Petro Viking Energy Inc.

Interim Consolidated Financial Statements

June 30, 2011 and 2010

(Unaudited)

Unaudited Interim Consolidated Financial Statements

Responsibility for interim consolidated financial statements

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

Auditor involvement

The auditor of Petro Viking Energy Inc. has not performed a review of the unaudited interim consolidated financial statements for the six month period then ended June 30, 2011.

		June 30, 2011		December 31, 2010		January 13, 2010
Assets						
Current						
Cash and cash equivalents	$	1,244,007	$	999,248	$	-
Short-term investments		2,328,857		56,051		-
Accounts receivable		176,390		11,376		-
Prepaid expenses and deposits		241,725		148,570		-
Total current assets		3,990,979		1,215,245	-	
Property and equipment (note 4)		4,978,923		-		-
Total assets	$	8,969,902	$	1,215,245	$	-
Liabilities						
Current						
Accounts payable and accrued liabilities	$	468,269	$	115,322	$	-
Total current liabilities		468,269		115,322		
Debenture (note 5)		640,000		-		-
Decommissioning liabilities (note 6)		3,315,476		-		-
Flow-through share premium (note 7)		45,800		-		-
Total liabilities		4,469,545		115,322		-
Shareholders' Equity						
Share capital (note 7)		3,544,837		1,198,963		-
Warrants (note 9)		1,526,273		-		-
Contributed surplus		527,096		169,000		-
Deficit		(1,097,849)		(268,040)		-
Total shareholders’ equity		4,500,357		1,099,923		-
Total liabilities and shareholders’ equity	$	8,969,902	$	1,215,245	$	-

Basis of preparation, adoption of IFRS and statement of compliance *(note 1)*

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 interim consolidated financial statements
Certain comparative figures have been reclassified to conform with the current period’s presentation.

	Three months ended June 30, 2011	Three months ended June 30, 2010	**Six months ended June 30, 2011**	For the period from incorporation on January 13, 2010 to June 30, 2010
Revenue				
Petroleum and natural gas sales (note 10)	$ 98,710	$ -	$ 131,299	$ -
Other Income	10,020	-	15,829	-
	108,730	-	147,128	-
Expenses				
Operating	91,513	-	122,948	-
Transportation	238	-	5,414	-
General and administrative	340,017	-	490,277	-
Share-based compensation (note 8)	98,773	123,000	292,685	123,000
Depletion and depreciation (note 4)	22,561	-	27,356	-
Financing cost (note 11)	28,868	-	38,257	
	581,970	123,000	976,937	123,000
Net loss and comprehensive loss for the period	$(473,240)	$ (123,000)	$ (829,809)	$ (123,000)
Net loss per share (note 12)				
Basic	(0.02)	(0.02)	(0.04)	(0.03)
Diluted	(0.02)	(0.02)	(0.04)	(0.03)
Weighted average number of shares (note 12)				
Basic	26,892,480	5,990,000	21,114,672	4,394,000
Diluted	26,892,480	5,990,000	21,114,672	4,394,000

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

Petro Viking Energy Inc.

Interim Consolidated Statements of Changes in Shareholders' Equity

For the six months ended June 30

(unaudited)

		Six months ended June 30, 2011		For the period from incorporation on January 13, 2010 to June 30, 2010
Share capital (note 7)				
Balance, beginning of period	**$**	1,198,963	$	-
Issued		3,066,023		1,449,000
Flow-through share premium		(45,800)		-
Option value transferred to share capital from contributed surplus		5,520		-
Share issue costs		(679,869)		(250,037)
Balance end of period		3,544,837		1,198,963
Warrants (note 9)				
Balance, beginning of period		-		-
Issued:				
Share purchase warrants		1,445,814		-
Agent warrants		80,459		-
Exercised		-		-
Balance end of period		1,526,273		-
Contributed surplus				
Balance, beginning of period		169,000		-
Share-based compensation related to:				
Options granted in the period to directors, officers and consultants		232,685		123,000
Options granted in the period to agent		130,931		46,000
Option value transferred from contributed surplus to share capital		(5,520)		-
Balance end of period		527,096		169,000
Deficit				
Balance, beginning of period		(268,040)		-
Net loss		(829,809)		(123,000)
Balance, end of period		(1,097,849)		(123,000)
Shareholders' Equity	**$**	4,500,357	$	1,244,963

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

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

	Three months ended June 30, 2011	Three months ended June 30, 2010	**Six months ended June 30, 2011**	For the period from incorporation on January 13, 2010 to June 30, 2010
Operating				
Net loss for the period	$(473,240)	$ (123,000)	$ (829,809)	$ -
Add back non-cash items:				
Share-based compensation	98,773	123,000	292,685	-
Depletion and depreciation	22,561	-	27,356	-
Accretion on decommissioning liabilities	15,320	-	20,442	-
Change in non-cash working capital (note 13)	(53,227)	-	95,828	-
	(389,813)	-	(393,498)	-
Financing				
Issue of equity instruments	923,000	1,000,000	4,385,000	1,449,000
Share issue costs	(99,786)	(145,537)	(465,199)	(204,037)
Repayment of debenture	-	-	(200,000)	-
Change in non-cash working capital (note 13)	-	(40,000)	(1,050)	-
	823,214	814,463	3,718,751	1,244,963
Investing				
Expenditures on property and equipment	(573,113)	-	(612,767)	-
Sale of short-term investment	225,722	-	225,722	-
Purchase of short-term investment		(190,580)	(2,498,528)	(190,580)
	(347,391)	(190,580)	(3,080,494)	(190,580)
Change in cash	86,010	623,883	244,759	1,054,383
Cash, beginning of the period	1,157,997	430,500	999,248	-
Cash, end of the period	$ 1,244,007	$ 1,054,383	$ 1,244,007	$ 1,054,383
Supplemental cash flow information				
Interest paid	$ 5,636	$ -	$ 5,636	$ -
Non-cash transactions				
Agent options issued for share issue costs	94,150	46,000	214,670	46,000
Prepaid expenses applied to share issue costs	-	58,500	-	-
Shares issued to officer and consultant	60,000	-	60,000	-

1. Basis of preparation, adoption of IFRS and statement of compliance

Petro Viking Energy Inc. ("Petro Viking" or the "Company") is incorporated under the laws of the province of Alberta and is engaged in petroleum and natural gas exploration and development activities in western Canada.

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 unaudited interim 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 interim financial statements since February 28, 2011.

These interim consolidated financial statements, including comparatives, have been prepared in accordance with IFRS applicable to the preparation of interim consolidated financial statements including International Accounting Standard (IAS) 34 "Interim Financial Reporting" and 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 interim 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 interim consolidated financial statements, the term "Canadian GAAP" refers to Canadian GAAP applied during 2010.

The policies applied in these interim consolidated financial statements are based on IFRS issued and outstanding as of August 26, 2011, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect to the Company's annual financial statements for the year ended December 31, 2011 could result in restatement of these interim consolidated financial statements.

The interim consolidated financial statements should be read in conjunction with the Company's Canadian GAAP financial statements for the period from incorporation on January 13, 2010 to December 31, 2010. Note 17 discloses information on the transition to IFRS effective for the period from incorporation on January 13, 2010 to December 31, 2010 that is material to the understanding of these interim consolidated financial statements.

2. Summary of significant accounting policies

a) Basis of measurement

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

b) 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.

c) Short-term investments

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

d) 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.

Oil and 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.

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.

2. Summary of significant accounting policies (continued)

d) Property and equipment (continued)

(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.

(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.

2. Summary of significant accounting policies (continued)

e) 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.

f) 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.

g) 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.

h) 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.

i) 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.

j) 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.

2. Summary of significant accounting policies (continued)

j) Income taxes (continued)

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.

k) 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.

l) Share purchase warrants

The Company's share purchase warrants ("warrants") are classified as equity. Incremental costs directly attributable to the issue of new warrants are shown in equity as a deduction, net of tax, from the proceeds. The warrants are initially measure using the Black-Scholes model, which is based on significant assumptions such as volatility, dividend yield and expected term.

m) 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.

2. Summary of significant accounting policies (continued)

n) 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.

<u>Financial assets</u>

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

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.

2. Summary of significant accounting policies (continued)

n) Financial instruments (continued)

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.

o) 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.

p) Business investigation costs

All costs incurred to identify and evaluate assets or business acquisitions are expensed as incurred.

q) Combinations of businesses 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.

2. Summary of significant accounting policies (continued)

r) 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.

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.

2. Summary of significant accounting policies (continued)

r) Significant accounting judgments and estimates (continued)

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.

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)

s) 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.

3. Business acquisition

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 at February 28, 2011		
4,760,000 Petro Viking common shares	$	63,557
Post-closing adjustments (i)		**-**
Total Consideration paid	$	**63,557**
Recognized amounts (predecessor values)		
Assets Acquired		
Property and equipment	$	2,115,065
Cash and cash equivalents		-
Accounts receivable		106,224
Prepaid expenditures		151,691
Total		2,372,980
Liabilities taken over		
Accounts payable and accrued liabilities		452,836
Debenture		840,000
Decommissioning liabilities		1,016,587
Total		2,309,423
Total recognized net assets	$	**63,557**

(i) On June 27, 2011, Petro Viking's Board resolved that an additional 553,136 Petro Viking 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 have not been issued as at June 30, 2011.

(ii) During the period ended June 30, 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 Company's consolidated statement of comprehensive income.

3. Business acquisition (continued)

Alberta purchase

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 acquisition had no impact on Petro Vikings' revenue or operating expenses for the six months ended June 30, 2011.

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 statement of comprehensive income.

4. Property and equipment

		Oil and Natural Gas Interests
Cost or deemed cost		
Balance at January 1, 2011 (i)	$	-
Acquisitions (ii), (iii)		4,865,032
Additions		141,247
Balance at June 30, 2011	$	5,006,279
Depletion, depreciation and impairment losses		
Balance at January 01, 2011	$	-
Depletion and depreciation (iv)		27,356
Balance at June 30, 2011	$	27,356
Net book amount		
At June 30, 2011	$	4,978,923
At December 31, 2010	$	-

i. The Company did not have any property and equipment at January 13, 2010, June 30, 2010 or December 31, 2010.

ii. Acquisitions of property and equipment, net of accumulated depletion, depreciation and impairment losses, during the period, 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 period, amounting to $2,749,967 relate to assets acquired in Alberta purchase. Cash consideration for this acquisition was $471,520. (Note 3)

iv. The depletion, depreciation and impairment of property and equipment, and any eventual reversal thereof, are recognized in depletion and depreciation in the statement of operations. No impairment was recognized in the six months ended June 30, 2011 or for the comparative period.

5. Debenture

The debenture matures on February 28, 2013, and bears interest at a rate of 8% per annum. For the three months ended June 30, 2011, interest expense on the debenture of $13,548 (2010 - $nil) was recorded. For the six months ended June 30, 2011, interest expense on the debenture of $17,815 (2010 - $nil) was recorded.

Accrued debenture interest of $4,208 was included in accounts payable and accrued liabilities (2010 - $nil).

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.

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 period (i)	$	-
Liabilities acquired (ii)		
Deep Creek business combination		1,016,587
Alberta purchase		2,278,447
		3,295,034
Liabilities settled		-
Effect of change in estimates		-
Accretion (iii)		20,442
Decommissioning liabilities, end of period	$	3,315,476

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

	2011
Undiscounted cash flows	$ 3,489,424
Discount rate	3.70%
Inflation rate	2.50%
Weighted average expected timing of cash flows	5.6 years

(i) The Company did not have any decommissioning liabilities at January 13, 2010, June 30, 2010 or December 31, 2010.

(ii) Decommissioning liabilities acquired as a result of business combination with Deep Creek and Alberta purchase (note 3).

(iii) Accretion expense included under financing costs in the Interim 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

		June 30, 2011		December 31, 2010
	Number	**Amount**	Number	Amount
Balance, beginning of period	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	2,927,186	3,190,000	319,000
Less: Flow-through share premium		(45,800)		
Issued on initial public offering (ii)	-	-	5,000,000	1,000,000
Issued on acquisition of Deep Creek (iii)	4,760,000	63,557	-	-
Issued to agent (vii)	20,000	3,280		
Agent options exercised	60,000	12,000	-	-
Option value transferred to share capital from contributed surplus	-	5,520	-	-
Share issue costs (v)	-	(679,869)	-	(250,037)
Balance, end of period	28,528,571	$3,544,837	9,490,000	$1,198,963

(i) 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.

(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 Petro Viking 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 have not been issued as at June 30, 2011.

7. Share capital (continued)

b. Issued and outstanding common shares (continued)

(iv) 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 at June 30, 2011 is $1,161,500. (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.

(vi) 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 at June 30, 2011 is $ 284,314. (note 9)

(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. This amount has been has been charged to share issuance costs with a related credit to Share Capital.

7. Share capital (continued)

b. Issued and outstanding common shares (continued)

(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 14 below. The market price of the common shares at the issue date was $.30/common share.

c. Escrow

The Company has 5,481,544 (December 31, 2010 - 4,490,000) common shares subject to an escrow agreement whereby 10% of the shares will be released upon completion and approval of the Company's qualifying transaction (note 3). An additional 15% of the escrowed common shares will be released on each six month anniversary thereafter unless otherwise permitted by the Exchange.

Common shares issued upon the exercise of options held by officers and directors are subject to the same escrow conditions.

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 purpose of the plan is to advance the interests of the Company by encouraging these individuals to acquire shares in the Company and thereby remain associated with, and seek to maximize the value of, the Company. The Company has also granted options to agents (note 7(b) (ii) and (v)).

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 fair value of the share based compensation at for the three and six months ended June 30, 2011 is $ 38,773 and $232,685 respectively. 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:

	June 30, 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
Exercised	-	-	-	-
Cancelled	-	-	-	-
Expired	-	-	-	-
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	8.93	$ 0.20	949,000
$ 0.30 - $0.35	1,870,000	4.72	$ 0.31	900,000
	2,819,000	6.14	$ 0.27	1,849,000

8. Share-based compensation (continued)

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

	June 30, 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	(60,000)	$ 0.20	-	-
Cancelled	-	-	-	-
Expired	-	-	-	-
Closing	1,559,885	$ 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	440,000	0.93	$0.20	440,000
$ 0.30 - $0.35	1,119,885	1.72	$0.31	1,119,885
	1,559,885	1.49	$0.28	1,559,885

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

	2011		**2010**	
	Directors, Officers and Consultants	Agent	Directors, Officers and Consultants	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

9. Warrants

The following table summarizes information about warrants outstanding as at:

	June 30, 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	1,445,814	-	-	-
Agent warrants	1,139,885	$ 0.51	80,459	-	-	-
Exercised	-	-	-	-		
Closing (ii)	14,168,456	$ 0.51	1,526,273	-	-	-

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

Six months ended June30, 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 option granted	2 years	2 years

(i) See note 7(b)(iv), 7(b)(v) ,7(b)(vi) and 7(b)(vii)
(ii) As at June 30, 2011, warrants had a weighted average remaining life of 1.57 years.

10. Petroleum and natural gas sales

Included within petroleum and natural gas sales for the three months ended June 30, 2011 are sales of $122,295 (2010 - $nil) and royalty expenses of $23,585 (2010 - $nil).

For the six month period ended June 30, 2011, petroleum and natural gas sales includes sales of $161,968 (2010 - $nil) and royalty expenses of $30,669 (2010 - $nil).

11. Financing costs

Included within financing costs for the three months ended June 30, 2011 are interest expense on debenture of $13,548 (2010 - $nil) and accretion on decommissioning liabilities of $15,320 (2010 - $nil).

For the six month period ended June 30, 2011, financing costs includes interest expense on debenture of $17,815 (2010 - $nil) and accretion on decommissioning liabilities of $20,442 (2010 - $nil).

12. Net loss per common share

Basic and diluted earnings per share are calculated as follows:

	Three months ended June 30, 2011	Three months ended June 30, 2010	**Six months ended June 30, 2011**	For the period from incorporation on January 13, 2010 to June 30, 2010
Net loss for the period	$ (473,240)	$ (123,000)	$ (829,809)	$ (123,000)
Weighted average number of shares (basic)	26,892,480	5,990,000	21,114,672	4,394,000
Weighted average number of shares (diluted) (i)	26,892,480	5,990,000	21,114,672	4,394,000

(i) Options to purchase securities in the number of 419,890 (2010 – nil) and 390,095 (2010 – nil) were excluded from the weighted average number of shares calculation for the three month and six month period ended June 30, 2011 and 2010 as the Company is in a loss position.

13. Change in non-cash working capital

	Three months ended June 30, 2011	Three months ended June 30, 2010	**Six months ended June 30, 2011**	For the period from incorporation on January 13, 2010 to June 30, 2010
Accounts receivable	$ (44,197)	$ -	$ (165,014)	$ -
Prepaid expenses and deposits	(82,154)	-	(93,155)	-
Accounts payable and accrued liabilities	73,124	(40,000)	352,947	-
	(53,227)	(40,000)	94,778	-
Working capital deficiencies acquired (note 3)	-	-	(194,921)	-
	(53,227)	(40,000)	(100,143)	-
Operating	(53,227)	(40,000)	95,828	-
Financing	-	-	(1,050)	-
Investing	-	-	(194,921)	-
	$ (53,227)	$ (40,000)	$ (100,143)	$ -

14. 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.

Related party transactions are disclosed below, unless they have been disclosed elsewhere in the financial statements.	**Three months ended June 30, 2011**	Three months ended June 30, 2010	**Six months ended June 30, 2011**	For the period from incorporation on January 13, 2010 to June 30, 2010
Administration and consulting fees charged by key management personnel	$ 58,000	$ -	$ 76,000	$ -
Legal fees charged by a law firm of which one director of the Company is council	35,259	7,000	87,279	42,000
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	3,318	-	10,244	-
100,000 bonus shares issued to a key management personnel	30,000	-	30,000	-

Amount owing to related parties at period end	**June 30, 2011**	December 31, 2010
Accounts payable and accrued liabilities for administration and consulting fees, legal fees, and debenture interest payable.	$ 69,306	$ 70,605
Debenture – Principal outstanding.	370,000	-

15. 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.

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.

15. Financial instruments and financial risk management (continued)

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.

The Company did not provide for any doubtful accounts nor was it required to write-off any receivables during the three and six months ended June 30, 2011.

As at June 30, 2011, the Company considers its receivables to be aged as follows:

Not past due	$ 58,616
Past due by less than 90 days	53,195
Past due by more than 90 days	64,579
Total	$ 176,390

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 have adequate liquidity to fund its financial liabilities through its future cash flows. 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 two years.

15. 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 June 30, 2011.

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 June 30, 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.

16. 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:

		June 30, 2011		December 31, 2010
Shareholders' equity	$	4,500,357	$	1,099,923
Debentures		640,000		Nil
Total	$	5,140,357	$	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.

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.

16 Capital disclosures (continued)

At June 30, 2011, the Company's capital structure was not subject to external restrictions.

17. 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 March 31, 2010, June 30, 2010, September 30, 2010 and December 31, 2010

For the period from incorporation on January 13, 2010 and December 31, 2010 and all periods reported in between, 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.

18. Contingent liability

Flow-through Shares: As at June 30, 2011, the Company is committed to incur, on a best efforts basis, $388,000 in qualifying resource expenditures pursuant to a private placement for which flow-through proceeds have been received (note 7). As at June 30, 2010, the Company had incurred qualifying resource expenditures of $ Nil. The Company must incur the $388,000 of qualifying resource expenditures before May 24, 2013.

If the Company does not spend these funds in compliance with the Government of Canada flow-through regulations, it may be subject to litigation from various counterparties. The Company intends to fulfill its flow-through commitments within the given time constraints.