MOONCOR OIL & GAS CORP.

Consolidated Financial Statements

December 31, 2012 and 2011

Collins Barrow
Chartered Accountants

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Mooncor Oil & Gas Corp.

We have audited the accompanying consolidated financial statements of Mooncor Oil & Gas Corp. and its subsidiaries, which comprise the consolidated balance sheet as at December 31, 2012 and the consolidated statements of operations and comprehensive loss, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained 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 financial position of Mooncor Oil & Gas Corp. and its subsidiaries as at December 31, 2012 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates the existence of material uncertainties that may cast significant doubt about the company's ability to continue as a going concern.

Other Matter

The consolidated financial statements for the year end December 31, 2011 were audited by another auditor who expressed an unmodified opinion on those financial statements dated April 30, 2012.

As part of our audit of the 2012 consolidated financial statements, we also audited the adjustments described in Note 15 that were applied to amend the 2011 consolidated financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2011 consolidated financial statements of the company other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2011 consolidated financial statements taken as a whole.

Collins Barrow Toronto LLP

Collins Barrow Toronto LLP
Licensed Public Accountants
Chartered Accountants
April 30, 2013

Mooncor Oil & Gas Corp.
Consolidated Balance Sheets
(Expressed in Canadian dollars)

As at	**December 31, 2012**	**December 31, 2011 (Restated) (Note 15)**
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 204,780	$ 602,201
Sundry receivable	135,382	210,810
Prepaid expenses	20,737	33,443
	360,899	846,454
Other Assets:		
Segregated cash (Note 8)	40,968	40,815
Property and equipment (Note 4)	505,000	448,546
Intangible assets (Note 4)	-	15,000
Deposits (Note 12)	349,381	342,956
Exploration and evaluation assets (Note 5)	-	2,557,553
	895,349	3,404,870
	$ 1,256,248	$ 4,251,324
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued liabilities	$ 1,139,166	$ 855,835
Convertible debentures payable (Note 7)	1,099,515	1,021,438
Deferred premium on flow-through shares	-	13,989
Reclamation and decommissioning obligation (Note 8)	70,527	-
	2,309,208	1,891,262
SHAREHOLDERS' EQUITY		
Capital stock (Note 6)	18,447,248	17,335,713
Contributed surplus (Note 6)	1,705,263	1,558,780
Equity component of convertible debenture	192,059	192,059
Warrants (Note 6)	1,055,680	2,167,215
Deficit	(22,453,210)	(18,893,705)
	(1,052,960)	2,360,062
	$ 1,256,248	$ 4,251,324

GOING CONCERN (Note 1)
COMMITMENTS AND CONTINGENCIES (Note 12)
SUBSEQUENT EVENTS (Note 16)

Approved by the Board of Directors

"Alan Myers" Director

"Allen Lone" Director

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

Mooncor Oil & Gas Corp.
Consolidated Statements of Comprehensive Loss
(Expressed in Canadian dollars)

	Year ended December 31, 2012	Year ended December 31, 2011 (Restated) (Note 15)
PRODUCTION REVENUE	$ 67,366	$ 192,609
EXPENSES		
Consulting (Note 9)	43,529	588,157
Stock-based compensation (Note 6)	146,483	329,087
Professional fees (Note 9)	205,557	313,158
Production and operating expenses	195,224	273,010
Exploration and evaluation expenditures	39,464	261,932
Office and general	76,553	182,147
Finance costs (note 7)	104,484	174,650
Travel	8,964	91,154
Insurance	36,932	20,591
Board of director fees	-	1,370
Bad debt expense	10,470	-
Amortization and depletion	28,171	33,642
	895,831	2,268,898
Loss before undernoted	**(828,465)**	**(2,076,289)**
Impairment of exploration and evaluation assets (note 5)	(2,745,029)	(2,371,978)
Realized gain on disposal of available-for-sale investments	-	868
Impairment of available-for-sale investments	-	(120,585)
Loss before income taxes	(3,573,494)	(4,567,984)
Deferred income tax recovery (Note 10)	13,989	24,028
Net loss and Comprehensive loss for the year	$ (3,559,505)	$ (4,543,956)
Weighted Average Shares Outstanding - basic and diluted	121,953,956	118,646,927
Net loss per share - basic and diluted	$ 0.03	$ 0.04

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

Mooncor Oil & Gas Corp.
Consolidated Statements of Changes in Equity
(Expressed in Canadian dollars)

	Capital Stock - Number of Shares	Capital Stock	Contributed Surplus	Equity component of convertible debenture	Warrants	Accumulated Other Comprehensive Loss	Deficit	Total Equity
Balance at January 1, 2011	106,512,901	$ 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 (Note 6)	15,393,880	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	47,175	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)			-
Expired warrants revaluation		(155,289)			155,289			-
Flow-through share premium		(32,188)						(32,188)
Impairment of available-for-sale investments						120,585		120,585
Loss for the year							(4,543,956)	(4,543,956)
Balance at December 31, 2011	121,953,956	$ 17,335,713	$ 1,558,780	$ 192,059	$ 2,167,215	$ -	$ (18,893,705)	$ 2,360,062
Balance at January 1, 2012	121,953,956	$ 17,335,713	$ 1,558,780	$ 192,059	$ 2,167,215	$ -	$ (18,893,705)	$ 2,360,062
Stock-based compensation			146,483					146,483
Warrants:								
Expired warrants transferred to capital stock		945,169			(945,169)			-
Expired broker warrants transferred to capital stock		166,366			(166,366)			-
Loss for the year							(3,559,505)	(3,559,505)
Balance at December 31, 2012	121,953,956	$ 18,447,248	$ 1,705,263	$ 192,059	$ 1,055,680	$ -	$ (22,453,210)	$ (1,052,960)

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

Mooncor Oil & Gas Corp.
Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

	Year ended December 31, 2012	Year ended December 31, 2011 (Restated)
Cash flows from operating activities		
Net loss	$ (3,559,505)	$ (4,543,956)
Impairment of exploration and evaluation assets	2,745,029	2,371,978
Stock-based compensation	146,483	329,087
Interest accrued on convertible debenture	78,077	51,783
Accretion of reclamation and decommissioning obligation	902	-
Impairment of available-for-sale investments	-	120,585
Realized gain on disposal of available-for-sale investments	-	(868)
Deferred income tax recovery	(13,989)	(24,028)
Amortization	28,171	33,642
	(574,832)	(1,661,777)
Changes in non-cash working capital items		
Sundry receivables	75,428	(118,116)
Segregated cash	(153)	(234)
Prepaid expense	12,706	(15,013)
Deposits	(6,425)	(90,376)
Accounts payable and accrued liabilities	283,331	671,487
	(209,945)	(1,214,029)
Cash flows from investing activities		
Purchase of equipment	-	(2,149)
Proceeds on sale of portfolio investments	-	60,606
Additions to exploration and evaluation assets	(187,476)	(1,069,876)
	(187,476)	(1,011,419)
Cash flows from financing activities		
Share issue costs	-	(300,280)
Issuance of capital stock, net of share issuance costs	-	2,881,890
Proceeds on exercise of share warrants	-	7,935
	-	2,589,545
Net change in cash and cash equivalents	(397,421)	364,097
Cash and cash equivalents, beginning of year	602,201	238,104
Cash and cash equivalents, end of year	$ 204,780	$ 602,201
Supplemental Information		
Income tax paid	$ -	$ -
Interest paid	$ 25,466	$ 102,585

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

1. NATURE OF OPERATIONS AND CONTINUANCE OF OPERATIONS

Mooncor Oil & Gas Corp. (the "Company") is continued under the Business Corporations Act (Ontario). The Company's principal assets are oil and nature gas interests which are not yet in substantial commercial production. The Company is in the process of exploring other opportunities.

The Company is a public company trading on the TSX Venture Exchange ("TSXV") under the symbol "MOO". 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

The consolidated financial statements have been prepared on the 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 in the normal course of business. The Company has a working capital deficiency in the amount of $1,948,309 and has a deficit in the amount of $22,453,210. The working capital deficiency and losses incurred limit the Company's ability to fund operations. In addition, there is uncertainty as to whether the Company will be able to raise sufficient funds to finance continued operations. As a result, there is significant doubt upon the Company's ability to continue as a going concern.

These consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

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 Board of Directors approved these financial statements on April 30, 2013.

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 statements are presented in Canadian dollars, which is the Company's functional currency.

Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries Mooncor Energy and DRGN. All intercompany balances and transactions are eliminated in preparing the consolidated financial statements. The financial statements of each subsidiary are consolidated from the date that control commences until the date that control ceases.

2. BASIS OF PRESENTATION (Continued)

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.

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. Key estimates include the recognition of depletion, the calculation of stock-based compensation, the issuance and extension of convertible debt including estimating the fair value of liability and equity components, impairment of property and equipment and exploration and evaluation assets, and the valuation of decommissioning and reclamation obligations.

3. SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and on hand and short-term deposits with a term to maturity of three months or less.

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 oil and natural gas interests, 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.

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 petroleum related 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Exploration and evaluation assets (Continued)

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.

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 farm-out 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 the statement of comprehensive income for the year.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 the statement of comprehensive 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 a follows:

Database	5 years, sum of the year's digits

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.

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 it 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 (Continued)

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 (Continued)

Earnings (loss) per share

Basic loss per share figures are calculated using the weighted average number of common shares outstanding during the period. Diluted loss per share figures are calculated based on the weighted average number of common shares outstanding adjusted for the effects of all dilutive potential shares including warrants, stock options, and convertible debentures. The effect on the diluted loss per share on the exercise of the warrants, conversion of convertible debentures, and stock options would be anti-dilutive.

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

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. The classification of financial assets and liabilities depends on the nature and purpose of the financial assets or liabilities and is determined at the time of initial recognition.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in the consolidated statement of comprehensive loss.

Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

a) Fair value through profit or loss ("FVTPL") – This category comprises financial assets held for trading and assets designated upon initial recognition as FVTPL. Financial assets held for trading are acquired or incurred principally for the purpose of selling or repurchasing in the near term. On initial recognition it is part of a portfolio of identifiable financial instruments managed together for which there is evidence of a recent pattern of short-term profit taking, or a derivative (excluding a derivative used for hedging). FVTPL are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of comprehensive loss for the year.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

b) Loans and receivables – Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are recognized initially at the amount expected to be received, less, when material, a discount to reduce loans and receivables to fair value. Subsequently, loans and receivable are measured at initial measurement less any allowance for doubtful accounts.

c) Held-to-maturity investments – Non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, the amount of the impairment loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows discounted at the Company's original effective interest rate. The impairment losses are recognized in the statement of comprehensive loss.

d) Available-for-sale – Non-derivative financial assets designated as available-for-sale and financial assets that are not classified as loans and receivables, held to maturity investments or FVTPL. Available-for-sale are carried at fair value with changes in fair value recognized in other comprehensive income. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment other than temporary, the amount of the loss is removed from the other comprehensive income and recognized in the statement of comprehensive loss.

e) All financial assets except for those recorded at FVTPL and as available-for-sale are subject to review for impairment. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired.

Financial liabilities

The Company classifies its financial liabilities into one of two categories depending on the purpose for which the liability was assumed. The Company's accounting policy for each category is as follows:

a) FVTPL – This category comprises financial liabilities held for trading and liabilities designated upon initial recognition as FVTPL. FVTPL liabilities are carried in the balance sheet at fair value with changes in fair value recognized in the statement of comprehensive loss for the period.

b) Other financial liabilities – All other financial liabilities except financial liabilities FVTPL.

Classification of financial instruments

IFRS 7, Financial instruments: disclosures, establishes a fair value hierarchy that reflects the significance of inputs in measuring fair value as the following:

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Classification of financial instruments (Continued)

The classification of a financial instrument in the fair value hierarchy is based upon the lowest level of input that is significant to the measurement of fair value.

The Company's financial instruments consist of the following:

Financial Instrument	Classification	Measurement
Cash and cash equivalents and segregated cash	FVTPL	Fair value
Sundry receivable	Loans and receivables	Amortized cost
Deposits	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Reclamation and decommissioning obligation	Other financial liabilities	Amortized cost
Convertible debentures	Other financial liabilities	Amortized cost

The fair value of cash and cash equivalents and segregated cash, sundry receivable, deposits, accounts payable and accrued liabilities, and convertible debentures, approximates their carrying values due to their short-term nature.

As of December 31, 2012 and December 31, 2011, except for cash and cash equivalents and segregated cash, none of the Company's financial instruments are recorded at fair value in the consolidated balance sheet. Cash and cash equivalents and segregated cash are classified as Level 1.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

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, 2013 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, 2013 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 - 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, 2015.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Future accounting changes (Continued)

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". This standard is effective for annual periods beginning on or after January 1, 2013.

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 joint ventures. IRFS 11 supersedes IAS 31 "Interest in Joint Ventures" and SIC-13 "Jointly Controlled Entities - Non-monetary Contributions by Venturers". This standard applies to annual reporting periods beginning on or after January 1, 2013.

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. IFRS 12 is effective for annual periods beginning on or after January 1, 2013.

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. IFRS 13 is to be applied for annual periods beginning on or after January 1, 2013.

Management is currently assessing the impact of these standards.

4. PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

Property and equipment at December 31, 2012 consists of:

	Cost	Acc. Amortization	Net
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
Additions	-	-	-
Amortization	-	(6,814)	(6,814)
Balance, December 31, 2012	$ 22,128	$ (22,128)	$ -

4. PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS (Continued)

Oil and natural gas interests at December 31, 2012 consists of:

	Cost	Acc. Amortization	Net
Balance, December 31, 2010	$ 450,207	$ -	$ 450,207
Additions	-	-	-
Depletion	-	(8,475)	(8,475)
Balance, December 31, 2011	450,207	(8,475)	441,732
Reclamation and decommissioning obligation	69,625	-	69,625
Depletion	-	(6,357)	(6,357)
Balance, December 31, 2012	$ 519,832	$ (14,832)	$ 505,000
Balance, December 31, 2011			**$ 448,546**
Balance, December 31, 2012			**$ 505,000**

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

Intangible assets at December 31, 2012 consists of:

	Cost	Acc. Amortization	Net
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
Amortization	-	(15,000)	(15,000)
Balance, December 31, 2012	$ 150,000	$ (150,000)	$ -

Oil and Natural Gas Interests (Lloydminster (Alberta))

In 2008, Company acquired two suspended heavy oil wells and leases and related P&NG rights in the Lloydminster area of Alberta from an arm's length party for cash proceeds of $400,000.

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.

4. PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS (Continued)

Oil and Natural Gas Interests (Lloydminster (Alberta)) (Continued)

The Company's interest in the second lease is a 100% working interest before payout of the approximate $485,000 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 60% 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 party 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 2011, the Company entered an agreement to sell to Madeira Minerals Ltd. ("Madeira"), all of the Company's right, title and interest in the two 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 prior year), completion of a concurrent financing by Madeira (not yet completed), and receipt of all required regulatory and TSXV approvals (not yet completed – refer to note 16). 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. Included in sundry receivable is $33,131 related to costs incurred by the Company to be reimbursed from Madeira on closing.

5. 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 unproved and consist of:

	January 1, 2012	Additions	Abandonment/ Recoveries	Dec 31, 2012
Hamburg - Chinchaga[a]	$ 2,026,145	$ 132,408	$ (2,158,553)	$ -
Southwestern Ontario[b]	531,408	55,068	(586,476)	-
TOTAL	**$ 2,557,553**	**$ 187,476**	**$ (2,745,029)**	**$ -**

5. EXPLORATION AND EVALUATION ASSETS (Continued)

	January 1, 2011	Additions	Abandonment/ Recoveries	Dec 31, 2011
Hamburg - Chinchaga[a]	$ 3,378,515	$ 673,775	$ (2,026,145)	$ 2,026,145
Southwestern Ontario[b]	481,141	396,100	(345,833)	531,408
TOTAL	**$ 3,859,656**	**$ 1,069,875**	**$ (2,371,978)**	**$ 2,557,553**

a. 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 2012, the Company entered into an agreement (“Farmout Agreement”) with a private Alberta based company (the "Farmee") over its Hamburg Chinchaga property in Alberta (the "Hamburg Lands"). The Farmout Agreement had been approved by the TSXV and by shareholders representing more than 50% of the issued and outstanding shares of the Company. The Farmee had 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.

The leases on the subject sections (162 in total) expired March 31, 2013. During 2012, the Company wrote down the Hamburg Chinchaga E&E assets by $2,158,553 (2011: $2,026,145), effectively reducing the carrying amount to $nil as management does not intend to pursue this project.

The Company is liable to undertake reclamation and abandonment work on all leases. Currently no obligations have been incurred.

b. Southwestern Ontario

Prior to 2011, the Company acquired 22,570 acres (22,425 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 2011, the Company acquired an additional 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.

The Company is not acquiring any new leases at this time pending an analysis of the direction of this project. During 2012, the Company wrote down the Southwestern Ontario E&E by $586,476 (2011: $345,833), effectively reducing the carrying amount to $nil as management does not intend to pursue the project.

The Company is liable to undertake reclamation and abandonment work on all leases. Currently no obligations have been incurred.

6. CAPITAL AND RESERVES

a. Share capital

At December 31, 2012, the authorized share capital comprised an unlimited number of common shares.

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.

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.

b. Warrants

Details of warrant transactions for the year are as follows:

	# of Warrants	Amount $	Wtd. Avg. Ex. Price
Balance, December 31, 2010	29,645,944	$ 2,856,753	$0.28
Warrants issued	14,834,548	1,055,680	$0.24
Exercised warrants	(47,175)	(7,935)	$0.20
Expired warrants	(17,107,661)	(1,892,572)	$0.28
Warrants revalued	-	155,289	
Balance, December 31, 2011	27,325,656	2,167,215	$0.24
Expired warrants	(12,491,108)	(1,111,535)	$0.24
Balance, December 31, 2012	14,834,548	$ 1,055,680	$0.24

The fair value of each warrant issued in 2011 was estimated on the date of issuance using an option pricing model, using the following assumptions: risk-free interest rates – 1.21-1.89%; dividend yield – NIL; expected stock price volatility determined using the Company's historical volatility – 117-129%; a share price of $0.12 and warrant life – 2 years. Pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate.

6. CAPITAL AND RESERVES (Continued)

b. Warrants (Continued)

The following table summarizes information about the broker warrants (common share plus one share purchase warrant) outstanding at December 31, 2012:

Expiry Dates	Exercise Price	# of Warrants
March 29, 2013	0.30	12,517,967
April 26, 2013	0.30	1,026,056
		13,544,023

The following table summarizes information about the broker warrants outstanding at December 31, 2012:

Expiry Dates	Exercise Price	# of Broker Warrants
March 29, 2013	0.18	1,233,450
April 26, 2013	0.18	57,075
		1,290,525
Total warrants outstanding		14,834,548

There were no warrants exercised or issued during 2012.

c. Stock options

Details of stock option transactions for the period ended December 30, 2012 are as follows:

	# of Options	Weighted. Avg. Ex. Price
Balance, December 31, 2010	10,570,834	$0.21
Granted	3,409,750	$0.21
Expired	(2,319,334)	$0.18
Balance, December 31, 2011	11,661,250	$0.21
Forfeited	(112,500)	$0.20
Expired	(3,793,625)	$0.25
Balance, December 31, 2012	7,755,125	$0.21

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.

6. CAPITAL AND RESERVES (Continued)

c. Stock options (Continued)

The following table summarizes information about the options outstanding at December 31, 2012:

Expiry Dates	Exercise Price	# of Options Outstanding and Exercisable
Jan 30, 2013	$0.14	700,000
May 2, 2013	$0.23	589,000
Dec 24, 2013	$0.15	1,650,000
May 14, 2014	$0.315	1,025,000
Dec 3, 2014	$0.21	187,500
Nov, 19, 2020	$0.25	743,875
April, 8, 2021	$0.195	1,525,000
May, 4, 2021	$0.23	787,500
May, 11, 2021	$0.23	186,000
Nov, 29, 2021	$0.14	361,250
		7,755,125

No stock options were exercised or issued during 2012.

The fair value of $457,120 of stock options was estimated on the date of grant using an option pricing model, using the following assumptions: risk-free interest rates – 1.7%; dividend yield – NIL; expected stock price volatility determined using the Company's historical volatility –129%; share price of $0.085 and option life – 10 years.

d. Contributed surplus

Balance, December 31, 2010	$	1,229,693
Stock based compensation		329,087
Balance, December 31, 2011		1,558,780
Stock-based compensation		146,483
Balance, December 31, 2012	$	1,705,263

7. CONVERTIBLE DEBENTURES PAYABLE

The carrying value of the debentures payable is as follows:

Balance, December 31, 2010	$	1,018,716
Interest paid		(8,676)
Interest accreted		60,459
Equity component of extension of debentures		(49,061)
Balance, December 31, 2011		1,021,438
Interest accrued		103,542
Interest paid		(25,465)
Balance, December 31, 2012	$	1,099,515

7. CONVERTIBLE DEBENTURES PAYABLE (Continued)

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 was 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 was 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.

As a result of several amendments described above, the debentures matured on December 31, 2011 and each had $510,719 in principal outstanding. The debentures have not been repaid and are reflected as current liabilities due on demand accruing interest at 10% per annum.

The Company has been in negotiations with the debenture holders to address extension for repayment. No agreement has yet been reached.

8. RECLAMATION AND DECOMMISSIONING OBLIGATION

The Company is liable to undertake reclamation and abandonment work on its leases. The total cost for reclamation and abandonment work is not known at this time. The Company estimated the total undiscounted amount required to settle the obligation is $80,000 (December 31, 2011 - $nil). The costs are expected to be settled between 2023 and 2024. The liability has been discounted using a risk-free interest rate of 2.16% as at December 31, 2012 (December 31, 2011- nil).

Balance, December 31, 2011	$	-
Recognition of reclamation and decommission obligation		69,625
Accretion expense		902
Balance, December 31, 2012	$	70,527

Segregated cash

The Company has reserved $40,968 (2011 - $40,815) 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 1.00% and matures June 4, 2013.

9. RELATED PARTY TRANSACTIONS

During 2012, 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 $37,502 (2011 - $60,495) 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, 2012, $11,016 (2011 - $6,398) of this amount is included in accounts payable and accrued liabilities.

Included in professional fees are $68,800 (2011 - $139,000) 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 $18,975 (2011 - $68,323) for costs incurred. At December 31, 2012, $41,570 (2011 - $nil) was in accounts payable and accrued liabilities.

Fees in the amount of $62,070 (2011 - $235,000) were paid to Darrell Brown, former CEO of the Company. These services are provided pursuant to a consulting agreement. At December 31, 2012, $13,125 (2011 - $nil) of this amount is included in accounts payable and accrued liabilities.

In 2011, fees in the amount of $315,266 were paid to Richard Cohen 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 pay Clark Avenue Company Inc. $169,092. The amount has been accrued in the financial statements.

Key Management Compensation

The compensation of the directors and other key management of the Company are included in the summary table below. Key management is those persons having authority and responsibility for planning, directing and controlling the activities, directly or indirectly, of the Company.

	2012	2011
Short-term compensation	$ 275,998	$ 689,266
Stock-based compensation	146,483	329,087
Total	$ 422,481	$ 1,018,353

Key management personnel were not paid post-employment benefits, termination benefits or other long term benefits during the years ended December 31, 2012 and 2011.

Stock-based compensation made to directors and officers are the fair value of options granted to key management personnel during the year.

These transactions are in the normal course of operations.

10. 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:

	2012	2011
Loss before income taxes	$ 3,559,505	$ 4,543,956
Statutory rates	26.5%	25%
Expected income tax recovery	(943,269)	(1,135,989)
Increase (decrease) in tax recoveries resulting from:		
Non-deductible expenses and other	38,989	93,995
Change in tax rates	(219,852)	-
Deferred tax liabilities not recognized in prior year	741,922	-
Change in deferred tax asset not recognized	382,210	1,041,994
	-	-
Flow through share premium amortization	(13,989)	(24,028)
Income tax recovery	$ (13,989)	$ (24,028)

Deferred income taxes

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

	2012	2011
Deferred tax assets		
Exploration and evaluation assets	$ -	$ 1,633,672
Amounts related to tax loss and credit carry forwards	3,921,159	3,468,784
Equipment and intangible assets	18,665	9,348
Share issuance costs	106,590	186,072
Net deferred income tax assets	4,046,414	5,297,876
Deferred income tax liability		
Renunciation of exploration and deferred costs	-	(1,633,672)
Valuation allowance	(4,046,414)	(3,664,204)
Net deferred income tax	$ -	$ -

Loss Carry Forwards

At December 31, 2012, the Company has approximately $14,796,826 (2011 - $13,867,026) unutilized non-capital losses for income tax purposes which may be used to reduce future taxable income.

The 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
2032	929,800
	$ 14,796,826

11. LOSS PER SHARE

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

The effect on the diluted loss per share on the exercise of the warrants, stock options, and convertible debentures are anti-dilutive.

12. COMMITMENTS & CONTINGENCIES

Gross overriding royalties

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

a. Database

As part of the purchase of the database of technical information (refer to Note 4), 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. To date, there has been no production on these lands.

b. 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 GORR equal to 5% on all production from the lands included in the study. To date, there has been no production on these lands.

Abandonment and reclamation costs

The Company is liable to undertake reclamation and abandonment work on its leases. The Company has lodged deposits with the Energy Resource Conservation Board as required by legislation. Of the $349,381 at December 31, 2012 (December 31, 2011 - $342,956), approximately $78,700 (December 31, 2011 - $78,700) relates to the Hamburg-Chinchaga leases and $270,681 (December 31, 2011 - $264,256) relates to the Lloydminster wells. The total cost for reclamation and abandonment work is not known at this time. A provision of $70,527 has been recorded at December 31, 2012 (December 31, 2011 - $nil) with respect to reclamation and decommissioning costs.

Standby letters of credit / Letters of guarantee

The Company established standby letters of credit/letters of guarantee with a Canadian financial institution during the year ended December 31, 2012 for an amount not at any time to exceed $40,500. Repayment of any outstanding balance is due on demand. The Company has not drawn upon this facility during the year ended December 31, 2012. The Company has pledged the GIC contained in the segregated cash balance (note 8) as security for the standby letters of credit.

12. COMMITMENTS & CONTINGENCIES (Continued)

Legal claims

During 2012, the Company was served with a statement of claim for payment of amounts incurred in relation to a work-over performed on the Company's Lloydminster oil and gas well, for $191,586. The supplier also placed a lien against the oil well. The Company has accrued the amount outstanding and is working on a plan to settle the payment.

During 2012, the Company was served with a statement of claim for payment of amounts incurred in relation to a site survey work-over performed on the Company's Hamburg Chinchaga properties, in the amount of $150,337. The Company has filed a statement of defense on account that the amounts incurred were excessive and not authorized. The issue is currently in pretrial. As at December 31, 2012, the Company has accrued for this potential claim.

13. 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 considers its capital to be equity, which comprises capital stock, contributed surplus, equity component of convertible debenture, warrants and deficit, which at December 31, 2012, totaled $(1,052,960) (December 31, 2011 - $2,360,062).

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:

- incremental investment and acquisition opportunities;
- equity and debt capital available from capital markets;
- equity and debt credit that may be obtainable from the marketplace as a result of growth
- in reserve values;
- availability of other sources of debt with different characteristics than the existing bank
- debt;
- the sale of assets;
- limiting the size of the investment program; and
- 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, 2012

14. 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 cleanup 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. Mooncor Oil & Gas Corp.

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. All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. The convertible debentures have matured and are currently due on demand.

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.

15. RESTATEMENT OF PRIOR YEARS' COMPARATIVE FINANCIAL STATEMENTS

Consolidated balance sheet

The Company made an adjustment to its balance sheet on December 31, 2011 due to an adjustment in revenue recognition. Revenue from the sale of oil for the last three months of 2011 was recognized by the Company in 2012. The Company has restated amounts to recognize the revenue and resulting receivable from 2011 production in the year ended December 31, 2011.

The Company also made an adjustment to the accumulated other comprehensive loss at December 31, 2011 to reflect the impairment of an available-for-sale portfolio investment during 2011 due to insolvency. The Company has restated amounts to reduce accumulated other comprehensive loss to $nil on December 31, 2011 and record the impairment loss in the statement of comprehensive loss (net loss for the year ended December 31, 2011).

Consolidated statement of comprehensive loss

As described above, the Company made an adjustment to the sales revenue for the year ended December 31, 2011 to correct a cut-off error in revenue recognition.

The Company has adjusted the statement of comprehensive loss for the year ended December 31, 2011 to reflect the impairment of an available-for-sale investment as described above.

The resulting adjustments to the comparative statements are as follows:

	December 31, 2011 Increase (decrease)
Consolidated Balance Sheet:	
Sundry receivable	$ 61,116
Accumulated other comprehensive loss	(120,585)
Consolidated Statement of Comprehensive Loss:	
Production revenue	$ 61,116
Impairment of available-for-sale investments	120,585

The above restatement adjustments have no impact on the January 1, 2011 consolidated balance sheet.

16. SUBSEQUENT EVENTS

On January 31, 2013, Madeira posted an amended Filing Statement dated January 28, 2013 with respect to the purchase of the Company's Lloydminster oil and natural gas interests. The details of the amended Filing Statement are consistent with the purchase and sale agreement whereby Madeira will acquire the Lloydminster 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 remains subject to conditions precedent (Note 4) which include, among others, receipt of all required regulatory and TSXV approvals.