Range Energy Resources Inc.

Consolidated Financial Statements

As at and for the years ended December 31, 2011 and 2010

Expressed in Canadian dollars

MANNING ELLIOTT
CHARTERED ACCOUNTANTS

11th floor, 1050 West Pender Street, Vancouver BC, Canada V6E 3S7
Phone: 604.714.3600 Fax: 604.714.3669 Web: manningelliott.com

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Range Energy Resources Inc.

We have audited the accompanying consolidated financial statements of Range Energy Resources Inc. which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010, and January 1, 2010 and the consolidated statements of operations and comprehensive loss, changes in equity and cash flows for the years ended December 31, 2011 and 2010, 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 as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 consolidated financial statements are free from material misstatement.

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Range Energy Resources Inc. as at December 31, 2011, December 31, 2010, and January 1, 2010 and the results of its operations and its cash flows for the years ended December 31, 2011 and 2010 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

/s/ "Manning Elliott LLP"

CHARTERED ACCOUNTANTS

Vancouver, British Columbia

April 20, 2012

Range Energy Resources Inc.
Consolidated Statements of Financial Position

Expressed in Canadian Dollars

		December 31, 2011		December 31, 2010		January 1, 2010
				(note 15)		(note 15)
Current assets						
Cash and cash equivalents	$	8,029,476	$	1,138,506	$	4,656,301
Restricted cash (note 5)		269,411		-		-
Accounts receivable		57,986		40,758		15,231
Deposit and prepaid expenses		25,688		17,833		10,167
		8,382,561		1,197,097		4,681,699
Non-current assets						
Property and equipment (note 6)		1,126		1,538		2,100
Long-term investment (note 7)		21,387,458		20,136,258		18,083,940
		21,388,584		20,137,796		18,086,040
Total assets	**$**	**29,771,145**	**$**	**21,334,893**	**$**	**22,767,739**
Current liabilities						
Accounts payable and accrued liabilities (note 10)	$	244,758	$	10,918	$	94,114
Shareholders' equity						
Share capital (note 8(a) & (b))		31,212,335		24,725,267		24,512,767
Reserves (note 8(c))		11,400,410		8,160,662		5,560,012
Deficit		(13,086,358)		(11,561,954)		(7,399,154)
		29,526,387		21,323,975		22,673,625
Total liabilities and shareholders' equity	**$**	**29,771,145**	**$**	**21,334,893**	**$**	**22,767,739**

Nature of operations and going concern (note 1)
Commitment (note 11)
Subsequent events (note 16)

Approved on Behalf of the Board of Directors:

(signed) Toufic Chahine

(signed) Michelle Upton

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

Range Energy Resources Inc.
Consolidated Statements of Changes in Equity

Expressed in Canadian Dollars

	Share capital		Reserves			
	Number of shares	Amount	Warrants	Contributed surplus	Deficit	Total equity
Balance - December 31, 2009	161,877,840	$ 24,512,767	$ 3,790,878	$ 1,769,134	$ (7,399,154)	$ 22,673,625
Stock-based compensation	-	-	-	2,600,650	-	2,600,650
Stock options exercised	1,500,000	112,500	-	-	-	112,500
Warrants exercised	1,000,000	100,000	-	-	-	100,000
Net loss for year	-	-	-	-	(4,162,800)	(4,162,800)
Balance - December 31, 2010	164,377,840	24,725,267	3,790,878	4,369,784	(11,561,954)	21,323,975
Private placements	67,900,000	10,185,000	-	-	-	10,185,000
Fair value of warrants issued	-	(3,345,324)	3,345,324	-	-	-
Capital raising costs	-	(352,608)	(172,855)	-	-	(525,463)
Warrants expired	-	-	(3,281,584)	3,281,584	-	-
Warrants issued	-	-	67,279	-	-	67,279
Net loss for year	-	-	-	-	(1,524,404)	(1,524,404)
Balance - December 31, 2011	232,277,840	$ 31,212,335	$ 3,749,042	$ 7,651,368	$ (13,086,358)	$ 29,526,387

Range Energy Resources Inc.
Consolidated Statements of Operations and Comprehensive Loss

Expressed in Canadian Dollars

	For the years ended December 31, 2011	2010
		(note 15)
Expenses		
Amortization	$ 412	$ 563
Audit and related fees	44,450	43,500
Consulting	239,621	174,945
Corporate finance fees	71,434	392,603
Contract termination costs	381,695	-
Directors fees	93,249	79,594
General and administrative	86,525	125,828
Legal fees	162,933	165,244
Management fees	330,552	288,000
Share-based compensation (note 8(c))	-	2,600,650
Transfer agent and filing fees	19,307	19,085
Travel and promotion	137,196	303,701
Loss before other income	(1,567,374)	(4,193,713)
Interest income	42,970	30,913
Net loss and comprehensive loss for year	$ (1,524,404)	$ (4,162,800)
Loss per share - basic and diluted	$ (0.01)	$ (0.03)
Weighted average number of common shares used in calculation of loss per share - basic and diluted	199,003,592	163,028,525

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

Range Energy Resources Inc.
Consolidated Statements of Cash Flows

Expressed in Canadian Dollars

	For the years ended December 31, 2011	2010
Operating activities		
Net loss for year	$ (1,524,404)	$ (4,162,800)
Amortization	412	563
Share-based compensation	-	2,600,650
	(1,523,992)	(1,561,587)
Changes in non cash working capital items		
Restricted cash	(269,411)	-
Accounts receivable	(17,228)	(25,527)
Deposit and prepaid expenses	(7,855)	(7,667)
Accounts payable and accrued liabilities	233,840	(83,196)
Cash provided by (used in) operating activities	(1,584,646)	(1,677,977)
Investing activities		
Cash call payments to New Age Al Zarooni 2 Limited (note 7)	(1,251,200)	(2,052,318)
Cash provided by (used in) investing activities	(1,251,200)	(2,052,318)
Financing activities		
Private placements	10,185,000	-
Capital raising costs	(458,184)	-
Exercise of stock options and warrants	-	212,500
Cash provided by (used in) financing activities	9,726,816	212,500
Increase (decrease) in cash and cash equivalents	6,890,970	(3,517,795)
Cash and cash equivalents - beginning of year	1,138,506	4,656,301
Cash and cash equivalents - end of year	$ 8,029,476	$ 1,138,506
Cash and cash equivalents consist of:		
Cash	$ 29,476	$ 238,506
Cash equivalents	8,000,000	900,000
	$ 8,029,476	$ 1,138,506
Supplemental schedule of non-cash investing and financing activities		
Agents warrants issued	$ 67,279	$ -

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

1. Nature of operations and going concern

Range Energy Resources Inc. (the "Company") was incorporated under the laws of British Columbia, Canada on March 1, 2005. On October 24, 2006, the Company's common shares were listed and called for trading on the Canadian National Stock Exchange ("CNSX") and its current symbol is RGO. On February 12, 2007, the Company listed on the Frankfurt Stock Exchange. The Company's corporate head office is located at Suite 2000, 1177 West Hastings Street, Vancouver, BC V6E 2K3. The Company is a development stage company engaged in the acquisition, exploration and development of oil and gas properties. As at December 31, 2011, the Company's principal asset is an indirect investment in an oil and gas property referred to as the Khalakan Block, which is domiciled in the Kurdistan Region of Iraq. The Company also intends to pursue other opportunities in the Middle East.

These consolidated financial statements are prepared on a going concern basis, which contemplates that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. During the year ended December 31, 2011, the Company had incurred a net loss totalling $1,524,404. The accumulated deficit at December 31, 2011 is $13,086,358. There is a material uncertainly related to these conditions that may cast significant doubt on the Company's ability to continue as a going concern and therefore may be unable to realize its assets and discharge its liabilities in the normal course of business.

The ability of the Company to meet its commitments and ongoing operating expenses will depend upon the following:
- The ability to raise further funds through the issue of equity financing; and,
- The sale of assets in the ordinary course of business.

Although the Company has been successful in obtaining the necessary financing to continue operations in the past, there can be no assurance that it will be able to continue to do so in the future.

If the going concern assumption were not appropriate for these financial statements, then adjustments would be necessary in the carrying values of assets, liabilities, the reported income and expenses and the consolidated statement of financial position classifications used. Such adjustments could be material.

Based on the financial position at December 31, 2011, available funds are not considered adequate to meet requirements for fiscal 2012 based on budgeted expenditures for operations and project exploration and investigation. To meet working capital requirements, the Company will have to access financial resources through equity placements. There can be no assurances that such funds will be available and/or on terms acceptable by the Company.

2. Statement of compliance and conversion to International Financial Reporting Standards

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ('IFRIC") (together "IFRS").

These are the Company's first consolidated financial statements prepared in accordance with IFRS using accounting polices consistent with IFRS. The accounting policies have been selected to be consistent with IFRS effective December 31, 2011, the Company's first annual IFRS reporting date. Previously, the Company prepared its consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP").

These consolidated financial statements have been authorized for release by the Company's Board of Directors on April 20, 2012.

3. Significant accounting policies

(a) Basis of presentation

The consolidated financial statements have been prepared on an accrual basis and are on a historical cost basis, except for certain financial instruments, which are measured at fair value. The preparation of consolidated financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant are disclosed in note 4.

These consolidated financial statements are prepared in Canadian dollars. The functional currency of the Company is Canadian dollars.

(b) Consolidation

These consolidated financial statements consolidate the accounts of the Company and its wholly-owned subsidiary, Range Oil & Gas (North Iraq) Inc. All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation.

(c) Foreign currencies

Foreign currency transactions

Transactions in currencies other than the functional currency of the reporting entity are recorded at rates of exchange prevailing on the dates of such transactions. Monetary assets and liabilities that are denominated in currencies other than the functional currency are translated at rates prevailing at the end of each reporting period. Non-monetary items that are measured in terms of historical cost in the foreign currency are not re-translated.

(d) Cash and cash equivalents

Cash and cash equivalents includes cash on deposit with banks with maturities of 90 days or less at inception.

(e) Accounts receivable

Accounts receivable are stated at carrying value, which approximates fair value due to short terms to maturity, less provision for impairment. A provision for impairment is established when there is objective evidence that the Company will not be able to collect all amounts due accordingly.

(f) Property, plant and equipment

Property, plant and equipment are stated at cost of acquisition less accumulated depreciation and impairment losses. Depreciation is provided for on a straight-line basis at rates calculated to write off the cost less estimated residual value of each asset over it expected useful life. The residual value is the estimated amount that would currently be obtained from disposal of the asset if the asset was already of the age and in the condition expected at the end of its useful life.

Computer equipment and software are being depreciated at the rate of 30% per annum on a declining balance basis.

The carrying value of tangible capital assets is assessed annually and any impairment charged to the consolidated statement of operations and comprehensive loss. The expected useful life of tangible capital assets is reviewed annually.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in comprehensive income in the year the item is derecognized.

(g) Investments

Investments not subject to significant influence are designated as available-for-sale and accounted for at fair value. In limited circumstances, cost may be an appropriate estimate of the fair value of an investment with no quoted price in an active market. Transaction costs related to the acquisition of investments are recognized as expenses in the consolidated statement of operations and comprehensive loss when incurred.

3. Significant accounting policies – continued

(h) Impairment of a non-financial asset

At each consolidated statement of financial position date, or when impairment indicators are evident, a formal estimate of recoverable amount is performed and an impairment loss is recognized to the extent that the carrying amount exceeds the recoverable amount. The recoverable amount of an asset or cash generating group of assets is measured at the higher of the fair market value less costs to sell and the value in use.

Previously recognized impairment losses are reversed in subsequent periods if the conditions giving rise to impairment reverse.

(i) Share-based payment transactions

The Company grants stock options to directors, officers, employers and service providers. Each tranche in an award is considered a separate award with its own vesting period and fair values. The Company applies the fair-value method of accounting for share-based payments. The fair value is calculated using the Black-Scholes option pricing model.

Share-based payments for employees and others providing similar services are determined based on the grant date fair value. Share-based payments for non-employees is determined based on the fair value of the goods or services received or option granted measured at the date on which the Company obtains the goods or services, if the fair value of the services received cannot be reliably measured.

Compensation expense is recognized over each tranche's vesting period, in the consolidated statement of operations and comprehensive loss or capitalized as appropriate, based on the number of awards that vest less the estimated forfeitures. The number of forfeitures likely to occur is estimated on the grant date. If stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital.

(j) Share capital

i. Proceeds from the exercise of stock options and warrants, in addition to the estimated fair value attributable to these equity instruments, are recorded as share capital when exercised.
ii. Share capital issued for non-monetary consideration is recorded at an amount based on estimated fair market value reduced by an estimate of transaction costs incurred when such shares are issued for cash.
iii. On a unit offering, the Company prorates the proceeds between the relative fair values of the shares issued and the Black-Scholes value of the warrants issued.

(k) Income taxes

Income tax on the consolidated statements of operations and comprehensive loss for the years presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected payable on the taxable income for the period using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years.

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

Deferred tax assets and liabilities are offset when there is legally enforceable right to set off current tax assets against current tax liabilities, when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

3. Significant accounting policies – continued

Deferred tax is provided on temporary differences arising between the carrying amounts of net assets and liabilities for financial reporting purposes and the amounts used for taxation purposes using the consolidated statement of financial position liability method. 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 that affect neither accounting nor taxable loss. Deferred tax is also not recognized for temporary differences relating to investments in subsidiaries to the extent that it is probable they will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using rates enacted or substantively enacted at the consolidated statement of financial position date.

(l) Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss – This category comprises derivatives, or assets acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the balance sheet at fair value with changes in fair value recognized in the statement of operations.

Loans and receivables – These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are carried at amortized cost using the effective interest method less any allowance for impairment. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization period.

Held-to-maturity investments – These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated further cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the consolidated statement of operations and comprehensive loss.

Available-for-sale – Non-derivative financial assets not included in one of the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in the consolidated statement of operations and comprehensive loss.

All financial assets are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is objective evidence that a financial asset or group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which is described above.

(m) Financial liabilities

Financial liabilities are recognized when the Company becomes a party to the contractual terms of the instrument. Financial liabilities are derecognized when they are extinguished, discharged, cancelled or expired.

The Company classifies its financial liabilities as other financial liabilities. This category includes amounts due to shareholders and accounts payable and accrued liabilities, all of which are initially recognized at fair value net of any directly attributable transaction costs. Subsequent to initial recognition, these financial instruments are measured at amortized cost using the effective interest method.

3. Significant accounting policies – continued

(n) Loss per share

The calculation of loss per share is based on the weighted average number of common shares outstanding in the period. Diluted loss per share is calculated whereby all "in the money" options and warrants are assumed to have been exercised at the beginning of the period and the proceeds from the exercise are assumed to have been used to purchase common shares at the average market price during the period. If the Company incurs net losses during the period basic and diluted loss per share are the same as the exercise of options and warrants is considered to be anti-dilutive.

(o) Segment reporting

The Company operates in a single reportable operating segment – the acquisition, exploration and development of oil and gas properties.

(p) Related parties

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. Parties are also considered to be related if they are subject to common control. 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.

(q) Comparative figures

Certain of the comparative figures presented have been restated to conform to the current year's presentation adopted.

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

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB and IFRIC that are mandatory for accounting periods beginning on or after January 1, 2010, or later periods. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below.

IAS 1 – Presentation of Financial Statements

IAS 1 prescribes the basis of presentation of general purpose financial statements and is effective for annual periods beginning on or after January 1, 2011 to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. It sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content. There are no additional significant impacts on the Company.

IAS 24 – Related Party Disclosures (Amendment)

The amended standard is effective for annual periods beginning on or after January 1, 2011. It clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. The Company does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption or government-related entities or for the entire standard. There are no additional significant impacts on the Company.

Accounting standards effective January 1, 2012

Financial instruments disclosure

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

3. Significant accounting policies – continued

Income taxes
In December 2010, the IASB issued and amendment to IAS 12 – *Income Taxes* that provides 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 consolidated financial statements.

Accounting standards anticipated to be effective January 1, 2013
IFRS 10 – Consolidated Financial Statements
IFRS 10 requires that a reporting entity should consolidate any investee it controls. Control is the basis for consolidation for all types of investees. IFRS 10 also provides guidance on assessing control in circumstances where the assessment has proven to be difficult. IFRS 10 provides more guidance about the factors to consider in such structures that involve potential voting rights, agency relationships, relationships with structured entities and control without a majority of voting rights. The Company's consolidation with its current subsidiary and related consolidation decisions should be unaffected by the new consolidation model in IFRS 10.

IFRS 11 – Joint Arrangements
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 requires 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 does not anticipate this amendment will have a significant impact on its consolidated financial statements.

IFRS 12 – Disclosure of Interests in Other Entities
IFRS 12 sets out disclosure requirements for reporting entities that have an interest in a subsidiary, joint arrangement, associate or unconsolidated structured entity. There are no additional interests or disclosures required.

IFRS 13 – Fair Value Measurements
IFRS 13 – *Fair Value Measurements* is effective for annual periods beginning on or after January1, 2013, with earlier adoption permitted and sets out in a single IFRS framework for measuring fair value and new required disclosures about the fair value measurements. Management anticipates that this standard will be adopted in the Company's consolidated financial statements for the period beginning January 1, 2013 and has not yet considered the potential impact of the adoption of IFRS 13.

Consolidation
On September 20, 2011, 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, *Consolidation Special Purpose Entities* with a single standard on consolidation. The IASB plans on publishing the final standard on consolidation in the first half of 2012, with an 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.

Accounting standards anticipated to be effective January 1, 2015
IFRS 9 – Financial Instruments Disclosure
IFRS 9 – *Financial Instruments* was published and contains requirements for financial assets updating IFRS 7. Requirements for financial liabilities were added to IFRS 9 in October 2010. Most of the requirements for financial liabilities were carried forward unchanged from IAS 39. However, some changes were made to the fair value option for financial liabilities to address the issue of own credit risk. The Company does not anticipate this amendment to have a significant impact on its consolidated financial statements.

4. Significant accounting estimates and judgments

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could 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 estimates are revised and in future periods affected.

The Company has identified the valuation or recoverability of deposits, expected tax rates and the utilization of deferred income tax assets, the measurement of share-based transactions and the fair value measurement of financial instruments as areas where significant judgments, estimates and assumptions are made, where actual results may differ from these estimates and this may materially affect the Company's financial results or consolidated statement of financial position in future periods.

The carrying values and assessment of impairment of deposits is based on costs incurred and management's estimate of net recoverable value. Estimates may not necessarily reflect actual recoverable value as this will be dependent on the status of the drilling program, the nature of the resource deposit, commodity prices, adequate funding and the ability of the Company to achieve commercial production.

5. Restricted cash

The Company paid into court $269,411 pursuant to the December 1, 2011 garnishee order (the "Garnished Funds") for a proceeding commenced against the Company in the British Columbia Supreme Court by a former officer. Subsequent to year end, a settlement agreement was entered into by the parties. The Garnished Funds were released to the Company's legal counsel and the former officer was paid $120,000 plus HST thereon of $14,400 from these funds totalling $134,400 (notes 10 & 16).

6. Property and equipment

	Computer Hardware and soltware		
	Cost	Accumulated depreciation	Net book value
Balance - January 1, 2010	$ 4,239	$ (2,139)	$ 2,100
Depreciation		(562)	(562)
Balance -December 31, 2010	4,239	(2,701)	1,538
Depreciation		(412)	(412)
Balance -December 31, 2011	$ 4,239	$ (3,113)	$ 1,126

7. Long-term investment

On November 6, 2009, Range Oil & Gas Inc. entered into a share acquisition agreement with a privately held company (the "Vendor") under which the Company purchased 49.9% of the common shares of New Age Al Zarooni 2 Limited ("NAAZ2"), a company domiciled in Jersey, Channel Islands. The consideration paid for the shares was as follows:

(a) US$16,367,000 ($16,862,774) cash;
(b) 2,000,000 common shares of the Company with an estimated fair value of $400,000 measured on the date of issuance;
(c) 1,500,000 warrants to purchase 1,500,000 common shares of the Company exercisable for a term of five years at a price of $0.30 per share, valued at $509,293 measured on the date of issuance using the Black-Scholes option-pricing model; and,
(d) US$44,000 ($46,728) of expenses reimbursed to the Vendor.

7. Long-term investment - continued

The transaction closed on November 17, 2009. In connection with the transaction, the Company issued 3,250,000 common shares of the Company for corporate advisory services to unrelated third parties. The estimated fair value of these shares was $650,000 measured on the date of issuance and recorded as transaction costs in the consolidated statement of operations and comprehensive loss during the year ended December 31, 2009.

NAAZ2 owns 50% of the common shares of Gas Plus Khalakan Limited (“GPK”), a company domiciled in Jersey, Channel Islands. GPK holds an 80% interest in the Khalakan production sharing contract (“PSC”) for an oil and gas resource property (“Khalakan Block”) and the Kurdistan Regional Government of Iraq holds the remaining 20% interest. The Khalakan Block consists of two concessions, Blocks 28 and 29 (sometimes referred to as Blocks 6 and 7) and comprises 624 square kilometres located in the central part of the Kurdistan Region of Iraq.

Under the GPK shareholders’ agreement, a company beneficially owned by a third party is entitled to a 40% interest in the net profits (“NPI”) of the project. At any time, the 40% NPI may be exchanged for 40% of the issued common shares of GPK for a price equal to US$1 per common share. In addition, a 3.5% interest in the net profits is payable under a management services agreement.

The NAAZ2 shareholders’ agreement requires each shareholder to fund its cash calls based on its ownership interest. If a shareholder fails to fund its portion of these cash calls, the non-defaulting shareholder has the option to fund any shortfalls and thereby increase its relative interest in NAAZ2. Should the non-defaulting shareholder decline to fund any shortfalls, a buy-out event may be triggered under which the defaulting party’s interest may be purchased by the non-defaulting party for a price pre-determined by a formula in the shareholders’ agreement. During the year ended December 31, 2011, the Company funded cash calls made by NAAZ2 totalling $1,251,200 (US $1,256,232) ((2010 - $2,052,318 (US$1,964,565)).

The GPK shareholders’ agreement requires each shareholder to fund its proportional share of cash calls based on its shareholdings. If a shareholder fails to fund its portion of these cash calls, the non-defaulting shareholder will have the option to fund any shortfalls and thereby increase its relative interest in GPK. Should the non-defaulting shareholder decline to fund any shortfalls, a buy-out event may be triggered under which the defaulting party’s interest may be purchased by the non-defaulting party for a price pre-determined by a formula in the shareholders’ agreement.

8. Equity

(a) Authorized
The authorized share capital of the Company consists of an unlimited number of shares without par value and an unlimited number of preferred shares, issuable in series. The preferred share rights and restrictions may be set by the Company’s directors upon issue.

(b) Private placements
On May 18, 2011, the Company completed a non-brokered private placement consisting of 26,800,000 units at a price of $0.15 per unit. The gross proceeds of the unit placement totalled $4,020,000. Each unit is comprised of one common share and one share purchase warrant entitling the holder to acquire one common share at a price of $0.15 per share up to May 18, 2012. An additional 1,072,000 finders’ warrants were issued each entitling the holder to purchase one common share for $0.15 on or before May 18, 2013.

On July 26, 2011, the Company completed a non-brokered private placement consisting of 41,100,000 units at a price of $0.15 per unit. The gross proceeds of the unit placement totalled $6,165,000. Each unit is comprised of one common share and one share purchase warrant entitling the holder to acquire one common share at a price of $0.15 per share up to July 26, 2012.

8. Equity - continued

(c) Reserves

Reserves consist of share purchase warrants and the accumulated fair value of common share stock options recognized as share-based compensation.

Warrants

	December 31, 2011		December 31, 2010	
	Number of warrants	**Amount**	**Number of warrants**	**Amount**
Opening balance	136,194,900	$ 3,790,878	137,194,900	$ 3,790,878
Warrants issued	68,972,000	3,239,748	-	-
Warrants exercised	-	-	(1,000,000)	-
Warrants expired	(134,694,900)	(3,281,584)	-	-
Closing balance	70,472,000	$ 3,749,042	136,194,900	$ 3,790,878

The fair value of the 68,972,000 warrants issued in connection with the unit private placement completed during the year ended December 31, 2011 totalled $3,412,603 before warrant issue costs amounting to $172,855 (net $3,239,748).

The warrants were valued using the Black-Scholes valuation model, using the following assumptions:

Warrant term	Volatility	Dividend yield	Risk-free interest rate	Warrants issued	Relative fair value	Warrant issue costs	Net
1 year	171%	0%	1.36%	26,800,000	$ 1,328,309	$ 95,296	$ 1,233,013
2 years	180%	0%	1.76%	1,072,000	67,279	-	67,279
1 year	172%	0%	1.24%	41,100,000	2,017,015	77,559	1,939,456
				68,972,000	$ 3,412,603	$ 172,855	$ 3,239,748

Stock options

The Company adopted the 2011 Stock Option Incentive Plan (the "Plan") that was approved by the Board of Directors on March 18, 2011 and the shareholders on May 10, 2011. The aggregate number of shares of the Company's share capital issuable pursuant to options granted under the Plan may not exceed 24,656,676 shares. Options granted under the Plan may have a maximum term of ten years. The exercise price of options granted under the Plan shall be determined by the Company's directors, provided that such price shall not be lower than closing share price on the day before the grant date less the applicable discount permitted under CNSX policies. Stock options granted under the Plan may be subject to vesting terms that are set at the discretion of the directors at the time of grant.

The following table summarizes stock option activity during the years ended December 31, 2011 and 2010:

	December 31, 2011		December 31, 2010	
	Number of options	**Weighted average exercise price of options exercisable**	**Number of options**	**Weighted average exercise price of options exercisable**
Opening balance	14,837,500	$0.35	5,837,500	$0.32
Options granted	-	-	10,500,000	$0.30
Options exercised	-	-	(1,500,000)	$0.075
Options expired	(200,000)	$0.62	-	-
Options forfeited	(6,812,500)	$0.33	-	-
Closing balance	7,825,000	$0.33	14,837,500	$0.35

8. Equity - continued

The fair value of the 10,500,000 options granted during the year ended December 31, 2010 amounted to $2,600,650 resulting in a compensation expense of $2,600,650. The options were valued using the Black-Scholes valuation model with the following assumptions:

Expected life	Volatility	Dividend yield	Risk-free interest rate	Options granted	Fair value
5 years	117%	0%	2.8%	10,500,000	$ 2,600,650

At December 31, 2011, stock options outstanding are as follows:

Number of options outstanding and exercisable	Range of exercise prices	Weighted average exercise price of options exercisable	Weighted average remaining contractual life
500,000	$0.20	$0.20	1.45 years
6,525,000	$0.30-$0.35	$0.30	2.98 years
800,000	$0.55-$0.62	$0.58	0.65 years
7,825,000			

9. Income tax

The Company's provision for income taxes differs from amounts computed by applying the combined Canadian federal and provincial income tax rates, as a result of the following:

	2011	2010
Enacted rates	26.5%	28.5%
Income tax recovery computed at statutory rates	$ 403,967	$ 1,176,262
Permanent differences	-	(733,880)
Change in estimates	(404,057)	514,946
Changes in tax rates	(22,814)	(54,328)
Deferred tax benefits not recognized	22,904	(903,000)
Recovery of (provision for) income taxes	$ -	$ -

The tax effects of temporary timing differences that give rise to significant components of the deferred tax assets and deferred tax liabilities are as follows:

	2011	2010
Deferred tax assets		
Financing costs	$ 535,674	$ 652,362
Non-capital loss carry forwards	1,996,787	1,795,652
Other	170,691	172,245
Total gross deferred tax assets	2,703,152	2,620,259
Deferred tax assets not recognized	(2,703,152)	(2,620,259)
Net deferred tax assets	$ -	$ -

9. Income tax - continued

At December 31, 2011, the Company has non-capital losses of approximately $7,987,146, which may be carried forward to apply against future year's income for Canadian income tax purposes, subject to final determination by taxation authorities, expiring as follows:

2015	$	91,050
2026		250,451
2027		1,447,618
2028		958,035
2029		1,987,052
2030		2,448,244
2031		804,696
	$	7,987,146

10. Related party transactions

Key management personnel are those persons that have the authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly. Key management personnel include the Company's directors and members of the senior management group.

During the year ended December 31, 2011, the Company incurred $381,695 in termination costs paid to key management personnel upon cessation of their contracts. At December 31, 2011, there was a balance accrued for settlement to the former officer of $120,000, which is included in accounts payable and accrued liabilities (notes 5 & 16).

During the year ended December 31, 2011, the Company paid a total of $245,275 to a company controlled by an officer and director and a director of the Company, as finder's fees in connection with the equity financings closed in this respective financial year end.

Details of key management personnel compensation are as follows:

		2011		**2010**
Services provided:				
Consulting fees	$	60,625	$	49,740
Directors fees		93,249		79,594
Management fees		344,171		276,000
Share-based compensation		-		2,352,969
Key management personnel compensation	$	498,045	$	2,758,303
Balances payable to key management personnel	$	57,583	$	9,095

11. Commitment

The Company is party to an operating lease for premises expiring on December 1, 2012. The future minimum lease payment for the year ending December 31, 2012 and in aggregate is $60,969.

12. Segmented information

The Company's operations comprise one reportable segment. The carrying value of the Company's non-current assets on a country-by-country basis is as follows:

	December 31, 2011			December 31, 2010			January 1, 2010		
	Canada	Channel Islands	Total	Canada	Channel Islands	Total	Canada	Channel Islands	Total
Property and equipment	$1,126	$ -	$ 1,126	$1,538	$ -	$ 1,538	$2,100	$ -	$ 2,100
Long-term investment	-	21,387,458	21,387,458	-	20,136,258	20,136,258	-	18,083,940	18,083,940
Total	$1,126	$21,387,458	$21,388,584	$1,538	$20,136,258	$20,137,796	$2,100	$ 18,083,940	$18,086,040

13. Financial instruments

The Company's financial instruments include cash and cash equivalents, restricted cash, accounts receivable, deposit and accounts payable and accrued liabilities. The carrying value of cash and cash equivalents, restricted cash, accounts receivable and accounts payable and accrued liabilities as presented in the consolidated financial statements are reasonable estimates of fair values due to the relatively short periods to maturity and the terms of these instruments.

The Company's financial instruments have been classified as follows:

Financial instrument	Classification	Fair value hierarchy
Cash and cash equivalents	Financial assets held-for-trading	Level 1
Restricted cash	Financial assets held-for-trading	Level 1
Accounts receivable	Loans and receivables	n/a
Accounts payable and accrued liabilities	Other financial liabilities	n/a

See the Company's Consolidated Statements of Financial Position for financial instrument balances as at December 31, 2011 and 2010.

13. Financial instruments – continued

Financial instruments must be classified at one of three levels within a fair value hierarchy according to the relative reliability of the inputs used to estimate their values. The three levels of the hierarchy are as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets and liabilities;
Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and,
Level 3: Inputs that are not based on observable market data.

Risk exposure and management

The Company is exposed to various financial instrument risks and continuously assesses the impact and likelihood of this exposure. These risks include credit risk, commodity price risk, liquidity risk, interest rate risk and currency risk. Where material these risks are reviewed and monitored by the Board of Directors.

Credit risk
Credit risk arises from the non-performance by counterparties of contractual financial obligations resulting in financial loss to the Company. The Company's credit risk is primarily attributable to its cash and cash equivalents and accounts receivable. Cash and cash equivalents and $47,418 of accounts receivable are held with an investment grade Canadian financial institution as assessed by external rating agencies. The deposits held with this institution may exceed the amount of insurance provided on such deposits. Accounts receivable of $10,568 are due from an agency of the Canadian government. Management believes the risk of loss to be minimal. As at December 31, 2011, the Company's maximum credit risk is the carrying value of cash and cash equivalents and accounts receivable.

Commodity price risk
The Company is subject to price risk from fluctuations in market prices of the commodities underlying its long-term investment. This exposure includes the ability to raise capital with favourable terms. The Company does not currently hold any financial instruments that mitigate this risk.

Liquidity risk
Liquidity risk refers to the risk that the Company will not be able to meet its financial obligations when they become due, or can only do so at excessive cost. As at December 31, 2011, the Company has working capital of $8,137,803. The Company manages liquidity risk by maintaining adequate cash and cash equivalent balances including purchasing cash equivalents with early redemption features that may be sold into an active market. The Company continuously monitors and reviews both actual and forecasted cash flows and matches the maturity profile of financial assets and liabilities.

Interest rate risk
As at December 31, 2011, the Company's cash equivalents consist of a variable rate term deposit in the amount of $8,000,000. The term deposit is subject to interest rate cash flow risk as it carries a variable rate of interest. The Company does not engage in any hedging activity to mitigate these risks. A plus or minus 1% change in market interest rates would not have a significant effect on the Company's consolidated loss and comprehensive loss for the year.

Currency risk
As the Company operates in an international environment, some of the Company's transactions and balances are denominated in currencies other than the Canadian dollar. The Company's foreign exchange risk arises primarily with respect to the United States dollar. The Company is required to make regular cash contributions denominated in United States dollars to fund the companies underlying its long-term investment (note 7). Fluctuations in the exchange rate between the United States dollar and the Canadian dollar could have a material effect on the Company's business, financial condition and results of operations. The Company does not engage in any hedging activity to mitigate this risk.

As at December 31, 2011, a strengthening (weakening) of the Canadian dollar against the United States dollar of 10% would have an insignificant impact on the Company's consolidated loss and comprehensive loss.

14. Management of capital

The Company manages its capital to ensure it will be able to continue as a going concern and continue the funding of its long-term investment. The Company has no operations that generate cash flow and depends on financings to fund its long-term investment and administrative expenses. The success of each financing depends on numerous factors including positive oil and gas environment, positive stock market conditions, a company's track record and the experience of management. The capital structure of the Company consists of shareholders' equity, which is comprised of share capital, reserves and deficit. The Board of Directors does not establish quantitative return on capital criteria for management due to the nature of the Company's business. The Company does not pay dividends and is not exposed to any externally imposed capital requirements.

15. Transition to International Financial Reporting Standards

The accounting policies in note 3 have been applied in preparing the consolidated financial statements as at and for the years ended December 31, 2011 and 2010.

In preparing its opening IFRS consolidated statement of financial position and comparative information for financial statements for the year ended December 31, 2010, the Company has adjusted amounts reported previously in the consolidated financial statements prepared in accordance with Canadian GAAP. An explanation of how the transition from previous Canadian GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables.

The guidance for the first time adoption of IFRS is set out in IFRS 1. IFRS 1 provides for certain mandatory exceptions and optional exemptions for first time adopters of IFRS. The Company elected to take the following IFRS 1 optional exemptions:

- To apply requirements of IFRS 3, *Business Combination*, prospectively from the Transition Date.
- To apply the requirements of IFRS 2, *Share-based payment* only to equity instruments granted after November 7, 2001 which had not vested as of the Transition Date.
- Not to retrospectively apply the requirements of IAS 32, *Financial Instruments – Presentation* to compound financial instruments settled before the Transition Date.

15. Transition to International Financial Reporting Standards – continued

Reconciliation of Assets, Liabilities and Equity

	note	As at January 1, 2010 GAAP	Effect of transition to IFRS	IFRS	As at December 31, 2010 GAAP	Effect of transition to IFRS	IFRS
ASSETS							
Current assets							
Cash and cash equivalents		$ 4,656,301	$ -	$ 4,656,301	$ 1,138,506	$ -	$ 1,138,506
Accounts receivable		15,231	-	15,231	40,758	-	40,758
Deposits and prepaid expenses		10,167	-	10,167	17,833	-	17,833
		4,681,699	-	4,681,699	1,197,097	-	1,197,097
Property and equipment		2,100	-	2,100	1,538	-	1,538
Long-term investments		18,083,940	-	18,083,940	20,136,258	-	20,136,258
		$ 22,767,739	$ -	$ 22,767,739	$ 21,334,893	$ -	$ 21,334,893
LIABILITIES							
Current liabilities							
Accounts payable and accrued liabilities		$ 94,114	$ -	$ 94,114	$ 10,918	$ -	$ 10,918
SHAREHOLDERS' EQUITY							
Share capital		24,512,767	-	24,512,767	24,725,267	-	24,725,267
Reserves	(a)	5,539,324	20,688	5,560,012	8,104,255	56,407	8,160,662
Deficit	(a)	(7,378,466)	(20,688)	(7,399,154)	(11,505,547)	(56,407)	(11,561,954)
		22,673,625	-	22,673,625	21,323,975	-	21,323,975
		$ 22,767,739	$ -	$ 22,767,739	$ 21,334,893	$ -	$ 21,334,893

15. Transition to International Financial Reporting Standards – continued

Reconciliation of Operations and Comprehensive Loss

	note	Year ended December 31, 2010 GAAP	Effect of transition to IFRS	IFRS
Expenses				
Amortization		$ 563	$ -	$ 563
Audit and related fees		43,500	-	43,500
Consulting		174,945	-	174,945
Corporate finance fees		392,603	-	392,603
Directors fees		79,594	-	79,594
General and administrative		125,828	-	125,828
Legal fees		165,244	-	165,244
Management fees		288,000	-	288,000
Share-based compensation	(a)	2,564,931	35,719	2,600,650
Transfer agent and filing fees		19,085	-	19,085
Travel and promotion		303,701	-	303,701
Loss before other income		(4,157,994)	(35,719)	(4,193,713)
Interest income		30,913	-	30,913
Net loss and comprehensive loss for year		$ (4,127,081)	$ (35,719)	$ (4,162,800)
Loss per share - basic and diluted		$ (0.03)		$ (0.03)
Weighted average number of common shares used in calculation of loss per share - basic and diluted		163,028,525		163,028,525

15. Transition to International Financial Reporting Standards – continued

Reconciliation of Cash Flows

	note	GAAP	Effect of transition to IFRS	IFRS
		Year ended December 31, 2010		
Operating activities				
Net loss for year		$ (4,127,081)	$ (35,719)	$ (4,162,800)
Amortization		563		563
Share-based compensation	(a)	2,564,931	35,719	2,600,650
		(1,561,587)	-	(1,561,587)
Changes in non cash working capital items				
Accounts receivable		(25,527)	-	(25,527)
Deposit and prepaid expenses		(7,667)	-	(7,667)
Accounts payable and accrued liabilities		(83,196)	-	(83,196)
Cash provided by (used in) operating activities		(1,677,977)	-	(1,677,977)
Investing activities				
Cash call payments to New Age Al Zarooni 2 Limited		(2,052,318)	-	(2,052,318)
Cash provided by (used in) investing activities		(2,052,318)	-	(2,052,318)
Financing activities				
Exercise of stock options and warrants		212,500	-	212,500
Cash provided by (used in) financing activities		212,500	-	212,500
Increase (decrease) in cash and cash equivalents		(3,517,795)	-	(3,517,795)
Cash and cash equivalents - beginning of year		4,656,301	-	4,656,301
Cash and cash equivalents - end of year		$ 1,138,506	$ -	$ 1,138,506

Note to reconciliation

(a) Share-based Payment

Under Canadian GAAP, the Company measured share-based compensation related to share purchase options at fair value of the options granted using the Black-Scholes option pricing model and recognized this expense over the vesting period of the options granted. For the purpose of accounting for share-based payment transactions an individual is classified as an employee when the individual is consistently represented to be an employee under law. The fair value of the options granted to employees is measured on the date of grant. The fair value of options granted to consultants was re-measured each reporting period over the vesting period of the options granted. Forfeitures were recognized as they occurred.

15. Transition to International Financial Reporting Standards – continued

Similar to Canadian GAAP, IFRS 2 requires the Company to measure share-based compensation related to share purchase options granted to employees at the fair value of the options on the date of grant and to recognize such expense over the vesting period of the options. However, for options granted to non-employees, IFRS 2 requires that share-based compensation be measured at fair value of the services received unless the fair value cannot be reliably measured. For the purpose of accounting for share- based payment transactions an individual is classified as an employee when the individual is an employee for legal or tax purposes or provides services similar to those performed by a direct employee. This definition of an employee is broader than that previously applied by the Company and resulted in a consultant being classified as an employee under IFRS 2.

For the share purchase options granted to the individual reclassified from consultant to employee, changes in fair value after the grant date previously recognized for Canadian GAAP purposes have been adjusted. The adjustments were calculated only for unvested options issued and outstanding as of and after the Transition Date.

16. Subsequent events

From January 1, 2012 to April 20, 2012:

(a) A former officer of the Company was paid $120,000 for contract termination costs plus HST thereon of $14,400.
(b) The Company funded cash calls made by NAAZ2 totalling $2,118,627 (US $2,105,780).
(c) Stock options entitling the holder to acquire 3,562,500 common shares were forfeited.
(d) Stock options entitling the holder to acquire 2,000,000 common shares at $0.20 per share up to February 28, 2017 were granted.
(e) The Company entered into a Letter of Intent ("LOI") with Blackstairs Energy PLC ("Blackstairs") whereby the Company proposed to acquire 100% of the issued share capital of Blackstairs subject to a number of conditions set out in the LOI, satisfactory completion by the Company of its due diligence review of Blackstairs on or before April 30, 2012, entering into a Definitive Agreement, obtaining requisite regulatory approvals and shareholders' approval, if required. As one of conditions of the LOI, the Company loaned Blackstairs US$500,000 for working capital purposes. As the structure of a Definitive Agreement could not be agreed upon, the LOI was terminated and as such, the loan is repayable within 180 days from April 30, 2012 and bears interest at the rate of US prime plus 1.5% per annum compounded monthly until repayment.