VINERGY RESOURCES LTD.
(formerly Vanguard Investments Corp.)

Consolidated Interim Financial Statements
For the Quarter Ended
August 31, 2011
(Unaudited - Expressed in Canadian dollars)

VINERGY RESOURCES LTD.
(formerly Vanguard Investments Corp.)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by management and approved by the Audit Committee and Board of Directors of the Company.

The Company's independent auditors have not performed a review of these consolidated financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditors.

VINERGY RESOURCES LTD.
(formerly Vanguard Investments Corp.)
Consolidated interim statement of financial position
As at August 31, 2011, February 28, 2011, and March 1, 2010
(Unaudited – Expressed in Canadian dollars)

	August 31, 2011 $	February 28, 2011 $	March 1, 2010 $
Assets			
Current Assets			
Cash	42,411	25,008	86,380
Prepaid expenses	10,000	–	–
Amounts receivable	2,671	1,546	4,461
	55,082	26,554	90,841
Exploration and evaluation assets (Note 4)	47,008	47,008	240,989
	102,090	73,562	331,830
Liabilities and Shareholders' Equity (Deficit)			
Current Liabilities			
Accounts payable and accrued liabilities	44,266	41,402	40,269
Due to related parties (Note 6)	203,520	156,620	136,558
Current portion of asset retirement obligations (Note 7)	29,761	29,761	18,462
	277,547	227,783	195,289
Asset retirement obligations (Note 7)	–	–	6,339
Convertible debt (Note 5)	106,227	106,227	78,157
	383,774	334,010	279,785
Shareholders' Equity (Deficit)			
Share capital (Note 8)	459,101	409,101	359,101
Share compensation reserves	176,251	176,251	176,251
Deficit	(917,036)	(845,800)	(483,307)
	(281,684)	(260,448)	52,045
	102,090	73,562	331,830

Nature of operations and continuance of business (Note 1)
Subsequent event (Note 13)

Approved on behalf of the Board:

Signed "Randy Clifford"

Randy Clifford, Director

Signed "Eugene Sekora "

Eugene Sekora, Director

(The accompanying notes are an integral part of these consolidated interim financial statements)

VINERGY RESOURCES LTD.
(formerly Vanguard Investments Corp.)
Consolidated interim statements of profit and loss
For the three and six month periods ended August 31, 2011 and 2010
(Unaudited – Expressed in Canadian dollars)

	Three Months Ended August 31, 2011	Three Months Ended August 31, 2010	Six Months Ended August 31, 2011	Six Months Ended August 31, 2010
Expenses				
General and administrative	$ 238	$ 375	$ 310	$ 965
Management fees (Note 6)	7,200	7,200	14,400	14,400
Bookkeeping fees (Note 6)	4,800	4,800	9,600	9,600
Professional fees	6,000	4,000	8,300	4,154
Rent (Note 6)	9,000	9,000	18,000	16,500
Transfer agent and filing fees	7,715	5,630	9,803	15,630
Loss before other income (expense)	(34,953)	(31,005)	(60,413)	(61,249)
Other income (expense)				
Interest income	15	–	15	3
Interest (expense)	(5,419)	(10,838)	(10,838)	(10,838)
Net (loss) for the period	$ (40,357)	$ (41,843)	$ (71,236)	$ (72,084)
Loss per share, basic and diluted (Note 8)	0.00	0.00	0.00	0.00
Weighted average common shares outstanding	23,511,591	17,163,376	23,272,460	17,163,376

(The accompanying notes are an integral part of these consolidated interim financial statements)

VINERGY RESOURCES LTD.
(formerly Vanguard Investments Corp.)
Consolidated interim statements of equity
For the six month periods ended August 31, 2011 and 2010
(Unaudited – Expressed in Canadian dollars)

	Common Shares				
	Number of Shares	Amount	Share compensation reserves	Deficit	Total
		$	$	$	$
Balances as at March 1, 2010	22,033,330	359,101	176,251	(483,307)	52,045
Exercise of warrants	-	-	-	-	-
Net loss and comprehensive loss	-	-	-	(72,084)	(72,084)
Balances as at August 31, 2010	22,033,330	359,101	176,251	(555,391)	(20,039)
Balances as at February 28, 2011	23,033,330	409,101	176,251	(845,800)	(260,448)
Exercise of warrants	1,000,000	50,000	-	-	50,000
Net loss and comprehensive loss	-	-	-	(71,236)	(71,236)
Balances as at August 31, 2011	24,033,330	459,101	176,251	(917,036)	(281,684)

(The accompanying notes are an integral part of these consolidated interim financial statements)

VINERGY RESOURCES LTD.
(formerly Vanguard Investments Corp.)
Consolidated interim statements of cash flows
For the three and six month periods ended August 31, 2011 and 2010
(Unaudited – Expressed in Canadian dollars)

	Three Months Ended August 31, 2011	Three Months Ended August 31, 2010	Six Months Ended August 31, 2011	Six Months Ended August 31, 2010
Operating activities				
Net loss for the period	$ (40,357)	$ (41,843)	$ (71,236)	$ (72,084)
Changes in non-cash operating activities:				
Amounts receivable	(1,822)	501	(1,124)	2,107
Accounts payable and accrued liabilities	23,470	18,498	4,224	21,991
Prepaid expenses	6,000	–	–	–
Due to related parties	(500)	–	47,539	–
Cash used in operating activities	(13,209)	(22,844)	(20,597)	(47,986)
Investing activities:				
Acquisition of oil & gas properties	–	(314)	–	(314)
Loans paid	(2,500)	(1,000)	(7,000)	(1,000)
Loans received	2,500	–	5,000	–
Cash provided by investing activities	$ –	$ (1,314)	$ (2,000)	$ (1,314)
Financing activities:				
Proceeds from shares issued, net	$ 50,000	$ –	$ 50,000	$ –
Proceeds from convertible loan	–	–	–	–
Cash provided by financing activities	50,000	–	50,000	–
Increase (decrease) in cash	36,791	(24,158)	27,403	(49,300)
Cash, beginning of period	5,620	61,238	15,008	86,380
Cash, end of period	42,411	37,080	42,411	37,080
Supplemental disclosures:				
Interest paid	$ 5,419	$ –	$ 10,838	$ –
Income taxes paid	–	–	–	–

(The accompanying notes are an integral part of these consolidated interim financial statements)

1. Nature of Operations and Continuance of Business

Vinergy Resources Ltd. (formerly Vanguard Investments Corp.) (the "Company") was incorporated on March 20, 2001 under the provisions of the Alberta Business Corporations Act. The Company's shares are listed on the Canadian National Stock Exchange under the symbol VIN.

On November 30, 2009, the Company entered into a Share Purchase Agreement (the "Agreement") with Zeus Energy Inc. ("Zeus") and its shareholders to acquire 100% of the issued and outstanding shares of Zeus (refer to Note 3). Zeus was incorporated on November 7, 2007 under the Alberta Business Corporations Act. Since the closing of the Agreement on November 30, 2009, the Company has been in the business of exploration and evaluation of oil and gas projects.

These consolidated interim financial statements ("financial statements") have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. As at August 31, 2011, the Company had a working capital deficiency of $222,465 ($201,229 - February 28, 2011; $104,448 - March 1, 2010), has not generated any revenues from operations, and has an accumulated deficit of $917,036 ($845,800 - February 28, 2011; $483,307 - March 1, 2010). The continued operations of the Company are dependent on its ability to generate future cash flows or obtain additional financing. Management is of the opinion that sufficient working capital will be obtained from external financing to meet the Company's liabilities and commitments as they become due, although there is a risk that additional financing will not be available on a timely basis or on terms acceptable to the Company. These financial statements do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern.

These financial statements were authorized for issue by the Board of Directors on October 26, 2011

2. Significant Accounting Policies

(a) Statement of Compliance

These financial statements are unaudited and have been prepared in accordance with IAS 34 'Interim Financial Reporting' ("IAS 34").

These are the Company's second IFRS financial statements for part of the period covered by the Company's first IFRS consolidated annual financial statements for the year ending February 28, 2012. Previously, the Company prepared its consolidated annual and consolidated interim financial statements in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP").

(b) Basis of Presentation

The financial statements have been prepared on the historical cost basis except for financial instruments, which are measured at fair value, as explained in the accounting policies set out in Note 2. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information. The comparative figures presented in these financial statements are in accordance with IFRS.

The preparation of interim financial statements in conformity with IAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. These financial statements do not include all of the information required for full annual financial statements.

2. Significant Accounting Policies (continued)

(b) Basis of Presentation (continued)

The preparation of these financial statements resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under Canadian GAAP. The accounting policies set out below have been applied consistently to all periods presented in these financial statements. They also have been applied in preparing an opening IFRS balance sheet at March 1, 2010 for the purposes of the transition to IFRS, as required by IFRS 1, First Time Adoption of International Financial Reporting Standards (IFRS 1). The impact of the transition from Canadian GAAP to IFRS is explained in Note 12.

(c) Basis of Consolidation

The financial statements of the Company include the accounts of Zeus Energy Inc. a wholly owned subsidiary. Zeus is incorporated in Canada.

The Company consolidates the subsidiaries on the basis that it controls these subsidiaries through its ability to govern their financial and operating policies.

(d) Exploration and evaluation assets

Exploration and evaluation assets include the costs of acquiring licenses, costs associated with exploration and evaluation activity, and the fair value (at acquisition date) of exploration and evaluation assets acquired in a business combination. All costs related to the acquisition, exploration and development of exploration and evaluation assets are capitalized by property as an intangible asset. Costs incurred before the Company has obtained the legal rights to explore an area are recognized in profit or loss.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Once the technical feasibility and commercial viability of the extraction of resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to oil and gas assets within property, plant, and equipment.

Recoverability of the carrying amount of the exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

(e) Determination of cash generating units

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

(f) Decommissioning, restoration and similar liabilities ("Asset retirement obligation" or "ARO")

The Company records the present value of estimated costs of legal and constructive obligations required to restore the site in the period in which the obligation is incurred. The nature of these restoration activities include dismantling and removing structures, rehabilitating mines and tailings dam, dismantling facilities, closure of plant and waste sites and restoration, reclamation and re-vegetation of affected areas.

2. Significant Accounting Policies (continued)

(f) Decommissioning, restoration and similar liabilities (“Asset retirement obligation” or “ARO”) (continued)

The future obligations for well closure activities are estimated by the Company using well closure plans or other similar studies which outline the requirements that will be carried out to meet the obligations. Since the obligations are dependent on the laws and regulations of the countries in which the wells operate, the requirements could change as a result of amendments in the laws and regulations relating to environmental protection and other legislation affecting resource companies.

As the estimate of the obligations is based on future expectations, a number of assumptions and judgments are made by management in the determination of closure provisions. The closure provisions are more uncertain the further into the future the well closure activities are to be carried out.

The present value of decommissioning and site restoration provision as a long-term liability as incurred and records an increase in the carrying value of the related asset by a corresponding amount. The provision is discounted using a nominal, risk free pre-tax discount rate. Charges for accretion and restoration expenditures are recorded as operating activities. The related decommissioning provision is recorded as part of the mineral property and depreciated accordingly. In subsequent periods, the carrying amount of the liability is accreted by a charge to the statement of operations to reflect the passage of time and the liability is adjusted to reflect any changes in the timing of the underlying future cash flows.

Changes to the obligation resulting from any revisions to the timing or amount of the original estimate of undiscounted cash flows are recognized as an increase or decrease in the decommissioning provision, and a corresponding change in the carrying amount of the related long-lived asset. Where rehabilitation is conducted systematically over the life of the operation, rather than at the time of closure, or provision is made for the estimated outstanding continuous rehabilitation work at each balance sheet date and the cost is charged to the statement of operations.

The Company’s asset retirement obligations as of August 31, 2011 were $29,761, ($29,761 - February 28, 2011; $24,801 - March 1, 2010).

(g) Impairment of assets

At the end of each reporting period, the Company assesses each cash generating unit to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm’s length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

2. Significant Accounting Policies (continued)

(h) Borrowing costs

Interest and financing costs on debt or other liabilities that are directly attributable to the acquisition, construction and development of a qualifying asset are capitalized to the asset. Where the funds used to finance a project from general borrowings, the amount capitalized is calculated using a weighted average of rates applicable to the relevant general borrowings during the period.

On commencement of commercial production, the interest and financing costs are amortized over the life of the mine. All other borrowing costs are expensed as incurred.

Interest and financing costs on debt or other liabilities that are directly attributable to the acquisition, construction and development of a qualifying asset are capitalized to the asset. Where the funds used to finance a project from general borrowings, the amount capitalized is calculated using a weighted average of rates applicable to the relevant general borrowings during the period.

On commencement of commercial production, the interest and financing costs are depreciated over the life of the deferred asset. All other borrowing costs are expensed as incurred.

(i) Foreign currencies

The financial statements for each the Company's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operates (the "functional currency"). The financial statements are presented in Canadian dollars, which is the Company's presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at exchange rates prevailing on the balance sheet date are recognized in the income statement or are attributable to the net investment in a foreign operation.

(j) Income Taxes

Current tax is the expected tax payable or receivable on the local taxable income or loss for the year, using local tax rates enacted or substantively enacted at the balance sheet date, and includes any adjustments to tax payable or receivable in respect of previous years.

Deferred income taxes are recorded using the balance sheet method whereby deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they are realized or settled, based on the laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is not recognized for temporary differences which arise on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting, nor taxable profit or loss.

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

2. Significant Accounting Policies (continued)

(k) Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

(l) Financial assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held to maturity, available for sale, loans and receivables or at fair value through profit or loss ("FVTPL").

Financial assets which are classified as FVTPL are measured at fair value with unrealized gains and losses recognized through earnings. The Company's cash is classified as FVTPL.

Financial assets classified as loans and receivables and held to maturity assets are measured at amortized cost. The Company's prepaid expenses and accounts receivable are classified as loans and receivables. Financial assets classified as available for sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income and loss except for losses in value that are considered other than temporary which are recognized in earnings. The Company has not classified any financial assets as available for sale.

Transactions costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

(m) Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities.

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. The effective interest rate method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The Company's accounts payable and accrued liabilities, due to related parties, and convertible debt are classified as other financial liabilities.

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives are also classified as held for trading and recognized at fair value with changes in fair value recognized in earnings unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized in statement of comprehensive profit or loss.

2. Significant Accounting Policies (continued)

(n) Loss Per Share

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the earnings (loss) attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share does not adjust the gain or loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

(o) New standards, amendments and interpretations not yet effective

Certain new standards, interpretations and amendments to existing standards are not yet effective as of August 31, 2011 and have not been applied in preparing these Interim Financial Statements. None of these are expected to have a material effect on the financial statements of the Company.

Accounting standards effective January 1, 2012

Financial instruments disclosure
In October 2010, the IASB issued amendments to IFRS 7 – Financial Instruments: Disclosures that improve the disclosure requirements in relation to transferred financial assets. The amendments are effective for annual periods beginning on or after July 1, 2011, with earlier adoption permitted. The Company does not anticipate this amendment to have a significant impact on its condensed consolidated financial statements.

Income taxes
In December 2010, the IASB issued an amendment to IAS 12 – Income taxes that provide a practical solution to determining the recovery of investment properties as it relates to the accounting for deferred income taxes. This amendment is effective for annual periods beginning on or after July 1, 2011, with earlier adoption permitted. The Company does not anticipate this amendment to have a significant impact on its condensed consolidated financial statements.

Accounting standards anticipated to be effective January 1, 2013

Joint ventures
The IASB issued IFRS 11 – Joint Arrangements on May 12, 2011. IFRS 11 eliminates the Company's choice to proportionately consolidate jointly controlled entities and required such entities to be accounted for using the equity method and proposes to establish a principles-based approach to the accounting for joint arrangements which focuses on the nature, extent and financial effects of the activities that an entity carries out through joint arrangements and its contractual rights and obligations to assets and liabilities, respectively, of the joint arrangements. The Company is currently evaluating the impact IFRS 11 is expected to have on its consolidated financial statements.

Consolidation
On September 29, 2010, the IASB posted a staff draft of a forthcoming IFRS on consolidation. The staff draft reflects tentative decisions made to date by the IASB with respect to the IASB's project to replace current standards on consolidation, IAS 27 - Consolidated and Separate Financial Statements and SIC-12, with a single standard on consolidation. The IASB plans on publishing the final standard on consolidation during the first half of 2011, with an anticipated effective date of January 1, 2013. The Company is currently evaluating the impact the final standard is expected to have on its consolidated financial statements.

(Unaudited – Expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(o) New standards, amendments and interpretations not yet effective (continued)

Financial instruments
IFRS 9, Financial Instruments: Classification and Measurement, effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, introduces new requirements for the classification and measurement of financial instruments. Management anticipates that this standard will be adopted in the Company's financial statements for the period beginning January 1, 2013, and has not yet considered the potential impact of the adoption of IFRS 9.

Fair-value measurement
IFRS 13, Fair Value Measurement: effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, sets out in a single IFRS a framework for measuring fair value and new required disclosures about fair value measurements. Management anticipates that this standard will be adopted in the Company's financial statements for the period beginning January 1, 2013, and has not yet considered the potential impact of the adoption of IFRS 13.

3. Acquisition of Zeus Energy Inc. and Recapitalization

On November 30, 2009, the Company entered into a Share Purchase Agreement (the “Agreement”) with Zeus and its shareholders to acquire 100% of the issued and outstanding shares of Zeus. Zeus was incorporated on November 7, 2007, under the Alberta Business Corporations Act and is in the business of exploration and evaluation of oil and gas projects. Effective November 30, 2009, the acquisition of Zeus was completed through the issuance of 18,333,333 shares to the shareholders of Zeus.

Prior to the acquisition of Zeus, the Company was a non-operating Capital Pool Company. The acquisition is a capital transaction in substance and therefore has been accounted for as a recapitalization of the business of Zeus. Under recapitalization accounting, Zeus is considered the acquirer for accounting and financial reporting purposes, and acquired the assets of the Company. Assets acquired of $13,322 are reported at their carrying amounts. These financial statements include the accounts of the Company since the effective date of the recapitalization being November 30, 2009, and the historical accounts of the business of Zeus since inception being November 7, 2007.

The assets acquired were as follows:

	$
Cash	10,756
Amounts receivable	2,566
Net assets acquired, net of costs	13,322

(Unaudited – Expressed in Canadian dollars)

4. Exploration and Evaluation Assets

	Cost $	Accumulated Depletion $	Write-down $	February 28 & August 31, 2011 Net carrying value $	March 1, 2010 Net carrying value $
Canada	670,595	–	623,587	47,008	240,989

Pursuant to a Farm-in and Participation Agreement dated April 2, 2008, the Company acquired a 12.5% interest (the "Participating Interest"), in a five test well drilling program in southeast Saskatchewan. The properties are subject to a 16% freehold royalty and the Crown Freehold Property Production Tax. To earn the Participating Interest, the Company agreed to share the capital costs of the drilling program pro-rata to its Participating Interest. The Farmor was appointed as the operator of the drilling program.

Upon completing its obligations as set out above, the Company will earn:

Before payout:

100% of the Farmor's pre-farmout working interest, pro-rata to the Company's Participating Interest, in the production and the spacing unit or drainage area to the base of the respective deepest formation actually drilled in the test wells, subject to a gross overriding royalty of 5% to 15% on 1/150th of monthly production in barrels payable to the Farmor by the Company in the ratio of its Participating Interest; and

After payout:

Upon achievement of payout, 60% of the Farmor's pre-farmout working interest, pro-rata to the Company's Participating Interest, in the production and the spacing unit or drainage area to the base of the respective deepest formation actually drilled. The Farmor will retain 40% of its pre-farmout working interest, pro-rata to the Company's Participating Interest; and Undeveloped Lands in Drilled Quarter:

60% of the Farmor's pre-farmout working interest, pro-rata to the Company's Participating Interest, in the respective quarter-section in which test wells are drilled to the base of the respective deepest formation drilled. The Farmor will retain 40% of the pre-farmout working interest, pro-rata to the Company's Participating Interest, and will retain 100% of the pre-farmout working interest in all rights not earned by the Company in the balance of the farmout lands.

5. Convertible Debt

On January 15, 2010, the Company issued $215,000 in convertible debt which bears interest at 10% per annum, is unsecured, and is due on January 16, 2015. The debt is convertible into shares of the Company at a conversion price of $0.10 per share at any time at the option of the holder prior to the due date. The Company also issued 4,300,000 transferable detached share purchase warrants which are exercisable at $0.05 per share expiring on January 15, 2015. 2,000,000 of these warrants had been exercised at August 31, 2011. See also Note 9. – Share Purchase Warrants.

(Unaudited – Expressed in Canadian dollars)

5. Convertible Debt (continued)

The fair value of the equity component was determined to be $140,351 which was recorded as share compensation reserves and an equivalent discount on the convertible debt. The fair value was estimated using the Black-Scholes option pricing model assuming no expected dividends, a risk free interest rate of 2.99%, expected life of 5 years, and expected volatility of 100%. The accretion of the discount is being recognized over the term of the debt.

6. Related Party Transactions

During the three month period ended August 31, 2011 the Company incurred the following related party transactions:

(a) The amount of $7,200 (2010 – $7,200) was incurred to the President of the Company for management fees.
(b) The amount of $4,800 (2010 - $4,800) was incurred to the spouse of the President of the Company for bookkeeping fees.
(c) The amount of $9,000 (2010 – $9,000) was incurred to a Company controlled by the President of the Company for rent.
(d) As at August 31, 2011, the amount of $181,720 (2010 - $130,028) is owed to the President of the Company and companies controlled by the President of the Company which is non-interest bearing, unsecured, and due on demand.
(e) As at August 31, 2011, the amount of $21,800 (2010 – $26,640) is owed to the spouse of the President of the Company, which is non-interest bearing, unsecured, and due on demand.

All of the above transactions have been in the normal course of operations and have been recorded at their exchange amounts which are the amounts agreed upon by the transacting parties.

7. Asset Retirement Obligations

The total future asset retirement obligations were estimated by management based on the Company's net ownership interest in all wells. This includes all estimated costs to reclaim and abandon the wells and the estimated timing of the costs to be incurred in future periods. The Company has estimated the net present value of its total asset retirement obligations to be $29,761 as at August 31, 2011 based on total estimated cash flows to settle the obligations of $23,900. The estimated cash flows have been discounted using an average credit-adjusted risk free rate of return of 20% and an inflation rate of 3%.

The following table reconciles the asset retirement obligations:

	August 31, 2011 $	February 28, 2011 $	March 1, 2010 $
Balance, beginning of year	29,761	24,801	–
Liabilities incurred	–	–	20,668
Accretion	–	4,960	4,133
Balance, end of period	29,761	29,761	24,801
Current portion	29,761	29,761	18,462
Long-term portion	–	–	6,339

(Unaudited – Expressed in Canadian dollars)

8. Share Capital

Authorized: Unlimited number of common shares without par value

The Company completed the following transactions during the reported periods:

(a) On July 18, 2011, the Company issued 1,000,000 shares pursuant to the exercise of 1,000,000 warrants at $0.05.
(b) On January 4, 2011, the Company issued 1,000,000 shares pursuant to the exercise of 1,000,000 warrants at $0.05.
(c) On November 30, 2009, the Company issued 18,333,330 shares upon the closing of the Share Purchase Agreement as described in Note 3.
(d) On November 30, 2009, the Company issued 1,200,000 shares to settle convertible debt of $60,000.

9. Share Purchase Warrants

The following table summarizes the continuity of share purchase warrants:

	Number of Warrants	Weighted Average Exercise Price $
Balance, March 1, 2010	4,300,000	0.05
Exercised January 4, 2011	(1,000,000)	0.05
Balance, February 28, 2011	3,300,000	0.05
Exercised July 18, 2011	(1,000,000)	0.05
Balance, August 31, 2011	2,300,000	0.05

As at August 31, 2011, there were 2,300,000 (3,300,000 - February 28, 2011 and 4,300,000 – March 1, 2010) share purchase warrants outstanding, exercisable at $0.05 per share and expiring on January 15, 2015.

10. Financial Instruments

(a) Fair Values

Assets and liabilities measured at fair value on a recurring basis were presented on the Company's balance sheet as at August 31, 2011 is as follows:

	Fair Value Measurements Using			
	Quoted prices in active markets for identical instruments (Level 1) $	Significant other observable inputs (Level 2) $	Significant unobservable inputs (Level 3) $	Balance, August 31, 2011 $
Cash	42,411	–	–	42,411

10. Financial Instruments (continued)

(b) Fair Values (continued)

The fair values of other financial instruments, which include amounts receivable, accounts payable and accrued liabilities, and amounts due to related parties, approximate their carrying values due to the relatively short-term maturity of these instruments. The fair value of convertible debt is estimated to approximate its carrying value based on borrowing rates currently available to the Company for a loan with similar terms.

(a) Credit Risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash. The Company limits its exposure to credit loss by placing its cash with high credit quality financial institutions. The carrying amount of financial assets represents the maximum credit exposure. Amounts receivable consist of GST/HST refunds due from the Government of Canada.

(b) Foreign Exchange Rate Risk

The Company is not exposed to any significant foreign exchange rate risk.

(c) Interest Rate Risk

The Company's cash is currently held in current accounts with Chartered Canadian Banks and therefore the Company does not consider its exposure to interest rate fluctuations to be significant.

(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 currently settles its financial obligations out of cash. The ability to do this relies on the Company raising equity financing in a timely manner and by maintaining sufficient cash in excess of anticipated needs.

(e) Price Risk

The Company is exposed to price risk with respect to commodity prices. The Company's ability to raise capital to fund exploration and development activities is subject to risks associated with fluctuations in the market price of commodities. As the Company does not have any producing assets or any current programs for exploration management considers the Company's commodity price risk to be minimal.

11. Capital Management

The Company manages its capital to maintain its ability to continue as a going concern and to provide returns to shareholders and benefits to other stakeholders. The capital structure of the Company consists of cash and cash equivalents and equity comprised of issued share capital, share compensation reserves and deficit.

The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share issues or by undertaking other activities as deemed appropriate under the specific circumstances.

The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management remained unchanged during the quarter ended August 31, 2011.

12. Adoption of IFRS

As stated in note 2, these financial statements are for the period covered by the Company's first annual consolidated financial statements prepared in accordance with IFRS.

The accounting policies in note 2 have been applied in preparing the financial statements for the period ended August 31, 2011, and the opening IFRS statement of financial position on March 1, 2010, the "Transition Date". In preparing the opening IFRS statement of financial position and the financial statements for the year ended February 28, 2011, the Company has reviewed the amounts reported previously in financial statements of the Company that were prepared in accordance with Canadian GAAP and determined that no adjustments were required to the statements of financial position and operations and comprehensive loss, and changes in equity; therefore, no reconciliations have been presented. The opening financial position as at March 1, 2010 is presented in the statement of financial positions.

The Company has adopted IFRS on March 1, 2011 with a transition date of March 1, 2010. Under IFRS 1 *'First-time Adoption of International Financial Reporting Standards'*, the IFRS are applied retrospectively at the transition date with all adjustments to assets and liabilities as stated under GAAP taken to retained earnings unless certain exemptions are applied. The Company is applying the following optional exemptions on first-time adoption of IFRS:

- to apply the requirements of IFRS 2, Share-based payments, only to equity instruments granted after November 7, 2002 which had not vested as of the Transition Date;
- to not account for business combinations that occurred prior to the date of transition using the principles of IFRS 3 – Business Combinations and instead retain the accounting treatment applied under Canadian GAAP;
- to apply the requirements of IAS 23, Borrowing Costs, as of the Transition Date; and
- to apply the requirements of IAS 37, Provisions, Contingent Liabilities and Contingent Assets, as at the Transition Date. The Company re-measured all provisions, and estimated the amount to be included in the cost of the related asset by discounting the liability to the date at which the liability first arose. This was done using best estimates of the historical risk-adjusted discount rates, and recalculated the accumulated depreciation, depletion, and amortization under IFRS up to the Transition Date.

The Company has determined that no adjustments from the transition from Canadian GAAP to IFRS were required.