Abenteuer Resources Corp.

Consolidated Financial Statements

Year Ended December 31, 2011

(Expressed in Canadian Dollars)

April 27, 2012

Independent Auditor's Report

To the Shareholders of Abenteuer Resources Corp.

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

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

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

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

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

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

(Signed) "PricewaterhouseCoopers LLP"

Chartered Accountants

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Abenteuer Resources Corp.

Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	Notes		December 31, 2011		December 31, 2010 (Note 17)		January 1, 2010 (Note 17)
ASSETS							
Current assets							
Cash		$	164,906	$	495,569	$	462,514
Short-term investments	4		1,006,429		850,000		800,000
Accounts receivable and other receivables	5		72,466		137,297		129,739
			1,243,801		1,482,866		1,392,253
Non-current assets							
Reclamation and other deposits	6		77,424		32,506		32,506
Property, plant and equipment	7		-		-		1,092
Oil properties	8		966,843		1,057,838		1,045,184
			1,044,267		1,090,344		1,078,782
		$	2,288,068	$	2,573,210	$	2,471,035
LIABILITIES AND SHAREHOLDERS' EQUITY							
Current liabilities							
Accounts payable and accrued liabilities	9	$	55,267	$	418,690	$	66,471
Non-current liabilities							
Deferred tax liabilities	16		-		-		29,987
Decommissioning provisions	10		141,052		107,895		104,347
			141,052		107,895		134,334
Shareholders' equity							
Share capital	12		2,819,649		2,618,653		2,105,559
Reserves			322,304		241,752		341,346
Deficit			(1,050,204)		(813,780)		(176,675)
			2,091,749		2,046,625		2,270,230
		$	2,288,068	$	2,573,210	$	2,471,035

Approved by the Board of Directors:

"David Parry"

David Parry - Director

"J. Lewis Dillman"

J. Lewis Dillman - Director

See accompanying notes to the consolidated financial statements

Abenteuer Resources Corp.

Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)

	Notes		Year Ended December 31, 2011		Year Ended December 31, 2010 (Note 17)
REVENUE					
Petroleum sales		$	605,277	$	513,276
Less: Royalties			(130,804)		(81,776)
			474,473		431,500
EXPENSES					
Operating expenses	8,15		148,028		131,238
Depletion, accretion and amortization	8		124,152		124,610
General and administrative	15		321,665		276,408
Property investigation			16,409		569,953
Share based payments			115,798		-
			726,052		1,102,209
OTHER ITEMS					
Other income			(15,155)		(3,618)
NET LOSS BEFORE INCOME TAXES			(236,424)		(667,091)
Income tax recovery			-		29,986
LOSS AND COMPREHENSIVE LOSS FOR THE YEAR		$	(236,424)	$	(637,105)
Basic and diluted loss per common share		$	(0.01)	$	(0.04)
Weighted average common shares outstanding			18,139,348		14,860,764

Abenteuer Resources Corp.

Consolidated Statements of Changes in Shareholders`Equity
(Expressed in Canadian Dollars)

		Share capital		Reserves			
	Notes	Number of Shares	Amount	Option	Warrant	Deficit	Total
Balance at January 1, 2010	17	**14,583,266**	**2,105,559**	**$ 244,213**	**$ 97,133**	**$ (176,675)**	**$ 2,270,230**
Loss for the year		-	-	-	-	(637,105)	(637,105)
Shares issued for cash – option exercise		750,000	185,819	(51,319)	-	-	134,500
Shares issued for cash – warrant exercise		1,860,000	327,275	-	(48,275)	-	279,000
Balance at December 31, 2010		**17,193,266**	**2,618,653**	**192,894**	**48,858**	**(813,780)**	**2,046,625**
Loss for the year		-	-	-	-	(236,424)	(236,424)
Stock options issued		-	-	115,798	-	-	115,798
Shares issued for cash – option exercise		200,000	45,918	(12,918)	-	-	33,000
Shares issued for cash – warrant exercise		885,000	155,078	-	(22,328)	-	132,750
Balance at December 31, 2011		**18,278,266**	**$ 2,819,649**	**$ 295,774**	**$ 26,530**	**$ (1,050,204)**	**$ 2,091,749**

See accompanying notes to the consolidated financial statements

Abenteuer Resources Corp.

Consolidated Statements of Cash Flows

(Expressed in Canadian Dollars)

	Year Ended December 31, 2011	Year Ended December 31, 2010
CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Loss for the year	$ (236,424)	$ (637,105)
Items not affecting cash:		
Depletion, accretion and amortization	124,152	124,610
Other income	(6,429)	-
Share based payments	115,798	-
Future income tax recovery	-	(29,986)
Changes in non-cash working capital items:		
Decrease (increase) in receivables	64,831	(7,558)
Increase (decrease) in accounts payable	(363,423)	352,219
	(301,495)	(197,820)
FINANCING ACTIVITIES		
Proceeds from exercise of options	33,000	134,500
Proceeds from exercise of warrants	132,750	279,000
	165,750	413,500
INVESTING ACTIVITIES		
Oil and gas property expenditures	-	(132,625)
Office rent deposit	(44,918)	-
Purchase of short-term investment	(150,000)	(50,000)
	(194,918)	(182,625)
Change in cash during the year	(330,663)	33,055
Cash - beginning	495,569	462,514
Cash - end	$ 164,906	$ 495,569

(Expressed in Canadian dollars)

1. Nature and continuance of operations

Abenteuer Resource Corp. (the "Company") was incorporated under the laws of the province of Alberta, Canada and was continued into the province of British Columbia in 2010. The Company's registered office is Suite 1578 – 609 Granville Street, Vancouver, BC, Canada. The Company is engaged primarily in the exploration for, and the production of, petroleum reserves in Western Canada. The Company's shares are traded on the TSX Venture Exchange ("TSX-V") under the symbol "ABU".

These consolidated financial statements have been prepared on the assumption that the Company and its subsidiaries will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations.

2. Basis of preparation and adoption of IFRS

The Company prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards, and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company commenced reporting on this basis in its 2011 consolidated financial statements. In these consolidated financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

These annual consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB"). We adopted IFRS in accordance with IFRS 1, First-Time Adoption of International Financial Reporting Standards ("IFRS 1") as at January 1, 2010. Subject to certain transition elections provided for in IFRS 1 and disclosed in Note 17, we have consistently applied the same accounting policies in our opening IFRS balance sheet as at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 17 discloses the impact of the transition to IFRS on our reported equity, comprehensive income and cash flows, including the nature and effect of significant changes in accounting policies from those used in our consolidated financial statements for the year ended December 31, 2010. The exemptions we have taken in applying IFRS for the first time are set out in Note 17.

The policies applied in these consolidated financial statements are presented in Note 3 and have been applied in preparing the consolidated financial statements for the years ended December 31, 2011 and 2010, and the opening balance sheet on January 1, 2010, the date of transition. The Board of Directors approved the consolidated financial statements on April 27, 2012.

3. Summary of significant accounting policies

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its controlled entities. Details of controlled entities are as follows:

	Country of incorporation	Percentage owned* 2011	Percentage owned* 2010
Roughrider Energy Corp.	Canada	100%	100%

*Percentage of voting power is in proportion to ownership.

3. Summary of significant accounting policies (cont'd)

Inter-company balances and transactions, including unrealized income and expenses arising from inter-company transactions, are eliminated on consolidation. As at December 31, 2011, Roughrider Energy Corp. is a dormant company with no active operations.

Significant accounting judgments, estimates and assumptions

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates. The following areas required a significant degree of estimation and judgment:

Reserve base
The oil and gas properties are depreciated on a unit of production ("UOP") basis at a rate calculated by reference to proved reserves determined in accordance with National Instrument 51-101 "Standards of Disclosure for Oil and Gas Activities" and incorporate the estimated future cost of developing and extracting those reserves. Proved reserves are determined using estimates of oil in place, recovery factors and future prices. Future development costs are estimated using assumptions as to number of wells required to produce the reserves, the cost of such wells and associated production facilities and other capital costs (Note 8). Proved reserves are estimated using independent reserve engineer reports and represent the estimated quantities of oil which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. Proved reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. It is highly likely that the actual remaining quantities recovered will exceed the estimated proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the estimated proved reserves.

Depletion of oil assets
Oil properties are depleted using the UOP method over proved reserves. The calculation of the UOP rate of depletion could be impacted to the extent that actual production in the future is different from current forecast production based on proved reserves. This would generally result from significant changes in any of the factors or assumptions used in estimating reserves (Note 8).

Determination of cash generating units

Oil properties are grouped into cash generating units for purposes of impairment testing. Management has evaluated the oil properties of the Company, and grouped the properties into cash generating units on the basis of their ability to generate independent cash inflows, similar reserve characteristics, geographical location, and shared infrastructure.

3. Summary of significant accounting policies (cont'd)

Impairment indicators and calculation of impairment

At each reporting date, the Company assesses whether or not there are circumstances that indicate a possibility that the carrying values of oil properties and equipment are not recoverable, or impaired. Such circumstances include incidents of deterioration of commodity prices, changes in the regulatory environment, or a reduction in estimates of proved and probable reserves. When management judges that circumstances clearly indicate impairment, property and equipment are tested for impairment by comparing the carrying values to their recoverable amounts. The recoverable amounts of cash generating units are determined based on the higher of value in use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions that are subject to changes as new information becomes available including information on future commodity prices, expected production volumes, quantity of reserves, discount rates, as well as future development and operating costs.

Decommissioning provisions

Restoration costs will be incurred by the Company at the end of the operating life of the Company's facilities and properties. The ultimate restoration liability is uncertain and can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques, experience at other production sites, or changes in the risk-free discount rate. The expected timing and amount of expenditure can also change in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect future financial results (Note 10).

Stock-based compensation

Refer to Note 12.

Foreign currency translation

The functional currency of each of the Company's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Canadian dollars which is also the functional currency of the Company and its subsidiary.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation of monetary assets and liabilities denominated in currencies other than an entities functional currency are recognized in the consolidated statement of loss and comprehensive loss in other income.

3. Summary of significant accounting policies (cont'd)

Oil properties

Oil properties are stated at cost, less accumulated depletion and accumulated impairment losses.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, and the initial estimate of the asset retirement obligation. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Where commercial production in an area of interest has commenced, oil properties are depleted on a unit-of-production basis over the proved reserves of the field concerned, except in the case of assets whose useful life is shorter than the lifetime of the field, in which case the straight-line method is applied. Rights and concessions are depleted on the unit-of-production basis over the total proved reserves of the relevant area. The unit-of-production rate for the depletion of field development costs takes into account expenditures incurred to date, together with future development expenditures to develop the proved reserves. Changes in factors such as estimates of proved reserves that affect unit-of-production calculations do not give rise to prior year financial period adjustments and are dealt with on a prospective basis.

Revenue

Revenue from the sale of oil is recorded when the significant risks and rewards of ownership of the product is transferred to the buyer, which is usually when legal title passes to the external party, sales prices and costs can be reasonably measured, and it is probable that future economic benefits will flow to the entity. For crude oil, this is generally at the time the product reaches a trucking terminal or pipeline. Revenue is measured net of discounts and royalties

Share-based payments

The Company operates a stock option plan. Share-based payments are measured at the fair value of the instruments issued and recognized immediately upon vesting. The corresponding amount is recorded to the option reserve. The fair value of options is determined using a Black–Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

Loss per share

Basic net loss per share is calculated by dividing the net loss of the Company by the weighted average number of common shares outstanding during the year. Diluted net loss per share is determined by adjusting the net loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as options granted to employees. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments. The treasury stock method assumes that proceeds received from the exercise of in-the-money stock options are used to repurchase common shares at the average market price.

3. Summary of significant accounting policies (cont'd)

Financial instruments

The Company classifies its financial instruments in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale and financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

Financial assets and liabilities are classified as fair value through profit and loss when they are acquired principally for the purpose of selling or repurchasing in the short term. Financial instruments in this category are recognized initially and subsequently at fair value. Gains and losses arising from changes in fair value are presented in the consolidated statement of loss and comprehensive loss in other income.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortized cost. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. They are subsequently measured at amortized cost. Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period.

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not suitable to be classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments and are subsequently measured at fair value. These are included in current assets. Unrealized gains and losses are recognized in other comprehensive income, except for impairment losses and foreign exchange gains and losses.

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortized cost.

Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the Company commits to purchase the asset.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant and prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen.

3. Summary of significant accounting policies (cont'd)

Impairment of long lived assets

The carrying amount of the Company's assets is reviewed for impairment when indicators of such impairment exist. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount of assets is the greater of an asset's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. If an impairment loss exists and is recorded as an expense immediately.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and 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 had no impairment loss been recognized in previous years.

Cash

Cash includes cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

Short term investments

Short-term investments are investments which are transitional or current in nature, with an original term to maturity greater than three months but less than one year.

Income taxes

Income tax is recognized in the consolidated statement of loss and comprehensive loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income. The tax rate used is the rate that is enacted or substantively enacted.

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

3. Summary of significant accounting policies (cont'd)

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Decommissioning provisions

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of long-term assets, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future restoration cost estimates arising from the decommissioning of well sites is capitalized to oil and gas properties along with a corresponding increase in the restoration provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. The restoration asset will be depreciated on the same basis as other oil and gas properties.

The Company's estimates of restoration costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to oil and gas properties with a corresponding entry to the restoration provision. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates.

The restoration provisions are accreted to full value over time through charges to depletion, accretion and amortization on the consolidated statement of loss and comprehensive loss.

The net present value of restoration costs arising from subsequent site damage that is incurred on an ongoing basis during production are charged to profit or loss in the period incurred. The costs of restoration projects that were included in the provision are recorded against the provision as incurred.

Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are expensed during the financial period in which they are incurred.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in profit or loss.

The depreciation and amortization rates applicable to each category of property, plant and equipment are as follows:

Class of property, plant and equipment	**Annual Depreciation rate**
Computers	30%

3. Summary of significant accounting policies (cont'd)

Accounting standards issued by not yet effective

The IASB issued the following standards which have not yet been adopted by the Company: IFRS 9, Financial Instruments (IFRS 9), IFRS 10, Consolidated Financial Statements (IFRS 10), IFRS 11, Joint Arrangements (IFRS 11), IFRS 12, Disclosure of Interests in Other Entities (IFRS 12), IAS 27, Separate Financial Statements (IAS 27), IFRS 13, Fair Value Measurement (IFRS 13) and amended IAS 28, Investments in Associates and Joint Ventures (IAS 28). Each of the new standards is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted, with the exception of IFRS 9 which is effective for annual periods beginning on or after January 1, 2015. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements.

The following is a brief summary of the new standards:

IFRS 9 – Financial Instruments

In October 2010, the IASB added the requirements for financial liabilities in the previously issued IFRS 9 *Financial Instruments* ("IFRS 9"). This standard is effective for annual periods beginning on or after January 1, 2015 and replaces the parts of IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39") that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortized cost. The determination is made at initial recognition and the classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, IFRS 9 retains most of the IAS 39 requirements. The main difference is that, in cases where the fair value option is taken for financial liabilities, the past of the a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

IFRS 10 – Consolidation

In May 2011, the IASB issued IFRS 10 *Consolidation* ("IFRS 10"), which replaces IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 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. This standard is effective for annual periods beginning on or after January 1, 2013.

IFRS 11 - Joint Arrangements

In May 2011, the IASB issued IFRS 11 *Joint Arrangements* ("IFRS 10"), which replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers*. IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method 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. This standard is effective for annual periods beginning on or after January 1, 2013.

(Expressed in Canadian dollars)

3. Summary of significant accounting policies (cont'd)

IFRS 12 – Disclosure of Interests in Other Entities

In May 2011, the IASB issued IFRS 12 *Disclosure of Interests in Other Entities* ("IFRS 12"), which establishes disclosure requirements for interests 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 interests in other entities. This standard is effective for annual periods beginning on or after January 1, 2013.

IFRS 13 - Fair Value Measurement

In May 2011, the IASB issued IFRS 13 *Fair Value Measurement* ("IFRS 13"), which is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. This standard is effective for annual periods beginning on or after January 1, 2013.

4. Short-term investments

The Company has $1,000,000 (December 31, 2010 - $850,000 and January 1, 2010 - $800,000) invested in a variable rate GIC, based on the Bank of Montreal's prime rate of 1.80%, with a maturity date of August 21, 2012. As at December 31, 2011, the Company had accrued interest on the investment of $6,429.

5. Accounts receivable and other receivables

	December 31, 2011	December 31, 2010	January 1, 2010
Value-added tax receivable	$ 3,916	$ 55,051	$ 2,700
Other receivables	3,751	3,685	2,504
Trade receivables	64,799	78,561	124,535
	$ 72,466	$ 137,297	$ 129,739

6. Reclamation and other deposits

	December 31, 2011	December 31, 2010	January 1, 2010
Reclamation bond	$ 32,506	$ 32,506	$ 32,506
Office rent deposit	44,918	-	-
	$ 77,424	$ 32,506	$ 32,506

The Company has a reclamation bond having a value of $32,506 ($20,000 Well and $12,506 Battery) that is held by the Saskatchewan Industry and Resources in the event that well King 03-27-004-07 W2 becomes orphaned. The Company earns interest at a rate of 0.85% per annum on the reclamation bond.

(Expressed in Canadian dollars)

7. Property, plant and equipment

		Computers			Computers
Cost:			**Cost:**		
At December 31, 2010	$	10,504	At January 1, 2010	$	10,504
Additions		-	Additions		-
Disposals		-	Disposals		-
At December 31, 2011		10,504	At December 31, 2010		10,504
Depreciation:			**Depreciation:**		
At December 31, 2010		10,504	At January 1, 2010		9,412
Charge for the period		-	Charge for the period		1,092
Eliminated on disposal		-	Eliminated on disposal		-
At December 31, 2011		10,504	At December 31, 2010		10,504
Net book value:			**Net book value:**		
At December 31, 2010		-	At January 1, 2010		1,092
At December 31, 2011	**$**	**-**	**At December 31, 2010**	**$**	**-**

8. Oil properties

[1] The Company has working interests (“WI”) in five wells in south east Saskatchewan at Kingsford. Two of these are horizontal wells (HZ).

#	Well	WI %
1	King 141/08-13-004-07 W2M	45.90
2	King 91/06 HZ 1D08-13-1D06-18-04-06 W2M	13.00
3	King 92/07 HZ 2C5-18-1D7-13-04-07 W2M	45.90
4	King 4D8-14/2A11-13-004-07 W2	10.50
5	King 03-27-004-07 W2	100.00

(Expressed in Canadian dollars)

8. Oil properties (cont'd)[1]

	Well #1	Well #2	Well #3	Well #4	Well #5	Total
Cost:						
At December 31, 2010	$ 395,908	$ 82,015	$ 732,043	$ 345,786	$ 518,957	$ 2,074,709
Additions	-	-	-	-	-	-
Decommissioning change in estimate	5,367	1,152	9,919	4,820	8,231	29,489
Disposals	-	-	-	-	-	-
At December 31, 2011	401,275	83,167	741,962	350,606	527,188	2,104,198
Depletion:						
At December 31, 2010	(203,373)	(40,679)	(376,238)	(172,868)	(223,713)	(1,016,871)
Charge for the year	(21,520)	(4,620)	(39,769)	(19,327)	(35,248)	(120,484)
At December 31, 2011	(224,893)	(45,299)	(416,007)	(192,195)	(258,961)	(1,137,355)
Net book value:						
At December 31, 2010	192,535	41,336	355,805	172,918	295,244	1,057,838
At December 31, 2011	**$ 176,382**	**$ 37,868**	**$ 325,955**	**$ 158,411**	**$ 268,227**	**$ 966,843**

	Well #1	Well #2	Well #3	Well #4	Well #5	Total
Cost:						
At January 1, 2010	$ 393,425	$ 82,015	$ 723,296	$ 335,017	$ 408,331	$ 1,942,084
Additions	2,483	-	8,747	10,769	110,626	132,625
Decommissioning change in estimate	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
At December 31, 2010	395,908	82,015	732,043	345,786	518,957	2,074,709
Depletion:						
At January 1, 2010	(179,379)	(35,875)	(331,852)	(152,476)	(197,318)	(896,900)
Charge for the year	(23,994)	(4,804)	(44,386)	(20,392)	(26,395)	(119,971)
At December 31, 2010	(203,373)	(40,679)	(376,238)	(172,868)	(223,713)	(1,016,871)
Net book value:						
At January 1, 2010	$ 214,046	$ 46,140	$ 391,444	$ 182,541	$ 211,013	$ 1,045,184
At December 31, 2010	**$ 192,535**	**$ 41,336**	**355,805**	**$ 172,918**	**$ 295,244**	**$ 1,057,838**

(Expressed in Canadian dollars)

9. Accounts payables and accrued liabilities

	December 31, 2011	December 31, 2010	January 1, 2010
Trade payables	$ 15,267	$ 355,746	$ 25,981
Accrued liabilities	40,000	62,944	40,490
	$ 55,267	$ 418,690	$ 66,471

10. Decommissioning provisions

	2011	2010
Balance, beginning	$ 107,895	$ 104,347
Change in estimate	29,489	-
Accretion expense	3,668	3,548
Balance, end	$ 141,052	$ 107,895

The Company's provision for restoration and environmental obligations consists of costs accrued based on the current best estimate of reclamation activities that will be required at the completion of petroleum extraction activities. The Company's provision for future site closure and reclamation costs is based on the level of known disturbance at the reporting date, known legal requirements and estimates prepared by a third party specialist. It is not currently possible to estimate the impact on operating results, if any, of future legislative or regulatory developments.

The Company has calculated the fair value of the asset retirement obligation using a risk free discount rate of 2.0% (December 31, 2010 – 3.4% and January 1, 2010 – 3.4%). The estimated total future undiscounted cash flows to settle the asset retirement obligations are $186,408 (December 31, 2010 - $203,476 and January 1, 2010 - $203,476) and are expected to be incurred over a period of approximately 18 years.

Refer to note 6.

11. Related party transactions

The Company incurred the following transactions with directors and companies that are controlled by directors of the Company.

	2011	2010
Director fees	$ 27,000	$ 60,000
Mineral royalties	5,090	3,662
Professional fees	63,527	23,674
	$ 95,617	$ 87,336

Key management compensation[1]

	2011	2010
Management fees	$ 30,000	$ 30,000
Stock based compensation	50,704	10,500
	$ 80,704	$ 40,500

[1] Key Management includes the CEO and the CFO.

(Expressed in Canadian dollars)

12. Share capital

Authorized share capital

The Company's authorized share capital consists of an unlimited number of common shares without par value and an unlimited number of preference shares without par value.

Issued share capital

There are no preferred shares issued or outstanding. The common shares issued and outstanding are as follows:

	Number of Shares		Amount
Balance as at January 1, 2010	14,583,266	$	2,105,559
Exercise of share purchase warrants	1,860,000		279,000
Exercise of stock options	750,000		134,500
Transfer from warrant and option reserve	-		99,594
Balance as at December 31, 2010	17,193,266		2,618,653
Exercise of share purchase warrants	885,000		132,750
Exercise of stock options	200,000		33,000
Transfer from warrant and option reserve	-		35,246
Balance as at December 31, 2011	18,278,266	$	2,819,649

Stock options

The Company has adopted a fixed incentive stock option plan, which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the Exchange requirements, grant to directors, officers, employees and technical consultants to the Company, non-transferable stock options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares of the Company. Such options will be exercisable for a variable period from the date of grant. In connection with the foregoing, the number of common shares reserved for issuance to any one optionee will not exceed five percent (5%) of the issued and outstanding common shares and the number of common shares reserved for issuance to all technical consultants will not exceed two percent (2%) of the issued and outstanding common shares.

Options may be exercised no later than 90 days following cessation of the optionee's position with the Company. Options granted during 2011 and 2010 vested fully on the grant date.

(Expressed in Canadian dollars)

12. Share capital (cont'd)

The following table summarizes the options outstanding as at December 31, 2011:

Number of Options	Exercise Price	Expiry Date
1,150,000	$0.20	November 24, 2016

The changes in options during the year ended December 31, 2011 are as follows:

	2011			
	Number of options	Weighted average exercise price	Weighted average grant date fair value	Weighted average stock price on exercise
Options outstanding, beginning	200,000	$ 0.16	$ 0.09	
Options granted	1,150,000	0.20	0.10	
Options exercised	(200,000)	0.16	0.09	$ 0.35
Options outstanding, end	1,150,000	$ 0.20	$ 0.10	
Options exercisable, end	1,150,000	$ 0.20	$ 0.10	

During the year ended December 31, 2011, the Company granted 1,150,000 incentive stock options with a strike price of $0.20 and an expiration date of November 24, 2016. The options were determined to have a fair value of $115,798. The options were valued using a Black Scholes option pricing model with the following assumptions:

Risk-free interest rate	1.85%
Expected volatility	84%
Expected dividend yield	Nil
Expected life of option	5 yrs

The following table summarizes the options outstanding as at December 31, 2010:

Number of Options	Exercise Price	Expiry Date
100,000	$0.10	December 3, 2011
100,000	0.23	October 16, 2012
200,000	$0.16	

(Expressed in Canadian dollars)

12. Share capital (cont'd)

The changes in options during the year ended December 31, 2010 are as follows:

	2010			
	Number of options	Weighted average exercise price	Weighted average grant date fair value	Weighted average stock price on exercise
Options outstanding, beginning	1,250,000	$ 0.17	$ 0.08	
Options exercised	(750,000)	0.18	0.08	$ 0.35
Options expired	(300,000)	0.20	0.07	
Options outstanding, end	200,000	$ 0.16	$ 0.09	
Options exercisable, end	200,000	$ 0.16	$ 0.09	

Share purchase warrants

The changes in warrants during the years ended December 31, 2011 and 2010 are as follows:

	2011		2010	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Warrants outstanding, beginning	1,990,000	$ 0.15	3,850,000	$ 0.15
Warrants exercised	(885,000)	0.15	(1,860,000)	0.15
Warrants expired	(1,105,000)	0.15	-	-
Warrants outstanding, end	-	$ -	1,990,000	$ 0.15
Warrants exercisable, end	-	$ -	1,990,000	$ 0.15

13. Financial risk management

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash held in bank accounts. The majority of cash is deposited in bank accounts held with major banks in Canada. As most of the Company's cash is held by two banks there is a concentration of credit risk. This risk is managed by using major banks that are high credit quality financial institutions as determined by rating agencies. The Company's secondary exposure to risk is on its other receivables. This risk is minimal as receivables consist primarily of petroleum sales to long standing customers with reputable credit history. The carrying amount of financial assets recorded in the financial statements represents the Company's maximum exposure to credit risk.

(Expressed in Canadian dollars)

13. Financial risk management (cont'd)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company ensures that there are sufficient funds to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash and cash equivalents.

Historically, the Company's main source of funding has been through revenue earned from its operating well interests and the issuance of equity securities for cash. The Company's access to financing in the public markets is always uncertain. There can be no assurance of continued access to significant equity funding.

The following is an analysis of the contractual maturities of the Company's non-derivative financial liabilities as at December 31, 2011:

	Within one year	Between one and five years	More than five years
Accounts payables and accrued liabilities	$ 55,267	$ -	$ -

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk on its short-term investments as they are exposed to interest rate fluctuations on renewal. A 1% change in market interest rates would have an impact on the Company's net loss of $10,000.

Foreign exchange risk

Foreign currency exchange rate risk is the risk that the fair value of assets and future cash flows will fluctuate as a result of changes in foreign currency exchange rates. However, the Company's functional currency is the Canadian dollar and the Company doesn't have any material assets or operations that are denominated in a foreign currency. Accordingly, the Company is not exposed to any material foreign exchange risk and has not hedged its limited exposure to currency fluctuations.

Commodity risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by world economic events that dictate the levels of supply and demand. The Corporation had no hedging contracts in place as at or during the year ended December 31, 2011. The Company's earnings and its ability to raise capital to fund exploration or development activities is subject to risks associated with fluctuations in the market price of oil. The Company closely monitors commodity prices to determine the appropriate course of action to be taken. The Corporation had no hedging contracts in place as at or during the year ended December 31, 2011. A $10 change in the price of oil would give rise to a gain/loss of $6,030.

(Expressed in Canadian dollars)

13. Financial risk management (cont'd)

Capital Management

The Company's policy is to maintain a strong capital base so as to maintain investor and creditor confidence and to sustain future development of the business. The capital structure of the Company consists of equity, comprising share capital, net of accumulated deficit.

The Company manages its capital requirements by maintaining a budgeting and forecasting process to determine whether equity funding is required.

The Company is not subject to any externally imposed capital requirements.

Classification of financial instruments

Financial assets included in the statement of financial position are as follows:

	2011	2010
Loans and receivables:		
Cash	$ 164,906	$ 495,569
Short-term investments	1,006,429	850,000
Reclamation bond	32,506	32,506
Accounts receivable and other receivables	72,466	133,612
	$ 1,276,307	$ 1,511,687

Financial liabilities included in the statement of financial position are as follows:

	2011	2010
Accounts payable and accrued liabilities	$ 55,267	$ 418,690

Fair value

The fair value of the Company's financial assets and liabilities approximates the carrying amount with the exception of the restoration provision.

14. Segmented information

The Company operates in a single reportable operating segment – the acquisition, production, exploration and development of oil and gas properties. The Company operates in one geographic segment located in Canada, but considers its operating wells to be grouped into two cash generating units.

(Expressed in Canadian dollars)

15. Expense by nature

General and administrative was comprised of the following:

	2011	2010
Office rent	$ 30,600	$ 21,600
Director fees	27,000	59,030
Management fees	30,000	30,000
Professional fees	140,940	94,284
Transfer and filing fees	29,204	21,710
Travel	20,757	4,654
Other	43,164	45,130
	$ 321,665	$ 276,408

Operating was comprised of the following:

	2011	2010
Contract labour	$ 53,735	$ 32,241
Power	17,354	17,807
Trucking	29,242	33,868
Supplies and other	47,697	47,322
	$ 148,028	$ 131,238

16. Income taxes

Income tax expense differs from the amount that would result from applying the Canadian federal and provincial income tax rates to earnings before taxes. These differences result from the following items:

	2011	2010
Loss before income taxes	$ (236,424)	$ (667,091)
Canadian federal and provincial income tax rates	28.50%	30.00%
Income tax recovery based on the above rates	(67,381)	(200,127)
Increase (decrease) due to:		
Non-deductible items and other	34,357	1,229
Change in long term tax rates	1,275	19,902
Tax effect of tax losses and temporary differences not recognized	31,749	149,010
Income tax (recovery) expense	$ -	$ (29,986)

(Expressed in Canadian dollars)

16. Income taxes (cont'd)

The components of deferred income taxes are as follows:

	2011	2010	2009
Deferred income tax assets			
Share issue costs	$ 1,247	$ 1,995	$ 6,954
Asset retirement obligations	30,122	23,399	22,337
Non-capital losses	181,259	70,787	12,699
Eligible capital and other	69,918	110,892	-
Total deferred income tax assets	282,545	207,073	41,990
Unrecognized deferred tax asset	(148,109)	(125,368)	(12,699)
Net deferred income tax asset	134,436	81,705	29,290
Deferred income tax liabilities			
Property and equipment	134,436	81,705	59,276
Total deferred income tax liabilities	134,436	81,705	59,276
Deferred income tax liability, net	$ -	$ -	$ 29,986

In assigning the realization of deferred tax assets, management considers whether it is probable that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible.

The Company has non-capital loss carry-forwards of approximately $671,328 that may be available for tax purposes. The loss carry-forwards are all in respect of its Canadian operations and expire as follows:

Year	Amount ($)
2029	251,150
2030	16,655
2031	403,513
	671,328

17. Transition to IFRS

An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's financial position and comprehensive income (loss) is set out in this note. The accounting policies set out in note 3 of have been applied in the preparation of the consolidated financial statements for the year December 31, 2011, the comparative information presented in these financial statements for the year ended December 31, 2010 and in the preparation of an opening IFRS Balance Sheet at January 1, 2010 (the Company's date of transition).

IFRS 1, which governs the first-time adoption of IFRS, generally requires accounting policies to be applied retrospectively to determine the opening balance sheet on the transition date of January 1, 2010, and allows certain exemptions on the transition of the transition to IFRS. The elections the Company has chosen to apply and that are considered significant to the Company include:

Exemptions applied

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

- IFRS 2 "Share-based Payment"

The Company has elected not to apply IFRS 2 to awards that vested prior to January 1, 2010, which had been accounted for in accordance with Canadian GAAP.

- IFRS 6 Exploration for and Evaluation of Mineral Resources"

The Company followed a Full Cost approach to account for oil properties under Canadian GAAP which is a policy no longer permitted under IFRS. The Company has elected to measure exploration and evaluation assets and assets in development or production phases at the amounts determined under Canadian GAAP.

- IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" has been applied prospectively to all provisions for restoration and environmental obligations that are within the scope of International Financial Reporting Interpretations Committee ("IFRIC") "Changes in Existing Decommissioning, Restoration and Similar Liabilities". The Company has:
  - re-measured the liabilities as at January 1, 2010 in accordance with IAS 37;
  - estimated the amount that would have been included in the cost of the related asset when the liability first arose, by discounting the liability to that date using its best estimate of the historical risk-adjusted discount rates that would have applied for that liability over the intervening period; and
  - calculated the accumulated depreciation on that amount, as at January 1, 2010, on the basis of the current estimate of the useful life of the asset, using the depreciation policy adopted by the entity.

(Expressed in Canadian dollars)

17. Transition to IFRS (cont'd)

Reconciliation of financial position

		As at January 1, 2010		
	Notes	**Canadian GAAP**	**Effect of Transition**	**IFRS**
ASSETS				
Current assets				
Cash		$ 462,514	$ -	$ 462,514
Short-term investments		800,000	-	800,000
Accounts receivable and other receivables		129,739	-	129,739
		1,392,253	-	1,392,253
Non-current assets				
Reclamation deposits		32,506	-	32,506
Property plant and equipment		1,092	-	1,092
Oil properties	17(a)	1,023,566	21,618	1,045,184
		1,057,164	21,618	1,078,782
TOTAL ASSETS		**$ 2,449,417**	**$ 21,618**	**$ 2,471,035**
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities		66,471	-	66,471
		66,471	-	66,471
Non-current liabilities				
Deferred tax liabilities		29,987	-	29,987
Decommissioning provisions	17(a)	82,729	21,618	104,347
		112,716	21,618	134,334
TOTAL LIABILITIES		**179,187**	**21,618**	**200,805**
SHAREHOLDERS' EQUITY				
Share capital		2,105,559	-	2,105,559
Warrants	17(b)	97,133	(97,133)	-
Contributed surplus	17(b)	244,213	(244,213)	-
Reserves	17(b)	-	341,346	341,346
Deficit		(176,675)	-	(176,675)
TOTAL EQUITY		**2,270,230**	**-**	**2,270,230**
TOTAL LIABILITIES AND SHARESHOLDERS' EQUITY		**$ 2,449,417**	**$ 21,618**	**$ 2,471,035**

(Expressed in Canadian dollars)

17. Transition to IFRS (cont'd)

Reconciliation of financial position

		As at December 31, 2010		
	Notes	**Canadian GAAP**	**Effect of Transition**	**IFRS**
ASSETS				
Current assets				
Cash		$ 495,569	$ -	$ 495,569
Short-term investments		850,000	-	850,000
Accounts receivable and other receivables		137,297	-	137,297
		1,482,866	-	1,482,866
Non-current assets				
Reclamation deposits		32,506	-	32,506
Oil properties	17(a)	1,036,220	21,618	1,057,838
		1,068,726	21,618	1,090,344
TOTAL ASSETS		**$ 2,551,592**	**$ 21,618**	**$ 2,573,210**
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities		418,690	-	418,690
		418,690	-	418,690
Non-current liabilities				
Decommissioning provisions	17(a)	86,663	21,232	107,895
		86,663	21,232	107,895
TOTAL LIABILITIES		**505,353**	**21,232**	**526,585**
SHAREHOLDERS' EQUITY				
Share capital		2,618,653	-	2,618,653
Warrants	17(b)	48,858	(48,858)	-
Contributed surplus	17(b)	192,894	(192,894)	-
Reserves	17(b)	-	241,752	241,752
Deficit	17(b)	(814,166)	386	(813,780)
TOTAL EQUITY		**2,046,239**	**386**	**2,046,625**
TOTAL LIABILITIES AND SHARESHOLDERS' EQUITY		**$ 2,551,592**	**$ 21,618**	**$ 2,573,210**

(Expressed in Canadian dollars)

17. Transition to IFRS (cont'd)

Reconciliation of loss and comprehensive loss for the year ended December 31, 2010

	Notes	Canadian GAAP	Effect of Transition	IFRS
Revenue				
Petroleum sales		$ 513,276	$ -	$ 513,276
Less royalties		(81,776)	-	(81,776)
		431,500		431,500
Expenses				
Operating expenses		131,238	-	131,238
Depletion, amortization and accretion	17(a)	124,996	(386)	124,610
General and administrative		276,408	-	276,408
Property investigation		569,953	-	569,953
		1,102,595	(386)	1,102,209
Other items				
Other income		(3,618)	-	(3,618)
Net loss before income tax		**(667,477)**	**386**	**(667,091)**
Income tax recovery		29,986	-	29,986
Net loss and comprehensive loss for the year		**$ (637,491)**	**$ 386**	**$ (637,105)**
Loss per share – basic and diluted		**$ (0.04)**	**$ -**	**$ (0.04)**

(Expressed in Canadian dollars)

17. Transition to IFRS (cont'd)

Reconciliation of cash flows for the year ended December 31, 2010

	Notes	Canadian GAAP	Effect of Transition	IFRS
Operating activities				
Loss for the year		$ (637,491)	$ 386	$ (637,105)
Items not affecting cash:				
Depletion, amortization and accretion	17(a)	124,996	(386)	124,610
Future income tax recovery		(29,986)	-	(29,986)
Changes in non-cash working capital items:				
Increase in accounts receivable		(7,558)	-	(7,558)
Decrease in accounts payable and accrued liabilities		352,219	-	352,219
Net cash flows used in operating activities		(197,820)	-	(197,820)
Investing activities				
Purchase of short term investment		(50,000)	-	(50,000)
Oil property expenditures		(132,625)	-	(132,625)
Net cash flows used in investing activities		(182,625)	-	(182,625)
Financing activities				
Proceeds from exercise of options		134,500	-	134,500
Proceeds from exercise of warrants		279,000	-	279,000
Net cash flows from financing activities		413,500	-	413,500
Change in cash during the year		33,055	-	33,055
Cash, beginning		462,514	-	462,514
Cash, end		**$ 495,569**	**$ -**	**$ 495,569**

17. Transition to IFRS (cont'd)

Notes to reconciliations

(a) Provision for restoration and environmental obligations

Under Canadian GAAP, asset retirement obligations are measured at fair value, incorporating market assumptions and discount rates based on the entity's credit-adjusted risk-free rate. Adjustments are made to asset retirement obligations for changes in the timing or amount of the cash flows and the unwinding of the discount. However, changes in discount rates alone do not result in a re-measurement of the provision. Changes in estimates that decrease the liability are discounted using the discount rate applied upon initial recognition of the liability while changes that increase the liability are discounted using the current discount rate.

IFRS requires decommissioning provisions to be measured based on management's best estimate of the expenditures that will be made and adjustments to the provision are made in each period for changes in the timing or amount of cash flow, changes in the discount rate, and the accretion of the liability to fair value (unwinding of the discount). Furthermore, the estimated future cash flows should be discounted using the current risk-free rates. Management has initially estimated the risk-free rate to be 3.4% which resulted in a revaluation of the restoration provision to $104,347. The revaluation resulted in an accretion adjustment of $386 for the year ended December 31, 2010.

(b) Reserves

Under Canadian GAAP, amounts recorded in relation to the fair value of stock options granted and warrants issued were recorded to contributed surplus. Under IFRS, these amounts have been reclassified as individual reserve accounts.

(c) Depletion expense

Under Canadian GAAP, the Company depleted all of its oil production assets as one cost centre. Under IFRS, the Company has adopted a policy of depleting its oil production assets based upon individual cash generating units. This policy change has not resulted in a change to previously reported depletion in 2010.