

## **MOONCOR OIL & GAS CORP.**

### **Consolidated Interim Financial Statements**

(An Exploration Stage Company)

**March 31, 2011**

The accompanying financial statements for Mooncor Oil & Gas Corp. have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") consistently applied. Only changes in accounting policies have been disclosed in these unaudited consolidated interim financial statements. Recognizing that the Company is responsible for both integrity and objectivity of the financial statements, management is satisfied that these financial statements have been fairly presented. In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited interim financial statements for the period ended March 31, 2011.

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

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March 31, 2011

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

As at	March 31, 2011 (Unaudited)	December 31, 2010 (Audited) (note 20)	January 1, 2010 (Audited) (note 20)
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash and cash equivalents	\$ 2,251,046	\$ 238,104	\$ 1,909,827
Segregated cash (note 4)	40,581	40,581	40,500
Sundry receivable	102,598	92,694	67,592
Portfolio investments (note 5)	12,332	59,738	79,660
Prepaid expenses	15,015	18,430	147,119
	<u>2,421,572</u>	<u>449,547</u>	<u>2,244,698</u>
<b>Other Assets:</b>			
Equipment (note 6)	6,782	7,332	7,400
Intangible asset (note 7)	31,875	37,500	70,000
Investment in East Coast Energy Inc.	-	-	18,656
Deposits	321,702	252,580	218,773
Convertible debenture - East Coast Energy Inc.	-	-	235,649
Exploration and evaluation assets (note 8)	4,439,825	4,309,863	5,139,043
	<u>4,800,184</u>	<u>4,607,275</u>	<u>5,689,521</u>
	<u>\$ 7,221,757</u>	<u>\$ 5,056,822</u>	<u>\$ 7,934,219</u>
<b>LIABILITIES</b>			
<b>Current:</b>			
Accounts payable and accrued liabilities	\$ 326,789	\$ 184,350	\$ 603,106
Convertible debentures payable (note 9 and 19)	1,010,041	1,018,716	2,440,292
Deferred premium on flow-through shares	35,407	5,829	-
	<u>1,372,237</u>	<u>1,208,895</u>	<u>3,043,398</u>
<b>SHAREHOLDERS' EQUITY</b>			
Capital stock (note 10)	14,641,930	14,088,818	13,632,581
Contributed surplus (note 11)	1,243,276	1,229,693	1,071,315
Equity component of convertible debenture	142,998	142,998	111,974
Warrants (note 12)	4,655,004	2,856,753	2,045,363
Accumulated other comprehensive loss	(120,585)	(120,585)	(100,662)
Deficit	(14,713,103)	(14,349,750)	(11,869,750)
	<u>5,849,520</u>	<u>3,847,927</u>	<u>4,890,821</u>
	<u>\$ 7,221,757</u>	<u>\$ 5,056,822</u>	<u>\$ 7,934,219</u>

**GOING CONCERN (note 1)**  
**SUBSEQUENT EVENTS (note 19)**

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

\_\_\_\_\_"Alan Myers"\_\_\_\_\_  
Director

\_\_\_\_\_"Nick Tsimidis"\_\_\_\_\_  
Director

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

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

Period ended	March 31, 2011	March 31, 2010 (note 20)
<b>INCOME</b>	\$ 6,758	\$ 3,451
<b>EXPENSES</b>		
Consulting (note 14)	108,345	54,375
Office and general	105,199	25,481
Professional fees (note 14)	42,883	33,601
Stock based compensation (note 13)	13,583	119,805
Travel	46,901	23,812
Insurance	3,415	1,244
Secretary fees	1,370	-
Amortization	6,175	7,973
	<u>327,871</u>	<u>266,291</u>
Loss before undernoted	(321,113)	(262,840)
Write-down of exploration and evaluation assets	(10,098)	-
Realized gain (loss) on disposal of marketable securities	(6,930)	-
Finance income (expense):		
Interest - convertible debenture	(25,260)	(49,863)
Interest income	48	46
	<u>(25,212)</u>	<u>(49,817)</u>
<b>Provision for income taxes</b>	(363,353)	(312,657)
<b>Recovery of future income taxes (note 15)</b>	<u>-</u>	<u>-</u>
<b>Net Loss for the period</b>	(363,353)	(312,657)
Unrealized gain (loss) on portfolio investments	<u>-</u>	<u>(17,315)</u>
<b>Comprehensive loss for the period</b>	<u>(363,353)</u>	<u>(329,972)</u>
<b>Weighted Average Shares Outstanding - basic and diluted</b>	<u>120,730,725</u>	<u>97,916,638</u>
<b>Net loss per share - basic and diluted</b>	<u>\$ (0.003)</u>	<u>\$ (0.003)</u>

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

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

	Capital Stock	Contributed Surplus	Equity component of convertible debenture	Warrants	Accumulated Other Comprehensive Loss	Deficit	Total Equity
<b>Balance at January 1, 2010</b>	\$ 13,632,581	\$ 1,071,315	\$ 111,974	\$ 2,045,363	\$ (100,662)	\$ (11,869,750)	\$ 4,890,821
Capital stock	291,850	-	-	-	-	-	291,850
Stock-based compensation	-	-	-	-	-	-	-
Convertible debenture	-	-	-	-	-	-	-
Warrants	-	-	-	(291,851)	-	-	(291,851)
Unrealized gain (loss) on marketable securities	-	-	-	-	(17,315)	-	(17,315)
Loss for the year	-	-	-	-	-	(192,852)	(192,852)
<b>Balance at March 31, 2010</b>	<b>\$ 13,924,431</b>	<b>\$ 1,071,315</b>	<b>\$ 111,974</b>	<b>\$ 1,753,512</b>	<b>\$ (117,977)</b>	<b>\$ (12,062,602)</b>	<b>\$ 4,680,653</b>
<b>Balance at December 31, 2010</b>	\$ 14,088,818	\$ 1,229,693	\$ 142,998	\$ 2,856,753	\$ (120,585)	\$ (14,349,750)	\$ 3,847,927
Capital stock	553,112	-	-	-	-	-	553,112
Stock-based compensation	-	13,583	-	-	-	-	13,583
Convertible debenture	-	-	-	-	-	-	-
Warrants	-	-	-	1,798,251	-	-	1,798,251
Unrealized gain (loss) on marketable securities	-	-	-	-	-	-	-
Loss for the period	-	-	-	-	-	(363,353)	(363,353)
<b>Balance at March 31, 2011</b>	<b>\$ 14,641,930</b>	<b>\$ 1,243,276</b>	<b>\$ 142,998</b>	<b>\$ 4,655,004</b>	<b>\$ (120,585)</b>	<b>\$ (14,713,103)</b>	<b>\$ 5,849,520</b>

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

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

Period ended	March 31, 2011	March 31, 2010 (note 20)
<b>Cash flows from operating activities</b>		
Comprehensive income (loss)	\$ (363,353)	\$ (329,972)
Write-down of evaluation and exploration assets	10,098	-
Stock-based compensation	13,583	119,805
Unrealized (gain) loss on disposal of marketable securities	-	17,315
Realized (gain) loss on disposal of marketable securities	6,930	-
Interest - convertible debenture	(8,675)	49,863
Amortization	6,175	7,973
	(335,242)	(135,016)
Changes in non-cash working capital items		
Sundry receivables	(9,904)	(2,642)
Prepaid expense	3,415	13,765
Deposits	(69,122)	-
Accounts payable and accrued liabilities	142,439	204,282
Deferred premium on flow-through shares	29,578	-
	(238,836)	80,389
<b>Cash flows from investing activities</b>		
Portfolio investments	40,476	-
Additions to exploration and evaluation assets	(140,061)	(284,322)
	(99,585)	(284,322)
<b>Cash flows from financing activities</b>		
Convertible debenture	-	(1,000,000)
Capital stock	2,351,363	-
	2,351,363	(1,000,000)
Net change in cash and cash equivalents	2,012,942	(1,203,933)
Cash and cash equivalents, start of period	238,104	1,909,827
Cash and cash equivalents, end of period	\$ 2,251,046	\$ 705,894
<b>Supplemental Information</b>		
Income tax paid	\$ -	\$ -
Interest paid	\$ 25,260	\$ 49,863
Fair value of broker warrants issued	\$ 401,645	\$ -

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

**Mooncor Oil & Gas Corp.**  
**Notes to Consolidated Interim Financial Statements**  
**For the three months ended March 31, 2011**

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**1. Nature of operations and going concern**

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

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

**Going concern**

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

**2. Basis of preparation**

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

These unaudited consolidated interim financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34 and IFRS 1. Subject to certain transition elections disclosed in note 20, 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 interim consolidated financial statements are based on IFRS issued and effective as of June 29, 2011, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these interim consolidated financial statements.

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

**Mooncor Oil & Gas Corp.**  
**Notes to Consolidated Interim Financial Statements**  
**For the three months ended March 31, 2011**

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**Basis of measurement**

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

**Basis of consolidation**

Business combinations that occurred prior to January 1, 2010 were not accounted for in accordance with IFRS 3, Business Combinations ("IFRS 3") or IAS 27, Consolidated and Separate Financial Statements, as the Company in the transition year chose to apply the IFRS 1 exemption discussed in note 20.

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

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

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

**Use of estimates and judgment**

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

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

**3. Significant accounting policies**

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



**Mooncor Oil & Gas Corp.**  
**Notes to Consolidated Interim Financial Statements**  
**For the three months ended March 31, 2011**

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

**Basis of consolidation**

**A) Joint interest operations**

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

**B) Transactions eliminated on consolidation**

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

**Cash and cash equivalents**

Cash and cash equivalents consists of cash in bank.

**Portfolio investments**

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

**Equipment**

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

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

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

**Intangible assets**

Intangible assets are assets acquired which lack physical substance and which meet specified criteria for recognition apart from goodwill. Intangible assets are comprised mainly of a database compilation of technical information. The cost of the database compilation is amortized over five years, using the sum of the years digit method.

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 years digits
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**Mooncor Oil & Gas Corp.**  
**Notes to Consolidated Interim Financial Statements**  
**For the three months ended March 31, 2011**

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

**Exploration and evaluation assets**

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

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

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

**Asset retirement obligations**

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

At March 31, 2011 and 2010 management has determined that there are no material asset retirement obligations to the Company.

**Mooncor Oil & Gas Corp.**  
**Notes to Consolidated Interim Financial Statements**  
**For the three months ended March 31, 2011**

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

**Impairment of long-lived assets**

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

An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recorded in profit and loss. Impairment losses recognized in prior periods are assessed at each reporting period for any indication that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined.

**Income taxes**

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

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

**Flow-through shares**

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

**Mooncor Oil & Gas Corp.**  
**Notes to Consolidated Interim Financial Statements**  
**For the three months ended March 31, 2011**

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

**Flow-through shares (cont'd)**

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

**Per share information**

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

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

**Share purchase warrants and other shares reserved for issuance**

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

**Share issuance costs**

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

**Stock-based compensation**

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

**Financial instruments**

The Company has designated its cash and cash equivalents, segregated cash, 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.

**Mooncor Oil & Gas Corp.**  
**Notes to Consolidated Interim Financial Statements**  
**For the three months ended March 31, 2011**

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

**Financial instruments (cont'd)**

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

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

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

**Future accounting changes**

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

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

IFRS 13 – “Fair Value Measurement” (“IFRS 13”) is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosure requirements for fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company has not yet determined the impact of the amendments to IFRS 13 on its financial statements.

**Mooncor Oil & Gas Corp.**  
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**4. Segregated cash**

The Company has reserved \$40,581 (2010 - \$40,500) in order to secure a letter of credit to the Saskatchewan Energy Resource Board. The letter of credit in the amount of \$40,581 will be extended in one year periods on the anniversary date unless terminated in writing by the lender. These funds have been segregated in a Guaranteed Investment Certificate (GIC). The GIC bears interest at 0.2% and matures June 3, 2011 (subsequently renewed for another year, maturing June 3, 2012).

**5. Portfolio investments**

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

	March 31, 2011		
	Number of Securities	Cost of Securities	Quoted Market Value
Greentree Gas & Oil Ltd. (common shares)	980,000	\$ 133,250	\$ -
Gran Tierra Energy Inc. (August 28, 2011 Warrants) (formerly Petrolifera Petroleum Ltd.)	2,482	8,690	372
Torque Energy Inc. (common shares)	46,000	7,060	11,960
		<u>\$ 149,000</u>	<u>\$ 12,332</u>

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

	January 1, 2010		
	Number of Securities	Cost of Securities	Quoted Market Value
Greentree Gas & Oil Ltd. (common shares)	980,000	\$ 133,250	\$ 24,500
Stealth Ventures Ltd. (common shares)	254,000	30,448	40,720
Gran Tierra Energy Inc. (August 28, 2011 Warrants) (formerly Petrolifera Petroleum Ltd.)	20,000	8,690	8,000
Torque Energy Inc. (common shares)	46,000	7,060	6,440
		<u>\$ 179,448</u>	<u>\$ 79,660</u>

**Mooncor Oil & Gas Corp.**  
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**6. Equipment**

Equipment consists of:

	Cost	Accumulated Amortization	Net
Balance - January 1, 2010	\$ 17,571	\$ (10,171)	\$ 7,400
Additions	2,408	-	2,408
Amortization	-	(2,476)	(2,476)
Balance - December 31, 2010	19,979	(12,647)	7,332
Amortization	-	(550)	(550)
Balance - March 31, 2011	<u>\$ 19,979</u>	<u>\$ (13,197)</u>	<u>\$ 6,782</u>

**7. Intangible assets**

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

	Cost	Accumulated Amortization	Net
Balance - January 1, 2010	\$ 150,000	\$ (80,000)	\$ 70,000
Amortization	-	(32,500)	(32,500)
Balance - December 31, 2010	150,000	(112,500)	37,500
Amortization	-	(5,625)	(5,625)
Balance - March 31, 2011	<u>\$ 150,000</u>	<u>\$ (118,125)</u>	<u>\$ 31,875</u>

**8. E&E assets**

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

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

	Dec 31, 2010	Additions	Write-offs	Mar 31, 2011
Lloydminster (i)	\$ 450,206	\$ -	\$ -	\$ 450,206
Hamburg - Chinchaga (ii)	3,378,517	93,003	-	3,471,520
South Western Ontario (iii)	481,140	36,959	-	518,099
	<u>\$ 4,309,863</u>	<u>\$ 129,962</u>	<u>\$ -</u>	<u>\$ 4,439,825</u>

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

**Mooncor Oil & Gas Corp.**  
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**8. Exploration and evaluation assets (cont'd)**

**(i) Lloydminster (Alberta)**

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

**(ii) Hamburg - Chinchaga (Alberta)**

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

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

**(iii) South Western Ontario**

During 2008, the Company acquired 3,833 acres in South West Ontario, from an arm's length individual.

During 2010, the Company acquired 18,737 acres (18,592 net) within the Kent and Lambton Counties of Southwest Ontario from an arm's length company for \$100,000. The leases acquired are immediately adjacent to 3,833 acres acquired in 2008. The leases acquired were prepaid to end of term, the majority of which expire in late 2011.

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



**Mooncor Oil & Gas Corp.**  
**Notes to Consolidated Interim Financial Statements**  
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**9. 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	<u>(31,024)</u>
Balance, December 31, 2010	\$ 1,018,716
Interest accrued	26,260
Interest paid	<u>(33,935)</u>
Balance, March 31, 2011	<u>\$ 1,010,041</u>

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

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

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

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**10. Capital stock**

Authorized - Unlimited Common shares without par value Issued - Common shares	Number of shares	Amount
Balance at January 1, 2010	97,916,638	\$ 13,632,581
Warrants exercised for cash	222,111	38,317
Broker warrants exercised for cash	568,807	51,193
Shares issued for cash (A)	7,905,345	1,321,103
Less:		
Share issue costs	-	(122,837)
Fair value of warrants	-	(353,740)
Fair value of broker warrants	-	(77,118)
Flow-through share premium	-	(5,829)
Fair value of expired broker warrants	-	8,562
Fair value of expired warrants	-	293,347
Fair value of exercised warrants	-	89,510
Fair value of issued warrants	-	(93,818)
Fair value of extended warrants	-	(678,133)
Shares cancelled, normal course issuer bid	<u>(100,000)</u>	<u>(14,320)</u>
Balance at December 31, 2010	106,512,901	\$ 14,088,818
Shares issued for cash (B)	14,217,824	2,661,200
Less:		
Share issue costs	-	(280,499)
Fair value of warrants	-	(1,289,351)
Fair value of broker warrants	-	(401,645)
Flow-through share premium	-	(29,578)
Fair value of expired broker warrants	-	40,919
Fair value of expired warrants	-	5,855
Fair value of extended warrants	<u>-</u>	<u>(153,789)</u>
Balance at March 31, 2011	<u>120,730,725</u>	<u>\$ 14,641,930</u>

**Private placements**

- A) In August 2010, the Company completed a non-brokered private placement financing (the "Private Placement") for \$1,321,103 by issuing 3,395,300 common share units ("Units") and 4,510,045 "flow-through" units ("FT Units") at a price of \$0.15 per Unit and \$0.18 per FT Unit. Each Unit consisted of one common share in the capital of the Company (a "Common Share") and one common share purchase warrant (a "Warrant") of the Company. Each FT Unit consisted of one flow-through common share of the Company and one-half of one Warrant. Each whole Warrant entitles the holder thereof to acquire one Common Share at an exercise price of \$0.25 per Common Share until 24 months from closing. In connection with the Private Placement, the Company paid cash commissions and fiscal advisory fees to registered agents equal to \$100,719 and issued 749,535 finders warrants (each finders warrant exercisable for one Unit at \$0.15 per Unit expiring 24 months from closing).

**Mooncor Oil & Gas Corp.**  
**Notes to Consolidated Interim Financial Statements**  
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**10. Capital stock (cont'd)**

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

**Normal course issuer bid**

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

**Escrow shares**

At March 31, 2011, 2,825,304 (2010 - 3,866,563) of the issued common shares are held in escrow. These shares are subject to the escrow requirements of the TSXV and will be released from escrow in stages in accordance with the rules of the TSXV and in accordance with the applicable escrow agreements.

**11. Contributed surplus**

Balance, January 1, 2010	\$ 1,071,315
Stock-based compensation	158,378
Balance, December 31, 2010	\$ 1,229,693
Stock-based compensation	13,583
Balance, March 31, 2011	<u>\$ 1,243,276</u>

**Mooncor Oil & Gas Corp.**  
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12. Warrants	Number of warrants	Fair value
Balance, January 1, 2010	26,280,186	\$ 2,045,363
Warrants issued, April 2010	1,052,750	66,046
Warrants issued, August 2010	5,650,323	353,740
Broker warrants issued, August 2010	749,535	77,118
Warrants issued, December 2010	138,861	27,772
Exercised warrants transferred to Capital Stock	(166,611)	(33,322)
Exercised broker warrants transferred to Capital Stock	(624,307)	(56,188)
Expired warrants transferred to Capital Stock	(2,107,710)	(293,347)
Expired broker warrants transferred to Capital Stock	(1,327,083)	(8,562)
Extended warrants revaluation	<u>-</u>	<u>678,133</u>
Balance, December 31, 2010	29,645,944	\$ 2,856,753
Warrants issued	12,517,967	1,289,351
Broker warrants issued	3,732,762	401,645
Expired warrants transferred to Capital Stock	(57,863)	(5,614)
Expired broker warrants transferred to Capital Stock	(457,225)	(40,919)
Extended warrants revaluation	<u>-</u>	<u>153,789</u>
Balance, March 31, 2011	<u>45,381,585</u>	<u>\$ 4,655,004</u>

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

Number of warrants	Type of shares	Exercise price	Expiry date
1,000,000	Common shares	0.225	June 11, 2011 (a)
1,091,733	Common shares	0.35	June 12, 2011 (a)
6,816,668	Common shares	0.30	June 12, 2011 (a)
1,735,000	Common shares	0.45	September 23, 2011
1,029,253	Common shares	0.45	September 25, 2011
299,000	Common shares	0.45	September 29, 2011
1,494,334	Common shares	0.20	November 14, 2011
275,000	Common shares	0.20	December 12, 2011
500,000	Common shares	0.20	December 18, 2011
1,366,112	Common shares	0.20	December 19, 2011
3,201,250	Common shares	0.35	February 6, 2012
2,890,000	Common shares	0.35	April 9, 2012
1,326,000	Common shares	0.20	August 3, 2012
3,746,445	Common shares	0.25	August 9, 2012
577,876	Common shares	0.25	August 20, 2012
<u>12,517,967</u>	Common shares	0.30	March 29, 2013
39,866,640	Total warrants		

**Mooncor Oil & Gas Corp.**  
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**12. Warrants (cont'd)**

**Broker warrants**

457,500	Common shares plus ½ share purchase warrant	0.20	April 9, 2011 (a)
172,500	Common shares plus ½ share purchase warrant	0.20	April 16, 2011 (a)
520,500	Common shares plus ½ share purchase warrant	0.30	September 23, 2011
308,775	Common shares plus ½ share purchase warrant	0.30	September 25, 2011
89,700	Common shares plus ½ share purchase warrant	0.30	September 29, 2011
443,400	Common shares plus ½ share purchase warrant	0.15	August 3, 2012
911,178	Common shares plus ½ share purchase warrant	0.15	August 9, 2012
144,492	Common shares plus ½ share purchase warrant	0.15	August 20, 2012
2,466,900	Common shares plus ½ share purchase warrant	0.18	March 29, 2013
<u>5,514,945</u>	Total broker warrants		
<u>45,381,585</u>	Total warrants and broker warrants outstanding		

(a) Subsequent to the period, these warrants expired unexercised.

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

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

**Mooncor Oil & Gas Corp.**  
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**13. Stock options**

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

The following summarizes the stock option activities:

	Number of Options	Weighted Average Exercise Price
Balance, December 31, 2009	9,620,834	0.21
Granted during the period	<u>950,000</u>	<u>0.25</u>
Balance, December 31, 2010	10,570,834	0.21
Forfeited during the period	<u>(433,334)</u>	<u>0.18</u>
Balance, March 31, 2011	<u>10,137,500</u>	<u>0.21</u>

The Company had the following stock options outstanding at March 31, 2011:

Number of options	Grant date	Exercise price	Vested options	Expiry date
675,000	May 3, 2006	\$ 0.27	675,000	May 3, 2011
186,000	May 10, 2006	0.45	186,000	May 10, 2011
600,000	Oct. 12, 2006	0.27	600,000	May 3, 2011
250,000	Sept. 28, 2007	0.50	250,000	Sept. 28, 2012
1,750,000	Oct. 30, 2007	0.23	1,750,000	Oct. 29, 2012
700,000	Jan. 31, 2008	0.14	700,000	Jan. 30, 2013
876,500	May 2, 2008	0.23	876,500	May 2, 2013
2,350,000	Dec. 24, 2008	0.15	2,583,334	Dec. 24, 2013
1,500,000	May 14, 2009	0.315	1,375,000	May 14, 2014
300,000	Dec. 3, 2009	0.21	333,331	Dec. 3, 2014
<u>950,000</u>	Nov. 19, 2010	<u>0.25</u>	<u>451,270</u>	Nov. 19, 2020
<u>10,137,500</u>		<u>\$ 0.21</u>	<u>9,780,435</u>	

**Mooncor Oil & Gas Corp.**  
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**13. 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:

	March 31, 2011	March 31, 2010
Risk-free interest rates	1.7%	2.17%-2.43%
Dividend yield	NIL	NIL
Estimated forfeiture rate	5%	5%
Expected stock price volatility	96.23%	100%
Option life	10 years	5 years

**14. Related party transactions**

During the period, 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 \$12,399 (2010 - \$13,039) to Garfinkle, Biderman LLP, a law firm in which Barry M. Polisuk and Robbie Grossman (the secretary and assistant secretary respectively) are partners of the law firm. At March 31, 2011, \$2,400 (2010 - \$Nil) of this amount is included in accounts payable and accrued liabilities. These individuals also received \$685 each in their capacity of secretary and assistant secretary of the Company respectively, pursuant to Board resolution. Legal counsel fees of \$26,082 (2010 - \$Nil) were incurred during this period with regards to a brokered private placement financing (note 10 (b)).

Included in professional fees are \$30,000 (2010 - \$22,500) paid to Nick Tsimidis, a director and officer, or to related companies for corporate and financial services, accounting, and related services provided to the Company during the period. These services are provided pursuant to a consulting agreement. During the period, Nick Tsimidis was reimbursed out-of-pocket expenses of \$11,191 (2010 - \$1,210) incurred in the normal course of business.

Fees in the amount of \$57,500 were paid to Darrell Brown (2010 - \$31,345) and \$63,720 to Richard Cohen (2010 - \$29,579) for consulting services rendered during the period. Fees paid to Darrell Brown of \$6,754 (2010 - \$37,500) were capitalized to various E&E assets during the period. These services are provided pursuant to consulting agreements and include payment for additional services rendered over and above their normal duties.

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.

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**15. 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:

	March 31, 2011	March 31, 2010
Comprehensive loss for the year	363,353	\$ 312,657
Statutory rate	<u>29%</u>	<u>29%</u>
Expected income tax expense (recovery)	(105,372)	(90,671)
Non-deductible expenses and other	13,201	5,745
Share issue costs	(16,563)	(4,980)
Amortization of equipment	2,855	2,901
Flow-through expenditures	29,578	5,829
Change in effective tax rates	14,534	12,506
Change in valuation allowance	<u>61,767</u>	<u>68,668</u>
Income tax expense (recovery)	<u>\$ -</u>	<u>\$ -</u>

Deferred Tax Balances

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

	March 31, 2011	December 31, 2010
Deferred Tax Assets		
Non-capital losses	\$ 2,117,448	\$ 1,745,095
Deferred exploration expenditures	611,114	471,053
Share issue costs	267,439	210,326
Property and equipment	10,587	11,685
Valuation allowance	<u>(3,006,858)</u>	<u>(2,447,159)</u>
	<u>\$ -</u>	<u>\$ -</u>

Loss Carry Forwards

As at March 31, 2011, the Company has approximately \$7,371,119 (2010 - \$6,564,410) unutilized non-capital losses for income tax purposes which may be used to reduce future taxable income. The Company also has approximately \$49,816 of unutilized capital losses for income tax purposes.



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**15. Income taxes (cont'd)**

Loss Carry Forwards (cont'd)

These non-capital losses expire as follows:

<b>Year of Expiry</b>	<b>Amount</b>
2014	\$ 213,502
2015	49,644
2026	583,580
2027	1,421,038
2028	1,797,276
2029	2,264,184
2030	679,048
2031	<u>362,847</u>
	<u>\$ 7,371,119</u>

**16. Commitments**

**Gross overriding royalties**

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

**Database**

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

**Study**

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

**Lease commitments**

The Company entered into a lease agreement for 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. Subsequent to March 31, 2011, the Company and the landlord agreed to settle this matter for \$75,000 and which has been accrued in the financial statements.

**Flow-through shares**

The Company is committed to expending \$713,940 by December 31, 2013, being the gross proceeds of flow-through shares issued during the period, on qualifying exploration expenditures associated with its E&E by December 31, 2012.

**Mooncor Oil & Gas Corp.**  
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**17. Capital disclosures**

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

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

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

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

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

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

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

Except as otherwise disclosed herein, the Company is not subject to any external financial covenants at March 31, 2011.

**18. Financial instruments**

**Fair Value of Financial Instruments**

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

**Mooncor Oil & Gas Corp.**  
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**18. Financial instruments (cont'd)**

**Fair value hierarchy**

Level 1 - Quoted prices in active markets for identical assets or liabilities

Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly

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

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

**Risk management**

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

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

**Credit risk**

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

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

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

**Interest rate risk**

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

**Mooncor Oil & Gas Corp.**  
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**18. Financial instruments (cont'd)**

**Liquidity risk**

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

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

**Currency risk**

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

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

**Market risk**

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

**19. Subsequent events**

**Private placements**

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

In connection with the above financing, the Company paid cash commissions of \$10,949, and issued compensation warrants to purchase 57,075 Units at an exercise price of \$0.18 per Unit exercisable until April 26, 2013.

**Mooncor Oil & Gas Corp.**  
**Notes to Consolidated Interim Financial Statements**  
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**19. Subsequent events (cont'd)**

**Stock options**

In April 2011, the Company granted 1,700,000 stock options to certain of its officers, directors, employees and consultants at an exercise price of \$0.195 per common share expiring on April 8, 2021.

In May 2011, the Company granted 1,162,500 stock options to certain of its officers and directors at an exercise price of \$0.23 per common share expiring on May 4, 2021. These options were granted to replace options that expired on May 3, 2011. Later that month, the Company also granted 186,000 stock options to one of its directors at an exercise price of \$0.23 per common share expiring on May 11, 2021. These options were granted to replace options that expired on May 10, 2011.

**Convertible debentures**

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

**Investor relations**

In April, 2011, the Company entered into an agreement with an investor relations service provider for a six month term that can be extended on a month-to-month basis for a monthly fee of \$6,000. As per the agreement the Company granted to the service provider 300,000 stock options exercisable at \$0.195 per share for a period of ten years. The Company cancelled the agreement with the previous investor relations service provider.

**Commitments**

Subsequent to March 31, 2011, Richard Cohen, a director and officer of the Company, 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.

**Lloydminster**

Subsequent to the period, the Company entered into a non-binding letter of intent to dispose to Madeira Minerals Ltd., ("Madeira"), all of the Company's right, title and interest in the two Lloydminster oil wells. Madeira is a capital pool company, and the transaction is intended to constitute Madeira's qualifying transaction under Policy 2.4 of the TSX Venture Exchange.

Madeira will acquire the leases by issuing an aggregate of six million common shares of its capital stock to the Company at a deemed price of \$0.20 per share. The transaction is subject to a number of conditions precedent which include completion of due diligence reviews by the parties, successful negotiation of a definitive purchase agreement, completion of a concurrent financing by Madeira, and receipt of all required regulatory and exchange approvals.

**Mooncor Oil & Gas Corp.**  
**Notes to Consolidated Interim Financial Statements**  
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**20. Reconciliation of Canadian GAAP to IFRS**

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

The accounting policies set out in note 3 have been applied in preparing the interim financial statements for the three months ended March 31, 2011, the comparative information presented in these interim financial statements for both the three months ended March 31, 2010 and year ended December 31, 2010 and in the preparation of an opening IFRS balance sheet at January 1, 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 20 (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 20 (vi)).

IFRS mandatory exceptions

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

**(i) Basis of consolidation**

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

**(ii) Exploration and evaluation assets**

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

**(iii) Summary of effect on current and deferred taxes**

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

**Mooncor Oil & Gas Corp.**  
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**20. Reconciliation of Canadian GAAP to IFRS (cont'd)**

**(iv) Finance income and expenses**

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

**(v) Flow-through shares**

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

The above accounting policy difference resulted in an increase to capital stock of \$28,276 with a corresponding increase to deficit at the transition date. The Company had no deferred obligation with respect to the issuance of flow-through shares at the transition date.

**(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. Accordingly, upon transition to IFRS, the Company recorded a fair value adjustment of \$119,805 as at January 1, 2010 to increase contributed surplus with a corresponding increase to deficit. The Company elected to use the IFRS exemption whereby the liabilities for share-based payments that had vested or settled prior to January 1, 2010 were not required to be retrospectively restated. In addition to the January 1, 2010 adjustment discussed above, the IFRS fair value re-measurements subsequent to transition increased contributed surplus by \$50,093 as at December 31, 2010 in comparison to GAAP and \$119,805 as at March 31, 2010 with a corresponding increase to deficit.

**(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.

**Moconor Oil & Gas Corp.**  
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**20. Reconciliation of Canadian GAAP to IFRS (cont'd)**

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

	Note	<u>December 31, 2010</u>			<u>March 31, 2010</u>			<u>January 1, 2010</u>		
		Cdn GAAP	Adj	IFRS	Cdn GAAP	Adj	IFRS	Cdn GAAP	Adj	IFRS
<b>ASSETS</b>										
<b>Current Assets:</b>										
Cash and cash equivalents		238,104	-	238,104	705,894	-	705,894	1,909,827	-	1,909,827
Segregated cash		40,581	-	40,581	40,500	-	40,500	40,500	-	40,500
Sundry receivable		92,694	-	92,694	70,233	-	70,233	67,592	-	67,592
Portfolio investment		59,738	-	59,738	62,345	-	62,345	79,660	-	79,660
Prepaid expenses		18,430	-	18,430	133,354	-	133,354	147,119	-	147,119
		<u>449,547</u>	<u>-</u>	<u>449,547</u>	<u>1,012,326</u>	<u>-</u>	<u>1,012,326</u>	<u>2,244,698</u>	<u>-</u>	<u>2,244,698</u>
<b>Non-current Assets:</b>										
Equipment		7,332	-	7,332	6,927	-	6,927	7,400	-	7,400
Intangible asset		37,500	-	37,500	62,500	-	62,500	70,000	-	70,000
Investment in East Coast Energy Inc.		-	-	-	18,656	-	18,656	18,656	-	18,656
Deposits		252,580	-	252,580	218,773	-	218,773	218,773	-	218,773
Convertible debenture - East Coast Energy Inc.		-	-	-	235,649	-	235,649	235,649	-	235,649
Exploration and evaluation assets	(ii)	4,309,863	-	4,309,863	5,423,366	-	5,423,366	5,139,043	-	5,139,043
		<u>5,056,822</u>	<u>-</u>	<u>5,056,822</u>	<u>6,978,197</u>	<u>-</u>	<u>6,978,197</u>	<u>7,934,219</u>	<u>-</u>	<u>7,934,219</u>
<b>LIABILITIES</b>										
<b>Current:</b>										
Accounts payable and accrued liabilities		184,350	-	184,350	807,426	-	807,426	603,106	-	603,106
Convertible debentures payable		1,018,716	-	1,018,716	1,490,118	-	1,490,118	2,440,292	-	2,440,292
Deferred premium on flow-through shares	(v)	-	5,829	5,829	-	5,829	5,829	-	-	-
		<u>1,203,066</u>	<u>5,829</u>	<u>1,208,895</u>	<u>2,297,544</u>	<u>5,829</u>	<u>2,303,373</u>	<u>3,043,398</u>	<u>-</u>	<u>3,043,398</u>
<b>SHAREHOLDERS' EQUITY</b>										
Capital stock	(v)	13,863,419	225,399	14,088,818	13,896,155	22,447	13,918,602	13,604,305	28,276	13,632,581
Contributed surplus	(vi)	1,059,794	169,899	1,229,693	951,510	119,805	1,071,315	951,510	119,805	1,071,315
Equity component of convertible debenture		142,998	-	142,998	111,974	-	111,974	111,974	-	111,974
Warrants		2,856,753	-	2,856,753	1,753,512	-	1,753,512	2,045,363	-	2,045,363
Accumulated other comprehensive loss		(120,585)	-	(120,585)	(117,977)	-	(117,977)	(100,662)	-	(100,662)
Deficit	(v), (vi)	(13,948,623)	(401,127)	(14,349,750)	(11,914,521)	(148,081)	(12,062,602)	(11,721,669)	(148,081)	(11,869,750)
		<u>3,853,756</u>	<u>(5,829)</u>	<u>3,847,927</u>	<u>4,680,653</u>	<u>(5,829)</u>	<u>4,674,824</u>	<u>4,890,821</u>	<u>-</u>	<u>4,890,821</u>
		<u>5,056,822</u>	<u>-</u>	<u>5,056,822</u>	<u>6,978,197</u>	<u>-</u>	<u>6,978,197</u>	<u>7,934,219</u>	<u>-</u>	<u>7,934,219</u>



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

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

	Note	Year Ended December 31, 2010			Three Months Ended March 31, 2010		
		Cdn GAAP	Adj	IFRS	Cdn GAAP	Adj	IFRS
<b>Income</b>		60,632	-	60,632	3,451	-	3,451
<b>Expenses</b>							
Consulting		356,940	-	356,940	54,375	-	54,375
Interest expense	(iv)	203,140	(203,140)	-	49,863	(49,863)	-
Office and general		166,140	-	166,140	25,481	-	25,481
Professional fees		108,622	-	108,622	33,601	-	33,601
Stock based compensation	(vi)	108,284	50,093	158,377	-	119,805	119,805
Travel		91,775	-	91,775	23,812	-	23,812
Insurance		27,200	-	27,200	1,244	-	1,244
Board of directors fees		3,500	-	3,500	-	-	-
Amortization		34,976	-	34,976	7,973	-	7,973
Loss before undernoted		(1,039,945)	(153,047)	(886,898)	(192,898)	69,942	(262,840)
Write-down of exploration and evaluation assets		(1,604,951)	-	(1,604,951)	-	-	-
Abandoned project costs		(7,249)	-	(7,249)	-	-	-
Recovery (provision) for impairment of debenture receivable		70,695	-	70,695	-	-	-
Proceeds on sale of oil and gas properties		151,544	-	151,544	-	-	-
Finance income (expense):		-	-	-	-	-	-
Interest - convertible debenture	(iv)	-	(203,140)	(203,140)	-	(49,863)	(49,863)
Interest income		-	-	-	-	-	-
Realized loss on disposal of marketable securities		-	-	-	46	-	46
<b>Loss before income taxes</b>		(2,429,906)	(50,093)	(2,479,999)	(192,852)	(119,805)	(312,657)
Future income tax recovery		202,952	-	202,952	-	-	-
<b>Net loss for the year</b>		(2,226,954)	-	(2,277,047)	(192,852)	-	(312,657)
Unrealized (gain) loss on portfolio investments		(19,923)	-	(19,923)	-	-	-
Comprehensive loss for the year		(2,246,877)	-	(2,296,970)	(192,852)	-	(312,657)
<b>Net loss per share basic and diluted</b>		(0.02)	-	(0.02)	(0.002)	-	(0.003)
Weighted average number of shares - basic and diluted		100,959,146	-	100,959,146	97,916,638	-	97,916,638