Abenteuer Resources Corp.

Consolidated Financial Statements

Year Ended December 31, 2012

(Expressed in Canadian Dollars)

April 18, 2013

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, 2012 and December 31, 2011 and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained 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, 2012 and December 31, 2011 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

(signed) "PricewaterhouseCoopers LLP"

Chartered Accountants

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Abenteuer Resources Corp.

Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	Note	December 31, 2012	December 31, 2011
ASSETS			
Current assets			
Cash		$ 130,516	$ 164,906
Short-term investments	5	1,004,542	1,006,429
Prepaids		11,482	959
Accounts receivable and other receivables	6	60,197	71,507
		1,206,737	1,243,801
Non-current assets			
Reclamation and other deposits	7	77,424	77,424
Oil properties	8	865,080	966,843
		942,504	1,044,267
		$ 2,149,241	$ 2,288,068
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	9	$ 65,123	$ 55,267
Non-current liabilities			
Decommissioning provisions	10	143,036	141,052
		143,036	141,052
Shareholders' equity			
Share capital	12	2,819,649	2,819,649
Reserves		322,304	322,304
Deficit		(1,200,871)	(1,050,204)
		1,941,082	2,091,749
		$ 2,149,241	$ 2,288,068

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)

	Note	Year Ended December 31, 2012	Year Ended December 31, 2011
REVENUE			
Petroleum sales		$ 475,601	$ 605,277
Less: Royalties		(69,148)	(130,804)
		406,453	474,473
EXPENSES			
Operating expenses	8,15	263,681	272,180
General and administrative	15	356,789	321,665
Property investigation		-	16,409
Stock-based compensation	12	-	115,798
		620,470	726,052
OTHER ITEMS			
Recovery of royalty expense		28,020	-
Gain on farm-out	8	25,000	-
Interest income		10,330	15,155
LOSS AND COMPREHENSIVE LOSS FOR THE YEAR		$ (150,667)	$ (236,424)
Basic and diluted loss per common share		$ (0.01)	$ (0.01)
Weighted average common shares outstanding		18,278,266	18,139,348

See accompanying notes to the consolidated financial statements

Abenteuer Resources Corp.

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

	Notes	Share capital		Reserves				
		Number of Shares	Amount	Option	Warrant	Total	Deficit	Total
Balance at January 1, 2011		**17,193,266**	**$ 2,618,653**	**$ 192,894**	**$ 48,858**	**$ 241,752**	**$ (813,780)**	**$ 2,046,625**
Loss for the year		-	-	-	-	-	(236,424)	(236,424)
Stock options issued		-		115,798	-	115,798	-	115,798
Shares issued for cash – option exercise		200,000	45,918	(12,918)	-	(12,918)	-	33,000
Shares issued for cash – warrant exercise		885,000	155,078	-	(22,328)	(22,328)	-	132,750
Balance at December 31, 2011		**18,278,266**	**2,819,649**	**295,774**	**26,530**	**322,304**	**(1,050,204)**	**2,091,749**
Loss for the year		-	-	-	-	-	(150,667)	(150,667)
Balance at December 31, 2012		**18,278,266**	**$ 2,819,649**	**$ 295,774**	**$ 26,530**	**$ 322,304**	**$ (1,200,871)**	**$ 1,941,082**

See accompanying notes to the consolidated financial statements

Abenteuer Resources Corp.

Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

	Year Ended December 31, 2012	Year Ended December 31, 2011
CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Loss for the year	$ (150,667)	$ (236,424)
Items not affecting cash:		
Depletion	100,926	120,484
Accretion	2,821	3,668
Other income	1,887	(6,429)
Stock-based compensation	-	115,798
Changes in non-cash working capital items:		
Decrease (increase) in receivables	11,310	67,557
Decrease (increase) in prepaids	(10,523)	(2,726)
Increase (decrease) in accounts payable	9,856	(363,423)
	(34,390)	(301,495)
FINANCING ACTIVITIES		
Proceeds from exercise of options	-	33,000
Proceeds from exercise of warrants	-	132,750
	-	165,750
INVESTING ACTIVITIES		
Office rent deposit	-	(44,918)
Purchase of short-term investment	-	(150,000)
	-	(194,918)
Change in cash during the year	(34,390)	(330,663)
Cash - beginning	164,906	495,569
Cash - end	$ 130,516	$ 164,906

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

The consolidated financial statements of the Company for the years ended December 31, 2012 and 2011 have been prepared in accordance with the International Financial Reporting Standards and Interpretations (collectively, "IFRS") as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements were approved for issue by the board of directors effective April 18, 2013.

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*	
		2012	**2011**
Roughrider Energy Corp.	Canada	100%	100%

*Percentage of voting power is in proportion to ownership.

Inter-company balances and transactions, including unrealized income and expenses arising from inter-company transactions, are eliminated on consolidation. As at December 31, 2012, Roughrider Energy Corp. is a dormant company with no active operations.

3. Summary of significant accounting policies (continued)

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.

Oil properties

The Corporation's petroleum activities may be conducted jointly with others. A jointly controlled operation involves the joint use of assets contributed to a joint venture, without the establishment of a corporation, partnership, or other entity. The financial statements reflect only the Corporation's proportionate interest in such activities.

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 decommissioning costs. 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 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

3. Summary of significant accounting policies (continued)

Stock-based compensation

The Company has a stock option plan. Stock-based compensation is 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 options granted shall be based on the number of options 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.

Financial instruments

The Company recognizes financial assets and liabilities on the statement of financial position when the Company becomes a party to the contractual provisions of the instrument. All financial assets recognized on the Company's statement of financial position are classified as loans or receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are initially recognized at fair value and 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.

All financial liabilities recognized on the Company's statement of financial position are initially recognized at fair value and subsequently measured at amortized cost.

At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired.

Cash

Cash includes demand deposits 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 current in nature, with an original term to maturity greater than three months but less than one year.

3. Summary of significant accounting policies (continued)

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, then it 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. An impairment loss cannot be reversed to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years.

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.

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 jurisdictions 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.

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.

3. Summary of significant accounting policies (continued)

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 operating expenses 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.

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.

3. Summary of significant accounting policies (continued)

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. The Company is currently assessing the impact of early adoption and the impact of this standard on its consolidated financial statements.

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. The adoption of this standard is not expected to have a material impact on the Company's financial statements.

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. The adoption of this standard is not expected to have a material impact on the Company's financial statements.

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. The adoption of this standard is not expected to have a material impact on the Company's financial statements.

3. Summary of significant accounting policies (continued)

IAS 28 Investments in Associates and Joint Ventures

As a consequence of the issue of IFRS 10, IFRS 11 and IFRS 12, IAS 28 has been amended. IAS 28 will provide the accounting guidance for investments in associates, and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. These amendments are effective for annual periods beginning on or after January 1, 2013 and early adoption is permitted. The adoption of this standard is not expected to have a material impact on the Company's financial statements.

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. The adoption of this standard is not expected to have a material impact on the Company's financial statements.

4. 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 7). 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.

4. Significant accounting judgments, estimates and assumptions (continued)

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.

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 oil 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 9).

Stock-based compensation

The Company uses the Black-Scholes option pricing model for valuation of stock-based compensation. Option pricing models require the input of subjective assumptions including expected price volatility, interest rate and forfeiture rate. Changes in the input assumptions can materially affect the fair value estimate and the Company's earnings and equity reserves.

5. Short-term investments

The Company has $1,000,000 (December 31, 2011 - $1,000,000) invested in a variable rate GIC, earning interest based on the Bank of Montreal's prime rate less 1.75%, with a maturity date of August 21, 2013. As at December 31, 2012, the Company had accrued interest on the investment of $4,542 (December 31, 2011 - $6,429).

6. Accounts receivable and other receivables

	2012 ($)	2011 ($)
Value-added tax receivable	$ 8,864	$ 3,916
Other receivables	-	2,792
Trade receivables	51,333	64,799
	$ 60,197	$ 71,507

7. Reclamation and other deposits

	2012 ($)	2011 ($)
Reclamation bond	$ 32,506	$ 32,506
Office rent deposit	44,918	44,918
	$ 77,424	$ 77,424

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.

8. Oil properties

The Company has working interests in five wells in south east Saskatchewan at Kingsford. Two of these are horizontal wells (HZ).

Well #	Well Identifier	Working Interest (%)	Net Revenue Interest (%)
1	King 141/08-13-004-07 W2M	45.90	39.02%
2	King 91/06 HZ 1D08-13-1D06-18-04-06 W2M	13.00	13.00%
3	King 92/07 HZ 2C5-18-1D7-13-04-07 W2M	45.90	39.02%
4	King 4D8-14/2A11-13-004-07 W2	10.50	8.93%
5	King 03-27-004-07 W2	100.00	84.50%

During the year ended December 31, 2011, the Company executed a farm-out agreement with Admiralty Oils Ltd. ("Admiralty"), an arm's length private Saskatchewan oil company, to drill at least one test well on Section 27 of the West Kingsford pool in southeastern Saskatchewan.

Under the terms of the agreement, Admiralty can earn a 70-per-cent working interest in the well and farm-out lands, not including Well #5 above, by incurring 100 per cent of the drilling and well-completion costs, up to equipping and tie-in. The Company can elect to convert its 30-per-cent working interest into a 10-per-cent gross overriding royalty. Admiralty, as operator, was required to spud the first well prior to October 20, 2012. This deadline was not met and the Company granted Admiralty a six month extension in exchange for $25,000. On December 27, 2012 Admiralty announced that it had spudded a vertical well.

8. **Oil properties** (continued)

2012	**Well #1 ($)**	**Well #2 ($)**	**Well #3 ($)**	**Well #4 ($)**	**Well #5 ($)**	**Total ($)**
Cost:						
At December 31, 2011	$ 401,275	$ 83,167	$ 741,962	$ 350,606	$ 527,188	$ 2,104,198
Decommissioning change in estimate	(153)	(33)	(282)	(137)	(232)	(837)
At December 31, 2012	401,122	83,134	741,680	350,469	526,956	2,103,361
Depletion:						
At December 31, 2011	(224,893)	(45,299)	(416,007)	(192,195)	(258,961)	(1,137,355)
Charge for the year	(17,722)	(3,805)	(32,751)	(15,917)	(30,731)	(100,926)
At December 31, 2012	(242,615)	(49,104)	(448,758)	(208,112)	(289,692)	(1,238,281)
Net book value:						
At December 31, 2011	176,382	37,868	325,955	158,411	268,227	966,843
At December 31, 2012	**$ 158,507**	**$ 34,030**	**$ 292,922**	**$ 142,357**	**$ 237,264**	**$ 865,080**

2011	**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
Decommissioning change in estimate	5,367	1,152	9,919	4,820	8,231	29,489
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**

9. Accounts payables and accrued liabilities

	2012 ($)	2011 ($)
Trade payables	27,445	15,267
Accrued liabilities	37,678	40,000
	65,123	55,267

10. Decommissioning provisions

	2012 ($)	2011 ($)
Balance, beginning	141,052	107,895
Change in estimate	(837)	29,489
Accretion expense	2,821	3,668
Balance, end	143,036	141,052

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. Refer to note 7.

The Company has calculated the fair value of the asset retirement obligation using a risk free discount rate of 1.8% (December 31, 2011 – 2.0%). The estimated total future undiscounted cash flows to settle the asset retirement obligations are $195,620 (December 31, 2011 - $186,408) and are expected to be incurred over a period of approximately 24 years.

11. Related party transactions

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

	2012 ($)	2011 ($)
Director fees	24,000	27,000
Mineral royalties paid to a director of the Company	2,698	5,090
	26,698	32,090

***Key management compensation*[1]**

	2012 ($)	2011 ($)
Management fees paid to the CEO	29,500	30,000
Professional fees paid to the CFO	81,000	63,527
Share-based compensation	-	50,704
	110,500	144,231

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

11. Related party transactions (continued)

As at December 31, 2012, a total of $228 (2011 - $649) was owing to a director of the Company for mineral royalties on the #4 well.

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. There were no changes to the number of shares issued or outstanding during year ended December 31, 2012. The common shares issued and outstanding are as follows:

	Number of Shares	Amount ($)
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 and 2012	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 vested fully on the grant date. The were no options granted during the year ended December 31, 2012

The following table summarizes the options outstanding as at December 31, 2012 and 2011:

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

12. Share capital (continued)

There were no changes in options during the year ended December 31, 2012. 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

Share purchase warrants

There were no warrants issued or outstanding during the year ended December 31, 2012. The changes in warrants during the year ended December 31, 2011 are as follows:

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

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.

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, 2012:

	Within one year	Between one and five years	More than five years
Accounts payables and accrued liabilities	$ 65,123	$ -	$ -

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.

13. Financial risk management (continued)

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, 2012. 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, 2012.

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:

	2012 ($)	2011 ($)
Loans and receivables:		
Cash	130,516	164,906
Short-term investments	1,004,542	1,006,429
Reclamation bond	32,506	32,506
Accounts receivable and other receivables	60,197	71,507
	1,227,761	1,275,348

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

	2012 ($)	2011 ($)
Accounts payable and accrued liabilities	65,123	55,267

Fair value

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

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.

15. Expense by nature

General and administrative expense is comprised of the following:

	2012 ($)	**2011 ($)**
Office rent	61,751	30,600
Director fees	24,000	27,000
Management fees	29,500	30,000
Professional fees	152,729	140,940
Transfer and filing fees	16,389	29,204
Travel	14,396	20,757
Administrative and other	58,024	43,164
	356,789	321,665

Operating expense is comprised of the following:

	2012 ($)	**2011 ($)**
Contract labour	48,568	53,735
Depletion (Note 7)	100,926	120,484
Accretion of decommissioning provision (Note 9)	2,821	3,668
Power	25,784	17,354
Trucking	36,332	29,242
Supplies and other	49,250	47,697
	263,681	272,180

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:

	2012 ($)	2011 ($)
Loss before income taxes	(150,667)	(236,424)
Canadian federal and provincial income tax rates [1]	27.00%	28.50%
Income tax recovery based on the above rates	(40,680)	(67,381)
Increase (decrease) due to:		
Non-deductible items and other	290	34,357
Change in long term tax rates	-	1,275
Tax effect of tax losses and temporary differences not recognized	40,390	31,749
Income tax (recovery) expense	-	-

[1] The tax rates changed to 27.00% due to legislative changes

The components of deferred income taxes are as follows:

	2012 ($)	2011 ($)
Deferred income tax assets		
Share issue costs	623	1,247
Decommissioning provisions	38,620	30,122
Non-capital losses	190,628	181,259
Property, plant, equipment and other	69,918	69,918
Total deferred income tax assets	299,789	282,546
Unrecognized deferred tax asset	(182,247)	(148,110)
Net deferred income tax asset	117,542	134,436
Deferred income tax liabilities		
Oil properties	117,542	134,436
Total deferred income tax liabilities	117,542	134,436
Deferred income tax liability, net	-	-

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.

16. Income taxes (continued)

The Company has non-capital loss carry-forwards of approximately $706,028 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	245,116
2030	11,641
2031	401,114
2032	48,157
	706,028

17. Commitments

The Company has a three year office lease commitment. It will require future aggregate payments as follows:

2013 - $ 98,753
2014 - $103,841
2015 - $ 26,158

18. Non-cash Transactions

The Company had the following non-cash investing and financing activities:

	2012 ($)	2011 ($)
Accretion of the Decommissioning Provision	2,821	3,668