PetroCorp Group Inc.
Consolidated Financial Statements

March 31, 2012 and 2011

Contents

July 24, 2012

Independent Auditor's Report

To the Shareholders of
PetroCorp Group Inc.

We have audited the accompanying consolidated financial statements of PetroCorp Group Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at March 31, 2012, March 31, 2011 and April 1, 2010 and the consolidated statements of operations and comprehensive income (loss), changes in equity, and cash flows for the years ended March 31, 2012 and March 31, 2011, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the 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 the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of PetroCorp Group Inc. and its subsidiaries as at March 31, 2012, March 31, 2011 and April 1, 2010 and its financial performance and its cash flows for the years ended March 31, 2012 and March 31, 2011 in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to note 2 in the consolidated financial statements, which refers to management's conclusion that PetroCorp Group Inc. has no significant continuing operations and will not continue as a going concern. These consolidated financial statements have therefore been prepared using a liquidation basis of accounting.

Emphasis of Matter

Without qualifying our opinion, we draw attention to note 15 in the consolidated financial statements which describes the uncertainty related to the outcome of the lawsuit filed against the company.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Accountants

PetroCorp Group Inc.

Consolidated Statements of Operations and Comprehensive Income (Loss)

Years ended March 31

($ thousands, except share and per share amounts)	**2012**	2011
Revenue	**-**	-
Expenses		
General and administrative expenses	**$ 483**	$ 959
Depreciation and amortization	**-**	4
Interest income	**(56)**	(67)
	427	896
Net gain on distribution of investment (Note 8)	**-**	(357)
Income tax recovery	**(5)**	(421)
Loss from continuing operations	**(422)**	(118)
Loss from discontinued operations, net of tax (Note 7)	**-**	(493)
Net loss	**$ (422)**	$ (611)
Other comprehensive income (loss), net of tax:		
Fair value change on investment (Note 8)	**(197)**	333
Comprehensive loss	**$ (619)**	$ (278)
Loss per share from continuing operations:		
Basic and diluted	**$ (0.01)**	$ (0.00)
Loss per share from discontinued operations:		
Basic and diluted	**$ (0.00)**	$ (0.01)
Weighted average number of common shares outstanding:		
Basic and diluted	**72,323,254**	72,323,254

PetroCorp Group Inc.
Consolidated Statements of Changes in Equity
Years ended March 31, 2012 and 2011

($ thousands)	Share capital	Contributed surplus	Deficit	Accumulated other comprehensive income	Total
Balance, April 1, 2011	$ 9,844	$ 8,063	$ (10,145)	$ 333	$ 8,095
Net loss for the year	-	-	(422)	-	(422)
Other comprehensive loss for the year	-	-	-	(197)	(197)
Share-based compensation expense	-	2	-	-	2
Balance, March 31, 2012	$ 9,844	$ 8,065	$ (10,567)	$ 136	$ 7,478
Balance, April 1, 2010	$ 12,701	$ 8,059	$ (9,534)	-	$ 11,226
Net loss for the year	-	-	(611)	-	(611)
Other comprehensive income for the year	-	-	-	333	333
Distribution of investment on return of capital	(2,857)	-	-	-	(2,857)
Share-based compensation expense	-	4	-	-	4
Balance, March 31, 2011	$ 9,844	$ 8,063	$ (10,145)	$ 333	$ 8,095

PetroCorp Group Inc.
Consolidated Statements of Financial Position

($ thousands)	**March 31, 2012**	March 31, 2011	April 1, 2010
Assets			
Current			
Cash and cash equivalents	**$ 6,026**	$ 6,784	$ 7,804
Funds held in escrow (Note 7)	**1,000**	1,000	4,648
Investments (Note 8)	**514**	383	-
Accounts receivable	**2**	46	40
Income tax recoverable	**28**	-	-
	7,570	8,213	12,492
Deferred tax asset	**-**	9	32
Funds held in escrow (Note 7)	**-**	-	1,000
Equipment	**-**	-	19
	$ 7,570	$ 8,222	$ 13,543
Liabilities			
Current			
Accounts payable and accrued liabilities	**$ 92**	$ 68	$ 1,785
Income taxes payable	**-**	59	170
	92	127	1,955
Deferred tax liability	**-**	-	362
	92	127	2,317
Shareholders' Equity			
Share capital (Note 9)	**9,844**	9,844	12,701
Contributed surplus (Note 10)	**8,065**	8,063	8,059
Deficit	**(10,567)**	(10,145)	(9,534)
Accumulated other comprehensive income	**136**	333	-
	7,478	8,095	11,226
	$ 7,570	$ 8,222	$ 13,543

Basis of presentation (Note 2)
Contingent liabilities (Note 15)

On behalf of the Board

(signed) ***"Larry Patriquin"*** Director (signed) ***"Martin Bernholtz"*** Director

PetroCorp Group Inc.
Consolidated Statements of Cash Flows
Years ended March 31, 2012 and 2011

($ thousands)	2012	2011
Operating		
Net loss	$ **(422)**	$ (611)
Loss from discontinued operations, net of tax	**-**	(493)
Loss from continuing operations	**(422)**	(118)
Items not affecting cash:		
Depreciation of equipment	**-**	4
Stock based compensation	**2**	4
Deferred income taxes	**39**	(421)
Gain on distribution of investment	**-**	(357)
Changes in non-cash working capital items:		
Decrease in accounts receivable	**44**	
Increase in accounts payable and accrued liabilities	**24**	
Increase (decrease) in income taxes recoverable (payable)	**(87)**	
Cash used in operating activities	**(400)**	(888)
Investing		
Disposal of equipment	**-**	15
Exercise of warrants	**(358)**	-
Cash provided by (used in) investing activities of continuing operations	**(358)**	15
Cash provided by investing activities of discontinued operations	**-**	2,353
Cash provided by (used in) investing activities	**(358)**	2,368
Financing		
Return of capital distribution	**-**	(2,500)
Cash used in financing activities	**-**	(2,500)
Net decrease in cash and cash equivalents	**(758)**	(1,020)
Cash and cash equivalents		
Beginning of year	**6,784**	7,804
End of year	$ **6,026**	$ 6,784
Supplemental cash flow information		
Interest paid	**-**	-
Income taxes paid	**-**	$ 47
Purchase of assets under capital leases	**-**	-

See accompanying notes to the consolidated financial statements

1. Nature of operations

PetroCorp Group Inc. (the "Company") was incorporated under the Alberta Business Corporations Act on March 25, 1993. Its registered head office is 1600, 333 – 7th Avenue S.W., Calgary, Alberta.. On December 15, 2009, the Company sold its operating business through a sale of substantially all of its assets and liabilities (see Note 7), and as a result, does not have an operating business at this time.

2. Basis of presentation

As the Company disposed of its operating business and has no continuing operations, it has changed the basis of preparing its financial statements from the going concern basis to the liquidation basis as required by International Accounting Standard ("IAS") 1. As a result, the financial statements for the year ended March 31, 2012 have been prepared using a liquidation basis of accounting. This basis of presentation differs from the presentation adopted in the interim financial reports of the Company issued during its financial year ended March 31, 2012. However, the adoption of a liquidation basis of presentation did not result in a change to the net assets of the Company. Should the Company not proceed with the liquidation of its net assets, it will revert to a going concern basis of presentation.

3. Basis of preparation and adoption of IFRS

The Company prepares its financial statements in accordance with generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company commenced reporting on this basis in the first quarter of fiscal 2012. In these financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

These financial statements have been prepared in compliance with IFRS. Subject to certain transition elections disclosed in Note 6, the Company has consistently applied the same accounting policies in its opening IFRS statement of financial position at April 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 6 discloses the impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company's financial statements for the year ended March 31, 2011 prepared under Canadian GAAP.

The policies applied in these financial statements are based on IFRS issued and outstanding as of July 24, 2012, the date the Board of Directors approved the statements.

4. Summary of significant accounting policies

These consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. As explained in Note 3, Canadian GAAP for publicly accountable enterprises is equivalent to International Financial Reporting Standards ("IFRS") effective January 1, 2011.

Because the precise determination of certain assets and liabilities is dependent upon future events, the preparation of these financial statements necessarily includes the use of estimates and approximations, which have been made using careful judgment. Actual results could differ from those estimates. These financial statements have, in management's opinion, been prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

Basis of measurement

These consolidated financial statements have been prepared using fair values.

Consolidation

These consolidated financial statements include the assets, liabilities and results of operations, after the elimination of intercompany transactions and balances, of the Company and its two inactive wholly owned subsidiaries; 1198073 Alberta Ltd. (formerly "Concorde Metal and Manufacturing"), and 1444297 Alberta Ltd. (formerly "PCG Technical Services Inc.").

Cash and cash equivalents

Cash and cash equivalents consist of cash held at banks and short-term, cashable Guaranteed Investment Certificates with maturities of three months or less.

Income taxes

Deferred income taxes relate to the expected future tax consequences of differences between the carrying amount of balance sheet items and their corresponding tax values. Deferred tax assets, if any, are recognized only to the extent that in the opinion of management, it is probable that the deferred tax assets will be realized. Deferred income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment or substantive enactment based on rates that are expected to apply when the deferred tax asset or liability is settled.

Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

The Company's financial instruments are classified as follows:

- Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables are comprised of trade receivables and cash and cash equivalents, and are included in current assets due to their short-term nature.

  Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less any provision for impairment.

- Financial liabilities at amortized cost: Financial liabilities at amortized cost include trade accounts payable and accrued liabilities. Trade payables are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value. Subsequently, trade payables are measured at amortized cost using the effective interest method.

  Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

- Available for sale investments: Investments are classified as available for sale, are initially recognized at fair value plus transaction costs and subsequently carried at fair value. Subsequent revaluations are done at each reporting period. Gains and losses related to subsequent revaluations are recorded in other comprehensive income until the financial asset is derecognized, at which time the cumulative gain or loss previously recognized in accumulated other comprehensive income should be recognized in net income for the period.

The Company reviews all assets, including financial instruments, for impairment when events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable.

Stock based compensation

The Company recognizes, at the grant date, the compensation cost of stock options granted to employees and directors, measured at fair value and expensed over the option vesting period, with a corresponding increase to contributed surplus. The fair value of each option granted is estimated on the date of the grant using the Black-Scholes option pricing model.

Earnings per share

The computation of basic earnings per share has been calculated using the weighted average number of common shares outstanding during each reporting period. Diluted earnings per share reflect the potential dilution that would occur if stock options were exercised. The Company uses the treasury method for outstanding options and warrants which assumes that all outstanding stock options with the exercise price below the average market prices are exercised and assumed proceeds are used to purchase the Company's common shares at the average market price during the reporting period. The net number of shares issued and purchased are included in the denominator for calculating diluted earnings per share as the total number of shares outstanding.

5. Accounting standards issued but not yet applied

Unless otherwise noted, the following revised standards and amendments are effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Company has not yet assessed the impact of these standards and amendments or determined whether it will early adopt them.

IFRS 9 *Financial Instruments,* was issued in November 2009. It addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: Amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends, to the extent not clearly representing a return of investment, are recognized in profit or loss; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added to IFRS 9 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 are generally recorded in other comprehensive income.

This standard is required to be applied for periods beginning on or after January 1, 2015, with earlier adoption permitted.

IFRS 10, *Consolidated Financial Statements*, requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces *SIC-12, Consolidation—Special Purpose Entities* and parts of IAS 27, *Consolidated and Separate Financial Statements*.

IFRS 11, *Joint Arrangements*, requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities—Non-monetary Contributions by Venturers.*

IFRS 12, *Disclosure of Interests in Other Entities*, establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure that address the nature of, and risks associated with, an entity's interests in other entities.

IFRS 13, *Fair Value Measurement*, is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures.

There have been amendments to existing standards, including **IAS 27, *Separate Financial Statements (IAS 27), and IAS 28, Investments in Associates and Joint Ventures*** (IAS 28). 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 – 13.

IAS 1, *Presentation of Financial Statements,* has been amended to require entities to separate items presented in OCI into two groups, based on whether or not items may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted.

6. Transition to IFRS

The effect of the Company's transition to IFRS, as described in Note 3, is further explained below:

a. Application of IFRS 1 – First Time Adoption of International Financial Reporting Standards

   Included in the provisions of IFRS 1 are a number of optional exemptions from full retrospective application of IFRS standards. The Company has elected to apply the following optional exemptions:

   - Business combinations

     The Company elected to apply IFRS relating to business combinations prospectively from April 1, 2010, and accordingly to not restate balances pertaining to any prior transactions.

   - Share-based payment transactions

     The Company has elected not to apply the requirements of IFRS 2 – *Share Based Payment*, to awards that had vested as of April 1, 2010.

b. There are no reconciling items of equity or comprehensive loss as at March 31, 2011 and April 1, 2010 as previously reported under Canadian GAAP to IFRS. The main difference between Canadian GAAP and IFRS assessed by the Company is:

   - Share-based payments – Under IFRS, the Company accrues the cost of employee stock options over the vesting period using the graded method of amortization which is consistent with its accounting policy under Canadian GAAP. Also under IFRS, the Company recognized compensation cost based on the number of awards expected to vest. Under Canadian GAAP, compensation cost was recognized assuming all options granted will vest and forfeitures were recognized as they occurred. The Company assessed the impact of this difference between Canadian GAAP and IFRS and determined no adjustment is required due to an immaterial number of unvested options .

7. Discontinued operations

The Company's former business operations included: electrical and instrumentation construction; electrical and instrumentation maintenance; valve services; and electrical equipment manufacturing, through the consolidated operations, after the elimination of intercompany transactions and balances, of the Company (operating as PowerComm Inc.), its wholly owned subsidiaries; Redhill Systems Ltd. ("Redhill"), Concorde Metal and Manufacturing ("Concorde"), Nextron Corporation ("Nextron"), 80% of Heat Trace Canada Ltd. ("Heat Trace"), PCG Technical Services Inc. ("PCG"), PCG Northern Services Inc. ("PCG Northern"), and its joint venture interests of 50% of PowerComm KO LLP ("PCKO") and 49% of PowerComm-Tron Electric Joint Venture ("PowerComm-Tron").

On October 21, 2009, the Company signed an agreement to sell substantially all of the assets of the Company (the "Asset Sale") and its affiliates to Powell Industries Inc. ("Powell") for total cash consideration of up to $33.5 million, subject to adjustments, including $22.5 million payable on closing, $3.0 million held in escrow payable over a period of twenty-five months and up to $8.0 million payable based on PowerComm operations achieving specified performance and earn-out thresholds for the twelve months ending March 31, 2010. On December 15, 2009, the shareholders of the Company approved the Asset Sale, and the transaction closed with an effective date, as at that same date. The sale of the Company's joint venture interest in PowerComm KO LLP ("PCKO") was awaiting regulatory approval, and accordingly was unable to close pending approval by the Kazakhstan government.

Effective December 13, 2009, the Company amalgamated with Redhill and Nextron for tax planning purposes. On December 16, 2009, the Company changed its name from PowerComm Inc. to PetroCorp Group Inc., and on December 17, 2009, Concorde and PCG changed names to 1198073 Alberta Ltd. and 1444297 Alberta Ltd. respectively.

On closing, proceeds of $19.6 million were received by the Company, with an additional $5.9 million dollars paid by Powell into escrow, to be released after specific time periods are met, and conditions are satisfied. Of the escrow funds, $2.5 million was payable upon the closing of the sale of the interest in PCKO; $3.0 million was held in escrow for possible claims by Powell and releasable in stages over a period of 25 months; and $0.4 million was held in escrow as security on credit cards during a transitional period. Powell also assumed certain liabilities of the Company including bank debt, accounts payable and obligations under capital leases of approximately $26.4 million.

The sale of the joint venture interest in PCKO closed effective April 1, 2010. Conditions were removed and consideration of $2.5 million was released from escrow on June 1, 2010. The disposition of the joint venture interest in PCKO had been reflected at March 31, 2010, and included in discontinued operations.

The above transaction has been measured at the exchange amount and resulted in a gain, as at March 31, 2010, of approximately $8.6 million, net of expenses, and known purchase price adjustments related to the transaction. This was based on total proceeds of $51.9 million ($25.5 million in cash, plus $26.4 million in debt and liabilities assumed by Powell), less $39.6 million in assets sold to Powell, less adjustments of $2.5 million, less closing costs of $1.2 million.

During the year ended March 31, 2011, the Company had paid Powell $0.5 million in settlement of a net asset purchase price adjustment pursuant to the Asset Sale related to the close of PCKO. In addition, the deferred purchase price payment pursuant to the Asset Sale between the Company and Powell was settled. The Asset Sale provided for a deferred purchase price payment of up to $8.0 million contingent on the operations of the Company sold to Powell achieving specified performance thresholds, which thresholds were not met. Accordingly, there are no proceeds owing to the Company relating to deferred purchase price payments.

A further $0.4M was released from escrow, as security on the credit cards were discharged, and $0.5 million in funds were released from escrow and received by the Company during the year ended March 31, 2011 in accordance with the terms of the Asset Sale. As at December 31, 2011, of the original $5.9 million placed into escrow, only $1.0 million remains in escrow, which was to be released on January 15, 2012, subject to adjustments and in accordance with the terms of the Asset Sale (see Note 15).

For reporting purposes, the results of operations from operating activities related to discontinued operations are as follows:

$ thousands, for the years ended March 31	**2012**		2011
Revenue	-		-
Costs and other expenses	-	$	572
Depreciation and amortization	-		-
Interest expense	-		-
Other expense	-		-
Operating income (loss)	-		(572)
Other comprehensive income (loss)	-		-
Income tax recovery	-		79
Income (loss) from discontinued operations, net of tax	-	$	(493)

All of the operations, and substantially all of the assets and liabilities of the Company were disposed of, as part of this transaction. Excluded assets and liabilities were defined as part of the Asset Purchase Agreement, and accordingly remain as assets and obligations of the Company.

Subsequent to the year ended March 31, 2010, only specific adjustments settled as per the terms of the Asset Sale were disclosed within discontinued operations. All professional fees and other ongoing costs, including those incurred as a direct or indirect result of settling the Asset Sale have been disclosed in the operating results of the Company.

8. Investments

On May 13, 2010 the Company entered into a stand-by purchase agreement (the "Stand-By Agreement") in connection with a rights offering (the "Offering") for PetroWest Energy Services Trust (the "Trust"). Pursuant to the Stand-By Agreement, the Company agreed to purchase a minimum of $1.5 million of units of the Trust (the "Units") and up to a maximum of $2.5 million of Units. The Company was acting as part of a total stand-by commitment for $7.5 million of Units not otherwise subscribed for under the Offering. On June 29, 2010, the Offering closed, with the Company fully subscribing for its $2.5 million commitment, for 17,857,143 Units in the Trust. The Company accounted for its investment in the Trust as an available-for-sale financial asset.

The Units were distributed to the Company shareholders of record on December 15, 2010, as a return of capital distribution. The fair market value of the Units was determined to be $2,857 ($0.16 per Unit), based on the five day trading average to December 15, 2010. Excluding costs and professional fees, a gain of $357 was recognized by the Company in 2011 as a result of this distribution.

In addition to the Units, and as consideration for participating in the Stand-By Agreement, the Company was issued 1,903,452 warrants in the Trust, allowing the Company to acquire one Unit for each warrant held. The warrants were exercisable at a price of $0.1879 per warrant, with an expiry date at the end of business on June 29, 2011. The estimated fair value attributable to the warrants at the time of issue was determined using the Black-Scholes pricing model, assuming a life of 1 year, 150% volatility, and an average risk free rate of 1%.

During the year ended March 31, 2012, the Company exercised all 1,903,452 warrants for a total exercise price of $358. The Company accounts for its investment in the Trust as an available-for-sale financial asset, and is remeasured at fair value each reporting period. As at March 31, 2012, the fair value of the Units is $514.

($ thousands, except share data and per share amounts)

9. Share capital

a) Authorized

Unlimited number of common shares without nominal or par value
Unlimited number of preferred shares, issued in series – none issued

Issued and outstanding – common shares

	March 31, 2012			March 31, 2011		
	Number of shares		**Amount**	Number of shares		Amount
Balance, beginning of year	**72,323,254**	**$**	**9,844**	72,323,254	$	12,701
Activity during the year:						
Distribution of investment as return of capital (note 8)	**-**		**-**	-		(2,857)
Balance, end of year	**72,323,254**	**$**	**9,844**	72,323,254	$	9,844

b) Stock option plan

On August 15, 2006, the Company established a stock option incentive plan for certain directors, executive officers, employees and consultants. The number of shares reserved for issuance under the stock option plan shall not exceed 10,500,000 shares and the number of shares reserved for issuance to any one person shall not exceed 5% of the issued and outstanding shares of the Company. Options granted to employees, officers, directors and consultants have vesting dates ranging from immediately to three years, with portions vesting evenly throughout the term. Stock options expire from three to five years from the grant date.

A summary of the status and changes in the Company's stock options for the periods presented are as follows, for the periods ended:

	March 31, 2012			March 31, 2011		
	Number of options		**Weighted average exercise price**	Number of options		Weighted average exercise price
Options outstanding at beginning of year	**3,105**	**$**	**0.49**	4,230	$	0.48
Granted	**-**		**-**	-		-
Exercised	**-**		**-**	-		-
Forfeited	**(2,775)**		**0.50**	(1,125)		0.47
Options outstanding at end of year	**330**	**$**	**0.35**	3,105	$	0.49
Options exercisable at end of year	**330**	**$**	**0.35**	3,072	$	0.49

	Options outstanding			Options exercisable		
Exercise prices	Number outstanding at March 31, 2012 (000's)	Weighted average remaining contractual life (years)	Weighted average exercise price ($)	Number exercisable at March 31, 2012 (000's)	Weighted average remaining contractual life (years)	Weighted average exercise price ($)
C$0.30-0.44	330	1.0	0.35	330	1.0	0.35

For stock options granted the Company records compensation expense using the fair value method. Fair values are determined using the Black-Scholes pricing model. Compensation costs are recognized over the vesting period as an increase to stock based compensation expense and contributed surplus. When stock options are subsequently exercised, the fair-value of such stock options in contributed surplus is credited to share capital.

10. Contributed surplus

	March 31, 2012	March 31, 2011
Balance, beginning of period	**$ 8,063**	$ 8,059
Stock based compensation, recognition of fair value of stock options granted	**2**	4
Balance, end of year	**$ 8,065**	$ 8,063

11. Management of capital

The Company's objectives in managing capital, is to preserve cash in the most conservative manner possible in low risk, interest bearing investments, to meet potential upcoming expenditures.

The Company defines capital as its shareholders' equity. The Company manages its capital structure and adjusts it in light of economic conditions. In order to maintain or adjust its capital structure, the Company may issue new shares or obtain new debt. Subsequent to the Asset Sale, all debts not assumed by Powell, were discharged and security released. As of March 31, 2011 the Company no longer has any debt facilities.

($ thousands, except share data and per share amounts)

12. Loss per share

The following table sets forth the computations of basic and diluted loss per share:

	2012	2011
Numerator for basic loss per share	**$ (422)**	$ (611)
Denominator for basic and diluted loss per share		
Weighted average number of common shares	**72,323,254**	72,323,254
Loss per share		
Basic and diluted	**(0.01)**	(0.01)

13. Income taxes

Income tax expense reconciliation

Income tax expense differs from the amount computed by applying the statutory provincial and federal income tax rates to the respective years' earnings before income taxes. These differences result from the following items:

	March 31, 2012 $	March 31, 2011 $
Expected income tax recovery at 26.1% (March 31, 2011 – 27.6%)	**$ (112)**	$ (307)
Increase (decrease) resulting from		
Income tax rate differences	**(1)**	331
Non-deductible expenses	**-**	1
Non-deductible stock-based compensation	**-**	1
Non-taxable portion of capital gains	**-**	(292)
Book to actual adjustment	**-**	(221)
Tax losses and other items for which no deferred income tax asset was recognized	**124**	-
Other	**(16)**	(13)
Income tax recovery	**$ (5)**	$ (500)
Provision for income taxes – continuing operations		
Current (recovery)	**$ (44)**	$ (362)
Deferred (recovery)	**39**	(59)
	(5)	(421)
Provision for income taxes – discontinued operations		
Current	**-**	251
Deferred (recovery)	**-**	(330)
	-	(79)
Income tax recovery	**$ (5)**	$ (500)

($ thousands, except share data and per share amounts)

The decrease in rate is due to a previously enacted legislated decrease in the federal statutory corporate income tax rates from fiscal 2011 to 2012.

Deferred income tax assets/liabilities

Deferred income tax assets and liabilities are recognized for temporary differences between the carrying amount of the balance sheet items and their corresponding tax values as well as for the benefit of losses available to be carried forward to future tax years that are likely to be realized.

The tax effects of the temporary differences that give rise to the Company's deferred income tax assets and liabilities are as follows:

	March 31, 2012 $	March 31, 2011 $
Deferred income tax assets		
Non-capital losses carried forward	**$ 20**	-
Deferred charges and share issue costs	**-**	$ 59
Deferred income tax liabilities		
Income from disposal of PCKO	**-**	-
Petrowest shares and warrants (Note 5)	**(20)**	(50)
	$ -	$ 9

At March 31, 2012, the Company has recognized a deferred income tax asset of $20 (March 31, 2011 – $nil) in respect of non-capital losses in the amount of $78 (March 31, 2011 – $nil). The Company did not recognize deferred income tax assets of $106 (March 31, 2011 – $nil) in respect of non-capital losses amounting to $399 (March 31, 2011 – $nil). These non-capital losses of $477 (March 31, 2011 – $nil) may be carried forward to use against future taxable income. The Company also has non-refundable investment tax credits amounting to $450 (March 31, 2011 – $280) that which may be carried forward to use against future federal income tax payable.

The non-capital losses and non-refundable investment tax credits will expire as follows:

	Non-capital loss carry-forwards $	**Federal investment tax credits $**
2026	$ -	$ 188
2027	-	118
2028	-	144
2032	477	-
	$ 477	$ 450

($ thousands, except share data and per share amounts)

14. Related party transactions

Due (to) from related parties

Related party transactions include transactions with parties related by common directors and transactions with other private companies owned or controlled by officers and directors. All transactions are provided in the normal course of business and are measured at exchange amounts agreed upon by the related parties. The following table summarizes the related party transactions occurring during the year:

	2012	2011
Expenses:		
Consulting fees reported in general and administrative expenses	**$ 53**	$ 80
Accounts Payable:		
Consulting fees reported in accounts payable and accrued liabilities	**$ 12**	-

15. Contingent liabilities

During the year ended March 31, 2012, the Company received a claims notice and an indemnity notice from Powell, claiming a total of approximately $8,541 in damages related to the Asset Sale (the "Powell Claim"). After reviewing the Powell Claim, the Company has filed a dispute notice, and an objection to the claims notice, in dispute of the entire amount of the Powell Claim. As part of the Powell Claim, Powell has issued a claim against the escrow funds of $1,000.

On July 11, 2011, a statement of claim was filed in relation to the Powell Claim claiming damages of $9,000. On August 17, 2011, the Company filed a statement of defense in dispute of the entire amount of the claim. To date, the Company has made no accrual with respect to the Powell Claim.

The Company is party to additional claims and suits which may be brought against it in the ordinary course of business that are not expected to have a significant impact on the Company, either individually or in aggregate.

16. Commitments

During the year ended March 31, 2011, the Company moved out of its premises, which were being rented on a short term lease as it continued to manage its affairs, and has no ongoing lease commitments.

17. Financial instruments

Financial instruments consist of recorded amounts of cash and cash equivalents, accounts receivable, investments, and accounts payable and accrued liabilities.

a) Fair value

The Company has determined that the carrying amount of financial instruments included in working capital is a reasonable approximation of fair value due to the short-term nature of these items.

b) Credit risk

Credit risk arises from the potential that a counterparty will cause a financial loss by failing to discharge an obligation. The Company is exposed to credit risk through its cash and accounts receivable, funds held in escrow which are subject to specific terms of the Asset Sale, and cash equivalents. The Company deposits its cash with a major Canadian bank. The Company assesses its credit risk on a regular basis and records an allowance to provide for anticipated credit losses.

c) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company does not have transactions in foreign currency and therefore reduces its exposure to foreign currency risk.

d) Interest rate risk

Interest rate risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company is exposed to nominal interest rate risk arising from fluctuations in interest rates on its cash balances. Accounts receivable and accounts payable and accrued liabilities bear no interest.

e) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company’s financial liabilities consist of accounts payable and accrued liabilities which are due within one year of the balance sheet date. The Company has sufficient liquidity to meet its current obligations as they come due. However, the Company is party to a claims notice, indemnity notice, and a statement of claim for an amount in excess of the total assets of the Company.

18. Comparative figures

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