Petro Viking Energy Inc.

Interim Condensed Consolidated Financial Statements

September 30, 2012

(Unaudited)

NOTICE TO READER OF THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Responsibility for interim condensed consolidated financial statements

Petro Viking Energy Inc.'s unaudited interim condensed consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards consistently applied. These unaudited interim condensed consolidated statements are presented on the accrual basis of accounting. Therefore, estimates and approximations have been made using careful judgment. Recognizing that the Corporation is responsible for both the integrity and objectivity of the unaudited interim condensed consolidated financial statements, management is satisfied that these unaudited interim condensed consolidated financial statements have been fairly presented.

Auditor involvement

The auditor of Petro Viking Energy Inc. has not performed a review of the unaudited interim condensed consolidated financial statements for the nine month period then ended September 30, 2012.

	September 30, 2012	December 31, 2011
	$	$
Assets		
Current		
Cash and cash equivalents	481,540	2,140,122
Short-term investments	-	650,242
Accounts receivable (note 4)	374,754	565,352
Prepaid expenses and deposits	54,537	22,480
Total current assets	910,831	3,378,196
Exploration and evaluation assets (note 5)	93,750	-
Property and equipment (note 6)	2,554,374	2,598,174
Total assets	**3,558,955**	**5,976,370**
Liabilities		
Current		
Accounts payable and accrued liabilities (note 7)	311,554	1,431,068
Debenture (note 8)	640,000	-
Total current liabilities	951,554	1,431,068
Debenture (note 8)	-	640,000
Decommissioning liabilities (note 9)	3,776,947	3,798,277
Total liabilities	**4,728,501**	5,869,345
Shareholders' Equity (Deficit)		
Share capital (note 10)	4,525,521	4,367,233
Warrants (note 12)	870,773	870,773
Contributed surplus	638,787	630,100
Deficit	(7,204,627)	(5,761,081)
Total shareholders' equity (deficit)	**(1,169,546)**	**107,025**
Total liabilities and shareholders' equity (deficit)	**3,558,955**	**5,976,370**

Basis of presentation and statement of compliance *(note 2)*
Contingencies and commitments *(note 23)*
Subsequent events *(note 24)*

Approved on behalf of the Board of Directors

"Irvin Eisler" (signed)
Irvin Eisler

"Keith Watts" (signed)
Keith Watts

The accompanying notes are an integral part of these interim condensed consolidated financial statements (unaudited).
Certain comparative figures have been reclassified to conform with the current period's presentation.

	Three months ended September 30, 2012	Three months ended September 30, 2011	**Nine months ended September 30, 2012**	Nine months ended September 30, 2011
	$	$	**$**	$
Revenue				
Petroleum and natural gas sales, net (note 13)	255,495	300,937	905,947	432,236
Gain on sale of asset (note 6(ii))	-	-	83,000	-
Other income	2,523	9,175	11,169	25,004
	258,018	310,112	1,000,116	457,240
Expenses				
Operating	291,183	221,398	956,670	349,760
General and administrative (note 14, note 18)	282,426	196,575	1,217,110	686,852
Share-based compensation (note 11)	-	53,350	54,975	346,035
Depletion, depreciation and impairment (note 6)	33,050	98,991	137,250	126,347
Financing costs (note 15)	25,728	18,838	77,657	57,095
	632,387	589,152	2,443,662	1,566,089
Net loss and comprehensive loss	**(374,369)**	**(279,040)**	**(1,443,546)**	**(1,108,849)**
Net loss per share (note 16)				
Basic	**(0.01)**	**(0.01)**	**(0.05)**	**(0.05)**
Diluted	**(0.01)**	**(0.01)**	**(0.05)**	**(0.05)**
Weighted average number of shares (note 16)				
Basic	30,592,231	28,528,571	30,046,050	23,613,129
Diluted	30,592,231	28,528,571	30,046,050	23,613,129

The accompanying notes are an integral part of these interim condensed consolidated financial statements (unaudited).
Certain comparative figures have been reclassified to conform with the current period's presentation.

	Nine months ended September 30, 2012	Nine months ended September 30, 2011
	$	$
Share capital (note 10)		
Balance, beginning of year	4,367,233	1,198,963
Issued	112,000	3,721,523
Flow-through share premium	-	(48,500)
Option value transferred to share capital from contributed surplus	46,288	5,520
Share issue costs	-	(679,869)
Balance end of period	**4,525,521**	4,197,637
Warrants (note 12)		
Balance, beginning of year	870,773	-
Issued:		
Share purchase warrants	-	790,314
Agent warrants	-	80,459
Exercised	-	-
Balance end of period	**870,773**	870,773
Contributed surplus		
Balance, beginning of year	630,100	169,000
Share-based compensation related to:		
Options granted to directors, officers and consultants	54,975	286,035
Options granted to agent	-	130,931
Option value transferred from contributed surplus to share capital	(46,288)	(5,520)
Balance end of period	**638,787**	580,446
Deficit		
Balance, beginning of year	(5,761,081)	(268,040)
Net loss and comprehensive loss	(1,443,546)	(1,108,849)
Balance, end of period	(7,204,627)	(1,376,889)
Shareholders' Equity (Deficit)	**(1,169,546)**	4,271,967

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

	Three months ended September 30, 2012	Three months ended September 30, 2011	**Nine months ended September 30, 2012**	Nine months ended September 30, 2011
	$	$	$	**$**
Operating				
Net loss and comprehensive loss for the period	(374,369)	(279,040)	(1,443,546)	(1,108,849)
Add back (deduct) non-cash items:				
Share-based compensation	-	53,350	54,975	346,035
Depletion, depreciation and impairment	33,050	98,991	137,250	126,347
Accretion on decommissioning liabilities	11,532	1,496	37,348	21,938
Settlement of decommissioning liabilities	(19,359)	-	(36,616)	-
Gain on sale of asset	-	-	(83,000)	-
Changes in non-cash working capital (note 17)	94,232	31,902	16,578	127,730
	(254,914)	**(93,301)**	**(1,317,011)**	**(486,799)**
Financing				
Issue of equity instruments	**-**	**-**	112,000	4,385,000
Share issue costs	**-**	**-**	-	(465,199)
Repayment of debenture	**-**	**-**	-	(200,000)
Changes in non-cash working capital (note 17)	**-**	**-**	-	(1,050)
	-	-	**112,000**	**3,718,751**
Investing				
Expenditures on property and equipment	(21,202)	(50,327)	(115,512)	(663,094)
Expenditures on exploration and evaluation	-	-	(93,750)	-
Sale of non-current asset	-	-	83,000	-
Sale of short-term investment	-	259,724	650,242	485,446
Purchase of short-term investment	-	-	-	(2,498,528)
Working capital deficiencies acquired (note 3)	-	-	-	(194,921)
Changes in non-cash working capital (note 17)	(10,000)	-	(977,551)	-
	(31,202)	**209,397**	**(453,571)**	**(2,871,097)**
Change in cash	**(286,116)**	**116,096**	**(1,658,582)**	**360,855**
Cash, beginning of the period	**767,656**	**1,244,007**	**2,140,122**	**999,248**
Cash, end of the period	**481,540**	**1,360,103**	**481,540**	**1,360,103**
Supplemental cash flow information				
Interest received	2,523	9,175	11,169	25,004
Interest paid	14,196	17,342	40,309	35,157
Non-cash transactions				
Agent options, warrants and units issued for share issue costs	-	-	-	214,670
Option value transferred from contributed surplus to share capital	-	-	46,288	5,520
Shares issued to officer and consultant	-	-	-	60,000

The accompanying notes are an integral part of these interim condensed consolidated financial statements (unaudited).
Certain comparative figures have been reclassified to conform with the current period's presentation.

1. Corporate information

Petro Viking Energy Inc. ("Petro Viking" or the "Company") is incorporated under the laws of the province of Alberta with shares listed on the TSX Venture Exchange, and is engaged in petroleum and natural gas exploration and development activities in western Canada. The records office and principal address is located at 200 – 744 4th Ave SW, Calgary, AB T2P 3T4.

On February 28, 2011, the Company completed its "Qualifying Transaction" pursuant to which Deep Creek Oil & Gas Inc. ("Deep Creek") and 1560368 Alberta Ltd., a wholly owned subsidiary of the Company, amalgamated pursuant to the provisions of the Business Corporations Act (Alberta) ("the Transaction"). On March 21, 2011, Deep Creek changed its name to Petro Viking Management Corp.

The unaudited interim condensed consolidated financial statements as at September 30, 2012 and for the three and nine months ended September 30, 2012 and September 30, 2011, include the accounts of the Company and its wholly owned subsidiary, Petro Viking Management Corp. ("PVMC"), after the elimination of intercompany transactions and balances.

2. Basis of presentation and statement of compliance

The unaudited interim condensed consolidated financial statements as at September 30, 2012 and for the three and nine months ended September 30, 2012 and September 30, 2011 do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the audited consolidated financial statements as at and for the year ended December 31, 2011. The unaudited interim condensed consolidated financial statements are prepared using the same accounting policies and methods of computation as disclosed in Note 2 to the audited consolidated financial statements as at December 31, 2011 and for the year ended December 31, 2011 and December 31, 2010.

The unaudited interim condensed consolidated financial statements are stated in Canadian dollars and have been prepared in accordance with the International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, including IAS 34 Interim Financial Reporting.

The unaudited interim condensed consolidated financial statements were approved by the Company's Board of Directors on November 29, 2012.

3. Business acquisitions

Deep Creek acquisition

On February 28, 2011, the Company entered into a transaction pursuant to which Deep Creek Oil & Gas Inc. (Deep Creek) and 1560368 Alberta Ltd., a wholly owned subsidiary of the Company, amalgamated pursuant to the provisions of the Business Corporations Act (Alberta).

This acquisition is considered a business combination under common control, as the two entities, Petro Viking and Deep Creek, had common directors, as at February 28, 2011. The acquisition has been accounted for by the Company prospectively from the date of obtaining the ownership interest. Assets and liabilities have been recognized upon consolidation at their carrying amounts in the IFRS financial statements of Deep Creek.

The information in the following table summarizes the consideration paid for Deep Creek and the amounts of the assets acquired and the liabilities that were recognized at the acquisition date.

Consideration	$
5,313,136 common shares	63,557
Total Consideration paid	**63,557**
Recognized amounts (predecessor values)	
Assets Acquired	
Property and equipment	2,115,065
Cash and cash equivalents	-
Accounts receivable	106,224
Prepaid expenditures	151,691
Total	2,372,980
Liabilities taken over	
Accounts payable and accrued liabilities	452,836
Debenture	840,000
Decommissioning liabilities	1,016,587
Total	2,309,423
Total recognized net assets	**63,557**

Alberta acquisition and Plato acquisition

On June 30, 2011, the Company purchased a portfolio of petroleum and natural gas assets located in Alberta. On November 11, 2011, the Company purchased additional working interest in an existing property at Plato, Saskatchewan. Refer to Note 3 to the audited consolidated financial statements as at December 31, 2011 and for the year ended December 31, 2011 and 2010 for further information.

4. Accounts receivable

Significant components of Accounts Receivable	**September 30, 2012**	December 31, 2011
	$	$
Accounts receivable - trade and joint venture	339,306	479,185
GST Receivable	35,448	86,167
	374,754	**565,352**
Accounts Receivable for:		
Operating	329,754	520,352
Capital	45,000	45,000
	374,754	**565,352**

The Company did not provide for any doubtful accounts at September 30, 2012 or December 31, 2011.

As at September 30, 2012, the Company had three individual receivables that individually accounted for 10% or more of the outstanding accounts receivable. These individual receivables totaled $278,460 or 75% of the total accounts receivable balance.

As at September 30, 2012, the amount due from related parties is $Nil (December 31, 2011: $25,894) (see note 18).

As at September 30, 2012, the Company considers its receivables to be aged as follows:

	$
Not past due	92,468
Past due by less than 90 days	80,977
Past due by more than 90 days	201,309
	374,754

5. Exploration and evaluation assets

	$
Balance at December 31, 2011	-
Additions	93,750
Balance at September 30, 2012	**93,750**

Additions during the period comprise of lease acquisitions, which the Company intends to explore, evaluate and develop, pending determination of proved or probable reserves.

6. Property and equipment

Oil and Natural Gas Interests

	September 30, 2012	December 31, 2011
	$	$
Cost or deemed cost		
Balance , beginning of year	7,126,450	-
Acquisitions	-	5,300,782
Additions	93,450	1,825,668
Balance, end of period	7,219,900	7,126,450
Depletion, depreciation and impairment losses		
Balance, beginning of year	(4,528,276)	-
Depletion and depreciation (i)	(137,250)	(335,276)
Impairment	-	(4,193,000)
Balance, end of period	(4,665,526)	(4,528,276)
Net book amount, end of period	**2,554,374**	2,598,174

(i) There were no costs that were excluded from the depletion calculation for the three and nine month period ended September 30, 2012 or the three and nine month period ended September 30, 2011. Future development costs at September 30, 2012 and September 30, 2011 was $Nil.

(ii) The Company disposed an asset in the Kaybob area during the nine month period ended September 30, 2012. The carrying value of the assets was $Nil and the assets were sold for a cash consideration of $83,000. The Company has recorded a gain on sale of asset of $83,000, which has been disclosed in the Company's Interim Condensed Consolidated Statements of Operations, Loss and Comprehensive Loss

7. Accounts payable and accrued liabilities

The Company's financial liabilities are comprised of accounts payable, accrued liabilities and debentures, which have expected maturities of less than one year resulting in their current classification on the consolidated statement of financial position. See note 8 for discussion on debentures.

Significant components of Accounts Payable and Accrued Liabilities	**September 30, 2012**	December 31, 2011
	$	$
Accounts payable - trade and joint venture	283,487	1,261,444
GST Payable	-	866
Interest Payable	4,067	4,349
Accrued liabilities	24,000	164,409
	311,554	**1,431,068**
Accounts Payable and Accrued Liabilities for:		
Operating	291,554	433,517
Capital	20,000	997,551
	311,554	**1,431,068**

As at September 30, 2012, the amounts due to related parties are $27,997 (December 31, 2011: 35,233) (note 18).

8. Debenture

	September 30, 2012	December 31, 2011
	$	$
Balance, beginning of year	640,000	-
Debenture taken over, pursuant to Deep Creek acquisition	-	840,000
Repayment	-	(200,000)
Balance, end of period (i), (ii), (iv)	**640,000**	**640,000**
Accrued debenture interest, end of period (note 7)	4,067	4,349

(i) The debenture matures on February 28, 2013, and bears interest at a rate of 8% per annum.
(ii) The debenture is classified as a current liability at September 30, 2012 and as a non-current liability at December 31, 2011.
(iii) For the three and nine month period ended September 30, 2012, interest expense on the debenture of $14,196 (2011: $17,342) and $40,309 (2011: $35,157) was recorded (note 15).
(iv) At September 30, 2012 and December 31, 2011, $370,000 of the debenture balance payable is due to related parties (note 18).

9. Decommissioning liabilities

The following table presents the reconciliation of the carrying amount of the obligation associated with the decommissioning of the Company's property and equipment:

	September 30, 2012	December 31, 2011
	$	$
Balance, beginning of year	**3,798,277**	-
Liabilities acquired:		
Deep Creek business combination	-	1,016,587
Alberta acquisition	-	2,278,447
Plato acquisition	-	42,000
	3,798,277	3,337,034
Liabilities incurred	-	96,905
Liabilities settled	(36,616)	(1,247)
Effect of change in estimates	(22,062)	322,674
Accretion (note 15)	37,348	42,911
Balance, end of period	**3,776,947**	**3,798,277**

The following significant assumptions were used to estimate the decommissioning liabilities:

	2012	**2011**
Undiscounted cash flows	$3,585,000	$3,593,000
Discount rate	1.36%	1.36%
Inflation rate	2.50%	2.50%
Weighted average expected timing of cash flows	4.9 years	5.3 years

10. Share capital

a. Authorized

Unlimited number of common shares, without nominal or par value

b. Issued and outstanding common shares

	September 30, 2012		December 31, 2011		*Sub-Note Reference*
	Number	**Amount**	Number	Amount	
		$		$	
Balance, beginning of year	**29,753,707**	**4,367,233**	**9,490,000**	**1,198,963**	
Issued to director and officers	-	-	200,000	60,000	*vi*
Issued on private placement	-	-	13,998,571	3,582,686	*ii, iv*
Less: Flow-through share premium	-	-	-	(48,500)	
Issued on acquisition of Deep Creek	-	-	5,313,136	63,557	*i*
Issued to agent	-	-	20,000	3,280	
Issued on acquisition of Plato	-	-	630,000	157,500	*vii*
Agent options exercised	506,000	112,000	102,000	20,400	
Option value transferred to share capital from contributed surplus	-	46,288	-	9,216	
Share issue costs	-	-	-	(679,869)	*iii, v*
Balance, end of period	**30,259,707**	**4,525,521**	**29,753,707**	**4,367,233**	

(i) On February 28, 2011, the Company closed its "Qualifying Transaction" and issued 4,760,000 common shares to the shareholders of Deep Creek representing the acquisition price of $63,557 (note 3). On October 11, 2011, an additional 553,136 common share were issued to the shareholders of Deep Creek, as a result of Deep Creek satisfying post-closing adjustments relating to working capital and production at February 28, 2011.

(ii) On February 28, 2011, the Company completed a brokered private placement for aggregate gross proceeds of $3,450,000, through the issuance of 11,500,000 Units at a purchase price of $0.30 per unit.

Each Unit is comprised of one Common Share of the Company and one Common Share Purchase Warrant. Each Warrant entitles the holder to purchase one additional share at a purchase price of $0.50 per share for a period of 24 months following the closing, subject to an accelerated expiry date. If, on any 20 consecutive trading days occurring after four months and one day has elapsed following the closing date, the closing sales price of the Common Shares (or the closing bid, if no sales were reported on a trading day) as quoted on the Exchange is greater than $0.60 per Common Share, the Company may provide notice in writing to the holders of the Warrants by issuance of a press release that the expiry date of the Warrants will be accelerated to the 30th day after the date on which the Company issues such press release.

The fair value of the warrants issued was $506,000 (note 12).

10. Share capital (continued…)

b. Issued and outstanding common shares (continued…)

(iii) In connection with the brokered private placement described in (ii) above, the Company paid Wolverton Securities Ltd. (the "Agent") a cash commission equal to 8% of the gross proceeds, amounting to $276,000, and 8% in Agent's options entitling the Agent to acquire 920,000 Units at a price of $0.30 per Unit until February 28, 2013.

Each Unit is comprised of one Share and one Warrant. Each Warrant entitles the Agent to purchase one additional Share at a purchase price of $0.50 per share for a period of 24 months following the closing.

The estimated fair value of $120,520 ($80,960 for the options (note 11) and $39,560 for the warrants (note 12)) as calculated using the Black-Scholes pricing model has been charged to share issuance costs with a related credit to contributed surplus. In addition, the Company has paid the Agent a corporate finance fee and related costs amounting to $66,363. The company incurred legal fees of $22,000. This amount has been has been charged to share issuance costs with a related credit to Share Capital.

(iv) On May 24, 2011, the Company completed the sale of 1,528,571 Units at $0.35 per unit and 970,000 flow-through (FT) Shares at $0.40 per FT Share for aggregate gross proceeds of $923,000.

Each unit consists of one common share in the capital of the Company and one common share purchase warrant. Each warrant is exercisable for 2 years from the closing of the offering to acquire one common share at a price of $0.55 per common share, subject to an accelerated expiry date in certain circumstances. If, on any 20 consecutive trading days occurring after four months and one day has elapsed following the closing date, the closing sales price of the Common Shares (or the closing bid, if no sales were reported on a trading day) as quoted on the Exchange is greater than $0.60 per Common Share, the Company may provide notice in writing to the holders of the Warrants by issuance of a press release that the expiry date of the Warrants will be accelerated to the 30th day after the date on which the Company issues such press release.

The fair value of the warrants issued was $ 284,314 (note 12).

10. Share capital (continued…)

b. Issued and outstanding common shares (continued…)

(v) In connection with the brokered private placement described in (iv) above, the Company paid Wolverton Securities Ltd. (the "Agent") a cash commission equal to 8% of the gross proceeds, amounting to $73,840, and 8% in Agent's options entitling the Agent to acquire 199,885 Units at a price of $0.35 per Unit until May 24, 2013.

Each Unit is comprised of one Share and one Warrant. Each Warrant entitles the Agent to purchase one additional Share at a purchase price of $0.55 per share for a period of 24 months following the closing.

The estimated fair value of $87,150 ($49,971 for the options (note 11) and $37,179 for the warrants (note 12)) as calculated using the Black-Scholes pricing model has been charged to share issuance costs with a related credit to contributed surplus.

In addition, the Company has paid the Agent a corporate finance fee and related costs amounting to $10,647 and issued 20,000 Units (each unit is comprised of one share and one warrant), valued at $7,000 ($3,280 for the shares and $3,720 for the warrants (note 12)). This amount has been has been charged to share issuance costs with a related credit to Share Capital.

The company also incurred legal fees of $16,349. This amount has been has been charged to share issuance costs with a related credit to Share Capital.

(vi) The company issued 200,000 common shares as bonus, of which 100,000 shares was issued to a key management personnel and 100,000 shares to a consultant. The market price of the common shares at the issue date was $0.30 per common share for a value of $60,000.

(vii) The company issued 630,000 common shares towards purchase consideration of its Plato acquisition (note 3). The market price of the common shares at the issue date was $0.25 per common share for a value of $157,500.

Of the 630,000 shares issued, 360,000 shares, valued at $90,000, were issued to key management personnel.

c. Escrow

The Company has 2,782,428 (December 31, 2011 - 4,631,728) common shares subject to an escrow agreement. 924,650 shares will be released from escrow during March and September of each year until 2014.

11. Share-based compensation

The Company has a stock option plan under which the Board of Directors may grant options to directors, officers, other employees and key consultants. The Company may also grant options to agents.

Under the plan, the number of shares reserved for issuance pursuant to the exercise of all options under the plan may not exceed 10% of the issued and outstanding common shares at any time. The options expire not more than five years from the date of grant (except for 949,000 options issued during 2010, which expire after ten years from the date of grant), or earlier if the individual ceases to be associated with the Company, and vest over terms determined at the time of grant. The fair value of each option grant will be estimated on the date of grant using the Black-Scholes option pricing model.

The share based compensation expense at for the three and nine month period ended September 30, 2012 is $Nil (2011: $53,350) and $54,975 (2011: $346,035). The share based compensation expense for 2011 includes the fair value of $60,000 relating to 200,000 common shares issued as bonus (Note 10(b) (vi)).

The Company has not granted any directors, officers and consultants stock options during the three and nine month period ended September 30, 2012. (for the three and nine month period ended September 30, 2011: Nil and 1,870,000 options were respectively granted)

The following tables summarize information about directors, officers and consultants stock options outstanding as at, and for the period ended:

	Nine months ended September 30, 2012		Year ended December 31, 2011	
	Options	**Weighted – average exercise price**	Options	Weighted – average exercise price
		$		$
Opening	2,819,000	0.27	949,000	0.20
Granted	-	-	1,870,000	0.31
Closing	**2,819,000**	**0.27**	**2,819,000**	**0.27**

Range of exercise price	Number outstanding	Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable
$		(years)	$	
0.20	949,000	7.68	0.20	949,000
0.30	1,620,000	3.42	0.30	1,620,000
0.35	250,000	3.72	0.35	250,000
	2,819,000	**4.88**	**0.27**	**2,819,000**

11. Share-based compensation (continued…)

The following tables summarize information about agent stock options outstanding as at and for the period ended:

	Nine months ended September 30, 2012		Year ended December 31, 2011	
	Options	**Weighted – average exercise price**	Options	Weighted – average exercise price
		$		$
Opening	**1,517,885**	**0.28**	500,000	0.20
Granted	-	-	1,119,885	0.31
Exercised	(506,000)	0.22	(102,000)	0.20
Closing	**1,011,885**	**0.31**	**1,517,885**	**0.28**

Range of exercise price	Number outstanding	Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable
$		(years)	$	
0.30	812,000	0.42	0.30	812,000
0.35	199,885	0.65	0.35	199,885
	1,011,885	**0.47**	**0.31**	**1,011,885**

The Company did not grant any agent options during the three and nine month period ended September 30, 2012 (for the three and nine month period ended September 30, 2011: Nil and 1,119,885 agent options were respectively granted).

The Black-Scholes pricing model was used to estimate the fair value of options granted during the year ended December 31, 2011, based on the following significant assumptions:

	2011	
	Stock Options	Agent
Weighted average fair value per option	$ 0.21	$ 0.12
Risk-free interest rate	2.17%-2.5%	1.59%-1.88%
Expected volatility	90%-138%	55%-149%
Dividend yield	0%	0%
Estimated forfeiture rate	0%	0%
Expected life of each option granted	5 years	2 years

12. Warrants

The following table summarizes information about warrants outstanding as at:

	September 30, 2012			December 31, 2011		
	Number of warrants	**Weighted –average Exercise price**	**Fair value ascribed**	Number of warrants	Weighted –average Exercise price	Fair value ascribed
		$	$		$	$
Opening	**14,168,456**	**0.51**	**870,773**	-	-	-
Issued:						
Share purchase warrants	-	-	-	13,028,571	0.51	790,314
Agent warrants	-	-	-	1,139,885	0.51	80,459
Exercised	-	-	-	-	-	-
Closing (i)	**14,168,456**	**0.51**	**870,773**	**14,168,456**	**0.51**	**870,773**

The Company did not issue any warrants during the three and nine month period ended September 30, 2012. The Black-Scholes pricing model was used to estimate the fair value of warrants issued during the year ended December 31, 2011, based on the following significant assumptions:

	2011	
	Share purchase warrants	Agent
Weighted average fair value per warrant	$0.06	$0.07
Risk-free interest rate	1.59%-2.5%	1.59% -1.88%
Expected volatility	55%-123%	55%-123%
Dividend yield	0%	0%
Expected life of each warrant granted	2 years	2 years

(i) As at September 30, 2012, warrants had a weighted average remaining life of 0.4 years.

13. Petroleum and natural gas sales

	Three months ended September 30, 2012	Three months ended September 30, 2011	**Nine months ended September 30, 2012**	Nine months ended September 30, 2011
	$	$	$	$
Petroleum and natural gas sales (gross)	277,910	377,049	1,061,082	539,017
Less: Royalty expense	(22,415)	(76,112)	(155,135)	(106,781)
Petroleum and natural gas sales (net)	**255,495**	**300,937**	**905,947**	**432,236**

14. Business investigation costs

Included in general and administrative expenses in the unaudited interim condensed consolidated Statements of Operations, Loss and Comprehensive Loss are business investigation costs as follows:

	Three months ended September 30, 2012	Three months ended September 30, 2011	**Nine months ended September 30, 2012**	Nine months ended September 30, 2011
	$	$	$	$
To related parties (note 18)				
Consulting fee, to related parties	14,000	-	120,000	-
Legal and administrative fees paid to a law firm in which one director of the company is council	-	-	85,925	54,270
To others:				
Consulting fee, others	34,600	-	60,600	-
Legal fees paid to unrelated law firms	9,182	-	65,543	-
Non-refundable deposit to Grisham Assets Corp.	-	-	100,440	-
Travel and other expenses	51,450	-	203,546	-
Business investigation costs	**109,232**	-	**636,054**	**54,270**

Business investigation costs were incurred during the three and nine month period ended September 30, 2012 on activities relating to the Letter of Intent ("LOI") with Alphapetro and in connection with the previous LOI, the Company entered into with Grisham Assets Corp. See Note 23- Subsequent Events

15. Financing costs

	Three months ended September 30, 2012	Three months ended September 30, 2011	**Nine months ended September 30, 2012**	Nine months ended September 30, 2011
	$	$	$	$
Interest expense on debenture	14,196	17,342	40,309	35,157
Accretion on decommissioning liabilities	11,532	1,496	37,348	21,938
Total	**25,728**	**18,838**	**77,657**	**57,095**

16. Net loss per share

Basic and diluted loss per common share is calculated as follows:

	Three months ended September 30, 2012	Three months ended September 30, 2011	**Nine months ended September 30, 2012**	Nine months ended September 30, 2011
	$	$	$	$
Net loss and comprehensive loss	**(374,369)**	**(279,040)**	**(1,443,546)**	**(1,108,849)**
Weighted average number of shares (basic)	30,592,231	28,528,571	30,046,050	23,613,129
Weighted average number of shares (diluted) (i)	30,592,231	28,528,571	30,046,050	23,613,129
Loss per share:				
Basic	(0.01)	(0.01)	(0.05)	(0.05)
Diluted	(0.01)	(0.01)	(0.05)	(0.05)

(i) Options to purchase securities in the number of Nil (2011: 1,000,000) were 'in-the-money' at period end. These options to purchases securities were excluded from the weighted average number of shares calculation for the three and nine month period ended September 30, 2012 and 2011 as the Company is in a loss position.

17. Change in non-cash working capital

	Three months ended September 30, 2012	Three months ended September 30, 2011	**Nine months ended September 30, 2012**	Nine months ended September 30, 2011
	$	$	$	$
Accounts receivable	222,974	(70,382)	190,598	(235,396)
Prepaid expenses and deposits	(35,000)	172,550	(32,057)	79,395
Accounts payable and accrued liabilities	(103,742)	(70,266)	(1,119,514)	282,681
	84,232	**31,902**	**(960,973)**	**126,680**
Operating	94,232	31,902	16,578	127,730
Financing	-	-	-	(1,050)
Investing	(10,000)	-	(977,551)	-
	84,232	**31,902**	**(960,973)**	**126,680**

18. Related party disclosures

Balances between Petro Viking Energy Inc. and its subsidiary, Petro Viking Management Corp., which is a related party, have been eliminated on consolidation and are not disclosed in this note.

See note 3 which explains the terms of acquisition of Deep Creek, a related party, by the Company.

	Three months ended September 30, 2012	Three months ended September 30, 2011	**Nine months ended September 30, 2012**	Nine months ended September 30, 2011
Key management personnel compensation:	$	$	$	$
Administration and consulting fees	50,227	57,000	216,697	133,000
Stock options	-	-	-	208,900
Bonus shares issued	-	-	-	30,000
(Key management personnel are comprised of the Company's directors and officers.)				
Other related party transactions:				
Legal and administrative fees charged by a law firm of which one director of the Company is council.	-	47,062	115,845	134,341
Debenture – repayment of principal to a director of the Company.	-	-	-	100,000
Interest expense on the Company's debentures, held by a director of the Company, and companies controlled by a director of the Company.	7,461	11,921	22,220	17,706

Amount owing to / from related parties	**September 30, 2012**	December 31, 2011
	$	$
Accounts payable and accrued liabilities for administration and consulting fees, legal fees, and debenture interest payable.	27,997	35,233
Accounts receivable from a company, controlled by an officer of the Company, which has a working interest in one of Petro Viking's wells.	-	25,894
Debenture – Principal outstanding.	370,000	370,000

19. Financial instruments and financial risk management

The Company's risk management policies are established by the Board of Directors to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's policy.

The Company's financial instruments include cash and cash equivalents, short–term investments, accounts receivable, accounts payable and accrued liabilities, and debentures. The carrying values of accounts receivable, accounts payable and accrued liabilities, approximate their fair values due to their relatively short periods to maturity. The short-term interest bearing securities are recorded at cost plus accrued interest earned which approximates current market value. These financial instruments are classified as follows:

- Cash and cash equivalents - Fair value through profit or loss – held-for-trading
- Short-term investments - Fair value through profit or loss – held-for-trading
- Accounts Receivable - Loans and receivables
- Accounts payable and accrued liabilities - Other financial liabilities
- Debentures - Other financial liabilities

The Company has exposure to credit risk, liquidity risk and market risk as a result of its use of financial instruments. Refer to note 16 to the audited consolidated financial statements as at December 31, 2011 and for the year ended December 31, 2011 and 2010 for further information.

20. Capital Management

The Company's objective when managing capital is to maintain a flexible capital structure which will allow it to execute its capital expenditure program, which includes expenditures in oil and gas activities which may or may not be successful. Therefore, the Company monitors the level of risk incurred in its capital expenditures to balance the proportion of debt and equity in its capital structure.

The Company considers its capital structure to include shareholders equity and debentures.

The Company monitors capital based on annual funds from operations and capital expenditure budgets, which are updated as necessary and are reviewed and periodically approved by the Company's Board of Directors. In order to maintain or adjust the capital structure, from time to time the Company may issue common shares, debt or other securities, sell assets or adjust capital spending to manage current and projected debt levels.

At September 30, 2012, the Company's capital structure was not subject to external restrictions.

The Company anticipates it will continue operations in the foreseeable future and it will have adequate liquidity to fund its financial liabilities through its future cash flows.

21. Operating Leases

Non-cancellable operating lease rentals for a compressor are payable as follows:

	September 30, 2012	December 31, 2011
	$	$
Less than one year	6,700	36,850
Between one and five years	-	-
More than five years	-	-

The table below shows the expense recorded for the period:

	Three months ended September 30, 2012	Three months ended September 30, 2011	**Nine months ended September 30, 2012**	Nine months ended September 30, 2011
	$	$	$	$
Equipment lease rentals for a compressor.	10,050	-	30,150	-

22. Letters of Credit

	September 30, 2012	December 31, 2011
	$	$
Letter of Credit issued to Saskatchewan Ministry of Energy and Resources under the Saskatchewan License Liability Rating (LLR) Program	74,045	74,045

23. Contingencies and Commitments

A former director of the company has made a claim for payment of amounts alleged to be owed to him (or a company controlled by him) under a consulting agreement. The claimants commenced an action in the Alberta Court of Queen's Bench on September 27, 2012, seeking judgment against the company for the principal amount of $54,000, plus unspecified amounts for interest, taxes and costs. The company denies that there is any amount owing to the claimants, and believes that the claimants were overpaid for services provided under the consulting agreement by an amount of $12,600, improperly invoiced by the claimants. The company has filed a Statement of Defence and Counterclaim in the action, and intends to vigorously defend the claim.

24. Subsequent Events

In connection with the proposed transaction with Grisham Assets Corp. as described in note 22 to the audited consolidated financial statements as at December 31, 2011 and for the year ended December 31, 2011 and December 31, 2010, the Company has the following updates:

- On October 3, 2012, the Corporation announced that it is moving forward towards a partnership or joint venture in order to complete the acquisition of Block 1710A&B offshore Namibia and also negotiating an extension for the acquisition as the previous date of completion was set for September 30, 2012.
- On October 3, 2012, the Corporation announced that the $3 million private placement at a price of $0.175 per unit has been cancelled by the Corporation.