International Frontier Resources Corporation

Consolidated Financial Statements

December 31, 2011

Contents

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Independent Auditors' Report

To the Shareholders of
International Frontier Resources Corporation

We have audited the accompanying consolidated financial statements of International Frontier Resources Corporation and its subsidiary, which comprise the consolidated balance sheet as at December 31, 2011, December 31, 2010, and January 1, 2010, and the consolidated statements of operations and comprehensive loss, shareholders' equity (deficit) and cash flows for the years ended December 31, 2011 and 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 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 International Frontier Resources Corporation and its subsidiary as at December 31, 2011, December 31, 2010, and January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

MacKay LLP

Calgary, Alberta
April 16, 2012

Chartered Accountants

International Frontier Resources Corporation
Consolidated Balance Sheets

	December 31, 2011	December 31, 2010 (Note 18)	January 1, 2010 (Note 18)
Assets			
Current			
Cash and cash equivalents (Note 15)	$ 4,037,930	$ 6,813,190	$ 4,092,130
Receivables	118,830	111,010	135,735
Prepaids and deposits	21,635	13,980	115,555
Current portion of restricted cash on deposit	374,305	335,115	-
Discontinued operations (Note 16)	-	-	3,978,035
	4,552,700	7,273,295	8,321,455
Restricted cash on deposit	-	305,555	640,670
Exploration and evaluation (Note 5)	9,814,875	6,491,090	8,640,940
Property and equipment (Note 6)	1,109,615	1,158,145	1,897,025
Deposits	250,650	177,670	-
	$ 15,727,840	$ 15,405,755	$ 19,500,090
Liabilities			
Current			
Payables and accruals (Note 7)	$ 1,473,195	$ 607,600	$ 212,575
Current portion of decommissioning liabilities (Note ,8)	13,985	75,080	53,790
Discontinued operations (Note 16)	-	-	259,415
	1,487,180	682,680	525,780
Decommissioning liabilities (Note 8)	877,610	783,875	550,650
	2,364,790	1,466,555	1,076,430
Shareholders' Equity			
Share capital	42,064,435	42,064,435	42,064,435
Contributed surplus	10,956,715	10,859,525	10,746,850
Deficit	(39,658,100)	(38,984,760)	(34,387,625)
	13,363,050	13,939,200	18,423,660
	$ 15,727,840	$ 15,405,755	$ 19,500,090

Commitments and contingencies (Note 14)

On behalf of the Board

(Signed) "Wm. Patrick Boswell" Director (Signed) "Margaret Souleles" Director

See accompanying notes to the consolidated financial statements.

International Frontier Resources Corporation

Consolidated Statements of Operations and Comprehensive Loss

For the year ended December 31,	2011	2010
Revenue		
Oil	$ 1,017,325	$ 712,525
Less: Royalties	(246,475)	(238,010)
	770,850	474,515
Interest income	36,105	18,150
Foreign exchange gain	28,430	-
	835,385	492,665
Expenses		
Field operating costs	363,235	393,680
General and administration	541,070	570,465
Finance costs (Note 8)	20,840	15,640
Pre-license costs	13,340	-
Exploration and evaluation (Note 5)	307,155	2,765,065
Recovery of exploration and evaluation costs (Note 14)	(35,155)	-
Depletion, depreciation and impairments (Note 6)	201,050	1,119,025
Stock based compensation	97,190	112,675
	1,508,725	4,976,550
Net loss from continuing operations	(673,340)	(4,483,885)
Net loss from discontinued operations (Note 16)	-	113,250
Net loss and comprehensive loss for the year	$ (673,340)	$ (4,597,135)

Net loss per share (Note 12)		
Basic and diluted	$ (0.01)	$ (0.08)

See accompanying notes to the consolidated financial statements.

International Frontier Resources Corporation
Consolidated Statements of Changes in Equity
December 31, 2011

As at:	December 31, 2011		December 31, 2010	
	Number	Amount	Number	Amount
Common shares				
Share capital, end of period	**59,578,965**	**$ 42,064,435**	59,578,965	$ 42,064,435
Contributed surplus				
Balance, beginning of period	-	$ 10,859,525	-	$ 10,746,850
Stock-based compensation expense	-	$ 97,190	-	112,675
Contributed surplus, end of period	-	$ 10,956,715	-	$ 10,859,525
Deficit				
Balance beginning of year	-	$ (38,984,760)	-	$ (34,387,625)
Net loss for the year	-	$ (673,340)	-	(4,597,135)
Deficit end of year	-	$ (39,658,100)	-	$ (38,984,760)

See accompanying notes to the consolidated financial statements.

International Frontier Resources Corporation
Consolidated Statements of Cash Flows

(Unaudited)

For the year ended December 31,	2011	2010
Operating		
Net loss from continuing operations	$ (673,340)	$ (4,483,885)
Non Cash Items:		
Impairment of exploration and evaluation costs	307,155	2,765,065
Depletion, depreciation and impairments	201,050	1,119,025
Finance costs	20,840	15,640
Stock based compensation	97,190	112,675
Decommissioning liabilities settled	(64,100)	(286,375)
	(111,205)	(757,855)
Change in non-cash operating working capital (Note 15)	(118,040)	(61,570)
Cash flow from continuing operations	(229,245)	(819,425)
Cash flow from discontinued operations (Note 16)	-	(74,725)
	(229,245)	(894,150)
Investing		
Additions to exploration and evaluation assets	(3,630,940)	(470,115)
Additions to property and equipment	(76,610)	-
Decrease in restricted cash on deposit	266,365	-
Proceeds from sale of discontinued operations (Note 16)	-	3,788,970
Change in non-cash investing working capital (Note 15)	895,170	405,225
Cash flow from continuing investing activities	(2,546,015)	3,724,080
Cash flow from discontinued investing activities	-	(108,870)
	(2,546,015)	3,615,210
Net decrease in cash and cash equivalents	(2,775,260)	2,721,060
Cash and cash equivalents (Note 15)		
Beginning of year	6,813,190	4,092,130
End of year	$ 4,037,930	$ 6,813,190

See accompanying notes to the consolidated financial statements.

1. Nature of operations

The Company is engaged in the exploration for and development of oil and natural gas reserves. These activities are conducted in the Central Mackenzie Valley ("CMV"), Northwest Territories, Canada, south-east Alberta, Canada, and north-west Montana in the United States. These financial statements are denoted in Canadian dollars.

The consolidated financial statements include the accounts of the Company and its 50% jointly controlled interest in Sidox Chemicals Canada Ltd. ("Sidox") accounted for using the equity method of consolidation.

Starting in 2008 and continuing into 2011, the global credit market crisis, the volatility in the price of oil and natural gas and the slowdown of economic growth in the rest of the world have created a substantially more volatile business environment. These conditions may limit certain of the Corporation's planned business development activities and will continue to present risks.

2. Basis of preparation and statement of compliance

These are the Company's first IFRS annual consolidated financial statements. Note 18 provides an explanation of how the transition to IFRS has affected the reported financial position and performance. This note includes reconciliations of equity and total comprehensive income for comparative periods and a reconciliation of equity at January 1, 2010 and December 31, 2010 and for the year ended December 31, 2010 from Part V of Canadian generally accepted accounting principles ("Canadian GAAP") to IFRS.

These consolidated financial statements were approved and signed by the Chief Executive Officer and the Chief Financial Officer on April 16, 2012, having been duly authorized to do so by the Board of Directors.

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

3. Summary of significant accounting policies

Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances with banks, cash held in trust and short-term deposits with original maturities of three months or less.

Investments in Associates

The Company has a 50% investment in Sidox Chemicals Canada Ltd. (Sidox.). This investment is accounted for using the equity method of consolidation. The equity method involves the recording of the initial investment at cost and the subsequent adjusting of the carrying value of the investment for the Company`s proportionate share of the profit or loss and any other changes in the associates' net assets such as dividends.

If the Company`s share of the associate's losses equals or exceeds its investment in the associate, recognition of further losses is discontinued. After the Company`s interest is reduced to zero, additional losses will be provided for and a liability recognized, only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the

3. Summary of significant accounting policies (continued)

associate. If the associate subsequently reports profits, the Company will resume recognizing its share of those profits only after its share of the profits equals the share of losses not recognized. At each balance sheet date, the Company assesses its investments in associates for indicators of impairment.

Significant Accounting Judgments, Estimates and Assumptions

The timely preparation of the consolidated financial statements in accordance with IFRS requires that Management make estimates and assumptions and use judgment regarding the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Such estimates primarily relate to unsettled transactions and events as of the date of the consolidated financial statements. The estimated fair value of financial assets and liabilities, by their very nature, are subject to measurement uncertainty. Accordingly, actual results may differ from estimated amounts as future confirming events occur. Significant judgments, estimates and assumptions made by Management in the preparation of these consolidated financial statements are outlined below.

Specifically, amounts recorded for depletion, depreciation and amortization expense, accretion expense, decommissioning liabilities, fair value measurements, and amounts used in impairment tests for intangible assets, and property, plant and equipment are based on estimates. These estimates include petroleum and natural gas reserves, future petroleum and natural gas prices, future interest rates and future costs required to develop those reserves as well as other fair value assumptions.

The total decommissioning obligation is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years, based on current legal and constructive requirements and technology. The estimated obligations and actual costs may change significantly due to changes in and regulations, technology, timing of the expenditure, and the discount rates used to determine the net present value of the obligations.

The Company uses the Black-Scholes option pricing model in determining stock-based compensation expense, which requires a number of assumptions to be made, including the risk-free interest rate, expected option life, forfeiture rate, and expected share price volatility. Consequently, the actual stock based compensation expense may vary from the amount estimated.

Foreign Currency Translation

Monetary assets and liabilities of the Company that are denominated in foreign currencies are translated into its functional currency at the rates of exchange in effect at the period end date. Any gains or losses are recorded in the Consolidated Statements of Operations and Comprehensive Loss.

3. Summary of significant accounting policies (continued)

Revenue recognition

Revenue associated with the production and sales of crude oil owned by the Company are recognized when title passes from the Company to its customer.

Interest income is recognized as the interest accrues using the effective interest method.

Transportation costs

The costs associated with the transportation of crude oil are recognized as part of filed operating costs on the Consolidated Statements of Operations and Comprehensive Loss when the product is delivered and the services provided.

Exploration and Evaluation Assets and Property, Plant and Equipment

i) Cost

Oil and gas properties and other property, plant and equipment are stated at cost. The chosen accounting policy requires management to determine the proper classification of activities designated as developmental or exploratory, which then determines the appropriate accounting treatment of the costs incurred for oil and natural gas exploration, evaluation and development expenditures.

The results from an exploration drilling program can take considerable time to analyze and the determination that commercial reserves have been discovered requires both judgment and industry experience. Exploration drilling costs can fluctuate from year to year due to such factors as the level of exploratory spending, the level of risk sharing with third parties participating in the exploratory drilling and the degree of risk associated with drilling in particular areas.

ii) Exploration and evaluation costs

Once the legal right to explore has been acquired, direct costs of exploration activities are capitalized as intangible exploration and evaluation assets until the assets have been evaluated. Direct costs can include unproved property acquisition costs, geological and geophysical costs, exploratory drilling costs, materials used and contract labour costs. When technical feasibility and commercial viability are demonstrated, the exploration and evaluation costs are then transferred to property, plant and equipment. As long as these assets remain classified as intangible exploration and evaluation assets, they are subject to technical, commercial and management review, as well as a review for indicators of impairment at each reporting period. If there are indicators of impairment, exploration and evaluation assets are tested for impairment at the operating segment level together with property, plant and equipment. Exploration and evaluation assets are derecognized when the legal right to explore has expired or when the asset is no longer expected to generate value. Costs incurred before the Company has a legal right to explore are expensed in the period in which they are incurred.

iii) Petroleum and natural gas properties

Petroleum and natural gas properties are recorded at cost, less accumulated depletion and accumulated impairment losses. All direct costs related to the acquisition, exploration and development of petroleum and natural gas properties are initially capitalized. Costs comprise of the asset's purchase price or construction costs, which can include lease acquisitions, geological and geophysical costs, equipment costs, drilling, completion and tie-in costs,

3. Summary of significant accounting policies (continued)

overhead expenses directly related to development activities and an estimate of costs to decommission the asset.

Petroleum and natural gas properties are depleted using the unit-of-production method based on proven and probable reserves as determined by the Company's independent reserve evaluators, using estimated future prices and costs. The depletion cost base includes total capitalized costs plus the estimated future costs associated with developing proven and probable reserves.

Oil and gas reserves are evaluated by independent qualified reserves evaluators. The estimation of reserves is an inherently complex process and involves the exercise of professional judgment. Estimates are based on projected future rates of production, estimated commodity prices, engineering data and the timing of future expenditures, all of which are subject to uncertainty. Changes in reserve estimates can have an impact on reported net earnings through revisions to depreciation, depletion and amortization expense, in addition to determining possible write downs of property, plant and equipment.

Petroleum and natural gas properties are derecognized on disposal or when no future economic benefits are expected from their use or disposal. The gain or loss arising from the derecognition is included in the statement of operations and comprehensive loss.

iv) Office furniture and equipment
Office furniture and equipment is carried at cost and depreciated on a straight-line basis over the assets' estimated useful lives at a rate of 20% to 30% per annum.

v) Impairment of exploration and evaluation assets and property, plant and equipment
The Company's exploration and evaluation assets and property, plant and equipment are reviewed for indicators of impairment at each reporting date. If indicators of impairment exist, the Company will then perform an impairment test. The test requires that the Company estimate the assets' recoverable amount. The test must be performed at the lowest level of which an asset or a cash generating unit ('CGU') generates cash inflows that are largely independent of those from other assets or other CGU's. If the carrying amount of an asset or CGU exceeds its recoverable amount, the asset or CGU is considered impaired and is written down to its recoverable amount.

The recoverable amount is calculated as the greater of an asset or CGU's fair value less costs to sell and its value-in-use. Fair value less costs to sell may be determined using discounted future net cash flows of proven and probable reserves using forecasted market prices and costs. Value-in-use is determined by estimating the present value of the future net cash flows expected to be derived from the continued use of the asset or CGU.

Impairment losses are recognized in depletion, depreciation and impairments in the statement of operations and comprehensive loss.

At each reporting date, an assessment is made as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indications exist, the Company estimates the asset or CGU's recoverable amount. An impairment loss is reversed only to the extent that the carrying amount of the asset does not

3. Summary of significant accounting policies (continued)

exceed its recoverable amount, nor exceed the carrying amount that would have been determined net of depletion, had no impairment loss been previously recognized for the asset or CGU. Such reversal is recognized in the statement of operations and comprehensive loss.

Joint Arrangements

Substantially all of the Company's exploration and production activities are conducted jointly with others and accordingly the accounts reflect only the Company's proportionate interest in such activities.

Decommissioning liabilities

The Company recognizes the fair value of a decommissioning liability and a corresponding increase in the carrying value of the related long-lived asset in the period in which it is constructed or acquired. The fair value of the obligation is management's best estimate of the cost to retire the asset based on current legislation and industry practice, discounted to its present value using a risk-free rate. The increase in the carrying value of the asset is amortized on a unit-of-production basis consistent with the method used to record depletion on the Company's petroleum and natural gas properties. The liability is subsequently adjusted for the passage of time, which is recognized as a finance cost in the statement of operations and comprehensive loss.

Inherent in the calculation of the decommissioning liability are numerous assumptions and judgment including the ultimate settlement amounts, future third party pricing, inflation factors, risk free discount rates, timing of settlement and changes in the legal, regulatory, environmental and political environments. The liability is periodically adjusted for revisions to these assumptions. Actual costs incurred upon settlement of the obligations are charged against the liability.

Earnings Per Share Amounts

Basic earnings per common share is computed by dividing the net earnings by the weighted average number of common shares outstanding during the period. Diluted earnings per share amounts are calculated giving effect to the potential dilution that would occur if stock options or other contracts to issue common shares were exercised or converted to common shares. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments. The treasury stock method assumes that proceeds received from the exercise of in-the-money stock options are used to repurchase common shares at the average market price.

Flow-through shares

The resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with tax legislations. On issuance the premium received on the flow-through shares, being the difference in price over a common share with no tax attributes is recognized in payables and accruals on the balance sheet. As expenditures are incurred the deferred tax liability associated with the renounced tax deductions are recognized through profit and loss along with a pro-rata portion of the deferred premium.

3. Summary of significant accounting policies (continued)

Income Taxes

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable net earnings will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilized. Deferred income tax relating to items recognized directly in equity is recognized in equity.

Deferred tax assets and liabilities are recognized at expected tax rates in effect in the year when the asset is expected to be realized or the liability settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. The effect of a change to the tax rate on the future tax assets and liabilities is recognized in net earnings when substantively enacted.

The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded by management.

Share-Based Payments

The Company has a stock option plan as described in Note 10. The Company uses the fair value method of accounting for stock options granted to employees and directors. Fair values are determined using the Black-Scholes option pricing model. Compensation costs are recognized in the statement of operations at the date of grant as the options vest immediately. Compensation expense is adjusted for the estimated amount of forfeitures at the time compensation expense is recognized.

Financial Instruments

Financial instruments must initially be recognized at fair value on the balance sheet based on their initial classification. Each financial instrument is classified as one of the following categories: financial assets and financial liabilities measured at fair value through profit or loss, receivables, held to maturity investments, available for- sale financial assets, or other financial liabilities.

Financial assets include cash and cash equivalents, receivables and restricted cash on deposit. Financial liabilities include payables and accruals.

A financial instrument measured at fair value through profit and loss ("FVTPL") is not a loan or receivable and includes one of the following criteria:

- is a derivative, except for derivatives that have been designated as effective hedging instruments;
- has been acquired or incurred principally for the purpose of selling or repurchasing in the near future; or
- is part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of realized short-term trading margins.

3. Summary of significant accounting policies (continued)

For financial assets and financial liabilities that are not classified as FVTPL, the transaction costs that are directly attributable to the acquisition or issue of a financial asset or financial liability are added to the fair value initially recognized for that financial instrument. These costs are expensed to earnings using the effective interest rate method.

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest rate method if the time value of money is significant.

Subsequent measurement of a financial instrument is based on its classification. Unrealized gains and losses on available-for-sale financial assets are recognized in other comprehensive income ("OCI") and are transferred to earnings when the asset is derecognized. The other categories of financial instruments are recognized at amortized cost using the effective interest rate method.

4. Recent accounting pronouncements

i) Presentation of Financial Statements

In June 2011, the International Accounting Standards Board ("IASB") issued IAS 1, "Presentation of Items of OCI: Amendments to IAS 1 Presentation of Financial Statements." The amendments stipulate the presentation of net earnings and OCI and also require the Company to group items within OCI based on whether the items may be subsequently reclassified to profit or loss. Amendments to IAS 1 were effective for the Company on January 1, 2012 with required retrospective application and early adoption permitted. The Company retrospectively adopted the amendments on January 1, 2012. The adoption of the amendments to this standard did not have a material impact on the Company's financial statements.

ii) Offsetting Financial Assets and Financial Liabilities

In December 2011, the IASB issued amendments to IFRS 7, "Financial Instruments: Disclosures" and IAS 32, "Financial Instruments: Presentation" to clarify the current offsetting model and develop common disclosure requirements to enhance the understanding of the potential effects of offsetting arrangements. Amendments to IFRS 7 are effective for the Company on January 1, 2013 with required retrospective application and early adoption permitted. Amendments to IAS 32 are effective for the Company on January 1, 2014 with required retrospective application and early adoption permitted. The Company intends to retrospectively adopt the IFRS 7 amendments on January 1, 2013 and the IAS 32 amendments on January 1, 2014. The adoption of these amended standards is not expected to have a material impact on the Company's financial statements.

iii) Financial Instruments: Recognition and Measurement

In November 2009, as part of the International Accounting Standards Board's (IASB) project to replace International Accounting Standard (IAS) 39 *Financial Instruments: Recognition and Measurement*, the IASB issued the first phase of IFRS 9 *Financial Instruments*. It contained requirements for the classification and measurement of financial assets, and was updated in October 2010 to incorporate financial liabilities. The standard is applicable for annual periods starting on or after January 1, 2015.

4. Recent accounting pronouncements (continued)

iv) Reporting Entity

In May 2011, the IASB issued IFRS 10 *Consolidated Financial Statement*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosures of Interests in Other Entities*, and amendments to IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures.* IFRS 10 creates a single consolidation model by revising the definition of control in order to apply the same control criteria to all types of entities, including joint arrangements, associates and special purpose vehicles. IFRS 11 establishes a principle-based approach to the accounting for joint arrangements by focusing on the rights and obligations of the arrangement and limits the application of proportionate consolidation accounting to arrangements that meet the definition of a joint operation. IFRS 12 is a comprehensive disclosure standard for all forms of interests in other entities, including joint arrangements, associates and special purpose vehicles. Retrospective application of these standards with relief for certain transactions is effective for fiscal years beginning on or after January 1, 2013, with earlier application permitted if all five standards are collectively adopted. The company is currently assessing the impact of these standards.

v) Fair Value Measurements

In May 2011, the IASB issued IFRS 13 Fair Value Measurement, which establishes a single source of guidance for all fair value measurements, clarifies the definition of fair value, and enhances the disclosures on fair value measurement. Prospective application of this standard is effective for fiscal years beginning on or after January 1, 2013, with early application permitted. The company does not anticipate significant changes to its fair value measurements and related disclosures as a result of this standard.

vi) Employee Benefits

In June 2011, the IASB issued amendments to IAS 19 *Employee Benefits,* which revises the recognition, presentation and disclosure requirements for defined benefit plans. The revised standard requires immediate recognition of actuarial gains and losses in other comprehensive income, eliminating the previous options that were available, and enhances the disclosure requirements for defined benefit plans. Retrospective application of this standard is effective for fiscal years beginning on or after January 1, 2013, with early application permitted. The company does not anticipate significant impacts as a result of these amendments.

5. Exploration and evaluation assets

As at December 31, 2011, exploration and evaluation assets consist of total costs incurred less impairments in the the Central Mackenzie Valley ("CMV"), Northwest Territories, Canada of $6,561,000 (December 31, 2010 - $6,457,970), costs incurred in Southern Alberta, Canada of $60,505 (December 31, 2010 - $33,125) and costs incurred in, north-west Montana, USA of $3,193,370 (December 31, 2010 - $Nil).

Cost		Canada		USA		Total
Balance at January 1, 2010	$	21,723,410	$	-	$	21,723,410
Additions		550,080		-		550,080
Balance, as at December 31, 2010		22,273,490		-		22,273,490
Additions		437,570		3,193,370		3,630,940
Balance, as at December 31, 2011	**$**	**22,711,060**	**$**	**3,193,370**	**$**	**25,904,430**
Accumulated Impairment		**Canada**		**USA**		**Total**
Balance at January 1, 2010	$	(13,082,470)	$	-	$	(13,082,470)
Additions		(2,699,930)		-		(2,699,930)
Balance, as at December 31, 2010		(15,782,400)		-		(15,782,400)
Additions		(307,155)		-		(307,155)
Balance, as at December 31, 2011	**$**	**(16,089,555)**	**$**	**-**	**$**	**(16,089,555)**
Carrying Value						
Balance at January 1, 2010	$	8,640,940	$	-	$	8,640,940
Balance, as at December 31, 2010	$	6,491,090	$	-	$	6,491,090
Balance, as at December 31, 2011	$	6,621,505	$	3,193,370	$	9,814,875

At December 31, 2011, the Company booked an impairment charge of $307,155 (December 31, 2010 - $2,699,930) with respect to its exploration and evaluation assets in the Northwest Territories, Canada.

At December 31, 2011, the Company accrued $508,500 for a sale and purchase agreement dated May 27, 2011 to purchase mineral titles in Glacier County, NW Montana USA. Title opinions have now been obtained and the Company anticipates closing to occur in Q2, 2012.

At December 31, 2011 the Company accrued $452,565 for a sale and purchase agreement dated October 31, 2011 to purchase additional mineral titles in Glacier County NW Montana, USA. Title opinion is ongoing and the Company anticipates closing to occur in Q3, 2012.

6. Property, plant and equipment

Cost		Petroleum and natural gas properties		Office furniture and equipment		Total
Balance at January 1, 2010	$	3,171,775	$	84,980	$	3,256,755
Additions		8,790				8,790
Change in decommissioning liability		371,755				371,755
Balance, as at December 31, 2010		3,552,320		84,980		3,637,300
Additions		76,620		-		76,620
Change in decommissioning liability		75,900		-		75,900
Balance, as at December 31, 2011	**$**	**3,704,840**	**$**	**84,980**	**$**	**3,789,820**
Depletion and depreciation						
Balance at January 1, 2010	$	(1,288,775)	$	(70,955)	$	(1,359,730)
Depletion and depreciation		(1,116,450)		(2,975)		(1,119,425)
Balance, as at December 31, 2010		(2,405,225)		(73,930)		(2,479,155)
Depletion and depreciation		(198,720)		(2,330)		(201,050)
Balance, as at December 31, 2011	**$**	**(2,603,945)**	**$**	**(76,260)**	**$**	**(2,680,205)**
Carrying Value						
Balance at January 1, 2010	$	1,883,000	$	14,025	$	1,897,025
Balance, as at December 31, 2010	$	1,147,095	$	11,050	$	1,158,145
Balance, as at December 31, 2011	$	1,100,895	$	8,720	$	1,109,615

In 2011, a $39,810 (2010 - $927,130) impairment of petroleum and natural gas assets in Canada has been recorded as part of depletion to reflect the excess carrying amount of assets over fair value of future reserves.

The prices used in the ceiling test evaluation of the Company's petroleum properties at December 31, 2011 were as follows:

	2012	2013	2014	2015	2016	2017	Thereafter
Alberta Bow River Hardisty Crude Oil ($C/Bbl)	$82.00	$82.00	$84.10	$84.70	$85.50	$86.30	2.0%

At December 31, 2010, the Company tested property, plant and equipment for impairment and recorded an impairment of $927,130. The impairment was derived by comparing the Company's carrying amounts by CGU to their recoverable amounts based on value in use discounted at 10%. The Company's CGU's are based on the Company`s 100% owned and operated producing oil wells in the Alderson area of southern Alberta.

7. Payables and accruals

	December 31, 2011	December 31, 2010
Trade payables and accruals	$ 172,980	$ 272,490
Accrual for letters of credit	339,150	335,110
Accrued liabilities	55,000	73,190
Accrued exploration and evaluation costs (Note 5)	961,065	-
	$ 1,473,195	$ 607,600

8. Decommissioning Liabilities

The total future decommissioning liabilities result from the Company's net ownership interest in wells and facilities. Management estimates the total undiscounted amount of future cash flows required to reclaim and abandon wells and facilities as at December 31, 2011 is $891,595 (December 31, 2010 - $858,955) with abandonment dates ranging from 1 to 8 years (December 31, 2010 – 2 to 4 years). The liability was determined using an average risk-free rate of 1.60% (December 31, 2010 – 2.05%) and an inflation rate of 2% (December 31, 2010 – 2%).

The Company's decommissioning liabilities changed as follows:

	December 31, 2011	December 31, 2010
Balance, beginning of period	$ 858,955	$ 604,445
Adjustments for abandonment dates and estimated costs	75,900	483,970
Liabilities settled	(64,100)	(286,375)
Change in discount rate	-	41,825
Accretion expense	20,840	15,090
Balance, end of period	$ 891,595	$ 858,955
Current portion	(13,985)	(75,080)
Long term portion	$ 877,610	$ 783,875

9. Income taxes

a) The total provision for income taxes differs from the expected amount by applying the combined federal and provincial tax rates of approximately 26.50% (2010- 28.00%) to loss before income taxes. This difference results from the following items:

	2011	2010
Loss before income taxes from continuing operations	$ (673,340)	$ (4,483,885)
Expected tax recovery of combined federal and provincial statutory rates	(178,000)	(1,255,000)
Increase (decrease) resulting from:		
Rate differential	8,000	138,000
Stock based compensation	26,000	31,000
Other	4,000	(39,000)
	(140,000)	(1,125,000)
Expiry of losses	66,000	
Unrecoginzed deferred tax asset	74,000	1,125,100
Deferred income tax recovery	$ -	$ -

9. Income taxes (continued)

b) Deferred income taxes consist of the following temporary differences and other items

	2011	2010
Excess of tax pools over carrying value of property and equipment	$ **594,000**	$ 410,000
Asset retirement obligations	**223,000**	215,000
Share issue costs	**-**	97,000
Non-capital loss carry-forwards	**1,282,000**	1,231,000
Deposit forfeit payable	**(9,000)**	-
	2,090,000	1,953,000
Unrecognized deferred tax asset	**(2,032,910)**	(1,953,000)
	$ **-**	$ -

c) Tax losses

The Company has incurred non-capital losses for income tax purposes of approximately $5,129,000 (2010 - $4,922,600) in Canada. The related benefit of these losses in Canada has been recognized in the consolidated financial statements to reduce future income taxes. Unless sufficient taxable income is earned, these losses will expire as follows:

	Non-capital
2012	$ 508,000
2013	499,000
2026	253,000
2027	620,000
2028	431,000
2029	942,000
2030	1,253,000
2030	622,000
	$ 5,128,000

The Company also has capital losses of $12,900,000 to use against future capital gains.

10. Share Capital

a) Authorized:
Unlimited common shares
Unlimited preferred shares

b) Stock options

The Company has a stock option plan available to consultants, officers, directors, and employees of the Company to be granted options of up to 10 percent of the issued and outstanding common shares of the Corporation. The exercise price of each option approximates the market price for the common shares on the date the option was granted. As at December 31, 2011, 5,531,500 common shares were reserved for issuance under the plan. Options granted under the plan vest upon granting and have a term of five years to expiry.

10. Share Capital (continued)

Outstanding and exercisable

	December 31, 2011			December 31, 2010		
	Number of Options		**Weighted Average Exercise Price**	Number of Options		Weighted Average Exercise Price
Balance, beginning of period	**4,206,500**	**$**	**0.21**	3,895,000	$	0.26
Granted	**1,450,000**	**$**	**0.11**	2,000,000	$	0.10
Expired	**(125,000)**	**$**	**1.95**	(1,688,500)	$	0.17
Exercised	**-**	**$**	**-**	-	$	-
Balance, end of period	**5,531,500**	**$**	**0.15**	4,206,500	$	0.21

December 31, 2011

	Options Outstanding			Options Exercisable	
Exercise Price	Options Outstanding	Weighted Average Contractual Life (years)	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercisable Price
$0.10 - $0.13	5,181,500	3.53	$ 0.10	4,881,500	$ 0.10
$0.82	350,000	0.49	$ 0.82	350,000	$ 0.82
	5,531,500	3.34	$ 0.15	5,231,500	$ 0.15

The weighted average fair market value of options granted in 2011 was $0.07 (2010 - $0.06) per option. The fair value of each option granted was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	December 31, 2011	December 31, 2010
Risk-free interest rate	**1.96%**	2.49%
Forfeiture rate	**3.00%**	3.00%
Expected life of options	**5 years**	5 years
Volatility	**79%**	82%
Dividend yield rate	**0%**	0%

11. Capital Disclosures

In the management of capital, the Company includes certain working capital balances in the definition of capital. Management reviews its capital requirements on an ongoing basis and believes that its approach, given the relative size of the Company, is reasonable. As at December 31, 2011, the Company's capital as defined above was as follows:

	2011	2010
Working capital balances included:		
Cash and cash equivalents	**$ 4,037,930**	$ 6,813,190
Restricted cash	**374,305**	640,670
Payables and accruals	**(1,473,195)**	(607,600)
Current portion of asset retirement obligations	**(13,985)**	(75,080)
	$ 2,925,055	$ 6,771,180

11. Capital Disclosures (continued)

The Company is in the business of oil and gas exploration in Canada and the United States. Management determines the Company's capital structure and makes adjustments to it based on funds available to the Company in order to support the acquisition, exploration and development of oil and gas properties. The Board of Directors has not established quantitative return on capital criteria for capital management but rather relies upon the expertise of the management team to sustain the future development of the business.

The majority of the properties in which the Company currently has an interest are in the exploration stage and do not generate any revenue. The Company does earn revenue from properties owned in Alberta. The Company therefore is dependent upon partnerships with industry and external financing to fund the majority of its future exploration programs. The Company will spend existing working capital and will seek additional financing as needed. The Company will continue to assess new properties and to seek to acquire an interest in additional properties if management feels there is sufficient geologic or economic potential.

Historically, the Corporation has relied on proceeds from the sale of its common shares to fund its operations. In order to accelerate the Corporation's current exploration programs the Corporation may require additional capital. The timing, pace, scope and amount of the Corporation's capital expenditures is largely dependent on the operators' capital expenditure programs and the availability of capital to the Corporation.

The Corporation may obtain funds for future capital investments from strategic alliances with other energy or financial partners, the issuance of additional Common Shares, preferred shares or debt securities, project financing, sale of property interests, or other arrangements, all of which may dilute the interest of the Corporation's existing shareholders. In the current economic environment there can be no assurances that the Company can raise capital through the sale of its shares.

12. Per share

	2011	2010
Net loss	$ **(673,340)**	$ (4,745,530)
Weighted average number of shares	**59,578,965**	59,578,965
Basic and diluted loss per share	$ **(0.01)**	$ (0.08)

In calculating diluted common share amounts for the year ended December 31, 2011, the Company excluded 650,000 (2010 – 4,206,500) options, because the exercise price was greater than the average market price of its common shares during the year.

13. Related party transactions

During 2011, the Company paid compensation to key executives as follows:

		2011		2010
Executive officers – salaries	$	**124,880**	$	66,600
Executive officers and directors – consulting fees		**88,870**		166.500
Royalty incentive program		**39,690**		99,910
Stock based compensation		**97,190**		112,675
	$	**350,630**	$	445,685

At December 31, 2011, $4,025 (December 31, 2010 – $7,310) of the above amounts were included in payables and accruals.

During 2011, the Company paid professional legal fees of $nil (2010 – $52,870), to a law firm in which a director of the company is a partner. In June 2010, the director resigned and was no longer affiliated with the company.

The above transactions were incurred in the normal course of operations of the Company and have been recorded at the exchange amounts that were established and agreed upon by the related parties.

14. Commitments and contingencies

a) The Company has letters of credit for its share of refundable deposits on Northwest Territories exploration licenses. The letters of credit are secured by a total assignment of cash of $374,305 (2010 – $640,670). The Company is contingently liable under the letters of credit for $374,305 (2010 - $640,670). The deposits will be refunded by $1 for every $4 spent on qualified expenditures on each exploration license.

At December 31, 2011 the Company set up a provision for EL-443 in the amount $305,555. This license will expire in May 2012 and the deposits will be forfeited.

At December 31, 2009 the Company set up a provision for EL-445 in the amount of $68,750 and wrote these costs off as impairment costs in that year. Subsequent to the year ended December 31, 2011 the Company received notifications that $35,155 of the total deposit have qualified as eligible expenditures, therefore the Company will be required to pay the remaining amount of the deposit of $33,595 when the license expires in May 2012.

b) The Company is party to an agreement to lease its premises until December 31, 2014. The annual rent of premises consists of a minimum rent plus occupancy costs. Minimum rent payable for premises until the end of the lease is:

2012	$43,120
2013	$43,120
2014	$43,120

14. Commitments and contingencies (continued)

c) The Company has established a Royalty Incentive Agreement for officers who are also Directors and consultants. Under the plan, the compensation committee issues units and pays royalties on an annual basis to employees, consultants and directors. The units entitle the holder to receive an annual payment based on 2% of the Company's annual gross oil and gas production revenue, net of transportation and processing fees from licenses and lands owned by the Company. Under the terms of the agreement, once the Company has recovered payout of 100% of its cumulative annual capital expenditures from licenses and lands owned by the Company, the payment to employees, consultants and directors is based on 4% of the Company's annual production revenue less transportation and processing fees. At December 31, 2011, payout of 100% of cumulative annual capital expenditures had been reached on the Alderson property as a result costs of $39,690 (2010 - $24,120) was booked with respect to this plan.

15. Supplemental cash flow information

Changes in non-cash working capital items for continuing operations increase (decrease) cash as follows:

		2011		2010
Receivables	$	(7,820)	$	24,730
Prepaids and deposits		(80,635)		(76,100)
Payables and accruals		865,585		395,025
	$	777,130	$	343,655
Operating activities	$	(118,040)	$	(61,570)
Investing activities		895,170		405,225
Financing activities		-		-
	$	777,130	$	343,655
Taxes paid	$	-	$	-
Interest paid	$	-	$	-

Cash and cash equivalents are comprised of:				
Cash	$	342,855	$	813,190
Cash held in trust		1,178,400		-
Short term bankers' acceptances (bearing interest rates ranging from 1.00% -1.15% (2010: 0.15% - 1.00%)		2,516,675		6,000,000
	$	4,037,930	$	6,813,190

16. Discontinued Operations

a) On December 14, 2009, the Company entered into an agreement to sell its 8.33% interest in UK License P.233 (Maria block 15/18a) for proceeds of $650,000 USD. On April 13, 2010, the Company closed the sale and received proceeds of CAD $669,450

b) On March 25, 2010, the Company entered into an agreement to sell 100% of the ordinary shares in its wholly owned U.K. subsidiary Britcana Energy Ltd. to Nexen Petroleum U.K. Limited for consideration of $3,000,000 USD to be received upon closing. On April 13, 2010 the Company closed the sale and received proceeds of CAD $3,119,520.

As a result of the above sales the Company paid royalties to employees, consultants and senior officers in the amount of $75,795.

The Company's net investment in Britcana Energy Ltd. and its North Sea operations for the period ended December 31, 2010 have been presented as discontinued operations in these financial statements. Consequently, as a result of classification of Britcana's North Sea activities as discontinued operations, the Company now has one reportable geographical segment.

A summary of discontinued U.K. operations is as follows:

		2010
Oil revenues, net	$	-
Less: royalties		-
		-
Foreign exchange gain		5,780
		5,780
Expenses		
Depletion, depreciation, impairments and write downs		38,260
Foreign exchange (gain) loss		-
General and administration		80,770
Bad debt expenses (recovery)		-
		119,030
Net loss from discontinued operations	$	(113,250)

The following table represents the balances that have been classified on the consolidated balance sheets as discontinued operations:

		January 1, 2010
Cash	$	3,660
Receivables		9,020
Property and equipment		3,965,355
Total assets of discontinued operations		3,978,035
Receivables		(56,415)
Asset retirement obligations		(203,000)
Total liabilities of discontinued operations		(259,415)
Net assets of discontinued operations	$	3,718,620

17. Financial Instruments

The Company is exposed to financial risk in a range of financial instruments including cash and cash equivalents, restricted cash, trade accounts receivable, and trade accounts payable. The Company manages its exposure to financial risks by operating in a manner that minimizes its exposure to the extent practical. The main financial risks affecting the Company are discussed below:

a) Credit risk
Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date. A portion of the Company's financial assets at the balance sheet date arise from crude oil sales. Industry standard dictates that commodity sales are settled on the 25th day of the month following the month of production.

At December 31, 2011, substantially all of the accounts receivable are with customers and joint venture partners in the oil and gas industry and are subject to normal industry credit risks. The Company markets its oil through one marketer the increased risk arising

from exposure to one entity is mitigated by the fact that oil production is not a significant part of the Company's business at this time as the Company is engaged primarily in the exploration for and development of petroleum and natural gas reserves.

The following table presents the aging of the Company's accounts receivable at December 31, 2011:

Total receivables:	0 to 30 days	31 to 60 days	61 to 90 days	Greater than 90 days
$ 118,830	$ 108,830	$ -	$ 10,000	$ -

The maximum exposure to credit risk is represented by the carrying amount on the balance sheet of all the financial assets. There are no material financial assets that are past due. During 2011, there was no allowance for doubtful accounts recorded as all amounts outstanding at December 31, 2011 are deemed collectible.

Should the Company determine that the ultimate collection of a receivable is in doubt, it will provide the necessary provision in its allowance for doubtful accounts with a corresponding charge to earnings. If the Company subsequently determines an account is uncollectible, the account is written off with a corresponding charge to the allowance account. At December 31, 2011, the Company's allowance for doubtful accounts balance was $Nil (2010 – $Nil).

17. Financial Instruments (continued)

b) Interest Rate Risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. The Company is exposed to interest rate cash flow risk to the extent the changes in market interest rates will impact the Company's interest rate price risk with respect to funds invested in short term marketable securities. As at December 31, 2011, the Company did not have any financial assets based on variable interest rates and as such the Company has no specific interest rate risk at year end. The Company does not use interest rate hedges or fixed interest rate contracts to manage the Company's exposure to interest rate.

c) Foreign currency risk

The Corporation is exposed to risks arising from fluctuations in foreign currency exchange rates, primarily between Canadian and U.S. dollars. The Corporation does not utilize any foreign currency based derivatives. In order to manage this risk and to defer the realization of any resulting currency loss from converting Canadian dollars to US dollars, the Corporation retains cash balances in both US and Canadian dollars.

The Corporation regularly analyzes foreign currency risk between Canadian dollars and US dollars by calculating the effect of percent changes in the foreign currency exchange rates against period end cash, cash equivalents. For example, applying a 1% plus or minus change in the period end conversion rate (1.017) of Canadian to US dollars against the Corporation's Canadian denominated cash, cash equivalents $1,248,940 at December 31, 2011 would have affected the value of such balances by approximately $29,975. At December 31, 2011, substantially all of the Corporation's business operations are conducted in either US dollars or Canadian dollars and there are no significant outstanding foreign currency accounts receivable or accounts payable balances.

d) Liquidity Risk

Liquidity risk includes the risk that:

- The Company will not have sufficient funds to settle a transaction on the due date;
- The Company will be forced to sell financial assets at a value which is less than what they are worth; or
- The Company may be unable to settle or recover a financial asset at all.

The Company's operating cash requirements including, amounts projected to complete budgeted capital expenditures are continuously monitored and adjusted as input variables change. These variables include, but are not limited to, opening cash and cash equivalents balance, available bank lines, oil and natural gas production from existing wells, results from new wells drilled, commodity prices, and cost overruns on capital projects and changes to government regulations relating to prices, taxes, royalties, land tenure, allowable production and access to equity markets. As these variables change, liquidity risks may necessitate the need for the Company to conduct equity issues or obtain project debt financing.

17. Financial Instruments (continued)

e) Fair value of financial instruments

The Company's financial instruments as at December 31, 2011 include cash and cash equivalents, trade accounts receivable, restricted cash and trade accounts payable. The fair values of trade accounts receivable and trade accounts payable approximate their carrying amounts due to their short terms to maturity. The restricted cash balances are equal to their fair values. The Company classifies the fair value of financial instruments held for trading according to the following hierarchy based on the amount of observable inputs used to value the instrument.

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

At December 31, 2011 cash and cash equivalents and restricted cash have been classified as Level 1.

18. First time adoption of IFRS

Transition to IFRS

These consolidated financial statements for the period ended December 31, 2011 represent the Company's first consolidated financial statements prepared in accordance with IFRS, which are also generally accepted accounting principles for publicly accountable enterprises in Canada. The Company adopted IFRS in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards" and has prepared its Consolidated Financial Statements with IFRS applicable for periods beginning on or after January 1, 2010, using significant accounting policies as described in Note 3. For all periods up to and including the year ended December 31, 2010, the Company prepared its Financial Statements in accordance with Canadian generally accepted accounting principles ("previous GAAP"). This note explains the principal adjustments made by the Company to restate its previous GAAP Consolidated Financial Statements on transition to IFRS.

Exemptions Applied under IFRS 1
On first-time adoption of IFRS, the general principle is that an entity retrospectively restates its results for all standards in force at the first reporting date. However, IFRS 1 provides certain exemptions from the general requirements of IFRS to assist with the transition process. The Company has applied the following exemptions in the preparation of its opening Balance Sheet dated January 1, 2010 (the "Transition Date"):

• **Deemed Cost Election for Oil and Gas Assets** – Under previous GAAP, the Company accounted for its oil and gas properties in one cost centre using full cost accounting. The Company has elected to measure its oil and gas properties at the Transition Date on the following basis:

a) exploration and evaluation assets at the amount determined under the Company's previous GAAP; and

b) the remainder allocated to the underlying property, plant and equipment assets on a pro rata basis using proved reserve values discounted at 10 percent at the Transition Date (see Note 3). This basis was used to be consistent with the allocation used as part of the Arrangement.

• **Cumulative Currency Translation Differences** – Cumulative currency translation differences for all foreign operations are deemed to be zero at the Transition Date (see Note 3).

• **Decommissioning Liabilities** – The Company applied the deemed cost election for oil and gas assets under IFRS 1 and as such decommissioning liabilities at the date of transition have been measured in accordance with IAS 37, "Provisions, Contingent Liabilities and Contingent Assets" and any adjustments were booked to retained earnings at January 1, 2010.

• **Estimates** – Hindsight was not used to create or revise estimates and accordingly, the estimates made by the Company under previous GAAP are consistent with their application under IFRS.

Under IFRS 1, the opening Balance Sheet adjustments are recorded directly to retained earnings, or if appropriate, another category of equity. The impacts of applying the above noted IFRS 1 exemptions and the accounting policy differences between previous GAAP and IFRS are summarized in the following tables:

Company balance sheet reconciliation as at January 1, 2010:

	Notes	Canadian GAAP $	Adjustments $	IFRS $
Assets				
Current				
Cash and cash equivalents	a	4,099,740	(7,610)	4,092,130
Receivables	a	144,295	(8,560)	135,735
Prepaids		115,555	-	115,555
Discontinued operations		3,978,035	-	3,978,035
		8,337,625	(16,170)	8,321,455
Restricted cash on deposit		640,670	-	640,670
Exploration and evaluation	b		8,640,940	8,640,940
Property and equipment	b,c,e	11,969,305	(10,072,280)	1,897,025
Intangibles	a	25,000	(25,000)	-
		20,972,600	(1,472,510)	19,500,090
Liabilities				
Payables and accruals		212,575	-	212,575
Discontinued operations		259,415	-	259,415
		471,990	-	471,990
Decommissioning liabilities	d	327,720	276,720	604,440
		799,710	276,720	1,076,430
Shareholder`s equity				
Share capital		42,064,435	-	42,064,435
Contributed surplus		10,746,850	-	10,746,850
Deficit	a,d,e	(32,638,395)	(1,749,230)	(34,387,625)
		20,172,890	(1,749,230)	18,423,660
		20,972,600	(1,472,510)	19,500,090

Company balance sheet reconciliation as at December 31, 2010

	Notes	Canadian GAAP $	Adjustments $	IFRS $
Assets				
Current				
Cash and cash equivalents	a	6,820,380	(7,190)	6,813,190
Receivables	a	119,570	(8,560)	111,010
Prepaids		13,980	-	13,980
Discontinued operations		335,115	-	335,115
		7,289,045	(15,750)	7,273,295
Restricted cash on deposit		305,555	-	305,555
Exploration and evaluation assets	b	-	6,491,090	6,491,090
Property, plant and equipment	b,c,e	7,511,710	(6,353,560)	1,158,150
Deposits		177,670	-	177,670
		15,283,980	121,780	15,405,760
Liabilities				
Payables and accruals		607,600	-	607,600
Decommissioning liabilities	d	224,260	(149,180)	75,080
		831,860	(149,180)	682,680
Decommissioning liabilities	d	389,930	393,945	783,875
		1,221,790	244,765	1,466,555
Shareholder`s equity				
Share capital		42,064,435	-	42,064,435
Contributed surplus		10,859,525	-	10,859,525
Deficit	a,c,d,e,f	(38,861,770)	(122,985)	(38,984,755)
		14,062,190	(122,985)	13,939,205
		15,283,980	121,780	15,405,760

Company reconciliation of net loss for the year ended December 31, 2010

	Notes	Canadian GAAP	Adjustments	IFRS
		$	$	$
Revenues				
Oil		712,525	-	712,525
Royalties		(238,010)	-	(238,010)
		474,515	-	474,515
Interest income		18,150	-	18,150
		492,665	-	492,665
Expenses				
Field operating costs		393,680	-	393,680
General and administration	a	570,875	(410)	570,465
Finance costs	d	56,855	(41,215)	15,640
Exploration and evaluation	e	4,196,285	(1,431,220)	2,765,065
Depletion and depreciation	a,c,f	1,272,420	(153,400)	1,119,020
Stock based compensation		112,675	-	112,675
		6,602,790	(1,626,245)	4,976,545
Earnings (loss) before tax		(6,110,125)	1,626,245	(4,483,880
Income taxes (recovery)		-	-	-
		(6,110,125)	(1,626,245)	(4,483,880)
Loss from discontinued operations		(113,250)	-	(113,250)
Net earnings (loss)		(6,223,375)	(1,626,245)	(4,597,130)

Notes to the Reconciliations

a) Investment in Sidox Chemicals Canada Ltd.

Under IFRS, the Company's 50% owned interest in Sidox Chemicals Canada Ltd. ("Sidox") is recorded using the equity method of consolidation per IAS 29. Under the equity method, the Company's original investment in Sidox has been adjusted for losses, the net investment at January 1, 2010 is $nil (December 31, 2010 - $nil) as the Company's share of losses to this date exceeds the Company's investment in Sidox. Using the equity method of consolidation at January 1, 2010 cash and cash equivalents decreased by $7,610 (December 31, 2010 - $7,190), accounts receivable decreased by $8,560 (December 31, 2010 - $8,560), intangibles decreased by $25,000 (December 31, 2010 - $Nil).

Under Canadian GAAP the company's investment in Sidox was accounted for using proportionate consolidation and the Company's share of assets and expenses were recorded in the corresponding accounts and all inter-company transactions and balances were eliminated upon consolidation. At January 1, 2010

b) Exploration and evaluation assets

Under IFRS, exploration and evaluation costs are shown as a separate class of assets. At January 1, 2010, $8,640,940 of undeveloped land and unproven properties were reclassified from property, plant and equipment to exploration and evaluation assets ($6,491,090 at December 31, 2010). For the year ended December 31, 2010, the Company booked an impairment of exploration and evaluation assets of $2,765,065 to exploration and evaluation expense on the statement of operations.

c) Property, plant and equipment

As required under IFRS 1, due to the use of the full cost exemption, the Company tested property, plant and equipment for impairment at the transition date and recorded an impairment of $Nil. The impairment was derived by comparing the Company's carrying value by CGU to the recoverable amounts based on fair value less costs to sell. The Company's CGU's are based on assets that are within similar geographical areas. At January 1, 2010 the Company had one CGU in Southern Alberta. At December 31, 2010, the Company recorded an impairment of $927,130, an increase of $91,145 as compared to and impairment of $835,985 under Canadian GAAP at December 31, 2010.

d) Decommissioning Liabilities

Under Canadian GAAP, provisions to abandon and reclaim assets were discounted using a credit-adjusted risk-free rate of 9%. The Company's policy under IFRS is to discount its provision using a current risk-free rate, resulting in an increase to the decommissioning liabilities and a decrease in retained earnings at January 1, 2010 of $276,720. An increase in the decommissioning liability and an increase in property and equipment of $9,810 were booked at December 31, 2010. The change in the discount rate resulted in a decrease in the accretion expense $41,215 for the year ended December 31, 2010. Under IFRS, the accretion of decommissioning costs has been reclassified to finance costs on the statement of operations and comprehensive loss.

e) Pre- license costs

At January 1, 2010, the Company wrote off and booked against retained earnings a charge of $1,431,220 in pre-license costs. These costs were capitalized under Canadian GAAP, and previously included in property and equipment. For the year ended December 31, 2010 the Company wrote off $65,130 in pre-license costs to exploration and evaluation expense on the statement of operations.

At December 31, 2010 these costs were written off and recorded in depletion and impairments under GAAP, therefore, the final adjustment at December 31, 2010 for purposes of IFRS is a decrease to the amount expensed under GAAP of $1,431,220 which has been booked to retained earnings at January 1, 2010 for purposes of IFRS.

f) Depletion and depreciation

Under Canadian GAAP, petroleum and natural gas properties were depleted on a unit-of-production basis over proven reserves. The Company's policy under IFRS is to deplete developed and producing petroleum and natural gas properties on a unit-of-production basis using estimated proven plus probable reserves. As a result, the depletion and depreciation expense was $218,980 lower for the year ended December 31, 2010, thereby increasing the respective values of property, plant and equipment by the same amounts.

g) Cash flow statement

The transition to IFRS did not impact the Company's cash used in or provided by operating activities and cash used in or provided by investing activities for the year ended December 31, 2010.