



Petro Viking
ENERGY INC.

Petro Viking Energy Inc.
Consolidated Financial Statements
December 31, 2011 and 2010

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| | Page |
|--|-------------|
| Auditors' Report | 3 |
| Consolidated Statements of Financial Position | 4 |
| Consolidated Statements of Operations, Loss and Comprehensive Loss | 5 |
| Consolidated Statements of Changes in Shareholders' Equity | 6 |
| Consolidated Statements of Cash Flows | 7 |
| Notes to the Consolidated Financial Statements | 8-40 |

Independent Auditor's Report

**To the Shareholders of
Petro Viking Energy Inc.**

We have audited the accompanying consolidated financial statements of Petro Viking Energy Inc. and its subsidiary, which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010, and January 13, 2010, and the consolidated statements of operations and comprehensive loss, shareholders' equity (deficit) and cash flows for the year ended December 31, 2011 and the period from incorporation on January 13, 2010 to December 31, 2010, and 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 Petro Viking Energy Inc. and its subsidiary as at December 31, 2011, December 31, 2010, and January 13, 2010 and its financial performance and its cash flows for the year ended December 31, 2011 and period from incorporation on January 13, 2010 to December 31, 2010 in accordance with International Financial Reporting Standards.



**Chartered Accountants
Calgary, Alberta Canada
April 27, 2012**

Petro Viking Energy Inc.
Consolidated Statements of Financial Position

| | December 31, 2011 | December 31, 2010 | January 13, 2010 |
|--|----------------------|----------------------|---------------------|
| | \$ | \$ | \$ |
| Assets | | | |
| Current | | | |
| Cash and cash equivalents | 2,140,122 | 999,248 | - |
| Short-term investments | 650,242 | 56,051 | - |
| Accounts receivable (note 16 b) | 565,352 | 11,376 | - |
| Prepaid expenses and deposits | 22,480 | 148,570 | - |
| Total current assets | 3,378,196 | 1,215,245 | - |
| Property and equipment (note 4) | 2,598,174 | - | - |
| Total assets | 5,976,370 | 1,215,245 | - |
| Liabilities | | | |
| Current | | | |
| Accounts payable and accrued liabilities (note 16 c) | 1,431,068 | 115,322 | - |
| Total current liabilities | 1,431,068 | 115,322 | - |
| Debenture (note 5) | 640,000 | - | - |
| Decommissioning liabilities (note 6) | 3,798,277 | - | - |
| Total liabilities | 5,869,345 | 115,322 | - |
| Shareholders' Equity | | | |
| Share capital (note 7) | 4,367,233 | 1,198,963 | - |
| Warrants (note 9) | 870,773 | - | - |
| Contributed surplus | 630,100 | 169,000 | - |
| Deficit | (5,761,081) | (268,040) | - |
| Total shareholders' equity | 107,025 | 1,099,923 | - |
| Total liabilities and shareholders' equity | 5,976,370 | 1,215,245 | - |

Basis of preparation (note 1)

Transition to IFRS (note 21)

Subsequent events (note 22)

Approved on behalf of the Board of Directors

"David Heighington" (signed)

David Heighington

"John Styles" (signed)

John Styles

The accompanying notes are an integral part of these consolidated financial statements
Certain comparative figures have been reclassified to conform with the current year's presentation.

Petro Viking Energy Inc.
Consolidated Statements of Operations, Loss and Comprehensive Loss

| | Year ended December 31, 2011 | For the period from incorporation on January 13, 2010 to December 31, 2010 |
|--|---|---|
| | \$ | \$ |
| Revenue | | |
| Petroleum and natural gas sales, net (note 10) | 824,090 | - |
| Other Income (note 11) | 158,830 | 7,608 |
| | 982,920 | 7,608 |
| Expenses | | |
| Operating | 675,468 | - |
| General and administrative | 833,176 | 152,648 |
| Share-based compensation (note 8) | 399,385 | 123,000 |
| Depletion, depreciation and impairment (note 4) | 4,528,276 | - |
| Financing costs (note 12) | 88,156 | - |
| | 6,524,461 | 275,648 |
| Net loss and comprehensive loss before income taxes | (5,541,541) | (268,040) |
| Deferred income tax recovery (note 18) | 48,500 | - |
| Net loss and comprehensive loss | (5,493,041) | (268,040) |
| Net loss per share (note 13) | | |
| Basic | (0.22) | (0.04) |
| Diluted | (0.22) | (0.04) |
| Weighted average number of shares (note 13) | | |
| Basic | 24,989,359 | 7,258,000 |
| Diluted | 24,989,359 | 7,258,000 |

*The accompanying notes are an integral part of these consolidated financial statements
Certain comparative figures have been reclassified to conform with the current year's presentation.*

Petro Viking Energy Inc.
Consolidated Statements of Changes in Shareholders' Equity

| | Year ended December 31, 2011 | For the period from incorporation on January 13, 2010 to December 31, 2010 |
|--|---|--|
| | \$ | \$ |
| Share capital (note 7) | | |
| Balance, beginning of year | 1,198,963 | - |
| Issued | 3,887,423 | 1,449,000 |
| Flow-through share premium | (48,500) | - |
| Option value transferred to share capital from contributed surplus | 9,216 | - |
| Share issue costs | (679,869) | (250,037) |
| Balance end of year | 4,367,233 | 1,198,963 |
| Warrants (note 9) | | |
| Balance, beginning of year | - | - |
| Issued: | | |
| Share purchase warrants | 790,314 | - |
| Agent warrants | 80,459 | - |
| Exercised | - | - |
| Balance end of year | 870,773 | - |
| Contributed surplus | | |
| Balance, beginning of year | 169,000 | - |
| Share-based compensation related to: | | |
| Options granted in the year to directors, officers and consultants | 339,385 | 123,000 |
| Options granted in the year to agent | 130,931 | 46,000 |
| Option value transferred from contributed surplus to share capital | (9,216) | - |
| Balance end of year | 630,100 | 169,000 |
| Deficit | | |
| Balance, beginning of year | (268,040) | - |
| Net loss and comprehensive loss | (5,493,041) | (268,040) |
| Balance, end of year | (5,761,081) | (268,040) |
| Shareholders' Equity | 107,025 | 1,099,923 |

*The accompanying notes are an integral part of these consolidated financial statements
Certain comparative figures have been reclassified to conform with the current year's presentation.*

Petro Viking Energy Inc.
Consolidated Statements of Cash Flows

| | Year ended December 31, 2011 \$ | For the period from incorporation on January 13, 2010 to December 31, 2010 \$ |
|--|---|---|
| Operating | | |
| Net loss and comprehensive loss for the year | (5,493,041) | (268,040) |
| Add back (deduct) non-cash items: | | |
| Share-based compensation | 399,385 | 123,000 |
| Depletion, depreciation and impairment | 4,528,276 | - |
| Accretion on decommissioning liabilities | 42,911 | - |
| Gain on sale of asset | (126,247) | - |
| Deferred income tax recovery | (48,500) | - |
| Changes in non-cash working capital (note 14) | (64,691) | 103,946 |
| | (761,907) | (41,094) |
| Financing | | |
| Issue of equity instruments | 4,393,400 | 1,449,000 |
| Share issue costs | (465,199) | (204,037) |
| Repayment of debenture | (200,000) | - |
| | 3,728,201 | 1,244,963 |
| Investing | | |
| Expenditures on property and equipment | (2,113,859) | - |
| Disposition of property and equipment | 125,000 | - |
| Sale of short-term investment | 1,904,337 | - |
| Purchase of short-term investment | (2,498,528) | (56,051) |
| Working capital deficiencies acquired (note 3) | (194,921) | - |
| Changes in non-cash working capital (note 14) | 952,551 | (148,570) |
| | (1,825,420) | (204,621) |
| Change in cash | 1,140,874 | 999,248 |
| Cash, beginning of the year | 999,248 | - |
| Cash, end of the year | 2,140,122 | 999,248 |
| Supplemental cash flow information | | |
| Interest received | 32,583 | 7,608 |
| Interest paid | 45,245 | - |
| Non-cash transactions | | |
| Shares issued for property and equipment acquisition | 157,500 | - |
| Agent options, warrants and units issued for share issue costs | 214,670 | 46,000 |
| Option value transferred from contributed surplus to share capital | 9,216 | - |
| Shares issued to officer and consultant | 60,000 | - |

*The accompanying notes are an integral part of these consolidated financial statements
Certain comparative figures have been reclassified to conform with the current year's presentation.*

1. Basis of preparation

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.

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Petro Viking Management Corp. (“PVMC”), after the elimination of intercompany transactions and balances.

Note 3 explains the acquisition of Deep Creek by Petro Viking and its amalgamation to form PVMC at February 28, 2011. Accordingly the results of Deep Creek have been included in these consolidated financial statements since February 28, 2011.

These financial statements, including comparatives, have been prepared in accordance with IFRS applicable to the preparation of consolidated financial statements including IFRS 1 “First-time Adoption of IFRS”. The first date IFRS was applied by the Company was January 13, 2010, its date of incorporation. The Company has consistently applied the same accounting policies throughout all periods presented, as if these policies had always been in effect. The Company, during 2010, had prepared its consolidated financial statements, and financial statements for the period from incorporation on January 13, 2010 to December 31, 2010, under Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants (Canadian GAAP). In these consolidated financial statements, the term “Canadian GAAP” refers to Canadian GAAP applied during 2010.

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of April 25, 2012, the date the Board of Directors approved the statements.

2. Summary of significant accounting policies

a) Basis of measurement

The consolidated financial statements have been prepared under the historical cost method, except for the revaluation of certain financial assets and financial liabilities to fair value.

These consolidated financial statements are presented in Canadian Dollars, which is also the Company's functional currency.

b) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Joint venture operations

A portion of the Company's petroleum and natural gas exploration and production activities are conducted jointly with others, and, accordingly, these financial statements reflect only the Company's proportionate interest in such activities.

(iii) Transactions eliminated on consolidation

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

c) Cash and cash equivalents

Cash and cash equivalents are comprised of cash in banks, unrestricted cash held in lawyer's trust accounts for general purposes and all short-term investments that are highly liquid in nature, cashable, and have an original maturity date of three months or less.

d) Short-term investments

Short-term investments include highly liquid investments with an original term of one year or less, but greater than three months.

2. Summary of significant accounting policies (continued)

e) Exploration and Evaluation Expenditures

Pre-license costs are expensed as incurred. Exploration and evaluation expenditures directly attributable to the exploration for petroleum and natural gas reserves are capitalized as exploration and evaluation assets on an area basis. These costs include, but are not limited to: lease acquisition either directly or by business combination, lease rentals on undeveloped properties, acquisition of rights to explore, geological, and geophysical costs, exploratory drilling of both productive and unproductive wells and overhead charges. No depletion or amortization is charged during the exploration and evaluation phase.

Exploration and evaluation expenditures are capitalized until reserves are evaluated and determined to be commercially viable and technically feasible. If reserves are not identified, these costs are expensed. The balance of exploration and evaluation expenditures is carried forward as an exploration and evaluation asset in the balance sheet where the mineral rights are current and it is considered probable that costs will be recovered through the future development or sale of the property.

If it is determined that a commercial discovery of reserves will not be achieved, the capitalized exploration and evaluation assets are written down to their recoverable amounts. Where commercial discovery of reserves has been made, the exploration and evaluation assets are tested for impairment and transferred to property and equipment as petroleum and natural gas properties. The methodology for measuring impairments and reversals of impairments is described under Note 2(f)(ii). During the year ended December 31, 2011, the Company did not incur any exploration and evaluation expenditures.

f) Property and equipment

(i) Property and equipment

Property and equipment (P&E) are carried at cost, less accumulated depletion, depreciation and accumulated impairment losses. The cost of an item of P&E consists of the purchase price, any costs directly attributable to bringing the asset into the location and condition necessary for its intended use, a discounted current estimate of the decommissioning costs and borrowing costs for qualifying assets. All costs incurred to identify and evaluate assets are expensed as incurred.

Petroleum and natural gas capitalized costs are depleted using the unit-of-production method. Depletion is calculated using the ratio of production in the year to the remaining total proved and probable reserves before royalties, taking into account future development costs prior to inflation necessary to bring those reserves into production. These estimates are evaluated and reported on by independent reserve engineers annually. Proven and probable reserves are estimated using independent reserve engineer reports. There is a 50 percent estimated statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as proven and probable. The statistical probability for proven reserves is 90 percent.

Where an item of P&E comprises major components with different useful lives, the components are accounted for as separate items of P&E. The expected useful lives of P&E, residual values and methods of depreciation are reviewed at each reporting period and, if necessary, changes are accounted for prospectively.

Changes in estimates such as quantities of proved and probable reserves that affect unit-of-production calculations are applied on a prospective basis.

2. Summary of significant accounting policies (continued)

f) Property and equipment (continued)

(i) Property and equipment (continued)

An item of P&E is derecognized upon disposal or is impaired when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss on disposal of the asset, determined as the difference between the net proceeds and the carrying amount of the asset, is recognized in the statement of operations, loss and comprehensive loss in the period incurred.

The carrying amounts of property and equipment are reviewed for impairment when indicators of such impairment exist. If indicators exist, the assets are tested for impairment under IAS 36.

(ii) Impairment of non-financial assets under IAS 36

At each financial reporting date, the carrying amounts of capital assets are reviewed to determine whether there is any indication that those assets are impaired. If such indication exists, an estimate of the recoverable amount of the asset is calculated.

Individual assets are grouped together for impairment assessment purposes into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash generating unit or CGU). The carrying amount of P&E assets within a CGU are compared to the recoverable amount of the CGU.

A CGU's recoverable amount is the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money to the Company and the risks specific to the asset. In determining fair value less cost to sell, recent market transactions are taken into account, if available. If no transactions can be identified, an appropriate valuation model is used.

Where the carrying amount of a CGU exceeds its recoverable amount, the CGU is considered impaired and is written down to its recoverable amount. The impairment loss is charged to the statement of operations, loss and comprehensive loss. A previously recognized impairment loss is reversed or partially reversed only if there has been a change in the assumptions used to determine the assets recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The new carrying amount cannot exceed the carrying amount that would have been determined, net of depletion and depreciation, had no impairment loss been recognized for the asset in prior periods.

(iii) Decommissioning liabilities

The Company recognizes a decommissioning liability in the period it arose with a corresponding increase to the carrying amount of the related asset. Measurement occurs when a legal or constructive obligation arises. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation discounted using the pre-tax risk-free rate, updated at each reporting date. The increase in the provision due to the passage of time (accretion) is recognized as a financing cost whereas increases or decreases due to changes in the estimated cost to decommission the asset are capitalized as P&E. Actual costs incurred upon settlement of the decommissioning liability reduce the liability to the extent the provision was established. The related decommissioning asset is depreciated or depleted on the same basis as the P&E to which it relates.

2. Summary of significant accounting policies (continued)

f) Property and equipment (continued)

(iv) Maintenance and turnarounds

Expenditures associated with maintenance activities or major turnarounds that improve the productive capacity or extend the life of an asset are capitalized. These costs are included in P&E when incurred and charged to depletion and depreciation over the estimated useful life. Any remaining carrying amounts of any replaced or sold components are derecognized. Maintenance and repairs, other than major turnaround costs, are expensed as incurred.

g) Provisions

Provisions are recognized when the Company has a present obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The provisions are measured at Management's best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect of time is material.

h) Share capital

Common shares issued for non-monetary consideration are recorded at their fair market value based upon the trading price of the Company's shares on the TSX Venture Exchange. Share issue costs incurred on the issue of the Company's shares are charged directly to share capital.

i) Flow-through shares

Expenditure deductions for income tax purposes related to exploratory activities funded by flow-through equity instruments are renounced to investors in accordance with income tax legislation. The difference between the value ascribed to flow-through shares issued and the value that would have been received for common shares at the date of issuance of the flow-through shares is initially recognized as a liability on the Statement of Financial Position. The liability is reversed when tax benefits are renounced and a deferred tax liability is recognized at that time. Income tax expense is the difference between the amount of the deferred tax liability and the liability recognized on issuance.

j) Revenue recognition

Revenue is recognized from oil sales when the oil is delivered to the buyer and from gas sales when the gas passes through the pipeline at the delivery point. Interest income is recorded as earned.

k) Transportation

The Company is contractually obligated to pay to transport on the Company's share of oil and gas products sold to the nearest market terminal. These costs are presented in the statement of operations, loss and comprehensive loss as transportation expense.

2. Summary of significant accounting policies (continued)

l) Income taxes

Income tax expense represents the sum of current tax expense and deferred tax expense. Current tax expense is based on the taxable profits for the year. Income tax is recognized in the statement of operations, loss and comprehensive 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 tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are recognized based on differences in the financial statement carrying amount for assets and liabilities and the associated tax balance. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, unused tax credits carried forward and unused tax losses to the extent that it is probable that there will be taxable profits against which deductible temporary differences can be utilized.

Deferred taxes are measured based on enacted or substantially enacted tax rates for the period in which the temporary differences are expected to be realized or settled, and are presented as non-current.

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

m) Share-based compensation plans

When options to purchase shares are granted to employees, directors, officers and consultants, the fair value of the options on the date of the grant, using the Black-Scholes option pricing model, is recognized as a compensation expense, with a corresponding increase in contributed surplus, over the period during which the related options vest. An estimated forfeiture rate is applied to the options granted before applying the Black-Scholes pricing model except for options which vest immediately on issuance for which no forfeiture is required. When options to purchase shares are granted to non-employees in return for goods or services, the fair value of the options granted is recognized as an expense, with a corresponding increase in contributed surplus, in the period in which the goods or services are received or are expected to be received. The consideration received on the exercise of share options is credited to share capital. When options are exercised, previously recorded compensation is transferred from contributed surplus to share capital to fully reflect the consideration for the shares issued.

n) Share purchase warrants

The Company's share purchase warrants ("warrants") are classified as equity. The warrants are initially measure using the Black-Scholes model, which is based on significant assumptions such as volatility, dividend yield and expected term.

2. Summary of significant accounting policies (continued)

o) Loss per share

Basic earnings per share ("EPS") is calculated by dividing the net loss for the period attributable to equity owners of the Company by the weighted average number of common shares outstanding during the period. Diluted EPS is calculated by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for dilutive instruments. The Company's potentially dilutive instruments are comprised of stock options granted and warrants issued.

p) 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 the risks and rewards of ownership.

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.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instrument were acquired.

Financial assets

i. Fair value through profit or loss

A financial asset can be classified as fair value through profit or loss only if it is designated at fair value through profit or loss or held-for-trading. The Company's financial assets at fair value through profit or loss are held for trading financial assets. They include cash and short-term investments. Transaction costs related to the acquisition of financial assets that are classified as held for trading are expensed in net income as incurred

ii. Held-to-maturity

These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company has the positive intention and ability to hold until maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, impairment losses are included in profit or loss. The Company does not have any financial assets in this category.

iii. Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are measured at amortized cost using the effective interest method. Any gains or losses on the realization of receivables are included in profit or loss. The Company's accounts receivable are classified as loans and receivables

2. Summary of significant accounting policies (continued)

p) Financial instruments (continued)

Impairment of financial assets

All financial assets except for those at fair value through profit or loss are subject to review for impairment at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets are impaired. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Financial liabilities

i. Fair value through profit or loss

These liabilities are comprised of derivatives or liabilities acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are measured at fair value with changes in fair value included in profit or loss. The Company does not have any financial liabilities in this category.

ii. Other financial liabilities

They are measured at amortized cost using the effective interest method. Any gains or losses in the realization of other financial liabilities are included in profit or loss. The Company's accounts payable and accrued liabilities and debentures are classified as other financial liabilities.

The Company provides information for users of the Company's financial statements to understand the significance of financial instruments to the Company's financial position, performance and cash flows.

The Company provides disclosure of its objectives, policies and processes for managing capital. Disclosures include what is defined as capital, how it is managed, and what externally imposed restrictions on capital are present.

In addition, the Company provides disclosures relating to the fair value of financial instruments and the liquidity risk associated with financial instruments which now require that all financial instruments measured at fair value be categorized into one of three hierarchy levels.

q) Borrowing costs and discounts on issuance of new debt

Borrowing costs that are directly related to the issuance of new debt are recorded net of the associated debt and recognized into income using the effective interest rate method over the life of the debt. Discounts, where proceeds received are less than the par value of the debt, are recorded as a reduction to long-term debt. These discounts are being amortized using the effective interest method and included in borrowing costs.

2. Summary of significant accounting policies (continued)

q) Business combinations

Business combinations are accounted for using the acquisition method of accounting. The acquired net identifiable assets are measured at their fair value at the date of acquisition. Any excess of the purchase price over the fair value of the identifiable net assets acquired is recognized as goodwill. Any deficiency of the purchase price below the fair value of the identifiable net assets acquired is recognized as a gain in the consolidated statement of operations, loss and comprehensive loss. Associated transactions costs and costs incurred to identify and evaluate business acquisitions are expensed when incurred.

r) Business combinations under common control

Business combinations under common control are accounted for prospectively from the date the Company obtains the ownership interest using the predecessor values method, whereby, assets and liabilities are recognized upon consolidation at their carrying amount recorded in the books of the acquired company.

s) Related party transactions

Related party transaction amounts are recorded at the transaction amounts determined by contractual or other agreement between the parties; except for business combinations under common control which are accounted for as described above.

t) Goodwill

Upon recognition, goodwill is measured at cost less accumulated impairment losses and attributed to the applicable cash-generating unit (CGU) that is expected to benefit from the business combination's synergies. Goodwill is reviewed annually for impairment. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of a CGU include the carrying amount of goodwill relating to the CGU sold.

Goodwill is tested for impairment at the CGU level by combining the property and equipment, exploration and evaluation assets and goodwill and comparing this to the recoverable amount. If the goodwill carrying amount exceeds the recoverable amount, that associated goodwill is written down with an impairment recognized in the consolidated statement of operations, loss and comprehensive loss. The methodology for measuring impairments is described under note 2(f)(ii). The allocation is made to those CGU that are expected to benefit from the business combination in which the goodwill arose.

u) Significant accounting judgments and estimates

The preparation of the financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect reported amounts and presentation of assets, liabilities, revenues, expenses and disclosures of contingencies and commitments. Such estimates primarily relate to unsettled transactions and events at the statement of financial position date which are based on information available to management at each financial statement date. Actual results could differ from those estimated.

2. Summary of significant accounting policies (continued)

u) Significant accounting judgments and estimates (continued)

Judgments, estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Reserves

Reserves and resources are used in the unit of production calculation for depletion and depreciation as well as impairment analysis. The quantity of reserves is subject to a number of estimates and projections including assessment of engineering data, projected future rates of production, commodity prices, regulatory changes, foreign exchange rates, operating costs and sustaining capital expenditures. These estimates and projections are uncertain as the Company does not have a long commercial production history to assist in the development of these forward-looking estimates. However, all reserve and associated financial information is evaluated and reported on by a firm of qualified independent reserve evaluators in accordance with the standards prescribed by applicable securities regulators.

The calculation of future cash flows based on these reserves is dependent on a number of estimates including: production volumes, facility performance, commodity prices, and royalties, operating costs, sustaining capital, foreign exchange and tax rates. The price used in our assessment of future cash flows is based on the Company's independent evaluator's estimate of future prices and evaluated for reasonability by the Company against other available information. The Company believes these prices are reasonable estimates for a long-term outlook.

Impairment

The Company assesses its P&E for possible impairment if there are events or changes in circumstances that indicate the carrying values of the assets may not be recoverable. Such indicators include changes in the Company's business plans, changes in commodity prices, evidence of physical damage and significant downward revisions to estimated recoverable volumes or increases in estimated future development expenditures.

The assessment for impairment for P&E assets involves comparing the carrying value of the CGU with the higher of value in use calculations and fair value less costs to sell. Determination as to whether and how much an asset is impaired involves management estimates on highly uncertain matters such as future commodity prices, the effects of inflation on operating expenses, discount rates, production profiles and the outlook for regional supply-and-demand conditions for crude oil. Impairment is recognized in earnings in the period in which carrying amount exceeded the recoverable amount.

Depletion and depreciation

Depletion of resource assets is measured over the life of proved and probable reserves on a unit-of-production basis and commences when the facilities are substantially complete and after commercial production has begun. Reserve estimates and the associated future capital can have a significant impact on earnings, as these are key components to the calculation of depletion. A downward revision in the reserve estimate or an upward revision to future capital would result in increased depletion, reduced earnings and reduced carrying value of petroleum and natural gas property assets.

2. Summary of significant accounting policies (continued)

u) Significant accounting judgments and estimates (continued)

Decommissioning liabilities

The Company measures decommissioning liabilities at each financial statement date. The estimate is based on the Company's share of costs to reclaim the resource assets and certain facilities related to the Project as well as other resource assets associated with future expansions. To determine the future value of the liability, estimates of the amount, timing and inflation of the associated abandonment costs are made. The present value of the cost is recorded as decommissioning liability using a risk-free discount rate. Due to the long-term nature of current and future project developments, abandonment costs will be incurred many years in the future. As a result of these factors, different estimates could be used for such abandonment costs and the associated timing. Assumptions of higher future abandonment costs, regulatory changes, higher inflation, lower risk-free rates or an assumption of earlier or specified timing of abandonment would cause the decommissioning liability and corresponding asset to increase. These changes would also cause future accretion expenses to increase and future earnings to decrease.

Deferred taxes

Deferred income tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amount and the tax basis of assets and liabilities. An estimate is required for both the timing and corresponding tax rate for this reversal. Should these estimates change, it may impact the measurement of asset or liability as well as deferred tax recovery or expense recognized to earnings. The Company only recognizes deferred tax assets arising from unused tax losses to the extent that the Company has sufficient taxable temporary differences or it is probable that sufficient taxable profit will be available against which the unused tax losses can be utilized.

Contingencies

By their nature, contingencies will only be resolved when one or more of the future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

Other areas of estimates

The recognition of amounts in relation to share-based compensation requires estimates related to valuation of stock options at the time of issuance. By their nature, estimates are subject to measurement uncertainty and the effect of changes in such estimates on the financial statements for current and future periods could be significant.

2. Summary of significant accounting policies (continued)

v) Accounting standards issued but not yet applied

(i) IFRS 9 - Financial instruments – classification and measurement

IFRS 9 “Financial Instruments” was issued in November 2009 and as issued reflects the first phase on the work to replace IAS 39 “Financial Instruments: Recognition and Measurement” and applies to the classification and measurement of financial assets. This standard is effective for periods beginning on or after January 1, 2013, with earlier adoption permitted. Subsequent phases will address classification and measurement of financial liabilities, hedge accounting and de-recognition. The Company has not yet assessed the impact of the standard or whether it will adopt the standard early.

(ii) IFRS 10 – Consolidated Financial Statements

As of January 1, 2013 the Company will be required to adopt IFRS 10, “Consolidated Financial Statements” which provides guidance as to whether an investee, including a special purpose entity, should be consolidated. The Company has not yet assessed the impact of the standard.

(iii) IFRS 11 – Joint Arrangements

As of January 1, 2013 the Company will be required to adopt IFRS 11, “Joint Arrangements” which provides a revised method for determining how a company should account for joint arrangements. Based on the terms of the joint arrangement a company will account for joint arrangements using either proportionate consolidation or the equity method. The Company has not yet assessed the impact of the standard.

(iv) IFRS 12 – Disclosure of Interests in Other Entities

As of January 1, 2013 the Company will be required to adopt IFRS 12, “Disclosure of Interest in Other Entities” which provides disclosure requirements for interests held in subsidiaries and joint arrangements. The Company has not yet assessed the impact of the standard.

(v) IFRS 13 – Fair Value Measurements

As of January 1, 2013 the Company will be required to adopt IFRS 13, “Fair Value Measurement” which provides guidance on determination of fair value and disclosure requirements related to fair value for instances where IFRS requires fair value to be used. The Company has not yet assessed the impact of the standard.

(vi) IAS 1 – Presentation of Financial Statements

As of July 1, 2012 the Company will be required to adopt the amendments issued to IAS 1 issued in January 2011. The amendments require items of other comprehensive income, “OCI” to be differentiated between those that will eventually be included in income and those that will not. Since the Company does not have any items of OCI this amendment is not expected to have any impact on the Company.

(vii) IAS 19 – Employee Benefits

As of January 1, 2013 the Company will be required to adopt the amendments to IAS 19 that were issued in June 2011. These amendments resulted in a revision to certain aspects of accounting for pensions. Since the Company does not have a pension plan, this amendment is not expected to have any impact on the Company.

2. Summary of significant accounting policies (continued)

v) Accounting standards issued but not yet applied (continued)

(viii) IAS 27 – Separate Financial Statements

As of January 1, 2013, the Company will be required to adopt the amendments to IAS 27 to focus solely on accounting and disclosure requirements when an entity presents separate financial statements, due to the issuance of the new IFRS 10 which is specific to consolidated financial statements. Since the Company does not present separate financial statements, this amendment is not expected to have any impact on the Company.

(ix) IAS 28– Investments in Associates and Joint Ventures

As of January 1, 2013, the Company will be required to adopt the amendments to IAS 28. These amendments conform to changes made in IFRS 10 and IFRS 11.

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

- (i) The Company issued 4,760,000 common shares on February 28, 2011 as purchase consideration. On June 27, 2011, Petro Viking's Board resolved that an additional 553,136 common shares will be 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. These shares were issued on October 11, 2011.
- (ii) During the year ended December 31, 2011, the Company incurred acquisition-related costs of \$54,270 (2010: 52,605) for a total of \$106,875, relating to external legal fees and due diligence costs. The legal fees and due diligence costs have been included in administrative expenses in the Consolidated Statements of Operations, Loss and Comprehensive Loss.
- (iii) Total recognized net assets of \$63,557 above include working capital deficiencies of \$194,921.

3. Business acquisition (continued)

Alberta acquisition

On June 30, 2011 the Company purchased a portfolio of petroleum and natural gas assets located in Alberta. The assets were acquired for their current production and future development potential. The following summarizes the consideration transferred, and the recognized amounts of assets acquired and liabilities assumed at the acquisition date:

| Identifiable assets acquired and liabilities assumed | \$ |
|---|----------------|
| Property and equipment | 2,749,967 |
| Decommissioning liabilities | (2,278,447) |
| Total net identifiable assets | 471,520 |
| Consideration transferred | |
| Cash | 471,520 |

The Company incurred acquisition-related costs of \$44,054 (2010: \$Nil) relating to external legal fees and due diligence costs. The legal fees and due diligence costs have been included in administrative expenses in the Company's Consolidated Statements of Operations, Loss and Comprehensive Loss.

Plato acquisition

On November 11, 2011 the Company purchased additional working interest in an existing property at Plato, Saskatchewan. The additional working interests were acquired for their current production and future development potential. The following summarizes the consideration transferred, and the recognized amounts of assets acquired and liabilities assumed at the acquisition date:

| Identifiable assets acquired and liabilities assumed | \$ |
|---|----------------|
| Property and equipment | 435,750 |
| Decommissioning liabilities | (42,000) |
| Total net identifiable assets | 393,750 |
| Consideration transferred | |
| Cash | 236,250 |
| 630,000 common shares | 157,500 |
| Total | 393,750 |

Of the above consideration, \$225,000 relates to purchase of working interest from a company which is a related party. This includes \$135,000 in cash and \$90,000 in 360,000 common shares.

4. Property and equipment

| | Oil and Natural Gas Interests |
|--|--|
| | \$ |
| Cost or deemed cost | |
| Balance at December 31, 2010 (i) | - |
| Acquisitions (ii), (iii), (iv) | 5,300,782 |
| Additions | 1,825,668 |
| <hr/> | |
| Balance at December 31, 2011 | 7,126,450 |
| <hr/> | |
| Depletion, depreciation and impairment losses | |
| Balance at December 31, 2010 | - |
| Depletion and depreciation (vi) | (335,276) |
| Impairment (vii) | (4,193,000) |
| <hr/> | |
| Balance at December 31, 2011 | (4,528,276) |
| <hr/> | |
| Net book amount | |
| At December 31, 2011 | 2,598,174 |
| At December 31, 2010 | - |

- (i) The Company did not have any property and equipment at January 13, 2010 or December 31, 2010.
- (ii) Acquisitions of property and equipment, net of accumulated depletion, depreciation and impairment losses, during the year, amounting to \$2,115,065 relate to assets acquired in business combination with Deep Creek. There was no cash consideration for this acquisition. (note 3)
- (iii) Acquisitions of property and equipment, during the year, amounting to \$2,749,967 relate to assets acquired in Alberta purchase. Cash consideration for this acquisition was \$471,520. (note 3)
- (iv) Acquisitions of property and equipment, during the year, amounting to \$393,750 relate to acquisition of additional working interests in an existing property. Cash consideration for this acquisition was \$236,250. (note 3)
- (v) The Company disposed its assets in the Brazeau area during the year. The carrying value of the assets was \$Nil and the assets were sold for a cash consideration of \$125,000. The Company had recorded a decommissioning liability of \$1,247 on the Brazeau assets. The company has recorded \$126,247 as a gain on sale and disclosed in the Company's Consolidated Statements of Operations, Loss and Comprehensive Loss.
- (vi) The depletion, depreciation and impairment of property and equipment, are recognized in the Company's Consolidated Statements of Operations, Loss and Comprehensive Loss. There were no costs that were excluded from the depletion calculation for the year. Future development costs at December 31, 2011 was \$Nil.
- (vii) The company recorded an impairment expense of \$4,193,000 (2010: \$Nil) for the year on its Cash Generating Units (CGU's). The impairment was calculated based on the difference between the carrying value and the net recoverable value of the assets. The net recoverable value is based on the Fair Value less Costs to Sell (FVLCTS) of the reserves, which was determined using the proved plus probable reserve value discounted at 10%.

Petro Viking Energy Inc.
Notes to the Consolidated Financial Statements
December 31, 2011 and 2010

5. Debenture

| | December 31, 2011 | December 31, 2010 |
|---|------------------------------|----------------------|
| | \$ | \$ |
| Balance, beginning of year | - | - |
| Debenture taken over, pursuant to Deep Creek acquisition (note 3) | 840,000 | |
| Repayment (iii) | (200,000) | - |
| Balance, end of year (iv) | 640,000 | - |
| Accrued debenture interest, end of year (note 16 c) | 4,349 | - |

- (i) The debenture matures on February 28, 2013, and bears interest at a rate of 8% per annum.
- (ii) For the year ended December 31, 2011, interest expense on the debenture of \$ 45,245 (2010 - \$nil) was recorded (note 12).
- (iii) During March, 2011, the Company repaid \$200,000 of the \$840,000 debentures outstanding, of which \$100,000 was repaid to a director of the Company (note 15).
- (iv) At December 31, 2011, \$370,000 of the debenture balance payable is due to related parties (note 15).

6. 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:

| | 2011 |
|---|------------------|
| | \$ |
| Decommissioning liabilities, beginning of year (i) | - |
| Liabilities acquired (ii) | |
| Deep Creek business combination | 1,016,587 |
| Alberta acquisition | 2,278,447 |
| Plato acquisition | 42,000 |
| | 3,337,034 |
| Liabilities incurred | 96,905 |
| Liabilities settled (iii) | (1,247) |
| Effect of change in estimates | 322,674 |
| Accretion (iv) | 42,911 |
| Decommissioning liabilities, end of year | 3,798,277 |

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

| | 2011 |
|--|-------------|
| Undiscounted cash flows | \$3,593,479 |
| Discount rate | 1.36% |
| Inflation rate | 2.50% |
| Weighted average expected timing of cash flows | 5.3 years |

6. Decommissioning liabilities (continued)

- (i) The Company did not have any decommissioning liabilities at January 13, 2010 or December 31, 2010.
- (ii) Decommissioning liabilities acquired as a result of business combination with Deep Creek, Alberta acquisition and Plato acquisition (note 3).
- (iii) Decommissioning liabilities settled as a result of Brazeau disposition (note 4 (v))
- (iv) Accretion expense included under financing costs in the Consolidated Statements of Operations, Loss and Comprehensive Loss.

7. Share capital

a. Authorized

Unlimited number of common shares, without nominal or par value

b. Issued and outstanding common shares

| | December 31, 2011 | | December 31, 2010 | |
|--|----------------------|------------------|----------------------|--------------|
| | Number | Amount \$ | Number | Amount \$ |
| Balance, beginning of year | 9,490,000 | 1,198,963 | - | - |
| Issued to director and officers (i)(viii) | 200,000 | 60,000 | 1,300,000 | 130,000 |
| Issued on private placement (i) (iv)(vi) | 13,998,571 | 3,582,686 | 3,190,000 | 319,000 |
| Less: Flow-through share premium | | (48,500) | | |
| Issued on initial public offering (ii) | - | - | 5,000,000 | 1,000,000 |
| Issued on acquisition of Deep Creek (iii) | 5,313,136 | 63,557 | - | - |
| Issued to agent (vii) | 20,000 | 3,280 | | |
| Issued on acquisition of Plato (ix) | 630,000 | 157,500 | - | - |
| Agent options exercised | 102,000 | 20,400 | - | - |
| Option value transferred to share capital from contributed surplus | - | 9,216 | - | - |
| Share issue costs (v) | - | (679,869) | - | (250,037) |
| Balance, end of year | 29,753,707 | 4,367,233 | 9,490,000 | 1,198,963 |

- (i) On January 13, 2010, the Company issued 4,490,000 common shares at a price of \$0.10 per share for total proceeds of \$449,000 received in cash. See note (c) below for escrow agreement relating to these shares.
- (ii) Upon closing of the Company's initial public offering (IPO) on June 3, 2010, the Company issued 5,000,000 common shares at a price of \$0.20 per share for total consideration of \$1,000,000, received in cash. The Company paid share issuance costs of \$204,037 in cash, which have been applied against share capital. The Company granted to the agent 500,000 agent's compensation options at an exercise price of \$0.20 per option for a period of two years. The estimated fair value of \$46,000 as calculated using the Black-Scholes pricing model has been charged to share issuance costs with a related credit to contributed surplus.

7. Share capital (continued)

b. Issued and outstanding common shares (continued)

- (iii) 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 June 27, 2011, Petro Viking’s Board resolved that an additional 553,136 common shares will be 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. These shares were issued on October 11, 2011.
- (iv) 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 9).
- (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 \$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 and \$39,560 for the warrants) 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 (note 15). This amount has been has been charged to share issuance costs with a related credit to Share Capital.
- (vi) 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 9).

7. Share capital (continued)

b. Issued and outstanding common shares (continued)

- (vii) In connection with the brokered private placement described in (vi) 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 and \$37,179 for the warrants) 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, valued at \$7,000 (\$3,280 for the shares and \$3,720 for the warrants). This amount has been charged to share issuance costs with a related credit to Share Capital. The company incurred legal fees of \$16,349 (note 15). This amount has been charged to share issuance costs with a related credit to Share Capital
- (viii) 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. See note 15 below. The market price of the common shares at the issue date was \$0.30/common share for a value of \$60,000.
- (ix) 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/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 (note 15).

c. Escrow

The Company has 4,631,728 (December 31, 2010 - 4,490,000) common shares subject to an escrow agreement. 924,650 shares will be released from escrow during March and September of each year until 2014.

Petro Viking Energy Inc.
Notes to the Consolidated Financial Statements
December 31, 2011 and 2010

8. 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 has also granted options to agents (note 7(b) (ii) (v) and (vi)).

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 year ended December 31, 2011 is \$399,385 (2010 - \$123,000). This includes the fair value of \$60,000, relating to 200,000 common shares issued as bonus (note 7 (b)(viii)). Share based compensation expense of \$54,975 relating to options granted in 2011, will be recorded in 2012. Of the 1,870,000 options granted, only 900,000 are exercisable in 2011.

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

| | December 31, 2011 | | December 31, 2010 | |
|----------------|--------------------------|--|-------------------|---|
| | Options | Weighted – average exercise price | Options | Weighted – average exercise price |
| | | \$ | | \$ |
| Opening | 949,000 | 0.20 | - | - |
| Granted | 1,870,000 | 0.31 | 949,000 | 0.20 |
| Closing | 2,819,000 | 0.27 | 949,000 | 0.20 |

| Range of exercise price | Number outstanding | Weighted-average remaining contractual life (years) | Weighted- average exercise price | Number exercisable |
|-------------------------------|-----------------------|--|--|-----------------------|
| \$ | | | \$ | |
| 0.20 | 949,000 | 8.43 | 0.20 | 949,000 |
| 0.30 | 1,620,000 | 4.18 | 0.30 | 900,000 |
| 0.35 | 250,000 | 4.47 | 0.35 | - |
| | 2,819,000 | 5.63 | 0.27 | 1,849,000 |

Petro Viking Energy Inc.
Notes to the Consolidated Financial Statements
December 31, 2011 and 2010

8. Share-based compensation (continued)

The following tables summarize information about agent stock options outstanding as at:

| | December 31, 2011 | | December 31, 2010 | |
|----------------|-------------------|---|-------------------|---|
| | Options | Weighted – average exercise price | Options | Weighted – average exercise price |
| Opening | 500,000 | \$ 0.20 | - | - |
| Granted | 1,119,885 | 0.31 | 500,000 | 0.20 |
| Exercised | (102,000) | 0.20 | - | - |
| Closing | 1,517,885 | 0.28 | 500,000 | 0.20 |

| Range of exercise price | Number outstanding | Weighted-average remaining contractual life (years) | Weighted- average exercise price | Number exercisable |
|-------------------------------|-----------------------|--|--|-----------------------|
| \$ | | | \$ | |
| 0.20 | 398,000 | 0.42 | 0.20 | 398,000 |
| 0.30 | 920,000 | 1.17 | 0.30 | 920,000 |
| 0.35 | 199,885 | 1.40 | 0.35 | 199,885 |
| | 1,517,885 | 1.24 | 0.31 | 1,517,885 |

The Black-Scholes pricing model was used to estimate the fair value of options granted issued based on the following significant assumptions:

| | 2011 | | 2010 | |
|--|------------------|------------------|------------------|---------|
| | Stock Options | Agent Options | Stock Options | Agent |
| Weighted average fair value per option | \$ 0.21 | \$ 0.12 | \$ 0.13 | \$ 0.09 |
| Risk-free interest rate | 2.17%-2.5% | 1.59%-1.88% | 2.36% | 1.20% |
| Expected volatility | 90%-138% | 55%-149% | 90% | 85% |
| Dividend yield | 0% | 0% | 0% | 0% |
| Estimated forfeiture rate | 0% | 0% | 0% | 0% |
| Expected life of each option granted | 5 years | 2 years | 4 years | 2 years |

Petro Viking Energy Inc.
Notes to the Consolidated Financial Statements
December 31, 2011 and 2010

9. Warrants

The following table summarizes information about warrants outstanding as at:

| | December 31, 2011 | | | December 31, 2010 | | |
|-------------------------|--------------------|----------------------------------|---------------------|--------------------|----------------------------------|---------------------|
| | Number of warrants | Weighted –average Exercise price | Fair value ascribed | Number of warrants | Weighted –average Exercise price | Fair value ascribed |
| | | \$ | \$ | | \$ | \$ |
| Opening | - | - | - | - | - | - |
| Issued (i) | | | | | | |
| Share purchase warrants | 13,028,571 | 0.51 | 790,314 | - | - | - |
| Agent warrants | 1,139,885 | 0.51 | 80,459 | - | - | - |
| Exercised | - | - | - | - | - | - |
| Closing (ii) | 14,168,456 | 0.51 | 870,773 | - | - | - |

The Black-Scholes pricing model was used to estimate the fair value of warrants issued based on the following significant assumptions:

| Year ended December 31, 2011 | Share Purchase warrants | Agent |
|---|-------------------------|--------------|
| Weighted average fair value per warrant | \$0.11 | \$0.07 |
| Risk-free interest rate | 1.59%-2.5% | 1.59% -1.88% |
| Expected volatility | 90%-123% | 55%-123% |
| Dividend yield | 0% | 0% |
| Expected life of each warrant granted | 2 years | 2 years |

- (i) See note 7(b)(iv), 7(b)(v), 7(b)(vi) and 7(b)(vii)
(ii) As at December 31, 2011, warrants had a weighted average remaining life of 1.1 years.

10. Petroleum and natural gas sales

| | Year ended December 31, 2011 | For the period from incorporation on January 13, 2010 to December 31, 2010 |
|--|------------------------------|--|
| | \$ | \$ |
| Petroleum and natural gas sales (gross) | 999,186 | - |
| Less: Royalty expense | (175,096) | - |
| Petroleum and natural gas sales (net) | 824,090 | - |

| | Year ended December 31, 2011 | | | For the period from incorporation on January 13, 2010 to December 31, 2010 | | |
|-------------|------------------------------|------------------|----------------|--|-----------|-----------|
| | Gross Sales | Royalties | Net Sales | Gross Sales | Royalties | Net Sales |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Oil | 666,013 | (103,292) | 562,721 | - | - | - |
| Natural Gas | 237,471 | (20,308) | 217,163 | - | - | - |
| Liquids | 86,904 | (51,496) | 35,408 | - | - | - |
| Other | 8,798 | - | 8,798 | - | - | - |
| | 999,186 | (175,096) | 824,090 | - | - | - |

Petro Viking Energy Inc.
Notes to the Consolidated Financial Statements
December 31, 2011 and 2010

10. Petroleum and natural gas sales (continued)

The Company derived approximately 50% of its oil revenue from its Ronalane property. The property is operated by the Company and the product is sold to exclusively to one marketer.

11. Other Income

| | Year ended | For the period from |
|-----------------------------------|--------------------------|---------------------|
| | December 31, 2011 | incorporation on |
| | | January 13, 2010 to |
| | | December 31, 2010 |
| | \$ | \$ |
| Gain on sale of asset (note 4(v)) | 126,247 | - |
| Interest income | 32,583 | 7,608 |
| | 158,830 | 7,608 |

12. Financing costs

| | Year ended | For the period from |
|--|--------------------------|---------------------|
| | December 31, 2011 | incorporation on |
| | | January 13, 2010 to |
| | | December 31, 2010 |
| | \$ | \$ |
| Interest expense on debenture | 45,245 | - |
| Accretion on decommissioning liabilities | 42,911 | - |
| | 88,156 | - |

13. Net loss per share

Basic and diluted earnings per common share are calculated as follows:

| | Year | For the period from |
|---|--------------------------|---------------------|
| | Ended | incorporation on |
| | December 31, 2011 | January 13, 2010 to |
| | | December 31, 2010 |
| Net loss and comprehensive loss | \$ (5,493,041) | \$ (268,040) |
| Weighted average number of shares (basic) | 24,989,359 | 7,258,000 |
| Weighted average number of shares (diluted) (i) | 24,989,359 | 7,258,000 |
| Loss per share: | \$ | \$ |
| Basic | (0.22) | (0.04) |
| Diluted | (0.22) | (0.04) |

- (i) Options to purchase securities in the number of Nil (2010 – nil) were ‘in-the-money’ at year end. These options to purchases securities were excluded from the weighted average number of shares calculation for the year ended December 31, 2011 and 2010 as the Company is in a loss position.

Petro Viking Energy Inc.
Notes to the Consolidated Financial Statements
December 31, 2011 and 2010

14. Change in non-cash working capital

| | Year Ended December 31, 2011 | For the period from incorporation on January 13, 2010 to December 31, 2010 |
|--|---|---|
| | \$ | \$ |
| Accounts receivable | (553,976) | (11,376) |
| Prepaid expenses and deposits | 126,090 | (148,570) |
| Accounts payable and accrued liabilities | 1,315,746 | 115,322 |
| | 887,860 | (44,624) |
| Operating | (64,691) | 103,946 |
| Financing | - | - |
| Investing | 952,551 | (148,570) |
| | 887,860 | (44,624) |

15. 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.

Key management personnel compensation, including directors is as follows:

(Key management personnel are comprised of the Company's directors and officers.)

| | Year ended December 31, 2011 | For the period from incorporation on January 13, 2010 to December 31, 2010 |
|------------------------------------|---|---|
| | \$ | \$ |
| Administration and consulting fees | 171,000 | - |
| Stock options | 196,841 | 123,000 |
| Bonus shares | 30,000 | - |

Other related party transactions are disclosed below, unless they have been disclosed elsewhere in the financial statements.

| | Year ended December 31, 2011 | For the period from incorporation on January 13, 2010 to December 31, 2010 |
|--|---|---|
| | \$ | \$ |
| Legal fees charged by a law firm of which one director of the Company is council | 116,560 | 81,486 |
| 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 | 25,168 | - |
| Consideration transferred for acquisition of additional working interest in an existing property (note 4 (iv)) | 225,000 | - |

15. Related party disclosures (continued)

| Amount owing to / from related parties | December 31, 2011 | December 31, 2010 |
|---|----------------------|----------------------|
| | \$ | \$ |
| Accounts payable and accrued liabilities for administration and consulting fees, legal fees, and debenture interest payable. | 35,233 | 70,605 |
| 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 | - |

16. 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 - 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. This note presents information about the Company's exposure to each of the above risks and the Company's objectives, policies and processes for measuring and managing these risks. Further quantitative disclosures are included throughout these financial statements.

a. Fair values

The Company is required to classify fair value measurements using a hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy is as follows:

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

The fair value of cash and short-term investments is level 1 as it is determined by amounts held at/lent by financial institutions.

The fair value of debentures approximates their carrying value as they bear interest at a rate that is comparable to current rates offered to the Company for debt with similar terms. The Company has classified these as Level 2 financial instruments.

16. Financial instruments and financial risk management (continued)

a. Fair values (continued)

The fair value of the amounts due to related parties is less than carrying value, as the amounts are non-interest bearing. As the amounts have no terms of repayment, the fair value cannot be calculated with any degree of certainty, therefore the Company has classified these as Level 3 financial instruments.

b. Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its commercial obligations. This arises principally from joint venture partners and natural gas marketers.

Virtually all of the Company's accounts receivable are with companies in the petroleum and natural gas industry within Canada and are subject to normal industry credit risks. The Company generally extends unsecured credit to these companies and therefore, the collection of accounts receivable may be affected by changes in economic or other conditions. Management believes the risk is mitigated by the size and reputation of the companies to which they extend credit. The Company's maximum credit risk exposure is limited to the carrying value of its accounts receivable. However, the receivables are from participants in the oil and gas sector and collection of the outstanding balances is dependent on industry factors such as commodity price fluctuations, escalation costs and the risk of unsuccessful drilling.

The Company does not typically obtain collateral from petroleum and natural gas marketers or joint venture partners; however, the Company does have the ability to withhold production from joint venture partners in the event of non-payment.

| Significant components of Accounts Receivable | December 31, 2011 | December 31, 2010 |
|--|------------------------------|----------------------|
| | \$ | \$ |
| Accounts receivable - trade | 4,980 | - |
| Accounts receivable - joint venture | 559,733 | - |
| GST Receivable | 639 | 11,376 |
| | 565,352 | 11,376 |
| Accounts Receivable for: | | |
| Capital | 45,000 | |
| Operating | 520,352 | 11,376 |
| | 565,352 | 11,376 |

The Company did not provide for any doubtful accounts at December 31, 2011. During the year, \$2,420 (2010: \$Nil) of receivables were written off.

As at December 31, 2011, the Company had two individual receivables that individually accounted for more than 10% of the outstanding accounts receivable balance. The individual balances are \$179,257 and \$84,821 respectively, totaling \$264,078 or 47% of the total receivables. As at December 31, 2011, the amount due from a related party is \$25,894 (see note 15).

As at December 31, 2011, the Company considers its receivables to be aged as follows:

| | |
|-------------------------------|----------------|
| | \$ |
| Not past due | 292,040 |
| Past due by less than 90 days | 174,765 |
| Past due by more than 90 days | 98,547 |
| | 565,352 |

16. Financial instruments and financial risk management (continued)

c. Liquidity risk

Liquidity risk is the risk that the Company will incur difficulties meeting its financial obligations as they are due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation.

The Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. The Company uses authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures.

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. At December 31, 2011, the Company had sufficient working capital of \$1,947,128 to maintain adequate liquidity.

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

| Significant components of Accounts Payable and Accrued Liabilities | December 31, 2011 | December 31, 2010 |
|---|------------------------------|------------------------------|
| | \$ | \$ |
| Accounts payable - trade | 1,252,284 | 115,322 |
| Accounts payable - joint venture | 9,160 | - |
| GST Payable | 866 | - |
| Interest Payable | 4,349 | - |
| Accrued liabilities | 164,409 | - |
| | 1,431,068 | 115,322 |
| Accounts Payable and Accrued Liabilities for: | | |
| Capital | 997,551 | - |
| Operating | 433,517 | 115,322 |
| | 1,431,068 | 115,322 |

As at December 31, 2011, the amounts due to related parties are \$35,233 (see note 15).

16. Financial instruments and financial risk management (continued)

d. Market risk

Market risk is the risk that changes in market factors, such as foreign exchange rates, commodity prices, and interest rates will affect the Company's cash flows, net income, liquidity or the value of financial instruments. The objective of market risk management is to mitigate market risk exposures where considered appropriate and maximize returns.

i. Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate risk on its cash and cash equivalents and short-term investments. The Company had no interest rate swap or financial contracts in place at December 31, 2011. For the year ended December 31, 2011, an increase or decrease of interest rates by one percent would not have materially affected the financial results of the Company.

ii. Currency risk

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. All of the Company's petroleum and natural gas sales are denominated in Canadian dollars; however, the underlying market prices in Canada for petroleum and natural gas are impacted by changes in the exchange rate between the Canadian and United States dollar. The Company had no outstanding forward exchange rate contracts in place at December 31, 2011.

iii. Commodity price risk

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by world economic events that dictate the levels of supply and demand as well as the relationship between the Canadian and United States dollar, as outlined above. Significant changes in commodity prices may materially impact the Company's financial results.

17. Capital disclosures

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:

| | December 31, 2011 | December 31, 2010 |
|----------------------|--------------------------|-------------------|
| | \$ | \$ |
| Shareholders' equity | 107,025 | 1,099,923 |
| Debentures (note 5) | 640,000 | - |
| Total | 747,025 | 1,099,923 |

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.

17. Capital disclosures (continued)

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 December 31, 2011, the Company's capital structure was not subject to external restrictions.

18. Income Taxes

(i) Deferred income tax recovery

The provision for income tax reflects an effective income tax rate which differs from federal and provincial statutory income tax rates. The main differences are as follows:

| | 2011 | 2010 |
|--|-----------------|--------------|
| Loss before income taxes | \$ (5,541,541) | \$ (268,040) |
| Enacted income tax rate | 26.5% | 29.1% |
| | \$ | \$ |
| Expected income tax (recovery) | (1,468,508) | (78,000) |
| Increase (decrease) in taxes resulting from: | | |
| Stock-based compensation | 105,837 | 35,700 |
| Impact of change in effective tax rate | 143,549 | 4,300 |
| Change in tax benefits not recognized | 1,170,622 | 38,000 |
| Deferred income tax (recovery) | (48,500) | - |

The statutory rate decrease seen above was as a result of a staged phase-in period stemming from tax legislation enacted in 2007.

(ii) Components of the net deferred tax asset (liability)

Temporary differences and carry forwards that give rise to deferred tax assets as of December 31, 2011 and 2010 are as follows:

| <u>As at December 31,</u> | 2011 | 2010 |
|---------------------------------|-------------|-------------|
| | \$ | \$ |
| Non-capital losses | 962,471 | 49,000 |
| Decommissioning liability | 949,569 | - |
| Property, plant and equipment | 298,230 | - |
| Share issue costs | 124,029 | 42,000 |
| Total gross deferred tax assets | 2,334,299 | 91,000 |
| Tax benefits not recognized | (2,334,299) | (91,000) |
| Net deferred tax assets | - | - |

18 Income Taxes (continued)

(ii) Components of the net deferred tax asset (liability) (continued)

The tax benefits not recognized offsets the net deferred tax assets for which there is no assurance of recovery. The tax benefits not recognized is evaluated considering positive and negative evidence about whether the deferred tax assets will be realized. At the time of evaluation, the tax benefits not recognized is either increased or reduced. Reduction could result in the complete elimination of the tax benefits not recognized, if positive evidence indicated that the value of the deferred tax assets is no longer impaired and the tax benefits not recognized is no longer required.

(iii) Tax pools

As at December 31, 2011, the Company has available for deduction against future taxable income, the following approximate amounts:

| | 2011 | Rate | 2010 | Rate |
|--|-------------|--------|-------------|------|
| | \$ | | \$ | |
| Operating loss carry forwards | 3,850,000 | 100% | 186,000 | 100% |
| Share issue costs | 496,000 | 20% | - | - |
| Canadian exploration expenditures | 820,000 | 100% | - | - |
| Canadian development expenditures | 44,000 | 30% | - | - |
| Canadian oil and gas property expenditures - regular | 2,351,000 | 10% | - | - |
| Capital cost allowances | 576,000 | 20-25% | - | - |

The availability of deduction of the operating loss carry forwards against future taxable income expires as follows:

| Year expire: | \$ |
|--------------|---------------------|
| | <i>Nearest '000</i> |
| 2027 | 173,000 |
| 2028 | 1,343,000 |
| 2029 | 504,000 |
| 2030 | 720,000 |
| 2031 | 1,110,000 |
| | 3,850,000 |

19. Operating Leases

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

| | December 31, 2011 | December 31, 2010 |
|----------------------------|------------------------------|----------------------|
| | \$ | \$ |
| Less than one year | 36,850 | - |
| Between one and five years | - | - |
| More than five years | - | - |

The table below shows the expense recorded for the year ended December 31, 2011:

| | December 31, 2011 | December 31, 2010 |
|---|------------------------------|----------------------|
| | \$ | \$ |
| Equipment lease rentals for a compressor. | 6,847 | - |

20. Letters of Credit

| | December 31, 2011 | December 31, 2010 |
|--|------------------------------|----------------------|
| | \$ | \$ |
| Letter of Credit issued to Saskatchewan Ministry of Energy and Resources under the Saskatchewan License Liability Rating (LLR) Program | 74,045 | - |

21. Transition to IFRS

There were no differences between the consolidated statements of financial position as previously reported under Canadian GAAP and the consolidated statement of financial position under IFRS as at December 31, 2010

For the period from incorporation on January 13, 2010 and December 31, 2010, there were no differences in the amounts reported under Canadian GAAP and IFRS, for the Consolidated Statements of Operations, Loss and Comprehensive Loss, the Consolidated Statements of changes in Equity.

The transition from Canadian GAAP to IFRS had no significant impact on cash flows generated by the Company except that under IFRS, cash flows relating to interest are classified as operating, investing or financing in a consistent manner each period which has resulted in interest being classified as financing. Under Canadian GAAP, cash flows relating to interest were classified as operating.

22. Subsequent Events

- a. On January 31, 2012, the Company completed a land lease agreement whereby the Company acquired approximately 4,000 acres of land in Saskatchewan to set up a horizontal heavy oil development play.
- b. On March 19, 2012, the Company entered into a Letter of Intent ("LOI") with Grisham Assets Corp. ("Grisham") to acquire 100% of the issued and outstanding shares in the capital of Grisham. The proposed acquisition is arm's length and it is not expected to result in a change of control.

Grisham is a private company incorporated under the laws of the British Virgin Islands whose principal asset is an agreement to acquire an 80% interest in blocks 1810, 1710, and 2913B offshore the coast of Namibia, Africa and covering an area of more than 20,000km². The Ministry of Mines and Energy of the Republic of Namibia has issued a Petroleum Exploration License on block 1710 and licenses are pending on blocks 1810 and 2913B, which are expected to be granted prior to closing. The remaining 20% is a carried interest held by NAMCOR (Namibian Government) and the Namibian Black Economic Empowerment group.

Petro Viking will acquire from the selling shareholders (the "Vendors") on closing of the acquisition (the "Closing"), 100% of the issued and outstanding Grisham shares. Petro Viking will issue to the Vendors 7,000,000 common shares of Petro Viking at a deemed issue price of \$0.20 and 7,000,000 warrants of Petro Viking and make a pre-Closing cash payment of US\$100,000 (non-refundable) and in addition make a Closing cash payment of US\$5,900,000. The Petro Viking warrants will have an exercise price equal to the financing price in a concurrent private placement, terms and conditions of which will be announced shortly, with an expiration date 24 months from the Closing. The proceeds from the private placement will fund the cash consideration for the acquisition as well as initial work commitments, including mapping and delineating a 2D and 3D seismic program that will commence immediately following Closing.

Pursuant to the LOI, Grisham has agreed to deal exclusively with Petro Viking to enter into a definitive agreement until the earlier of June 16, 2012 and the date of the execution of the definitive agreement. The definitive agreement will include customary conditions to Closing, plus the following specific conditions: (i) receipt of any applicable approvals by the Ministry of Mines and Energy (Namibia); (ii) completion of satisfactory due diligence on Grisham and all legal, financial, geological and technical documentation related to Blocks 1710, 1810, and 2913B; (iii) TSX Venture Exchange approval; and (iv) approval from the respective boards of Petro Viking and Grisham.

Subject to TSX Venture Exchange acceptance, a finder's fee in the amount of \$402,500 will be paid on Closing to Canal Front Investments Inc. The finder's fee will be paid in Petro Viking common shares and warrants (with the shares issued at a price equal to the transaction price).

Petro Viking has reached an agreement in principal with the holders of outstanding secured debenture debt totaling \$640,000, under which the debenture holders, two of whom are related parties to Petro Viking, will convert approximately \$500,000 of the outstanding debt into 2,500,000 common shares of Petro Viking prior to Closing at a deemed issue price of \$0.20 per share. The balance of the debenture, being \$140,000, will be assigned at par value to other related parties prior to closing who shall receive a secured convertible debenture which shall be convertible into common shares at \$0.20 per share within 24 months of Closing. The completion of these transactions is subject to customary conditions, including TSX Venture Exchange approval. The common shares issued under the debt settlement will be subject to a statutory four month hold period.