MOONCOR OIL & GAS CORP.

Consolidated Financial Statements
(An Exploration Stage Company)

December 31, 2011 and 2010

Mooncor Oil & Gas Corp.
(An Exploration Stage Company)
Consolidated Financial Statements
Index

HARRIS & Partners LLP
Chartered Accountants

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Mooncor Oil & Gas Corp.

We have audited the accompanying consolidated financial statements of Mooncor Oil & Gas Corp. (an exploration stage company), 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 operations and comprehensive loss, changes in 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 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 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 financial statements are free from material misstatement.

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

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

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the consolidated financial position of Mooncor Oil & Gas Corp. as at December 31, 2011, December 31, 2010 and January 1, 2010, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements, which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Harris & Partners, LLP

Markham, Ontario
April 30, 2012

Harris & Partners, LLP
Licensed Public Accountants

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Mooncor Oil & Gas Corp.
(An Exploration Stage Company)
Consolidated Balance Sheets
As at December 31, 2011, December 31, 2010 and January 1, 2010

ASSETS	2011	2010	2010
Current			
Cash and cash equivalents	$ 602,201	$ 238,104	$ 1,909,827
Segregated cash (Note 5)	40,815	40,581	40,500
Sundry receivable	149,694	92,694	67,592
Portfolio investments (Note 6)	-	59,738	79,660
Prepaid expenses	33,443	18,430	147,119
	826,153	449,547	2,244,698
Property and equipment (Note 7)	448,546	457,539	7,400
Intangible assets (Note 8)	15,000	37,500	70,000
Investment in East Coast Energy Inc.	-	-	18,656
Deposits (Note 9)	342,956	252,580	218,773
Convertible debenture receivable	-	-	235,649
Exploration and evaluation assets (Note 10)	2,557,553	3,859,656	$ 5,139,043
	$ 4,190,208	$ 5,056,822	$ 7,934,219
LIABILITIES			
Current			
Accounts payable and accrued liabilities	$ 855,835	$ 184,349	$ 603,105
Convertible debentures payable (Note 11)	1,021,438	1,018,716	2,440,292
Deferred premium on flow-through shares	13,989	5,829	-
	1,891,262	1,208,894	3,043,397
SHAREHOLDERS' EQUITY			
Capital stock (Note 12)	17,335,713	14,088,818	13,632,581
Contributed surplus (Note 13)	1,558,780	1,229,693	1,071,315
Equity component of convertible debenture (Note 11)	192,059	142,998	111,974
Warrants (Note 14)	2,167,215	2,856,753	2,045,363
Accumulated other comprehensive loss	(134,125)	(120,585)	(100,661)
Deficit	(18,820,696)	(14,349,749)	(11,869,750)
	2,298,946	3,847,928	4,890,822
	$ 4,190,208	$ 5,056,822	$ 7,934,219

Approved by the Board

Director "Alan Myers"

Director "Nick Tsimidis"

See accompanying notes

Mooncor Oil & Gas Corp.

(An Exploration Stage Company)

Consolidated Statements of Changes in Equity

For the Years Ended December 31, 2011 and 2010

	Capital stock	Contributed Surplus	Equity component of convertible debentures	Warrants	Accumulated other Comprehensive Loss	Deficit	Total Equity
Balance at January 1, 2010	$ 13,632,581	$ 1,071,315	$ 111,974	$ 2,045,363	$ (100,661)	$ (11,869,750)	$ 4,890,822
Capital stock, net of share issue costs	1,287,776	-	-	-	-	-	1,287,776
Stock-based compensation	-	158,378	-	-	-	-	158,378
Convertible debentures	-	-	31,024	-	-	-	31,024
Warrants:	-	-	-	-	-	-	-
FV of warrants issued	(447,558)	-	-	447,558	-	-	-
FV of broker warrants issued	(77,118)	-	-	77,118	-	-	-
Expired warrants transferred to capital stock	301,909	-	-	(301,909)	-	-	-
Exercised warrants	89,510	-	-	(89,510)	-	-	-
Extended warrants revaluation	(678,133)	-	-	678,133	-	-	-
Shares cancelled, normal course issuer bid	(14,320)	-	-	-	-	-	(14,320)
Flow-through share premium	(5,829)	-	-	-	-	-	(5,829)
Unrealized loss on portfolio investments	-	-	-	-	(19,924)	-	(19,924)
Loss for the period	-	-	-	-	-	(2,479,999)	(2,479,999)
Balance at December 31, 2010	$ 14,088,818	$ 1,229,693	$ 142,998	$ 2,856,753	$ (120,585)	$ (14,349,749)	$ 3,847,928
Balance at January 1, 2011	14,088,818	1,229,693	142,998	2,856,753	(120,585)	(14,349,749)	3,847,928
Capital stock, net of share issue costs	2,581,610	-	-	-	-	-	2,581,610
Stock-based compensation	-	329,087	-	-	-	-	329,087
Convertible debentures	-	-	49,061	-	-	-	49,061
Warrants:	-	-	-	-	-	-	-
FV of warrants issued	(915,901)	-	-	915,901	-	-	-
FV of broker warrants issued	(139,779)	-	-	139,779	-	-	-
Exercised warrants	7,935	-	-	-	-	-	7,935
Expired warrants transferred to capital stock	1,682,618	-	-	(1,682,618)	-	-	-
Expired broker warrants transferred to capital stock	217,889	-	-	(217,889)	-	-	-
Extended warrants revaluation	(155,289)	-	-	155,289	-	-	-
Flow-through share premium	(32,188)	-	-	-	-	-	(32,188)
Unrealized loss on portfolio investments	-	-	-	-	(13,540)	-	(13,540)
Loss for the period	-	-	-	-	-	(4,470,947)	(4,470,947)
Balance at December 31, 2011	$ 17,335,713	$ 1,558,780	$ 192,059	$ 2,167,215	$ (134,125)	$ (18,820,696)	$ 2,298,946

See accompanying notes

Mooncor Oil & Gas Corp.
(An Exploration Stage Company)
Consolidated Statements of Operations and Comprehensive Loss
For the Years Ended December 31, 2011 and 2010

	2011	2010
Income	$ 131,493	$ 60,632
Expenses		
Consulting (Note 16)	588,157	266,940
Stock based compensation (Note 15)	329,087	158,378
Professional fees (Note 16)	313,158	212,973
Production and operating expenses	273,010	-
Exploration and evaluation expenditures	261,932	7,249
Office and general	182,147	166,139
Finance costs	174,650	203,140
Travel	91,154	77,424
Insurance	20,591	27,200
Board of directors fees	1,370	3,500
Amortization	33,642	34,976
	2,268,898	1,157,919
Loss before undernoted	(2,137,405)	(1,097,287)
Impairment of exploration and evaluation assets (Note 10)	(2,371,978)	(1,604,951)
Recovery of impairment of debenture receivable	-	70,695
Proceeds on sale of Exploration and evaluation assets	-	151,544
Realized gain on disposal of portfolio investments	14,408	-
Loss before income taxes	(4,494,975)	(2,479,999)
Deferred income tax recovery (Note 17)	24,028	-
Net loss for the year	(4,470,947)	(2,479,999)
Unrealized loss on portfolio investments	(13,540)	(19,924)
Comprehensive loss for the year	$ (4,484,487)	$ (2,499,923)
Net loss per share basic and diluted	$ (0.03)	$ (0.02)
Weighted average number of shares - basic and diluted	118,646,927	100,959,146

See accompanying notes

Mooncor Oil & Gas Corp.
(An Exploration Stage Company)
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2011 and 2010

Cash provided by (used in):	2011	2010
Operating activities		
Comprehensive loss for the year	$ (4,484,487)	$ (2,499,923)
Adjustments for non-cash items:		
Unrealized loss on portfolio investments	13,540	19,924
Impairment of Exploration and evaluation assets	2,371,978	1,604,951
Interest accreted and accrued on convertible debenture payable	51,783	197,942
Recovery of impairment of convertible debenture receivable	-	(70,695)
Stock based compensation	329,087	158,378
Gain on disposal of portfolio investments	(14,408)	-
Deferred income tax recovery	(24,028)	-
Amortization	33,642	34,976
	(1,722,893)	(554,447)
Changes in non-cash components of working capital		
Segregated cash	(234)	(81)
Sundry receivables	(57,000)	(25,102)
Prepaid expenses	(15,013)	128,689
Deposits	(90,376)	(33,807)
Accounts payable and accrued liabilities	671,487	(418,760)
	(1,214,029)	(903,508)
Investing activities		
Purchase of equipment	(2,149)	(2,408)
Proceeds on sale of portfolio investments	60,606	-
Sale of convertible debenture receivable	-	325,000
Additions to Exploration and evaluation assets	(1,069,876)	(775,771)
	(1,011,419)	(453,179)
Financing activities		
Repayment of convertible debentures	-	(1,588,492)
Issuance of shares for cash	2,881,890	1,321,103
Share issue costs	(300,280)	(122,837)
Repurchase of shares for cancellation	-	(14,320)
Proceeds on exercise of share warrants	7,935	89,510
	2,589,545	(315,036)
Increase (decrease) in cash and cash equivalents	364,097	(1,671,723)
Cash, beginning of year	238,104	1,909,827
Cash, end of year	$ 602,201	$ 238,104
Supplementary information:		
Interest paid	$ 102,585	$ 610,000

See accompanying notes

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.

The Company is a public company trading on the TSX Venture Exchange ("TSXV") under the symbol "MOO". The address of its registered office is 155 Rexdale Blvd., Toronto, Ontario.

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Mooncor Energy Inc. ("Mooncor Energy"), an Alberta Corporation, and DRGN Energy Inc. ("DRGN"), an Ontario Corporation.

Going concern

These consolidated financial statements were prepared on a going concern basis. The going concern basis assumes that the Company will 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 Company has a working capital deficiency of $1,065,109 and accumulated deficit of $18,820,696 as of December 31, 2011. Whether and when the Company can attain profitability is uncertain. These uncertainties cast significant doubt upon the Company's ability to continue as a going concern.

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 to be reflected on a liquidation basis of valuation that could differ materially from the going concern basis of accounting.

2. Basis of presentation

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.

2. Basis of presentation (cont'd)

Subject to certain transition elections disclosed in note 22, 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 financial statements are based on IFRS issued and effective as of April 25, 2012, the date the Board of Directors approved the statements.

The consolidated financial statements should be read in conjunction with the Company's Canadian GAAP annual financial statements for the year ended December 31, 2010.

Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial assets and liabilities which are measured at fair value. These consolidated financial statement are presented in Canadian dollars, which is the Company's functional currency.

Basis of consolidation

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.

Transactions eliminated on consolidation

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

Business combinations

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.

2. Basis of presentation (cont'd)

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 are disclosed in Note 4. 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 financial statements and in preparing the opening IFRS statement of financial position at January 1, 2010 for the purposes of the transition to IFRS.

Cash and cash equivalents

Cash comprise cash on hand. Other investments (term deposits and certificates of deposit) with an original term to maturity at purchase of three months or less are reported as cash equivalents in the consolidated balance sheets.

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.

Property and equipment

Property and equipment are 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.

Included in cost are the purchase price, and the costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by the Company's management. For petroleum and natural gas properties, cost includes land acquisition costs, geological and geophysical expenditures, drilling costs, and the estimated costs of obligations for restoring and abandoning sites located on the asset in question. Costs incurred subsequent to the determination of technical feasibility and commercial viability are added to the cost base of the respective item of P&E when they increase the future economic benefits of that asset. The costs of regular service and maintenance are expensed in profit or loss in the period in which they occur.

3. Significant accounting policies (cont'd)

Depletion, depreciation and amortization

Depletion of petroleum and natural gas properties within each cash-generating unit (CGU) is recognized using the unit-of-production method based on the Company's share of total proved plus probable petroleum and natural gas reserves before royalties as determined by independent reserve engineers. Future development costs are included in costs subject to depletion.

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

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).

E&E assets are assessed for impairment if sufficient data exists to determine technical feasibility and commercial viability or facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, exploration and evaluation assets are assessed at the individual asset level. If it is not possible to estimate the recoverable amount of the individual asset, exploration and evaluation assets are allocated to cash-generating units (CGU's). Such CGU's are not larger than an operating segment.

3. Significant accounting policies (cont'd)

Exploration and evaluation assets (cont'd)

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.

The Company occasionally enters into joint venture arrangements, whereby the Company will transfer part of an oil and gas interest, as consideration, for an agreement by the transferee to meet certain exploration and evaluation expenditures which would have otherwise been undertaken by the Company. The Company does not record any expenditures made by the transferee. Any cash consideration received from the agreement is credited against the costs previously capitalized to the oil and gas interest given up by the Company, with any excess cash accounted for as a gain on disposal. When a project is deemed to no longer have commercially viable prospects to the Company, exploration and evaluation expenditures in respect of that project are deemed to be impaired. As a result, those exploration and evaluation expenditure costs, in excess of estimated recoveries, are written off to the statement of comprehensive income.

Derecognition

The carrying amount of an item of property and equipment is recognized on disposal, when no beneficial interest is retained, or when no future economic benefits are expected from its use or disposal. The gain or loss arising from derecognition is included in profit or loss when the item is derecognized and is measured as the difference between the net disposal proceeds, if any, and the carrying amount of the item. The date of disposal is the date when the Company is no longer subject to the risks of and is no longer the beneficiary of the rewards of ownership. Where the asset is derecognized, the date of disposal coincides with the date the revenue from the sale of the asset is recognized.

On the disposition of an undivided interest in a property, where an economic benefit remains, the Company recognizes the farm out only on the receipt of consideration by reducing the carrying amount of the related property with any excess recognized in profit or loss of the period.

Major maintenance and repairs

The costs of day-to-day servicing are expensed as incurred. These primarily include the costs of labour, consumables and small parts. Material costs of replaced parts, turnarounds and major inspections are capitalized as it is probable that future economic benefits will be received. The carrying value of a replaced part is derecognized in accordance with the derecognition principles above.

3. Significant accounting policies (cont'd)

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the liability.

Decommissioning liability

A decommissioning liability is recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. A corresponding amount equivalent to the provision is also recognized as part of the cost of the related asset. The amount recognized is management's estimated cost of decommissioning, discounted to its present value using a risk free rate. Changes in the estimated timing of decommissioning or decommissioning cost estimates are dealt with prospectively by recording an adjustment to the provision and a corresponding adjustment to the related asset unless the change arises from production. The unwinding of the discount on the decommissioning provision is included as a finance cost. Actual cost incurred upon settlement of the decommissioning liability are charged against the provision to the extent the provision was established. Management has determined that there are no material decommissioning liabilities to the company.

Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Company recognizes an impairment loss.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Impairment of non financial 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.

3. Significant accounting policies (cont'd)

Income taxes

Income tax expense comprises current and deferred income tax. Income tax expense is recognized in statement of income (loss), except to the extent that it relates to items recognized directly in equity or other comprehensive income.

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 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 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.

Share capital

The Company's common shares, stock options, share purchase warrants and flow-through shares are classified as equity instruments only to the extent that they do not meet the definition of a financial liability or financial asset. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction, net of tax, from the proceeds.

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 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.

3. **Significant accounting policies** (cont'd)

Earnings (loss) per share

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 based payments

The Company accounts for its share-based payments 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.

Revenue recognition

Revenue from sale of oil and petroleum products is recognized when the significant risks and rewards of ownership have been transferred, which is when title passes to the customer. This generally occurs when the product is physically transferred into a vessel, pipe or other delivery mechanism. Revenue is stated after deducting sales taxes, excise duties and similar levies.

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.

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

3. **Significant accounting policies** (cont'd)

Financial instruments (cont'd)

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 that are mandatory for accounting periods beginning after January 1, 2011 or later periods.

The following standards amendments and interpretations have not yet been adopted by the Company. Each of the new standards is effective for annual periods beginning on or after January 1, 2011 or later periods with early adoption permitted. The Company is currently assessing the impact, if any, that the new and amended standards will have on its consolidated financial statements.

Financial Instruments disclosures - The International Accounting Standards Board ("IASB") has issued an amendment to IFRS 7 "Financial Instruments: Disclosures", requiring incremental disclosures regarding transfer of financial assets. This amendment is effective for annual periods beginning on or after July 1, 2011.

Financial instruments - The IASB has issued a new standard, IFRS 9 " Financial Instruments", which will ultimately replace IAS 39, "Financial Instruments: Recognition and Measurement". The replacement of IAS 39 is a multi-phase project with the objective of improving and simplifying the reporting for financial instruments and the issuance of IFRS 9 is part of the first phase. This standard is expected to become effective on January 1, 2013.

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

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

3. Significant accounting policies (cont'd)

Future accounting changes (cont'd)

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

Fair value measurement - IFRS 13 "Fair Value Measurement" 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 disclosure.

4. Critical accounting estimates, assumptions and judgements

The preparation of consolidated financial statements in accordance with IFRS requires the use of estimates, assumptions and judgements that in some cases relate to matters that are inherently uncertain, and which affect the amounts reported in the consolidated financial statements and accompanying notes. Areas of such estimation include, but are not limited to: re-measurement at fair value of financial instruments, capitalization of E&E costs, impairment of property, plant and equipment, intangibles, accounting accruals, the amortization of certain assets, and accounting for deferred income taxes. Changes to estimates and assumptions may affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could also differ from those estimates under different assumptions and conditions.

5. Segregated cash

The Company has reserved $40,815 (2010 - $40,581) 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 0.75% and matures June 4, 2012.

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6. Portfolio investments

At December 31, 2011 and 2010, the Company held the following portfolio of securities. The investments are classified as available for sale and are measured at fair value.

	Number of Securities	Dec. 31, 2011 Cost of Securities	Quoted Market Value
Greentree Gas & Oil Ltd. (common shares)	980,000	$ 133,250	$ -

	Number of Securities	Dec. 31, 2010 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
Petrolifera Petroleum Ltd (Aug 28, 2011 Warrants)	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 TSXV.

During 2011, the Company disposed of all of its other holdings of portfolio investments. The portfolio had been acquired in previous years in conjunction with proposed or actual transactions related to oil and gas properties.

7. Property and equipment

Equipment at December 31, 2011 and 2010 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	2,149	-	2,149
Amortization	-	(2,667)	(2,667)
Balance - December 31, 2011	$ 22,128	$ (15,314)	$ 6,814

7. Property and equipment (cont'd)

Oil and natural gas interests at December 31, 2011 and 2010 consists of:

	Cost	Accumulated Depletion	Net
Balance - January 1, 2010	$ -	$ -	$ -
Additions	$ 450,207	$ -	$ 450,207
Balance - December 31, 2010	$ 450,207	$ -	$ 450,207
Depletion	$ -	$ (8,475)	$ (8,475)
Balance - December 31, 2011	$ 450,207	$ (8,475)	$ 441,732

Property and equipment net book value at December 31, 2011 and 2010 was as follows:

January 1, 2010	$ 7,400
December 31, 2010	$ 457,539
December 31, 2011	$ 448,546

8. 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.

		2011	
	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	-	(22,500)	(22,500)
Balance - December 31, 2011	$ 150,000	$ (135,000)	$ 15,000

9. 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. These accounts relate to the Company's operations of the oil wells at Lloydminster, Alberta. These amounts are presented at cost.

10. Exploration and evaluation 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:

	Jan. 1, 2011	Additions	Adjustments	Dec. 31, 2011
Lonestar (i)	$ -	$ -	$ -	$ -
Lloydminster (ii)	-	-	-	-
Hamburg - Chinchaga (iii)	3,378,515	673,775	(2,026,145)	2,026,145
Southwestern Ontario (iv)	481,141	396,100	(345,833)	531,408
	$ 3,859,656	$ 1,069,875	$ (2,371,978)	$ 2,557,553

	Jan. 1, 2010	Additions	Adjustments	Dec. 31, 2010
Lonestar (i)	1,588,387	16,564	(1,604,951)	-
Lloydminster (ii)	393,906	56,301	(450,207)	-
Hamburg - Chinchaga (iii)	2,924,129	454,386	-	3,378,515
Southwestern Ontario (iv)	232,621	248,520	-	481,141
	$ 5,139,043	$ 775,771	$ (2,055,158)	$ 3,859,656

(i) Lonestar (Alberta)

On June 15, 2006, the Company entered into a farm-in agreement with a group of entities in which the Company may earn an undivided 65% working interest in the farm-out lands in the Lonestar Area in Alberta in consideration for drilling a test well. The well was drilled and cased in February 2007. The Company acquired two sections (1,280 acres) of P&NG rights (100%) in September 2007 and oil sands rights for two sections at Lonestar in May 2008. During 2010, the Company wrote off its carrying costs in Lonestar as management believes that these costs are not recoverable.

(ii) 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 arms length industry vendor for cash proceeds of $400,000. The assets consist of interests in two heavy oil leases. There is a well on each lease. The Company's interest in the first lease is a 60% working interest subject to:

(i) an obligation to pay a 60% share of the variable Crown royalties;
(ii) a 60% share of a 1% GORR payable to an arm's length party; and
(iii) a 3% GORR payable to an arm's length party on the 60% share of production.

10. Exploration and evaluation assets (cont'd)

(ii) Lloydminster (Alberta)

The Company's interest in the other lease is a 60% working interest before payout of the approximate $485,000.00 payout account associated with the well on the lease and includes the right to recoup the payout account. The interest in the well will decline to 36% after recoupment of the payout account. This lease is subject to

(i) a 60% share of the Crown royalty;
(ii) a 60% share (36% after payout) of a 1% GORR payable to an arm's length part on oil production;
(iii) a 5% to 15% variable convertible GORR payable to an arm's length party in respect of oil production;
(iv) a 15% convertible GORR payable to an arm's length party in respect of gas production; and
(v) a 3% GORR payable to an arm's length party on the Company's 60% share of production. The 5% to 15% variable convertible GORR and 15% convertible GORR are convertible to a 40% working interest payable to the arm's length party once payout has been achieved.

The wells include the right to complete one infill well on each of the leases. Upon completion and payout of any infill well, the Company will have a 60% working interest in the applicable well subject to the encumbrances on the applicable lease.

During the year, the Company entered an agreement to sell 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 TSXV. 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 during the year), completion of a concurrent financing by Madeira, and receipt of all required regulatory and TSXV 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 transaction.

During 2010, the Company commenced production in its wells in Lloydminster and as a result it had reclassified its Lloydminster E&E asset to property and equipment. The assets were reclassified as of December 31, 2011 and 2010. During 2011, the Company recorded depletion on its Lloydminster property in the amount $8,475 (2010 - $Nil). The Company did not recognize depletion as of December 31, 2010 as it was not significant.

(iii) 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.

Subsequent to the year end, the Company entered into a farmout agreement on certain interests in the above lands (Note 21).

10. Exploration and evaluation assets (cont'd)

On April 27, 2012, the Company was notified by the Farmee that it was terminating the Farmout Agreement.

The subject sections (162 in total) are set to expire unless the Company expends 16.5million dollars by March 31, 2013, of which 5.5M is required to be expended on the property by December 31, 2012 representing 45 sections.

Given the nature of the gas market, the inability to locate a joint venture partner, and the fact that ¼ of the sections will expire by December 31, 2011, the fact that the winter drilling season has passed, the Company proposes to write off 50% of the carrying value of Hamburg on the grounds that it is evident that the Company will not be able to maintain 50% of its leases and a writedown is warranted. The Company will continue to seek joint venture partners, and as time progresses, will re-evaluate the carrying cost each quarter into 2012.

Included in the statement of comprehensive loss is $2,026,145 in impairment of exploration and evaluation assets representing the impairment of the above noted assets.

(iv) Southwestern Ontario

During 2008, the Company acquired 3,833 acres (3,833 net) 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 leases acquired in 2008. The majority of leases acquired in 2010 were prepaid to end of term, the majority of which expired 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, 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 its assets in Southwestern Ontario.

During 2011, the Company analyzed its current lease acquisition strategy and holdings with a view to acquiring new leases in high priority locations, and acquired 6,386 acres (6,386 net) from arm's length individuals. In addition, the Company did not renew 16,645 acres (16,645 net) of leases. Included in the statement of comprehensive loss $345,833 in impairment of exploration and evaluation assets representing the impairment of the above noted leases.

11. 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 paid	(8,676)
Interest accreted	60,459
Equity component on extension of debentures	(49,061)
Balance, December 31, 2011	$ 1,021,438

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 the debentures to June 11, 2010 with an additional extension to December 11, 2010 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 consisted of one common share and one-half of one warrant. Each whole warrant was exercisable for one common share at $0.225 per share until the maturity date of the debentures. In addition, the Company issued to each holder 500,000 warrants (the "Compensation Warrants") exercisable for one common share at $0.225 until the maturity date.

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 from December 11, 2010 to June 11, 2011.

In April 2011, the Company negotiated an extension of the debentures from June 11, 2011 to December 31, 2011. In consideration for the extension, the Company agreed to extend the expiry date of the Compensation Warrants from June 11, 2011 to December 31, 2011.

Subsequent to the year end the Company negotiated a further extension to the maturity date of the debentures (Note 21).

12. 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 shares 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	-	(846,347)
Fair value of broker warrants	-	(132,719)
Flow-through share premium	-	(29,578)
Shares issued for cash (C)	1,176,056	220,690
Less:		
Share issue costs	-	(19,781)
Fair value of warrants	-	(69,554)
Fair value of broker warrants	-	(7,060)
Flow-through share premium	-	(2,610)
Fair value of expired broker warrants	-	217,889
Fair value of expired warrants	-	1,682,618
Fair value of extended warrants	-	(155,289)
Balance at December 31, 2011	121,953,956	$ 17,335,713

12. Capital stock (cont'd)

A) In August 2010, the Company completed a non-brokered private placement financing by issuing 3,395,300 common share units and 4,510,045 "flow-through" units at a price of $0.15 per unit and $0.18 per flow-through units with aggregate gross proceeds of $1,321,103. Each unit consisted of one common share in the capital of the Company and one common share purchase warrant of the Company. Each flow-through unit consisted of one flow-through common share of the Company and one-half of one warrant. Each whole warrant entitled the holder thereof to acquire one common share at an exercise price of $0.25 per 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 and 3,399,714 "flow-through" units at a price of $0.18 per unit and $0.21 per flow-through unit for aggregate gross proceeds of $2,661,200. Each unit consisted of one common share in the capital of the Company and one common share purchase warrant of the Company. Each flow-through unit consisted of one flow through common share of the Company and one half of one warrant each whole warrant. Each whole warrant entitled the holder thereof to acquire one common share at an exercise price of $0.30 per share until March 29, 2013. In connection with the financing, the Company 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 and 300,000 "flow through" units at a price of $0.18 per unit and $0.21 per flow-through unit for aggregate gross proceeds of $220,690. Each unit consists of one common share in the capital of the Company and one common share purchase warrant of the Company. Each flow-through unit consisted of one flow through common share of the Company and one half of one warrant. Each whole warrant entitled the holder thereof to acquire one common share at an exercise price of $0.30 per 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 $64,543, 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 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. The Company did not renew the NCIB on February 21, 2011.

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12. Capital stock (cont'd)

Escrow shares

At December 31, 2011, 1,883,536 (2010 – 3-866,563) of the issued common shares of the Company are held in escrow. These shares are subject to the escrow requirements of the TSXV and are released from escrow in stages and in accordance with the applicable escrow agreements. The balance of these shares will be released from escrow in two tranches, as to 941,768 in April 2012 and October 2012.

13. Contributed surplus

Balance, January 1, 2010	$ 1,071,315
Stock-based compensation	158,378
Balance, December 31, 2010	1,229,693
Stock-based compensation	329,087
Balance, December 31, 2011	$ 1,558,780

14. Warrants

	Number of warrants	Fair value	Weighted Average Exercise Price
Balance, January 1, 2010	26,280,186	$ 2,045,363	$ 0.34
Warrants issued, April 2010	1,052,750	66,046	0.23
Warrants issued, August 2010	5,650,323	353,740	0.25
Broker warrants issued, August 2010	749,535	77,118	0.15
Warrants issued, December 2010	138,861	27,772	0.20
Exercised warrants	(166,611)	(33,322)	(0.20)
Exercised broker warrants	(624,307)	(56,188)	(0.09)
Expired warrants	(2,107,710)	(293,347)	(0.81)
Expired broker warrants	(1,327,083)	(8,562)	(0.15)
Extended warrants revaluation	-	678,133	-
Balance, December 31, 2010	29,645,944	2,856,753	0.29
Warrants issued, March 2011	12,517,967	846,347	0.30
Broker warrants issued, March 2011	1,233,450	132,719	0.18
Warrants issued, April 2011	1,026,056	69,554	0.30
Broker warrants issued, April 2011	57,075	7,060	0.18
Exercised warrants	(47,175)	(7,935)	(0.20)
Expired warrants	(14,559,923)	(1,674,683)	(0.31)
Expired broker warrants	(1,547,738)	(217,889)	(0.25)
Extended warrants revaluation	-	155,289	-
Balance, December 31, 2011	28,325,656	$ 2,167,215	$ 0.28

14. Warrants (cont'd)

The Company had the following warrants outstanding at December 31, 2011:

Number of warrants	Type of shares	Exercise price	Expiry date
3,201,250	Common shares	$ 0.35	February 6, 2012
2,890,000	Common shares	0.35	April 9, 2012
1,326,000	Common shares	0.25	August 3, 2012
3,746,445	Common shares	0.25	August 9, 2012
577,878	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
1,000,000	Common shares	0.225	March 31, 2013
26,285,596			

Broker warrants

221,700	Common shares plus one share purchase warrant	0.15	August 3, 2012
455,589	Common shares plus one share purchase warrant	0.15	August 9, 2012
72,246	Common shares plus one share purchase warrant	0.15	August 20, 2012
1,233,450	Common shares plus one share purchase warrant	0.18	March 29, 2013
57,075	Common shares plus one share purchase warrant	0.18	April 26, 2013
2,040,060	Total broker warrants		
28,325,656	Total warrants and broker warrants		

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%	1.21 - 1.89%
Dividend yield	Nil	Nil
Expected stock price volatility	117 - 129%	117 - 123%
Warrants life	2 year	2 year

15. Stock options

On July 26, 2011 the shareholders of the Company approved a stock option plan (the "Plan") to enable directors, officers, employees and consultants of the Company to purchase common shares. 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. No material changes were made to the Plan in the current period.

The following summarizes the stock option activities:

	Number of Options	Weighted Average Exercise Price
Balance, January 1, 2010	9,620,834	$ 0.21
Granted	950,000	0.25
Balance, December 31, 2010	10,570,834	0.21
Forfeited during the year	(2,319,334)	0.18
Granted during the year	3,409,750	0.21
Balance, December 31, 2011	11,661,250	$ 0.21

The Company had the following stock options outstanding at December 31, 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	142,375	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
589,000	May 2, 2008	0.23	589,000	May 2, 2013
1,650,000	Dec. 24, 2008	0.15	1,650,000	Dec. 24, 2013
1,025,000	May 14, 2009	0.315	1,025,000	May 14, 2014
300,000	Dec. 3, 2009	0.21	300,000	Dec. 3, 2014
743,875	Nov. 19, 2010	0.25	696,416	Nov. 19, 2020
1,525,000	April 8, 2011	0.195	662,498	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
361,250	Nov. 29, 2011	0.14	180,625	Nov. 29, 2021
162,500	May 2, 2008	0.23	162,500	Nov. 29, 2012
100,000	Dec. 24, 2008	0.15	100,000	Nov. 29, 2012
75,000	May 14, 2009	0.315	75,000	Nov. 29, 2012
63,750	Nov. 19, 2010	0.25	63,750	Nov. 29, 2012
25,000	April 8, 2011	0.195	25,000	Nov. 29, 2012
11,661,250			9,821,414	

15. 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:

	2011	2010
Risk-free interest rates	1.7%	1.7%
Dividend yield	NIL	NIL
Expected stock price volatility	129%	122%
Option life	10 years	10 years

16. Related party transactions

During 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 $60,495 (2010 - $114,836) to Garfinkle, Biderman LLP, a law firm in which Robbie Grossman and Barry M. Polisuk (the secretary and assistant secretary respectively) are partners. At December 31, 2011, $6,398 (2010 - $Nil) of this amount is included in accounts payable and accrued liabilities.

Included in professional fees are $139,000 (2010 - $93,380) 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 $68,323 (2010 - $9,792) for costs incurred relating to his duties of office, of which $43,470 relates to contracting out for assistance with IFRS planning, conversion, and implementation, report writing, and related assistance.

Fees in the amount of $235,000 (2010 - $165,000) were paid to Darrell Brown, of which $150,000 have been capitalized (2010 - $150,000) to various E&E assets during the period. These services are provided pursuant to a consulting agreement. Darrell Brown was reimbursed $42,662 for costs incurred related to his duties of office.

Fees in the amount of $315,266 were paid to Richard Cohen (2010 - $134,880) for consulting services rendered during the year. 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. At year end, a liability of $215,958 is included in account payable and will be offset by other amounts of $46,568 owed to the Company by Clark Avenue Company Inc.

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.

17. 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:

	2011	2010
Loss before income taxes	$ 4,494,975	$ 2,479,999
Statutory rate	25%	29%
Expected income tax recovery	1,123,744	719,200
Increase (decrease) in tax recoveries resulting from:		
Non-deductible expenses and other	(90,499)	(45,930)
Change in valuation allowance	(1,033,245)	(673,270)
	-	-
Flow through share premium amortization	(24,028)	-
Income tax recovery	$ (24,028)	$ -

Deferred Income Taxes

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

Deferred tax assets	2011	2010
Expected future combined tax rate	25%	25%
Exploration and evaluation assets	$ 1,633,672	$ 1,994,902
Amounts related to tax loss and credit carry forwards	3,468,784	1,754,095
Equipment and intangible assets	9,348	11,685
Share issuance costs	186,072	210,326
Net deferred income tax assets	5,297,876	3,971,008
Deferred income tax liability		
Renunciation of exploration and deferred costs	(1,633,672)	(1,523,849)
Less: Valuation allowance	3,664,204	2,447,159
Net deferred income tax	$ -	$ -

Loss Carry Forwards

As at December 31, 2011, the Company has approximately $13,867,026 (2010 - $11,810,781) unutilized non-capital losses for income tax purposes which may be used to reduce future taxable income. The Company also has approximately $35,408 (2010 - $49,816) of unutilized capital losses for income tax purposes.

17. Income taxes (cont'd)

These losses expire as follows:

Year of Expiry	Amount
2014	$ 213,502
2015	49,644
2026	583,580
2027	6,262,520
2028	1,797,276
2029	1,883,654
2030	1,020,605
2031	2,056,245
	$ 13,867,026

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:

i) 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.

ii) 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 2011, the Company and the landlord agreed to settle this matter for $75,000.

During 2011, 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 $169,000 by December 31, 2012, being the gross proceeds of flow-through shares issued during 2011, which have not been expended on qualifying exploration expenditures associated with its E&E as of December 31, 2011.

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 year.

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 December 31, 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 Note 11 and the portfolio investments are reported at market prices as disclosed in Note 6.

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 6).

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.

20. Financial instruments (cont'd)

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.

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

Farmout Agreement

Subsequent to the year end, the Company entered into a farmout agreement with a private Alberta based company (the "Farmee") over its Hamburg Chinchaga property in Alberta (the "Hamburg Lands"). The farmout agreement has been approved by the TSXV and by shareholders representing more than 50% of the issued and outstanding shares of the company.

Under the terms of the farmout agreement, the Farmee must drill eleven (11) test wells on the lands and log and test all formations prospective of containing petroleum substances under rights held by the Company. The Farmee plans to commence drilling operations on or before May 30, 2012 at its sole cost, risk and expense. Upon fulfilling its obligations to drill all eleven (11) test wells, the Farmee will earn

(i) 100% of the Company's interest in each of the eleven (11) drill spacing units subject to a 6% overriding royalty payable to the Company (subject to specific deductions) which is convertible into a 20% undivided participating interest upon payout, and
(ii) 80% of the Company's interest in the remaining Hamburg Lands. The eleven (11) test wells will validate as qualified land of a licence to extend from the primary term (4 years) to an intermediate term (additional 5 year extension).

The Farmee has until April 30, 2012 to demonstrate dedicated funds of a minimum $16.5 million in order to meet its obligations pursuant to the farmout agreement.

On April 27, 2012, the Company was notified by the Farmee that it was terminating the Farmout Agreement.

Convertible Debentures Extension

Subsequent to the year end, the Company negotiated an extension of its two convertible debentures. As a result of several amendments, the debentures matured on December 31, 2011 and each has $510,719 in principal outstanding.

Subject to the farmout agreement becoming effective, the maturity date of the debentures will be extended to March 31, 2013. In consideration for the extension, the Company has agreed to

(i) amend the conversion price of the debentures from $0.225 to $0.10 per unit,
(ii) extend the expiry date of the 500,000 Compensation Warrants from December 31, 2011 to March 31, 2013,
(iii) amend the exercise price of the Compensation Warrants from $0.225 to $0.10 per warrant, and
(iv) pay a refinance fee to each debenture holder of $25,000.

The debentures accrue interest at 10% per annum and are payable on conversion or maturity, or in advance without penalty. Subject to the farmout agreement being effective, the debentures will be convertible into units of the Company at $0.10 per unit. Each unit shall consist of one common share and one-half of one warrant, with each whole warrant entitling the holder thereof to purchase one common share at $0.10 per share until March 31, 2013. The extension of the debentures is subject to prior approval of the TSXV.

22. Reconciliation of Canadian GAAP to IFRS

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

The accounting policies set out in note 3 have been applied in preparing the financial statements for the year ended December 31, 2011 and the comparative information presented in these financial statements for the 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 22 (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 22 (vi)).

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

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.

In accordance with IFRS transitional provisions, the Company elected to use the deemed cost of property, plant and equipment for its exploration and evaluation assets, which allows the Company to measure its exploration and evaluation assets as the amounts capitalized under Canadian GAAP at the date of transition to IFRS.

(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.

(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.

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

(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.

22. Reconciliation of Canadian GAAP to IFRS

Reconciliation of balance sheet as at December 31, 2010 from Canadian GAAP to IFRS:

	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
ASSETS				
Current				
Cash and cash equivalents		$ 238,104	$ -	$ 238,104
Segregated cash		40,581	-	40,581
Sundry receivable		92,694	-	92,694
Portfolio investment		59,738	-	59,738
Prepaid expenses		18,430	-	18,430
		449,547	-	449,547
Equipment		457,539	-	457,539
Intangible asset		37,500	-	37,500
Deposits		252,580	-	252,580
Exploration and evaluation assets	(ii)	3,859,656	-	3,859,656
		$ 5,056,822	$ -	$ 5,056,822
LIABILITIES				
Current				
Accounts payable and accrued liabilities		$ 184,350	$ -	$ 184,350
Convertible debentures payable		1,018,716	-	1,018,716
Deferred premium on flow-through shares	(v)	-	5,829	5,829
		1,203,066	5,829	1,208,895
SHAREHOLDERS' EQUITY				
Capital stock	(v)	13,863,419	225,399	14,088,818
Contributed surplus	(vi)	1,059,794	169,899	1,229,693
Equity component of convertible debenture		142,998	-	142,998
Warrants		2,856,753	-	2,856,753
Accumulated other comprehensive loss		(120,585)	-	(120,585)
Deficit	(v), (vi)	(13,948,623)	(401,127)	(14,349,750)
		3,853,756	(5,829)	3,847,927
		$ 5,056,822	$ -	$ 5,056,822

22. Reconciliation of Canadian GAAP to IFRS

Reconciliation of balance sheet as at January 1, 2010 from Canadian GAAP to IFRS:

	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
ASSETS				
Current				
Cash and cash equivalents		$ 1,909,827	$ -	$ 1,909,827
Segregated cash		40,500	-	40,500
Sundry receivable		67,592	-	67,592
Portfolio investment		79,660	-	79,660
Prepaid expenses		147,119	-	147,119
		2,244,698	-	2,244,698
Equipment		7,400	-	7,400
Intangible asset		70,000	-	70,000
Investment in East Coast Energy Inc.		18,656	-	18,656
Deposits		218,773	-	218,773
Convertible debenture - East Coast Energy Inc.		235,649	-	235,649
Exploration and evaluation assets	(ii)	5,139,043	-	5,139,043
		$ 7,934,219	$ -	$ 7,934,219
LIABILITIES				
Current				
Accounts payable and accrued liabilities		$ 603,105	$ -	$ 603,105
Convertible debentures payable		2,440,292	-	2,440,292
		3,043,397	-	3,043,397
SHAREHOLDERS' EQUITY				
Capital stock	(v)	13,604,305	28,276	13,632,581
Contributed surplus	(vi)	951,510	119,805	1,071,315
Equity component of convertible debenture		111,974	-	111,974
Warrants		2,045,363	-	2,045,363
Accumulated other comprehensive loss		(100,661)	-	(100,661)
Deficit	(v), (vi)	(11,721,669)	(148,081)	(11,869,750)
		4,890,822	-	4,890,822
		$ 7,934,219	$ -	$ 7,934,219

22. Reconciliation of Canadian GAAP to IFRS

Reconciliation of statement of loss and comprehensive loss as previously reported under Canadian GAAP for the year ended December 31, 2010:

	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
Income		$ 60,632	$ -	$ 60,632
Expenses				
Consulting		356,940	-	356,940
Finance costs	(iv)	203,140	-	203,140
Office and general		166,140	-	166,140
Professional fees		108,622	-	108,622
Stock based compensation	(vi)	108,284	50,094	158,378
Travel		91,775	-	91,775
Insurance		27,200	-	27,200
Board of directors fees		3,500	-	3,500
Amortization		34,976	-	34,976
		1,100,577	50,094	1,150,671
Loss before undernoted		(1,039,945)	(50,094)	(1,090,039)
Impairment of exploration and evaluation assets		(1,604,951)	-	(1,604,951)
Abandoned project costs		(7,249)	-	(7,249)
Recovery for impairment of debentures receivable		70,695	-	70,695
Proceeds on sale of exploration and evaluation assets		151,544	-	151,544
Loss before income taxes		(2,429,906)	(50,094)	(2,480,000)
Deferred income tax recovery	(iii)	202,952	(202,952)	-
Net loss for the year		(2,226,954)	(253,046)	(2,480,000)
Unrealized (gain) loss on portfolio investments		(19,924)	-	(19,924)
Comprehensive loss for the year		$ (2,246,878)	$ (253,046)	$ (2,499,924)
Net loss per share basic and diluted		$ (0.02)	$ -	$ (0.02)
Weighted average number of shares - basic and diluted		$ 100,959,146	$ -	$ 100,959,146

22. Reconciliation of Canadian GAAP to IFRS

Reconciliation of shareholders' equity as at December 31, 2010 and January 1, 2010 from Canadian GAAP to IFRS:

	Dec. 31, 2010	Jan. 1, 2010
Total shareholders' equity under Canadian GAAP	$ 3,853,756	$ 4,890,822
Effect of Flow-Through shares under IFRS:		
Flow-through share premium recognized	(5,829)	-
Deferred income tax liability on renunciation reallocated from capital stock to net loss	202,452	28,276
Deferred income tax liability on renunciation reallocated from capital stock to net loss	(202,452)	(28,276)
Effect of stock options valuation under IFRS:		
Stock based compensation increase in contributed surplus	(50,094)	(119,805)
Stock based compensation increase in net loss	50,094	119,805
Total adjustments to shareholders' equity	(5,829)	-
Total shareholders' equity under IFRS	$ 3,847,927	$ 4,890,822

23. Comparative figures

Certain prior period figures have been restated in order to conform with the financial statement presentation for the current period. The Company had reclassified its Lloydminster property as of December 31, 2010 from E&E assets to property and equipment (Note 10).