VINERGY RESOURCES LTD.

Consolidated Financial Statements

Years Ended February 29, 2012 and February 28, 2011

(Expressed in Canadian dollars)

SATURNA GROUP
CHARTERED ACCOUNTANTS LLP
1066 West Hastings Street, Suite 1250
Vancouver, BC Canada V6E 3X1

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Vinergy Resources Ltd.

We have audited the accompanying consolidated financial statements of Vinergy Resources Ltd., which comprise the statements of financial position as at February 29, 2012, February 28, 2011, and March 1, 2010, and the statements of operations and comprehensive loss, changes in equity, and cash flows for the years ended February 29, 2012 and February 28, 2012, and the related notes comprising 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 involves evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion
In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Vinergy Resources Ltd. as at February 29, 2012, February 28, 2011, and March 1, 2010 and its financial performance and its cash flows for the years ended February 29, 2012 and February 28, 2011, in accordance with International Financial Reporting Standards.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 1 of the financial statements which indicates the existence of a material uncertainty that may cast significant doubt on the ability of Vinergy Resources Ltd. to continue as a going concern.

Saturna Group LLP

Saturna Group Chartered Accountants LLP

Vancouver, Canada

June 25, 2012

VINERGY RESOURCES LTD.
Consolidated statements of financial position
(Expressed in Canadian dollars)

	February 29, 2012 $	February 28, 2011 $	March 1 2010 $
		(Note 12)	(Note 12)
Assets			
Current assets			
Cash	23,481	25,008	86,380
Amounts receivable	832	1,546	4,461
Total current assets	24,313	26,554	90,841
Non-current assets			
Advances to operator	33,516	47,008	61,541
Exploration and evaluation assets (Note 3)	–	–	179,448
Total non-current assets	33,516	47,008	240,989
Total assets	57,829	73,562	331,830
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	36,088	41,402	40,269
Due to related parties (Note 4)	245,920	156,620	136,558
Current portion of decommissioning obligations (Note 6)	34,416	29,761	18,462
Total current liabilities	316,424	227,783	195,289
Non-current liabilities			
Decommissioning obligations (Note 6)	–	–	6,339
Convertible debt (Note 5)	134,298	106,227	78,157
Total non-current liabilities	134,298	106,227	84,496
Total liabilities	450,722	334,010	279,785
Equity			
Share capital (Note 7)	585,821	535,821	485,821
Equity component of convertible debt	176,251	176,251	176,251
Deficit	(1,154,965)	(972,520)	(610,027)
Total equity	(392,893)	(260,448)	52,045
Total liabilities and equity	57,829	73,562	331,830

Nature of operations and continuance of business (Note 1)

Approved for issue by the Board on June 25, 2012:

/s/ "Randy Clifford" — Randy Clifford, Director

/s/ "Eugene Sekora" — Eugene Sekora, Director

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

VINERGY RESOURCES LTD.

Consolidated statements of operations and comprehensive loss
(Expressed in Canadian dollars)

	Year ended February 29, 2012 $	Year ended February 28, 2011 $ (Note 12)
Revenue	–	–
Expenses		
Management fees (Note 4)	28,800	28,800
Office and miscellaneous	547	1,437
Professional fees (Note 4)	34,795	25,884
Rent (Note 4)	36,000	34,500
Transfer agent and filing fees	14,536	23,027
Write-down of oil and gas properties	13,492	194,315
Total expenses	128,170	307,963
Loss before other expense	(128,170)	(307,963)
Other expense		
Finance costs	(54,275)	(54,530)
Net loss and comprehensive loss for the year	(182,445)	(362,493)
Loss per share, basic and diluted	(0.01)	(0.02)
Weighted average shares outstanding	23,652,508	22,184,015

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

VINERGY RESOURCES LTD.
Consolidated statements of equity
For the years ended February 29, 2012 and February 28, 2011
(Expressed in Canadian dollars)

	Share capital		Equity component of convertible debt	Deficit	Total equity
	Number of shares	Amount $	$	$	$
Balance, March 1, 2010	22,033,330	485,821	176,251	(610,027)	52,045
Exercise of share purchase warrants	1,000,000	50,000	–	–	50,000
Net loss for the year	–	–	–	(362,493)	(362,493)
Balance, February 28, 2011	23,033,330	535,821	176,251	(972,520)	(260,448)
Exercise of share purchase warrants	1,000,000	50,000	–	–	50,000
Net loss for the year	–	–	–	(182,445)	(182,445)
Balance, February 29, 2012	24,033,330	585,821	176,251	(1,154,965)	(392,893)

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

VINERGY RESOURCES LTD.
Consolidated statements of cash flows
(Expressed in Canadian dollars)

	Year ended February 29, 2012 $	Year ended February 28, 2011 $
Operating activities		
Net loss for the year	(182,445)	(362,493)
Items not involving cash:		
Finance costs	32,726	33,030
Write-down of oil and gas properties	13,492	194,315
Changes in non-cash operating working capital:		
Amounts receivable	714	2,915
Accounts payable and accrued liabilities	(5,314)	1,133
Due to related parties	89,300	20,062
Net cash used in operating activities	(51,527)	(111,038)
Investing activities		
Exploration and evaluation expenditures	–	(334)
Net cash used in investing activities	–	(334)
Financing activities		
Proceeds from issuance of shares	50,000	50,000
Net cash provided by financing activities	50,000	50,000
Decrease in cash	(1,527)	(61,372)
Cash, beginning of year	25,008	86,380
Cash, end of year	23,481	25,008
Supplemental disclosures:		
Interest paid	20,617	–
Income taxes paid	–	–

1. Nature of Operations and Continuance of Business

Vinergy Resources Ltd. (the "Company") was incorporated as Vanguard Investments Corp. on March 20, 2001 under the provisions of the Alberta Business Corporations Act. On May 10, 2011, the Company changed its name to Vinergy Resources Ltd. and continued the Company's registered jurisdiction from Alberta to British Columbia.

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. 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 oil and gas acquisition, exploration and development.

These consolidated 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 February 29, 2012, the Company had a working capital deficiency of $292,111, has not generated any revenues from operations, and has an accumulated deficit of $1,154,965. 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 with its current cash and other funds that may be obtained from external financing that it has sufficient working capital 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.

The Company's head office is located at 6012 – 85 Avenue, Edmonton, Alberta, T6B 0J5 and its' shares are listed on the Canadian National Stock Exchange under the symbol VIN.

2. Significant Accounting Policies

(a) Statement of Compliance

The consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS"), issued by the International Accounting Standards Board and Interpretations of the International Financial Reporting Interpretations Committee.

These are the first IFRS annual financial statements for the Company. Previously, the Company prepared its annual and interim financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP").

The functional currency of the Company is Canadian dollars and the consolidated financial statements have been presented in Canadian dollars.

(b) Basis of Presentation

These consolidated financial statements have been prepared on a historical cost basis with the exception of financial instruments classified as fair value through profit and loss. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

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.

2. Significant Accounting Policies (continued)

(c) Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Zeus Energy Inc. All inter-company transactions and balances have been eliminated.

(d) Use of Estimates

The preparation of the financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Significant areas requiring the use of estimates include the useful life and recoverability of impairment of oil and gas properties, determination of reclamation provisions, valuation of convertible debt, measurement of share-based payments, and deferred income tax asset valuation allowances.

(e) Cash and Cash Equivalents

The Company considers all highly liquid instruments with a maturity of three months or less at the time of issuance to be cash equivalents

(f) Oil and Gas Properties

(i) Recognition and measurement:

Exploration and evaluation expenditures:

Pre-licence costs are recognized in profit or loss as incurred. Exploration and evaluation costs, including the costs of acquiring licenses, geological and geophysical, drilling, sampling, decommissioning and often directly attributable internal costs, initially are capitalized as exploration and evaluation assets. The costs are accumulated in cost centres by well, field or exploration area and not depreciated pending determination of technical feasibility and commercial viability.

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. For purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units.

The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proven and/or probable reserves are determined to exist. A review of each exploration licence or field is carried out, at least annually, to ascertain whether proven and/or probable reserves have been discovered. Upon determination of proven and/or probable reserves, exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from exploration and evaluation assets to property, plant and equipment or expensed to exploration and evaluation impairments.

Development and production costs:

Items of property, plant and equipment, which include oil and gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Development and production assets are grouped into cash generating units ("CGU") for impairment testing. When significant parts of an item of property, plant and equipment, including oil and natural gas interests, have different useful lives, they are accounted for as separate items (major components).

2. Significant Accounting Policies (continued)

(f) Oil and Gas Properties (continued)

Gains and losses on disposal of an item of property, plant and equipment, including oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized net within profit or loss.

(ii) Subsequent costs:

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property, plant and equipment are recognized as oil and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

(iii) Depletion and depreciation:

The net carrying value of development or production assets is depleted using the unit of production method by reference to the ratio of production in the year to the related proven and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers at least annually. The estimated useful lives for all production assets are assumed to be equal to the reserve life of the oil and natural gas assets, and therefore are also depreciated using the unit of production method. For other assets, depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

(g) Impairment of Non-Current Assets

At each reporting date, the Company reviews the carrying amounts of its tangible assets to determine whether there are any indications of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any.

Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash generating unit ("CGU") to which the asset belongs. The recoverable amount is determined as the higher of fair value less direct costs to sell and the asset's value in use. In assessing value in use, the estimated future cash flows are discounted to their present value. Estimated future cash flows are calculated using estimated recoverable reserves, estimated future commodity prices and the expected future operating and capital costs. The pre-tax discount rate applied to the estimated future cash flows reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

If the carrying amount of an asset or CGU exceeds its recoverable amount, the carrying amount of the asset or CGU is reduced to its recoverable amount through an impairment charge to the statement of income.

2. Significant Accounting Policies (continued)

(g) Impairment of Non-Current Assets (continued)

Assets that have been impaired are tested for possible reversal of the impairment whenever events or changes in circumstance indicate that the impairment may have reversed. When an impairment subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but only so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of depreciation, depletion and amortization) had no impairment loss been recognized for the asset or CGU in prior periods. A reversal of impairment is recognized as a gain in the statement of income.

(h) Decommissioning, Restoration and Similar Liabilities

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.

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 oil and gas 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.

(i) Foreign Currency Translation

The financial statements for the Company's subsidiary are measured using the currency of the primary economic environment in which the subsidiary operates. The functional and reporting currency of the Company is the Canadian dollar. Transactions denominated in foreign currencies are translated using the exchange rate in effect on the transaction date or at an average rate. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange in effect at the statement of financial position date. Non-monetary items are translated using the historical rate on the date of the transaction. Foreign exchange gains and losses are included in profit or loss.

2. Significant Accounting Policies (continued)

(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 statement of financial position 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.

(k) Flow-through Shares

The resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with Canadian tax legislation. On issuance, the premium recorded on the flow-through share, being the difference in price over a common share with no tax attributes, is recognized as a liability. As expenditures are incurred, the deferred income tax liability associated with the renounced tax deductions is recognized through profit and loss with a pro-rata portion of the deferred premium.

(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 amounts receivable is 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.

2. Significant Accounting Policies (continued)

(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.

(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) Comprehensive Loss

Comprehensive income (loss) is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that are not included in profit or loss.

(p) Share-based Payments

The Company grants share-based awards to employees, directors and consultants as an element of compensation. The fair value of the awards is recognized over the vesting period as share-based compensation expense and share-based payment reserve. The fair value of share-based payments is determined using the Black-Scholes option pricing model using estimates at the date of the grant. At each reporting date prior to vesting, the cumulative expense representing the extent to which the vesting period has expired and management's best estimate of the awards that are ultimately expected to vest is computed. The movement in cumulative expense is recognized in the statement of income with a corresponding entry within equity, against share-based payment reserve. No expense is recognized for awards that do not ultimately vest. When stock options are exercised, the proceeds received, together with any related amount in share-based payment reserve, are credited to share capital.

Share-based payments arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, unless the fair value cannot be estimated reliably. If the Company cannot reliably estimate the fair value of the goods or services received, the Company will measure their value by reference to the fair value of the equity instruments granted.

2. Significant Accounting Policies (continued)

(q) Accounting Standard Issued But Not Yet Effective

Certain new standards, interpretations and amendments to existing standards are not yet effective as of February 29, 2012 and have not been applied in preparing these financial statements.

(i) Effective for annual periods beginning on or after July 1, 2011:

Amendments to IFRS 7, "Financial Instruments: Disclosures"

Increase in disclosure with regards to the transfer of financial assets, especially if there is a disproportionate amount of transfer transactions that take place around the end of a reporting period.

(ii) Effective for annual periods beginning on or after July 1, 2012:

Amendments to IAS 1 "Presentation of Financial Statements"

In June 2011, the IASB issued amendments to IAS 1 to require companies to group together items within other comprehensive income ("OCI") that may be reclassified to the statement of income. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two separate statements. The amendments are to be applied retrospectively.

(iii) Effective for annual periods beginning on or after January 1, 2013:

New standard IFRS 9, "Financial Instruments"

Partial replacement of IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 introduces new requirements for how an entity should classify and measure financial assets that are in the scope of IAS 39. The standard requires all financial assets to be classified on the basis of the entity's business model for managing the financial assets, and the contractual cash flow characteristics of the financial asset. A financial asset is measured at amortized cost if two criteria are met: (a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and (b) the contractual cash flows under the instrument solely represent payments of principal and interest. If a financial asset meets the criteria to be measured at amortized cost, it can be designated at fair value through profit or loss under the fair value option, if doing so would significantly reduce or eliminate an accounting mismatch. If a financial asset does not meet the business model and contractual terms criteria to be measured at amortized cost, then it is subsequently measured at fair value. In October 2010, the IASB issued additions to IFRS 9 relating to accounting for financial liabilities. Under the new requirements, an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity's own credit risk in other comprehensive income, rather than within profit or loss.

New Standard IFRS 10, "Consolidated Financial Statements"

In May 2011, the IASB issued IFRS 10 to replace portions of IAS 27, "Consolidated and Separate Financial Statements" and interpretation SIC-12, "Consolidated - Special Purpose Entities". IFRS 10 incorporates a single model for consolidating all entities that are controlled and revises the definition of control to be "An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the current ability to affect those returns through its power over the investee". Along with control, the new standard also focuses on the concept of power, both of which will include a use of judgment and a continuous reassessment as facts and circumstances change.

(Expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(q) Accounting Standards Issued But Not Yet Effective (continued)

(iii) Effective for annual periods beginning on or after January 1, 2013 (continued):

New standard IFRS 11, "Joint Arrangements"

In May 2011, the IASB issued IFRS 11 to replace IAS 31, "Interest in Joint Ventures". The new standard will apply to the accounting for interest in joint arrangements where there is joint control. Joint arrangements will be separated into joint ventures and joint operations. The structure of the joint arrangement will no longer be the most significant factor on classifying a joint arrangement as either a joint operation or a joint venture. Proportionate consolidations will be removed and replaced with equity accounting.

New standard IFRS 12 "Disclosure of Interest in Other Entities"

In May 2011, the IASB issued IFRS 12. The new standard includes disclosure requirements about subsidiaries, joint ventures and associates, as well as unconsolidated structured entities and replaces existing disclosure requirements.

New standard IFRS 13, "Fair Value Measurement"

In May 2011, the IASB issued IFRS 13. The new standard converges IFRS and US GAAP on how to measure fair value and the related fair value disclosures. The new standard creates a single source of guidance for fair value measurements, where fair value is required or permitted under IFRS, by not changing how fair value is used but how it is measured. The focus will be on an exit price.

The Company has not early-adopted these new and revised standards and is currently assessing the impact that these standards will have on its financial statements.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's financial statements.

(r) Reclassifications

Certain comparative figures have been reclassified to conform to the current year's presentation.

3. Exploration and Evaluation Assets

	$
Balance, March 1, 2010	179,448
Additions	14,867
Exploration and evaluation impairment	(194,315)
Balance, February 28, 2011	–
Additions	13,492
Exploration and evaluation impairment	(13,492)
Balance, February 28, 2011 and February 29, 2012	–

3. Exploration and Evaluation Assets (continued)

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.

On February 28, 2011, the Company wrote down its oil and gas properties by $194,315 as it was determined that its’ exploratory wells were not commercially feasible. During the year ended February 29, 2012, the Company recorded a further write-down of $13,492 relating to its portion of operating costs incurred on the property during the year.

4. Related Party Transactions

(a) For the year ended February 29, 2012, the amount of $28,800 (February 28, 2011 – $28,800) was incurred to the President of the Company for management fees.

(b) For the year ended February 29, 2012, the amount of $19,200 (February 28, 2011 - $19,200) was incurred to the spouse of the President of the Company for bookkeeping fees.

(c) For the year ended February 29, 2012, the amount of $36,000 (February 28, 2011 – $34,500) was incurred to a Company controlled by the President of the Company for rent.

(d) As at February 29, 2012, the amount of $214,520 (February 28, 2011 - $144,420; March 1, 2010 - $122,518) 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 February 29, 2012, the amount of $31,400 (February 28, 2011 – $12,200; March 1, 2010 - $14,040) is owed to the spouse of the President of the Company, which is non-interest bearing, unsecured, and due on demand.

(Expressed in Canadian dollars)

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.

The fair value of the equity component was determined to be $140,351 which was recorded as contributed surplus 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. During the year ended February 29, 2012, the Company recognized accretion expense of $28,071 (2011 - $28,070).

6. Decommissioning Obligations

The total decommissioning obligation was 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 the decommissioning obligations to be $34,416 as at February 29, 2012 based on an undiscounted future liability of $23,900. An inflation rate of 2% was used to inflate the costs, and a long-term risk-free rate of 20% was used to calculate the carrying value of the decommissioning obligations.

The following table reconciles the decommissioning obligations:

	February 29, 2012 $	February 28, 2011 $	March 1, 2010 $
Balance, beginning of year	29,761	24,801	–
Liabilities incurred	–	–	20,668
Accretion	4,655	4,960	4,133
Balance, end of year	34,416	29,761	24,801
Less: current portion	34,416	29,761	18,462
Long-term portion	–	–	6,339

7. Share Capital

Authorized: Unlimited number of common shares without par value

(a) On July 18, 2011, the Company issued 1,000,000 shares for proceeds of $50,000 pursuant to the exercise of share purchase warrants.

(b) On January 4, 2011, the Company issued 1,000,000 shares for proceeds of $50,000 pursuant to the exercise of share purchase warrants.

(Expressed in Canadian dollars)

8. 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	(1,000,000)	0.05
Balance, February 28, 2011	3,300,000	0.05
Exercised	(1,000,000)	0.05
Balance, February 29, 2012	2,300,000	0.05

As at February 29, 2012, there are 2,300,000 share purchase warrants exercisable at $0.05 per share expiring on January 15, 2015 outstanding.

9. 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 February 29, 2012 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, February 29, 2012 $
Cash	23,481	–	–	23,481

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.

(b) 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.

(c) Foreign Exchange Rate Risk

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

(d) Interest Rate Risk

The Company is not exposed to any significant interest rate risk.

(Expressed in Canadian dollars)

9. Financial Instruments (continued)

(e) 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.

(f) 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.

10. 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 equity comprised of issued share capital, equity component of convertible debt, and deficit.

The Company manages its capital 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 year ended February 29, 2012.

11. Income Taxes

The tax effect (computed by applying the Canadian federal and provincial statutory rate) of the significant temporary differences, which comprise deferred tax assets and liabilities, are as follows:

	2012 $	2011 $
Canadian statutory income tax rate	26.25%	27.75%
Income tax recovery at statutory rate	(47,892)	(100,592)
Tax effect of:		
Permanent differences and other	4,326	(1,788)
Change in enacted tax rates	2,075	8,317
Expiry of non-capital loss	–	18,452
Change in valuation allowance	41,491	75,611
Income tax provision	–	–

(Expressed in Canadian dollars)

11. Income Taxes (continued)

The significant components of deferred income tax assets and liabilities are as follows:

	2012 $	2011 $
Deferred income tax assets		
Non-capital losses carried forward	187,335	152,590
Resource properties	74,644	67,898
Total gross deferred income tax assets	261,979	220,488
Valuation allowance	(261,979)	(220,488)
Net deferred income tax asset	–	–

As at February 29, 2012, the Company has non-capital losses carried forward of $749,342, which are available to offset future years' taxable income. These losses expire as follows:

	$
2015	57,781
2026	56,949
2027	36,881
2028	93,472
2029	64,705
2030	150,619
2031	149,954
2032	138,981
	749,342

The Company also has available resource related expenditure pools totalling $332,091 which may be deducted against future taxable income on a discretionary basis.

12. Transition to IFRS

As stated in Note 2, these are the Company's first annual consolidated financial statements prepared in accordance with IFRS.

The accounting policies set out in Note 2 have been applied in preparing the financial statements for the year ended February 29, 2012, the comparative information presented in these financial statements for the year ended February 28, 2011, and in the preparation of an opening IFRS statement of financial position as at March 1, 2010 (the Company's "Transition Date").

First Time Adoption of IFRS

The Company has adopted IFRS on March 1, 2011 with a transition date of March 1, 2010. Under IFRS 1, the IFRS standards are applied retrospectively at the transition date with all adjustments to assets and liabilities as stated under GAAP taken to deficit, with IFRS providing certain optional and mandatory exemptions to this principle.

The Company has elected to apply the following optional exemptions:

Business combinations

The Company elected under IFRS 1 to not to apply IFRS 3, Business Combinations retrospectively to any business combinations that may have occurred prior to its Transition Date and such business combinations have not been restated.

12. Transition to IFRS (continued)

Fair value as deemed cost

The Company may elect among two options when measuring the value of its assets under IFRS. It may elect, on an asset by asset basis, to use either historical cost as measured under retrospective application of IFRS or fair value of an asset at the opening balance sheet date. The Company has elected to use historical cost for its oil and gas properties.

Decommissioning liabilities

IFRS requires specific changes in a decommissioning or similar liability to be added or deducted from the cost of the asset to which it relates. The adjusted depreciable amount is then depreciated prospectively over its remaining useful life. IFRS 1 allows a first time adopter to not fully comply with these accounting requirements for changes in such liabilities that occurred before the date of transition and instead apply a simplified method which is set out in IFRS 1.

IFRS 1 also outlines specific guidelines that a first-time adopter must adhere to under certain circumstances. The Company has applied the following guideline to its opening balance sheet dated March 1, 2010:

Estimates

IFRS 1 does not permit changes to estimates previously made. Accordingly, estimates used at the Transition Date are consistent with estimates made at the same date under Canadian GAAP.

Reconciliation to previously reported financial statements

Flow-through shares

Under IFRS, the proceeds from flow-through shares are allocated between the offering of the share and the sale of the tax benefits. The allocation is based on the difference between the amount the investor pays for the flow-through shares and the share prices as of the date the transaction is approved. A liability is recognized for the premium, and extinguished when the tax effect of the temporary differences, resulting from incurring the relevant expenditure, is recorded.

Under Canadian GAAP, the Company recorded the gross proceeds relating to the flow-through shares to share capital at the time of issuance. The Company then recorded a charge (reduction) to share capital at the time the tax benefits of the flow-through shares were renounced to the investors. The charge was calculated by multiplying the amount of the renounced tax benefits (which are equal to the proceeds of the flow-through share issue) by the effective tax rate at the time. The offset would go to the deferred tax liability to reflect the fact that the Company could no longer use the tax attributes for its benefit.

On adoption of the IFRS requirements, the Company recorded an increase of $126,720 to share capital and deficit; the cumulative premium adjustment was nil.

Decommissioning liabilities

The Company recalculated the decommissioning liabilities as of the Transition Date as per IAS 37 and determined that there was no significant difference in the valuation of the liabilities under IFRS as compared with the amount estimated under Canadian GAAP.

(Expressed in Canadian dollars)

12. Transition to IFRS (continued)

Impact on statement of financial position:

As at March 1, 2010:

	Previous Canadian GAAP $	Effect of transition to IFRS $	IFRS $
Total assets	331,830	–	331,830
Total liabilities	279,785	–	279,785
Equity			
Share capital	359,101	126,720	485,821
Equity component of convertible debt	176,251	–	176,251
Deficit	(483,307)	(126,720)	(610,027)
Total equity	52,045	–	52,045
Total liabilities and equity	331,830	–	331,830

As at February 28, 2011:

	Previous Canadian GAAP $	Effect of transition to IFRS $	IFRS $
Total assets	73,562	–	73,562
Total liabilities	334,010	–	334,010
Equity			
Share capital	409,101	126,720	535,821
Equity component of convertible debt	176,251	–	176,251
Deficit	(845,800)	(126,720)	(972,520)
Total equity	(260,448)	–	(260,448)
Total liabilities and equity	73,562	–	73,562

The transition from Canadian GAAP to IFRS had no material impact on the statement of operations and comprehensive loss and cash flows for the year ended February 28, 2011.

Presentation Adjustments

Finance costs

In the Company's statement of operations prepared in accordance with Canadian GAAP, the accretion of asset retirement obligations, accretion of discount on convertible debt, and interest expense were presented as separate line items. Under IFRS, the Company has presented these amounts within Finance costs.

12. Transition to IFRS (continued)

Impact on consolidated statement of operations and comprehensive loss

Year ended February 28, 2011:

	2011 $
Accretion of asset retirement obligations	(4,960)
Accretion of discount on convertible debt	(28,070)
Interest expense	(21,500)
Finance costs	54,530
Adjustment to net loss and comprehensive loss	–