92,327	-
Office and general		43,298	-	43,298	220,270	-	220,270
Professional fees		40,526	-	40,526	98,606	-	98,606
Stock based compensation	(vi)	24,684	-	24,684	73,341	-	73,341
Travel		11,020	-	11,020	62,521	-	62,521
Insurance		2,402	-	2,402	6,134	-	6,134
Secretary fees		-	-	-	-	-	-
Amortization		7,973	-	7,973	23,919	-	23,919
Loss before undernoted		(37,558)	(167,417)	(204,975)	(622,407)	(92,327)	(714,734)
Write-down of exploration and evaluation assets		(11,960)	-	(11,960)	-	-	-
Abandoned project costs		-	-	-	-	-	-
Recovery (provision) for impairment of debenture receivable		-	-	-	-	-	-
Proceeds on sale of oil and gas properties		-	-	-	21,815	-	21,815
Finance income (expense):		-	-	-	-	-	-
Interest - convertible debenture	(iv)	-	167,417	167,417	-	92,327	92,327
Interest income		-	-	-	-	-	-
Realized loss on disposal of marketable securities		-	-	-	-	-	-
Loss before income taxes		(49,518)	-	(49,518)	(600,592)	-	(600,592)
Future income tax recovery	(iii)	-		-	-		-
Net loss for the year		(49,518)	-	(49,518)	(600,592)	-	(600,592)
Unrealized gain (loss) on portfolio investments		1,060	-	1,060	(43,815)	-	(43,815)
Comprehensive loss for the year		(48,458)	-	(48,458)	(644,407)	-	(644,407)
Net loss per share basic and diluted		(0.000)	-	(0.000)	(0.006)	-	(0.006)
Weighted average number of shares - basic and diluted		101,351,038	-	101,351,038	101,567,271	-	101,567,271