Range Energy Resources Inc.

Consolidated Financial Statements

As at and for the years ended December 31, 2012 and 2011

Expressed in Canadian dollars

MANNING ELLIOTT
CHARTERED ACCOUNTANTS

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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, 2012 and 2011 and the consolidated statements of changes in equity, operations and comprehensive loss and cash flows for the years then ended, 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, 2012 and 2011 and the results of its operations and its cash flows for the years then 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.

Manning Elliott LLP

CHARTERED ACCOUNTANTS

Vancouver, British Columbia

April 23, 2013

Range Energy Resources Inc.
Consolidated Statements of Financial Position

Expressed in Canadian Dollars

	December 31, 2012	December 31, 2011
Current assets		
Cash and cash equivalents	$ 1,178,421	$ 8,029,476
Restricted cash (note 5)	-	269,411
Accounts receivable	10,208	57,986
Loan receivable (note 6)	513,267	-
Deposit and prepaid expenses	21,998	25,688
	1,723,894	8,382,561
Non-current assets		
Property and equipment (note 7)	1,070	1,126
Long-term investment (note 8)	28,742,908	21,387,458
	28,743,978	21,388,584
Total assets	**$ 30,467,872**	**$ 29,771,145**
Current liabilities		
Accounts payable and accrued liabilities (note 11)	$ 280,298	$ 244,758
Shareholders' equity		
Share capital (note 9(a) & (b))	33,838,842	31,212,335
Reserves (note 9(c))	10,945,548	11,400,410
Deficit	(14,596,816)	(13,086,358)
	30,187,574	29,526,387
Total liabilities and shareholders' equity	**$ 30,467,872**	**$ 29,771,145**

Nature of operations and going concern (note 1)
Commitment (note 12)
Subsequent events (note 16)

Approved on Behalf of the Board of Directors:

(signed) Toufic Chahine

(signed) Allan Bezanson

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, 2010	164,377,840	$ 24,725,267	$ 3,790,878	$ 4,369,784	$ (11,561,954)	$ 21,323,975
Private placement	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 the 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
Balance - December 31, 2011	232,277,840	$ 31,212,335	$ 3,749,042	$ 7,651,368	$ (13,086,358)	$ 29,526,387
Warrants exercised	13,400,000	2,010,000	-	-	-	2,010,000
Reallocation of the fair value of warrants on conversion	-	616,507	(616,507)	-	-	-
Warrants expired	-	-	(2,555,962)	2,555,962	-	-
Share-based compensation	-	-	-	161,645	-	161,645
Net loss for the year	-	-	-	-	(1,510,458)	(1,510,458)
Balance - December 31, 2012	245,677,840	$ 33,838,842	$ 576,573	$ 10,368,975	$ (14,596,816)	$ 30,187,574

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

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

Expressed in Canadian Dollars

	For the years ended December 31,	
	2012	**2011**
Expenses		
Audit and related fees	$ 70,000	$ 44,450
Consulting	230,851	239,621
Contract termination costs	-	381,695
Corporate finance fees	-	71,434
Depreciation	456	412
Directors fees	101,295	93,249
General and administrative	61,943	86,525
Legal fees	778,732	162,933
Management fees	159,700	330,552
Share-based compensation (note 9(c))	161,645	-
Transfer agent and filing fees	15,657	19,307
Travel and promotion	2,809	137,196
Loss before other income	(1,583,088)	(1,567,374)
Interest income	72,630	42,970
Net loss and comprehensive loss for year	$ (1,510,458)	$ (1,524,404)
Loss per share - basic and diluted	$ (0.01)	$ (0.01)
Weighted average number of common shares used in calculation of loss per share - basic and diluted	240,643,087	199,003,592

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, 2012	2011
Operating activities		
Net loss for year	$ (1,510,458)	$ (1,524,404)
Accrued interest on loan receivable	(15,889)	-
Depreciation	456	412
Share-based compensation	161,645	-
Unrealized foreign exchange loss	72	-
	(1,364,174)	(1,523,992)
Changes in non cash working capital items		
Restricted cash	269,411	(269,411)
Accounts receivable	47,778	(17,228)
Deposit and prepaid expenses	3,690	(7,855)
Accounts payable and accrued liabilities	35,540	233,840
Cash provided by (used in) operating activities	(1,007,755)	(1,584,646)
Investing activities		
Loan advances (note 6)	(497,450)	-
Purchase of equipment	(400)	-
Cash call payments to New Age Al Zarooni 2 Limited (note 8)	(7,355,450)	(1,251,200)
Cash provided by (used in) investing activities	(7,853,300)	(1,251,200)
Financing activities		
Private placements	-	10,185,000
Capital raising costs	-	(458,184)
Warrants exercised	2,010,000	-
Cash provided by (used in) financing activities	2,010,000	9,726,816
Increase (decrease) in cash and cash equivalents	(6,851,055)	6,890,970
Cash and cash equivalents - beginning of year	8,029,476	1,138,506
Cash and cash equivalents - end of year	$ 1,178,421	$ 8,029,476
Cash and cash equivalents consist of:		
Demand deposits	$ 28,421	$ 29,476
Term deposit	1,150,000	8,000,000
	$ 1,178,421	$ 8,029,476
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 800, 1199 West Hastings Street, Vancouver, BC V6E 3T5. The Company is a development stage company engaged in the acquisition, exploration and development of oil and gas properties. As at December 31, 2012, 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, 2012, the Company incurred a net loss totalling $1,510,458. The accumulated deficit at December 31, 2012 is $14,596,816. 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 it 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 consolidated 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, 2012, available funds are not considered adequate to meet requirements for fiscal 2013 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 with 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 consolidated financial statements have been authorized for release by the Company’s Board of Directors on April 23, 2013.

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, Faucon Hec Resources Ltd. (formerly Range Oil & Gas (North Iraq) Inc.) All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation.

(c) 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 and term deposits 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 and equipment

Property 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 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 consolidated statement of financial position at fair value with changes in fair value recognized in the consolidated statement of operations and comprehensive loss.

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. 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 reclassified 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 future accounting periods. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its consolidated financial statements or whether to early adopt any of the new requirements.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments is part of the IASB's wider project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, *Financial Instruments – Recognition and Measurement*, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income.

The standard is effective for annual periods beginning on or after January 1, 2015 with early adoption permitted. There were amendments to IAS 32 *Financial Instruments – Presentation* to clarify the offsetting between financial assets and liabilities, which are mandatory effective on or after January 1, 2014.

IFRS 10 Consolidated Financial Statements

IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. This standard is effective for fiscal years beginning on or after January 1, 2013.

3. Significant accounting policies – continued

IFRS 11 Joint Arrangements

IFRS 11 describes the accounting for arrangements in which there is joint control; proportionate consolidation is not permitted for joint ventures (as newly defined). IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC 13 Jointly *Controlled Entities — Non-Monetary Contributions by Venturers*. This standard is effective for fiscal years beginning on or after January 1, 2013.

IFRS 12 Disclosures of Interests in Other Entities

IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. This standard is effective for fiscal years beginning on or after January 1, 2013.

IFRS 13 Fair Value Measurement

IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. The requirements, which are largely aligned between IFRS and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS or US GAAP. The Company intends to adopt the standard effective for fiscal years beginning on or after January 1, 2013.

Amendments to other standards - In addition, there have been other amendments to existing standards, including IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*. IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 to IFRS 13.

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 consolidated 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 of loan receivable and long-term investment, 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.

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. During the year ended December 31, 2012, 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 (note 11). During the year ended December 31, 2012, all remaining restricted funds were released.

6. Loan receivable

On March 3, 2012, 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, including, satisfactory completion by the Company of its due diligence review of Blackstairs on or before April 30, 2012, entering into a Definitive Agreement and obtaining requisite regulatory and shareholders’ approvals, if required. As one of the conditions of the LOI, the Company loaned Blackstairs CAD$497,450 (US$500,000) for working capital purposes. The loan is secured by pledged shares of certain shareholders of Blackstairs. As the structure of a Definitive Agreement could not be agreed upon, the LOI was terminated on March 29, 2012 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.

On November 13, 2012, the Company and Blackstairs entered into a letter agreement regarding this loan. Under this letter agreement, the Company agreed to waive Blackstairs’s obligation to repay the outstanding loan and accrued interest, and to forbear from exercising remedies arising from Blackstairs’s failure to timely repay this loan, for a period ending no later than December 1, 2012. The Company agreed to this waiver and forbearance to provide Blackstairs time to complete an equity financing transaction. In consideration for this waiver and forbearance, Blackstairs agreed to pay a higher interest rate on the loan if it is not timely repaid. As at December 31, 2012, renegotiation of repayment of the loan receivable is ongoing. Management estimates that the fair value of the pledged shares likely exceeds the carrying value of the loan receivable and therefore management believes the carrying value of loan receivable at December 31, 2012 is recoverable.

The balance consists of the following:

	Principal	Interest	Total
Balance - December 31, 2011	$ -	$ -	$ -
Loan advance	497,450	-	497,450
Accrued interest	-	15,889	15,889
Unrealized foreign exchange loss - translation	-	(72)	(72)
Balance - December 31, 2012	$ 497,450	$ 15,817	$ 513,267

7. Property and equipment

	Computer hardware and software		
	Cost	Accumulated depreciation	Net book value
Balance - December 31, 2010	$ 4,239	$ (2,701)	$ 1,538
Depreciation	-	(412)	(412)
Balance - December 31, 2011	4,239	(3,113)	1,126
Additions	400	-	400
Depreciation	-	(456)	(456)
Balance - December 31, 2012	$ 4,639	$ (3,569)	$ 1,070

8. 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.

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, 2012, the Company funded cash calls made by NAAZ2 totalling $7,355,450 (US $7,345,280) ((2011 - $1,251,200 (US $1,256,232)).

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.

9. 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.

(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, 2012		December 31, 2011	
	Number of warrants	**Amount**	**Number of warrants**	**Amount**
Opening balance	70,472,000	$ 3,749,042	136,194,900	$ 3,790,878
Warrants issued	-	-	68,972,000	3,239,748
Warrants exercised	(13,400,000)	(616,507)	-	-
Warrants expired	(54,500,000)	(2,555,962)	(134,694,900)	(3,281,584)
Closing balance	2,572,000	$ 576,573	70,472,000	$ 3,749,042

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 issued during the year ended December 31, 2011 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

9. Equity – continued

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, 2012 and 2011:

	December 31, 2012		December 31, 2011	
	Number of options	Weighted average exercise price of options exercisable	Number of options	Weighted average exercise price of options exercisable
Opening balance	7,825,000	$0.33	14,837,500	$0.35
Options granted	2,000,000	$0.20	-	-
Options expired	(500,000)	$0.55	(200,000)	$0.62
Options forfeited	(3,062,500)	$0.32	(6,812,500)	$0.33
Closing balance	6,262,500	$0.27	7,825,000	$0.33

The fair value of the 2,000,000 options granted during the year ended December 31, 2012 amounted to $161,645 resulting in a compensation expense of $161,645. The options were valued using the Black-Scholes option pricing model with the following assumptions:

Expected life	Volatility	Dividend yield	Risk-free interest rate	Options granted	Fair value
5 years	190%	0%	1.56%	2,000,000	$ 161,645

At December 31, 2012, 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
4,262,500	$0.30-$0.35	$0.30	1.99 years
2,000,000	$0.20	$0.20	4.16 years
6,262,500			

10. 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:

		2012		**2011**
Enacted rates		25.0%		26.5%
Income tax recovery computed at statutory rates	$	377,615	$	403,967
Permanent differences		(40,440)		-
Change in estimates		-		(404,057)
Change in tax rates		-		(22,814)
Deferred tax benefits not recognized		(337,175)		22,904
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:

		2012		**2011**
Deferred tax assets				
Financing costs	$	293,830	$	535,674
Non-capital loss carry forwards		2,575,993		1,996,787
Other		170,503		170,691
Total gross deferred tax assets		3,040,326		2,703,152
Deferred tax assets not recognized		(3,040,326)		(2,703,152)
Net deferred tax assets	$	-	$	-

At December 31, 2012, the Company has non-capital losses of approximately $9,025,990 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:

Year		Amount
2015	$	91,050
2026		250,451
2027		1,447,618
2028		958,035
2029		1,987,052
2030		2,448,244
2031		804,696
2032		2,316,825
	$	10,303,971

11. 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, 2012, the Company entered into a corporate management agreement for accounting services with a company controlled by the interim Corporate Secretary and Chief Financial Officer that expires on December 31, 2013 (Note 12).

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 (note 5).

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:

		2012		2011
Services provided:				
Consulting fees	$	42,466	$	60,625
Directors fees		101,295		93,249
Management fees		159,700		344,171
Share-based compensation		161,645		-
Key management personnel compensation	$	465,106	$	498,045
Balances payable to key management personnel	$	24,994	$	57,583

12. Commitment

The Company is party to a corporate management and accounting services agreement that expires on December 31, 2013. The future minimum payments are $114,000 for the year ending December 31, 2013.

13. 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, 2012			December 31, 2011		
	Canada	Channel Islands	Total	Canada	Channel Islands	Total
Property and equipment	$ 1,070	$ -	$ 1,070	$ 1,126	$ -	$ 1,126
Long-term investment	-	28,742,908	28,742,908	-	21,387,458	21,387,458
Total	$ 1,070	$ 28,742,908	$ 28,743,978	$ 1,126	$ 21,387,458	$ 21,388,584

14. Financial instruments

The Company's financial instruments include cash and cash equivalents, restricted cash, accounts receivable, loan receivable, deposit, long-term investment 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. Long-term investment does not have a reliably measurable fair value as it does not have a quoted market price in an active market.

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 and loan receivable	Loans and receivables	n/a
Long-term investment	Available-for-sale	n/a

See the Company's Consolidated Statements of Financial Position for financial instrument balances as at December 31, 2012 and 2011.

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, accounts receivable, and loan receivable. Cash and cash equivalents and $6,481 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 $3,729 is due from an agency of the Canadian government. Management believes the risk of loss to be minimal. Loan receivable of $513,267 is due from Blackstairs (see Note 6), and management believes that collection of the full amount is probable, and that security pledged against the loan receivable is likely sufficient to recover the carrying value recorded at December 31, 2012. As at December 31, 2012, the Company's maximum credit risk is the carrying value of cash and cash equivalents, accounts receivable, and loan 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, 2012, the Company has working capital of $1,443,596. 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.

14. Financial instruments – continued

Interest rate risk
As at December 31, 2012, the Company's cash equivalents consist of a variable rate term deposit in the amount of $1,150,000. 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 8). 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, 2012, 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.

15. 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.

16. Subsequent events

From January 1, 2013 to April 23, 2013:

(a) The Company funded cash calls made by NAAZ2 totalling $709,091 (US $706,085).

(b) On March 13, 2013, the Company closed a non-brokered private placement of 87,500,000 units at $0.04 per unit for gross proceeds of $3,500,000. Each unit consisted of one common share and one transferable share purchase warrant entitling the holder to acquire one additional common share at $0.05 for a period of two years from closing. A finder's fee of 625,000 warrants and $25,000 was paid. All securities issued in connection with this financing are subject to a hold period until July 31, 2013. Proceeds from the private placement will be used by the Company for continued exploration on the Company's Khalakan Block project and general working capital purposes.

(c) As announced in the Company's news release dated August 30, 2012, the Company has initiated arbitration proceedings against New Age Al Zarooni 2 Limited (NAAZ2) and Black Gold Khalakan Limited to obtain information on Khalakan Block that the Company feels it is entitled to under the NAAZ2 shareholder agreement. The arbitration hearing is scheduled to commence during April 2013. No loss (or gain) is estimated and likelihood of successful arbitration is not determinable at this time.