# CANADA ENERGY PARTNERS INC.

CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED JANUARY 31, 2012

(Unaudited – Prepared by Management)

*(Expressed in Canadian Dollars)*

## NOTICE OF NO AUDITOR REVIEW OF THESE CONDENSED INTERIM FINANCIAL STATEMENTS

The accompanying unaudited condensed interim financial statements of Canada Energy Partners Inc. (the "Company") for the nine months ended January 31, 2012, have been prepared by management and are the responsibility of the Company's management. These condensed interim financial statements have not been reviewed by an auditor.

# CANADA ENERGY PARTNERS INC.

## CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION

**(Unaudited – Prepared by Management)**

*(Expressed in Canadian Dollars)*

| | January 31, 2012 $ | April 30, 2011 $ | May 1, 2010 $ |
|---|---|---|---|
| | | (Note 12) | (Note 12) |
| **A S S E T S** | | | |
| **CURRENT ASSETS** | | | |
| Cash | 1,116,030 | 2,308,180 | 6,386,141 |
| Accounts receivable | 18,332 | 28,715 | 41,230 |
| Prepaid & deposits | 45,773 | 48,469 | 58,205 |
| | 1,180,135 | 2,385,364 | 6,485,576 |
| **INVESTMENT** (Note 6) | - | 1,287,186 | 955,479 |
| **OIL AND GAS INTERESTS** (Note 3) | 75,158,522 | 74,916,054 | 72,182,299 |
| | 76,338,657 | 78,588,604 | 79,623,354 |
| **L I A B I L I T I E S** | | | |
| **CURRENT LIABILITIES** | | | |
| Accounts payable | 45,925 | 116,673 | 141,255 |
| Accrued liabilities | 45,000 | - | - |
| Bank loan (Note 6) | - | 1,376,126 | 1,376,126 |
| | 90,925 | 1,492,799 | 1,517,381 |
| **ASSET RETIREMENT OBLIGATION** (Note 4) | 613,533 | 597,012 | 547,311 |
| | 704,458 | 2,089,811 | 2,064,692 |
| **S H A R E H O L D E R S' E Q U I T Y** | | | |
| **SHARE CAPITAL** (Note 5) | 82,183,449 | 82,183,449 | 82,467,401 |
| **SHARE-BASED PAYMENT RESERVE** (Note 5) | 8,446,010 | 8,446,010 | 5,422,838 |
| **DEFICIT** | (14,995,260) | (14,130,666) | (10,331,577) |
| | 75,634,199 | 76,498,793 | 77,558,662 |
| | 76,338,657 | 78,588,604 | 79,623,354 |

NATURE OF OPERATIONS (Note 1)
COMMITMENTS (Notes 3 and 11)

Approved by the Board of Directors and authorized for issue on March 29, 2012.

*"John Proust"* , Director *"Ben Jones"* , Director

*The accompanying notes are an integral part of these financial statements.*

# CANADA ENERGY PARTNERS INC.

## CONDENSED INTERIM STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

**(Unaudited – Prepared by Management)**

*(Expressed in Canadian Dollars)*

| | Three Months Ended January 31, 2012 $ | Three Months Ended January 31, 2011 $ | Nine Months Ended January 31, 2012 $ | Nine Months Ending January 31, 2011 $ |
|---|---|---|---|---|
| | | (Note 12) | | (Note 12) |
| **GENERAL AND ADMINISTRATIVE** | | | | |
| Administrative and management services (Note 7) | 183,008 | 131,869 | 372,087 | 364,054 |
| Accretion and depreciation | 5,480 | 5,217 | 16,453 | 15,652 |
| Advertising | - | 1,013 | - | 13,338 |
| Audit and accounting | (26,507) | 15,700 | 46,085 | 56,486 |
| Corporate development | 4,950 | - | 19,745 | 4,000 |
| Filing and regulatory | 4,487 | 14,662 | 6,808 | 30,255 |
| General exploration | 26,624 | 41,581 | 93,596 | 72,740 |
| Legal | 25,061 | 27,778 | 37,663 | 64,311 |
| Office and miscellaneous | 38,994 | 50,500 | 103,482 | 118,823 |
| Professional fees | 16,162 | 26,164 | 25,483 | 45,166 |
| Rent | 10,614 | 20,102 | 39,397 | 61,480 |
| Share-based compensation | - | - | - | 3,723,465 |
| Travel | 6,774 | 41,092 | 28,693 | 77,195 |
| **LOSS BEFORE OTHER ITEMS** | (295,647) | (375,678) | (789,492) | (4,646,965) |
| **OTHER ITEMS** | | | | |
| Gain on disposition of investment | 3,593 | - | 3,593 | - |
| Fair value adjustment to investment | - | - | (91,591) | - |
| Foreign exchange gain (loss) | 38 | (1) | 201 | 13 |
| Interest | 2,258 | 5,427 | 12,763 | 12,992 |
| **NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD** | (289,758) | (370,252) | (864,526) | (4,663,960) |
| **LOSS PER SHARE - BASIC AND DILUTED** | (0.00) | (0.00) | (0.01) | (0.06) |
| **WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING** | 82,255,784 | 82,255,784 | 82,255,784 | 82,347,661 |

*The accompanying notes are an integral part of these condensed interim financial statements.*

# CANADA ENERGY PARTNERS INC.
## CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY
**(Unaudited – Prepared by Management)**
*(Expressed in Canadian Dollars)*

| | Number of Issued and Outstanding Shares | Share Capital $ | Share-based Payment Reserve $ | Deficit $ | Shareholders' Total Equity $ |
|---|---|---|---|---|---|
| **Balance as at May 1 , 2011** (Note 12) | 82,255,784 | 82,183,449 | 8,446,010 | (14,130,734) | 76,498,725 |
| Loss and comprehensive loss for the period | - | - | - | (864,526) | (864,526) |
| **Balance as at January 31, 2012** | 82,255,784 | 82,183,449 | 8,446,010 | (14,995,260) | 75,634,199 |

| | Number of Issued and Outstanding Shares | Share Capital $ | Share-based Payment Reserve $ | Deficit $ | Shareholders' Total Equity $ |
|---|---|---|---|---|---|
| **Balance as at May 1, 2010** (Note 12) | 82,547,284 | 82,467,401 | 5,422,838 | (10,331,577) | 77,558,662 |
| Issuer bid share repurchase | (291,500) | (283,952) | 118,844 | - | (165,108) |
| Share-based compensation | - | - | 3,723,465 | - | 3,723,465 |
| Loss and comprehensive loss for the period | - | - | - | (4,633,960) | (4,633,960) |
| **Balance as at January 31, 2011** (Note 12) | 82,255,784 | 82,183,449 | 9,265,147 | (14,965,537) | 76,483,059 |

*The accompanying notes are an integral part of these condensed interim financial statements.*

# CANADA ENERGY PARTNERS INC.

## CONDENSED INTERIM STATEMENTS OF CASH FLOWS

**(Unaudited – Prepared by Management)**

*(Expressed in Canadian Dollars)*

| | Three Months Ended January 31, 2012 $ | Three Months Ended January 31, 2011 $ | Nine Months Ended January 31, 2012 $ | Nine Months Ended January 31, 2011 $ |
|---|---|---|---|---|
| | | (Note 12) | | (Note 12) |
| **CASH PROVIDED FROM (USED FOR)** | | | | |
| **OPERATING ACTIVITIES** | | | | |
| Net loss for the period | (289,758) | (370,252) | (864,526) | (4,633,960) |
| Share based compensation | - | - | - | 3,723,465 |
| Accretion and depreciation | 5,480 | 5,217 | 16,453 | 15,652 |
| Gain on disposition of investment | (3,593) | - | (3,593) | - |
| Fair value adjustment to investment | - | - | 91,591 | - |
| Interest received from investment | - | 3,079 | - | 8,691 |
| Changes in non-cash working capital balances: | | | | |
| Accounts receivable, prepaid and deposits | 6,437 | (25,024) | 13,079 | (36,689) |
| Accounts payable and accrued liabilities | 37,756 | 71,376 | (16,280) | 50,289 |
| | (243,678) | (315,604) | (763,276) | (872,552) |
| **FINANCING ACTIVITIES** | | | | |
| Loan repayment | (1,376,126) | - | (1,376,126) | - |
| Issuer bid share repurchase | - | - | - | (165,108) |
| | (1,376,126) | | (1376,126) | (165,108) |
| **INVESTING ACTIVITIES** | | | | |
| Proceeds from disposition of investment | 1,199,188 | - | 1,199,188 | - |
| Oil and gas interests | (29,150) | (359,360) | (251,936) | (2,588,769) |
| | 1,170,038 | (359,360) | 947,252 | (2,588,769) |
| **DECREASE IN CASH DURING THE PERIOD** | (449,766) | (674,964) | (1,192,150) | (3,626,429) |
| CASH - BEGINNING OF THE PERIOD | 1,565,796 | 3,434,676 | 2,308,180 | 6,386,141 |
| **CASH - END OF THE PERIOD** | 1,116,030 | 2,759,712 | 1,116,030 | 2,759,712 |

Supplemental disclosure with respect to cash flows (Note 8)

*The accompanying notes are an integral part of these financial statements.*

## 1. NATURE OF OPERATIONS

Canada Energy Partners Inc. ("the Company") is an independent natural gas exploration and development company primarily focused on unconventional resource opportunities in northeast British Columbia. The Company was formed on May 18, 2006, by Certificate of Incorporation and Notice of Articles pursuant to the provisions of the Business Corporations Act (British Columbia). The Corporation's head office is located at suite 1500-885 West Georgia Street, Vancouver British, Columbia, V6C 3E8.

The amounts shown as oil and gas interests represent exploration and development expenditures incurred to date and acquisition costs for the working interests in the Company's prospects and do not necessarily represent present or future values. The underlying value of oil and gas interests is entirely dependent on the existence of economically recoverable reserves, securing and maintaining title and beneficial interest in the Company's prospects, the ability of the Company to obtain the necessary financing to complete its share of the development, and future profitable production.

These financial statements have been prepared on the basis of accounting principles applicable to a "going concern", which assumes that the Company will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations for the foreseeable future. As with most oil and gas exploration companies, the Company raises financing for its activities using a variety of sources. Based on its current plans, budgeted capital expenditures, and cash requirements, the Company has sufficient cash to finance its current plans for approximately 12 months from the date of the financial statements. However, the Company recognizes that exploration expenditures may change with ongoing results and, as a result, it may be required to obtain additional financing. While the company has been successful at securing financing in the past, there can be no assurance that it will be able to do so in the future. These financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue business.

## 2. SIGNIFICANT ACCOUNTING POLICIES

***Conversion to International Financial Reporting Standards***

The Canadian Accounting Standards Board ("AcSB") has replaced Canadian generally accepted accounting principles ("CAGAAP") with International Financial Reporting Standards ("IFRS") for publicly accountable enterprises for financial periods beginning on or after January 1, 2011.

These condensed interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") and IFRS 1, *First-time adoption of IFRS* ("IFRS 1") using accounting policies consistent with IFRS as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These are the Company's first IFRS condensed interim financial statements for part of the period covered by the first IFRS annual financial statements to be presented in accordance with IFRS for the year ending April 30, 2012. Previously, the Company prepared its annual and interim financial statements in accordance with CAGAAP.

As these are the Company's first condensed interim financial statements prepared in accordance with IFRS, the Company's disclosures exceed the minimum requirements under IAS 34. The Company has elected to exceed the minimum requirements in order to present the Company's accounting policies in accordance with IFRS and the additional disclosures required under IFRS, which also highlight the changes from the Company's April 30, 2011 annual financial statements prepared in accordance with CAGAAP. In fiscal 2013 and beyond, the Company may not provide the same amount of disclosure in the Company's condensed interim financial statements under IFRS as the reader will be able to refer to the annual financial statements which will be prepared in accordance with IFRS.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

***Basis of preparation***

These condensed interim financial statements have been prepared on a historical cost basis except for financial instruments that have been measured at fair value. In addition, these condensed interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information. These condensed interim financial statements are of the company as an individual entity.

These condensed interim financial statements, including comparatives, have been prepared on the basis of IFRS standards that are published at the time of preparation and that are expected to be effective or available on April 30, 2012, the Company's first IFRS annual reporting date.

The standards that will be effective or available for voluntary early adoptions in the annual financial statements for the year ending April 30, 2012 are subject to change and may be affected by additional interpretation(s). Accordingly, the accounting policies for the annual period that are relevant to these condensed interim financial statements will be determined only when the first IFRS financial statements are prepared for the year ending April 30, 2012.

The preparation of these condensed interim financial statements resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under CAGAAP. The accounting policies set out below have been applied consistently to all periods presented in these condensed interim financial statements. They also have been applied in preparing an opening IFRS statement of financial position at May 1, 2010 for the purposes of the transition to IFRS, as required by IFRS 1. The impact of the transition from CAGAAP to IFRS is explained in Note 12.

***Significant accounting judgments and estimates***

The preparation of these condensed interim financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These condensed interim financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the condensed interim financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future period.

Fair value of oil and gas properties, depletion and depreciation and amount used in impairment calculations are based on estimated of crude oil and natural gas reserves, oil and gas prices and future costs required to develop those reserves. By nature, estimates of reserves and the related future cash flows are subject to measurement uncertainty, and the impact of differences between actual and estimated amounts on the consolidated financial statements of future period could be material.

The estimated fair value of the Company's financial assets and liabilities are by their nature, subject to measurement uncertainty.

The calculation of income taxes requires judgement in applying tax laws and regulations, estimating the timing of the reversal of temporary differences, and estimating the realizability of future tax assets. These estimates impact current and future income tax assets and liabilities, and current and future income tax expenses (recovery).

The calculation of share-based compensation requires estimates of volatility, forfeiture rates and market prices surrounding the issuance of stock options. These estimates impact share-based compensation expense and share-based payment reserve.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

***Oil and Gas Interests***

All costs directly associated with oil and gas reserves are initially capitalized. Exploration and evaluation costs are those expenditures for an area where technical feasibility and commercial viability has not yet been determined. These costs include costs to acquire acreage and exploration rights, geological and geophysical costs, asset retirement costs, exploration and evaluation drilling, sampling and appraisals. Costs incurred prior to acquiring the legal rights to explore an area are charged directly to net earnings as exploration and evaluation expense.

When an area is determined to be technically feasible and commercially viable through the granting of a permit, the accumulated costs are transferred to property, plant and equipment. When an area is determined not to be technically feasible and commercially viable or the Company decided not to continue with its activity, the unrecoverable costs are charged to net earnings as exploration and evaluation expenses.

***Impairment of non-financial assets***

Impairment tests for non-financial assets are performed when there is an indication of impairment. At each reporting date, an assessment is made to determine whether there are any indications of impairment. If any indication of impairment exists, an estimate of the non-financial asset's recoverable amount is calculated. The recoverable amount is determined as the higher of fair value less direct costs to sell and the asset's value in use. If the carrying value of a non-financial asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to profit and loss so as to reduce the carrying amount of the non-financial asset to its recoverable amount.

***Joint Operations***

Substantially all of the oil and gas activities of the Company are conducted jointly with others, and these condensed interim financial statements reflect only the Company's proportionate interest in such activities.

***Asset Retirement Obligations***

Asset retirement obligations include present obligations where the Company will be required to retire tangible non-financial assets such as producing well sites and facilities. The asset retirement obligations are measured at the present value of the expenditure expected to be incurred using a risk-free discount rate. The associated asset retirement obligation is capitalized as part of the cost of the related non-financial. Changes in the estimated liability resulting from revisions to estimated timing, amount of cash flows, or changes in the discount rate are recognized as a change in the asset retirement obligation and the related decommissioning cost.

Increase in asset retirement obligation resulting from the passage of time are recorded as accretion of asset retirement obligations in the statement of income. Actual expenditures incurred are charged against the asset retirement obligation liability as incurred.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

***Income taxes***

Deferred tax assets and liabilities are recognized for deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Corporation does not consider it probable that a deferred tax asset will be recovered, the deferred tax asset is reduced.

***Share-based payment transaction***

The share option plan allows the Company's employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as a share-based payment expense with a corresponding increase in share-based payment reserve. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

The fair value for employee options is measured at grant date and each tranche is recognized on a graded-vesting basis over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Equity-settled share-based payment transactions with non-employees are measured at the fair value of the goods or services received. However, if the fair value cannot be estimated reliably, the share-based payment transaction is measured at the fair value of the equity instruments granted at the date the non-employee provides the goods or the services.

***Revenue Recognition***

Revenue is recognized when it is probable that the economic benefits will flow to the Company and delivery has occurred, the sales price is fixed or determinable, and collectability is reasonably assured. These criteria are generally met at the time the product is shipped and delivered to the customer and, depending on the delivery conditions, title and risk have passed to the customer and acceptance of the product, when contractually required, has been obtained. Revenue is measured based on the price specified in the sales contract.

***Loss per share***

The Company presents basic per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares. In reporting periods when a loss is incurred, potential issuance of shares would be anti-dilutives and therefore, basic and diluted loss per share are the same.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

***Flow-through Shares***

Resources expenditure deductions for income tax purposes related to exploration activities funded by flow-through share arrangements are renounced to investors in accordance with Canadian income tax legislation. The increase to share capital when flow-through shares are issued is measured based on the current market price of the Company's common shares. The incremental proceeds are recorded as a liability. When the qualifying expenditures are incurred and renunciation of the tax benefits to the investors has occurred, or is likely to occur, a credit to income tax expense is recognized.

***Foreign Currency Transactions***

Monetary assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date. Non-monetary assets and liabilities are translated into Canadian dollars at historical rates. Revenues and expenses are translated into Canadian dollars at the exchange rate in effect on the transaction date. Foreign exchange gains and losses are included in earnings.

***Financial Instruments***

On initial recognition, all financial assets and financial liabilities are recorded at fair value plus directly attributable transaction costs, other than financial assets and liabilities classified as at fair value through profit or loss. The directly attributable transaction costs of financial assets and liabilities classified as at fair value through profit or loss are expensed in the period they are incurred.

Subsequent measurement

Financial assets
The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

*Fair value through profit or loss* - This category comprises derivatives, or assets acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of operations and comprehensive loss. Cash is classified as fair value through profit or loss.

*Loans and receivables* - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortized cost using the effective interest method less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Accounts receivable are classified as loans and receivables.

*Held-for-trading* – This category comprises derivatives, or assets acquired or incurred principally for short-term profit talking or have been designated as held-for-trading on initial recognition. They are measured at fair value at the end of each period with changes in fair values recorded in earnings in the period they occur. Investment is classified as Held-for-trading Investment

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

***Financial instruments (continued)***

*Held-to-maturity investments* - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the statement of operations and comprehensive loss.

*Available-for-sale* - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in other comprehensive income (loss). Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in the statement of operations and comprehensive loss.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

Financial liabilities
The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

*Fair value through profit or loss* - This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of operations and comprehensive loss.

*Other financial liabilities:* This category includes amounts due to related parties and accounts payables, accrued liabilities, and bank loan all of which are recognized at amortized cost at the settlement date using the effective interest method of amortization.

***New Accounting Standards and recent pronouncements***

The Company has not yet adopted certain new standards, amendments and interpretations to existing standards, which have been published but are only effective for our accounting periods beginning on or after January 1, 2013. These include:

- IFRS 7 (amendments) – Financial instruments – Disclosures
- IFRS 9 – Financial Instruments: Classification and Measurement
- IFRS 10 – Consolidated Financial Statements
- IFRS 11 – Joint Arrangement
- IFRS 12 – Disclosure of Interests in Other Entities
- IFRS 13 – Fair Value Measurement

## 3. OIL AND GAS INTERESTS

| For the period ended January 31, 2012 | Peace River Project $ | Monias Prospect $ | Moberly Prospect $ | Total $ |
|---|---|---|---|---|
| **Acquisition costs** | | | | |
| Leases acquisitions and rental costs | 72,561 | 14,546 | 7,920 | 95,027 |
| Balance, beginning of the period | 44,924,473 | 1,877,428 | 703,621 | 47,505,522 |
| Balance, end of the period | 44,997,034 | 1,891,974 | 711,541 | 47,600,549 |
| **Exploration costs** | | | | |
| Drilling and completion | 23,010 | 5,490 | - | 28,500 |
| Geological and consulting | 10,255 | 583 | - | 10,838 |
| Reports and other | 48,469 | 2,426 | 655 | 51,550 |
| | 81,734 | 8,499 | 655 | 90,888 |
| Balance, beginning of the period | 10,420,877 | 4,583,001 | 56,099 | 15,059,977 |
| Balance, end of the period | 10,502,611 | 4,591,500 | 56,754 | 15,150,865 |
| **Development costs** | | | | |
| Drilling and completion | 56,552 | - | - | 56,552 |
| Balance, beginning of the period | 12,350,556 | - | - | 12,350,556 |
| Balance, end of the period | 12,407,108 | - | - | 12,407,108 |
| **Total deferred oil and gas interests** | 67,906,753 | 6,483,474 | 768,295 | 75,158,522 |

## 3. OIL AND GAS INTERESTS (continued)

| For the year ended April 30, 2011 | Peace River Project $ | Monias Prospect $ | Moberly Prospect $ | Total $ |
|---|---|---|---|---|
| **Acquisition costs** | | | | |
| Leases acquisitions and rental costs | 1,962,744 | 27,732 | 10,347 | 2,000,823 |
| Balance, beginning of year | 42,961,729 | 1,849,696 | 693,274 | 45,504,699 |
| Balance, end of the year | 44,924,473 | 1,877,428 | 703,621 | 47,505,522 |
| **Exploration costs** | | | | |
| Drilling and completion | 432,155 | 300 | - | 432,455 |
| Geological and consulting | 44,927 | 40,052 | - | 84,979 |
| Reports and other | 42,021 | 6,136 | 1,836 | 49,993 |
| | 519,103 | 46,488 | 1,836 | 567,427 |
| Balance, beginning of year | 9,901,774 | 4,536,513 | 54,263 | 14,492,550 |
| Balance, end of year | 10,420,877 | 4,583,001 | 56,099 | 15,059,977 |
| **Development costs** | | | | |
| Drilling and completion | 142,184 | - | - | 142,184 |
| Gas plant | 24,658 | - | - | 24,658 |
| Less: net revenue received in development stage | (1,337) | - | - | (1,337) |
| | 165,505 | - | - | 165,505 |
| Balance, beginning of year | 12,185,050 | - | - | 12,185,050 |
| Balance, end of year | 12,350,555 | - | - | 12,350,555 |
| **Total deferred oil and gas interests** | 67,695,905 | 6,460,429 | 759,720 | 74,916,054 |

Included in acquisition costs is a $107,000 term deposit pledged in support of the letter of credit issued by the Company's bank in favour of the British Columbia Oil and Gas Commission ("BCOGC") to ensure that the Company can complete its reclamation obligations, including shut-down, closure, and post-closure. The security will be released back to the Company once the reclamation has been completed according to the plan agreed with the BCOGC and the site is returned to an acceptable state.

### Peace River Project, British Columbia

The Company has working interests in the oil and gas leases located in Peace River area near Hudson's Hope in northeast British Columbia. Peace River Project consists of shallow rights (from the surface to the base of Gething formation) and deep rights (from the base of Gething to the basement).

Shallow rights

Shallow rights include Peace River coalbed methane "CBM" Project and Moosebar Shale rights. The Company owns 50% working interest and an additional 3.71% after payout working interest in the Peace River CBM Project. The operator of the Peace River CBM Project is GeoMet, Inc. The Company's interest in the Peace River CBM Project is subject to Crown royalties and for certain acreage to geological overriding royalties of up to 0.05%.

## 3. OIL AND GAS INTERESTS (continued)

In November 2008 Canada Energy entered into a farm-in agreement (the "Agreement") with GeoMet, Inc. for Moosebar Shale shallow rights on its Peace River Project. The Company drilled an initial Moosebar horizontal test well and has earned an 87.5% interest in 2 sections (approximately 2 square miles), subject to final completion or plug and abandonment. The Company has relinquished further drilling rights under the Agreement. The Company's interest in the Moosebar Shale is subject to Crown royalties and for certain acreage to geological overriding royalties of up to 0.05%.

Deep rights

The Company owns 50% working interest, subject to a joint venture agreement with Crew Energy Inc. ("Crew"). According to the joint venture agreement, Crew operates the project and has earned a 50% working interest in the subject lands upon paying 100% of the costs of the exploration program. The Company's interest in the deep rights of the Peace River Project will be subject to Crown royalties, geological overriding royalties of up to 0.85% and back-in interest of 6.6% after project payout plus $2,000,000 on approximately 3,500 acres. During fiscal year 2011, the Company and Crew acquired an additional 14 sections of deep rights in Peace River.

### Monias Prospect, British Columbia

The Company owns a 100% working interest in the shallow rights in 7 sections, a 70% working interest in the shallow rights on 2 sections, and a 35% working interest in 1 section. With regard to the Deep Rights, the Company owns 100% working interest in 3 sections, a 40% working interest in 4 sections, and a 35% in one section.

Deep rights on 4 sections of Monias Prospect were subject to a joint venture agreement with West Energy Ltd. ("West"), which was later acquired by Daylight Energy Ltd. ("Daylight"), which in turn was acquired by Sinopec in December 2011. During the year ended April 30, 2011, the Company and Daylight mutually settled the legal dispute over the Seismic Option Agreement on the Company's Monias Prospect. Under the terms of the settlement, Daylight is deemed to have earned a 60% working interest in the four sections and the 13-30-81-21 wellbore with the Company retaining the other 40% interest. Daylight will have no further earning rights in the Monias Prospect. The Company will retain a 100% interest in three remaining sections in the Monias Prospect and the Company preserves a 35% interest in the eighth section at Monias Prospect, in a license grouping arrangement with Terra Energy.

The Company's interest in the deep rights of the Monias Prospect will be subject to Crown royalties, geological overriding royalties of up to 1% and back-in interest of 12.5% after project payout plus $2,000,000. The Company's interest in the shallow rights of the Monias Prospect will be subject to Crown royalties, one section is subject to a 10% royalty on gas, a 5% - 10% royalty on oil production and two sections are subject to a back-in interest of 4.375% after project payout plus $2,000,000.

### Moberly Prospect, British Columbia

The Company owns 100% working interest subject to a joint venture agreement with Crew. According to the joint venture agreement, Crew operates the prospect and will earn a 50% working interest in two sections upon completion of the initial test well. The initial program consisted of the drilling of one exploratory well (drilled).

The Company's interest in the Moberly Prospect will be subject to Crown royalties, geological overriding royalties of 0.93% and back-in interest of 10.5% after project payout plus $1,000,000.

## 4. ASSET RETIREMENT OBLIGATION

Total future asset retirement obligations were estimated by management based on the Company's working interest in its wells and facilities, estimated costs to remediate, reclaim, and abandon the wells and facilities, and the estimated timing of the costs to be incurred in future periods. The Company estimated the total risk adjusted undiscounted amount of cash flows required to settle the asset retirement obligation to be approximately $1,163,918 which will be incurred from 2019 to 2033. To calculate the net present value of its asset retirement obligations, the Company used a risk free rate of 3.64 to 3.92%. The following table summarizes the Company's asset retirement obligations:

| | Asset Retirement obligation<br>$ |
|---|---|
| Balance, as at May 1, 2010 | 547,311 |
| Liabilities incurred | 28,899 |
| Accretion expense | 20,870 |
| Balance, as at April 30, 2011 | 597,080 |
| Liabilities incurred | - |
| Accretion expense | 16,453 |
| Balance, as at January 31, 2012 | 613,533 |

The present value of the reclamation liability may be subject to change in future periods. Such changes will be recorded in the accounts of the Company as they occur.

## 5. SHARE CAPITAL AND SHARE BASED PAYMENT RESERVE

During the year ended April 30, 2011, the Company:

a) received approval from the TSX Venture Exchange (the "Exchange") to commence a normal course issuer bid (the "Bid") to purchase up to 4,121,664 of its common shares ("Shares"), representing 5% of the Company's 82,433,284 issued and outstanding Shares, as at May 28, 2010. The Bid commenced on June 4, 2010, and ended on June 3, 2011.

b) purchased 291,500 common shares for $165,108 under the Bid. The price paid by the Company for the acquired shares was the market price at the time of acquisitions. All shares purchased under the Bid were cancelled. The difference between the average equity cost of the Company's shares on the repurchase date and the repurchase price was recorded as an increase to share-based payment reserve.

### Share options and share-based compensation

The Company grants stock options in accordance with the requirements of the Exchange. Under the plan up to 10% of outstanding Common Shares are reserved for the issuance of stock options to directors, officers, employees and consultants. The terms of the option, including the vesting terms and the option price are fixed by the directors at the time of grant subject to the price not being less than the market price of the Company's stock on the date of grant. The stock options granted are exercisable for a period of five years.

## 5. SHARE CAPITAL AND SHARE-BASED PAYMENT RESERVE (continued)

The following summarizes information about stock options that are outstanding at January 31, 2012:

| | Number of Options | Weighted Average Exercise Price, $ |
|---|---|---|
| Balance, outstanding – April 30, 2010 | 5,337,500 | 1.08 (1) |
| Granted | 3,230,000 | 0.63 |
| Expired | (900,000) | 0.70 |
| Balance, outstanding – April 30, 2011 | 7,667,500 | 0.63 |
| Cancelled | (810,000) | 0.63 |
| Balance, outstanding – January 31, 2012 | 6,857,500 | 0.63 |

(1) During the year ended April 30, 2011, the Company modified 4,437,500 previously granted stock options (which had exercise prices ranging from $1.00 to $1.66 per share and were set to expire between fiscal year 2011 and 2014) to an exercise price of $0.63 per share for a period of five years.

During the year ended April 30, 2011, the Company granted incentive stock options for the purchase of up to 3,230,000 common shares of the Company at a price of $0.63 per share for a five year period to certain directors, employees and consultants of the Company. The share-based compensation of $3,723,465 was charged to operations and credited to shareholder's equity to reflect the fair value of stock options granted, modified and vested during the period.

The fair value of stock options granted is estimated on the dates of grants using the Black-Scholes option

| | 2012 | 2011 |
|---|---|---|
| Risk-free interest rate | - | 1.66% |
| Expected life | - | 5 years |
| Annualized volatility | - | 105% |
| Dividend rate | - | 105% |
| Expected forfeiture rate | - | - |

Option pricing models require the use of estimates and assumptions including the expected volatility. Changes in the underlying assumptions can materially affect the fair value estimates.

Stock options outstanding and exercisable as at January 31, 2012 are as follows:

| Number of Options Outstanding and Exercisable | Weighted Average Exercise Price, $ | Expiry Date |
|---|---|---|
| 6,857,500 | 0.63 | October 8, 2015 |

### Warrants

There are no warrants outstanding as at January 31, 2012 and April 30, 2011. There were no warrants exercised or expired during the periods ended January 31, 2012 and April 30, 2011.

## 6. INVESTMENT AND BANK LOAN

At April 30, 2011, long-term investments included Master Asset Vehicle II notes received in exchange for Canadian third-party asset backed commercial paper ("ABCP") held by the Company. When the ABCP matured but was not redeemed in 2007, it became the subject of a restructuring process that replaced the ABCP with long-term asset backed securities. These investments were designated as fair value through profit and loss and are accounted for at their fair value.

| | January 31, 2012 | | April 30, 2011 | | May 1, 2010 | | |
|---|---|---|---|---|---|---|---|
| Notes | Face value $ | Fair value $ | Face Value $ | Fair Value $ | Face Value $ | Fair Value $ | Expected maturity (1) |
| MAV II Class A-1 | - | - | 1,437,261 | 1,149,809 | 1,437,261 | 1,015,005 | July 15, 2056 |
| MAV II Class C | - | - | 44,594 | 12,932 | 44,594 | 4,459 | July 15, 2056 |
| MAV II Class 13 (Ineligible Asset Tracking Notes) | - | - | 226,263 | 124,445 | 226,263 | 22,626 | March 20, 2014 |
| Interest received | | | | | | (86,611) | |
| Total | - | - | 1,708,118 | 1,287,186 | 1,708,118 | 955,479 | |

(1) Maturity date reflects legal maturity date.

To date, the Company received an interest payment of $98,378 on the notes and a payment of $4,619 as partial redemption of the MAV II Class A-1 tracking notes.

The Company secured a $1,376,126 demand non-revolving bridge loan from its bank pending any possible long-term solution to the current liquidity issues affecting the Company's investment in ABCP. The bridge loan was secured by the Company's investment in ABCP, cash, credit balances and deposit instruments. Interest on direct advances was paid at the Bank's prime rate. The Company paid $23,195 (2010 - $17,242) in interest and stamping fees during the nine month period ended January 31, 2012.

In early November, 2011, the Company sold all of its MAV notes for net proceeds of $1,199,188 and used these funds and other available cash to repay the bank loan of $1,376,126. The Company recorded a gain on sale of these assets of $3,593.

## 7. RELATED PARTY TRANSACTIONS

***Key management and personnel compensation***

The key management personnel include the Directors and other Officers of the Corporation. Key management compensation consists of the following:

| Key management personnel compensation | **For the three months ended January 31, 2012** | For the three months ended January 31, 2011 | For the nine months ended January 31, 2012 | For the nine months ended January 31, 2011 |
|---|---|---|---|---|
| Salary and management fees | $ 132,208 | $ 137,569 | $ 372,087 | $ 381,748 |
| Share based compensation | $ - | $ - | $ - | $ 3,429,424 |

As at January 31, 2012, balances arising from purchases of goods and services from related parties was $18,480 (January 31, 2011 - $nil).

The above transactions occurred in the normal course of operations and recorded at the consideration established and agreed to by the related parties. The related party balances have no fixed payment term and bear no interest.

## 8. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

During the period ended January 31, 2012, the Company had the following significant non-cash transactions:

a) allocated $nil (January 31, 2011 - $118,844) to share-based payment reserve for the shares repurchased for cancellation under the normal course issuer bid; and

b) included in investing activities $8,706 (January 31, 2011 - $27,499) of accounts payable related to the oil and gas interest expenditures.

## 9. FINANCIAL INSTRUMENTS

The nature of the Company's operations expose the Company to credit risk, liquidity risk, and market risk and foreign exchange risk and interest rates, which may have a material effect on cash flows, operations and comprehensive income.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and to monitor market conditions and the Company's activities. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and policies.

## 9. FINANCIAL INSTRUMENTS (continued)

***Credit risk***
Credit risk is the risk of loss associated with a counter-party's inability to fulfill its payment obligations. Financial instruments that potentially subject the Company to credit risk consist primarily of cash and accounts receivable. The maximum exposure to credit risk is equal to the fair value or carrying value of the financial assets.

The Company reduces its credit risk by maintaining its bank accounts at large financial institutions. Receivables are amounts receivable from the Canadian federal government for the refundable HST/GST amounts. The credit risk on these amounts is minimal.

Credit risk with respect to investments in Canadian Asset-Backed Commercial Paper ("ABCP") is discussed in Note 6.

***Liquidity risk***
Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due. All of the Company's financial liabilities are classified as current and are anticipated to mature within the next fiscal year. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. See also Note 1.

***Market risk***
Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. The Company is exposed only to the interest rate risk to the extent that the cash maintained at the financial institutions is subject to floating rate of interest. The interest rate risk on the Company's cash is minimal. The Company is exposed to market risk as the ability of the Company to develop or market its properties and the future profitability of the Company is related to the market price of certain minerals.

***Fair value***
The fair value of the Company's financial instruments is approximated by their carrying value as at January 31, 2012, April 30, 2011, and May 1, 2010 due to their short term nature.

IFRS requires disclosure about fair market value measurements for financial instruments and liquidity risk using a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. The three-level hierarchy is as follows:

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

Financial instruments measured at fair value on January 31, 2012 and April 30, 2011 are summarized in levels of fair value hierarchy as follows:

| January 31, 2012 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| Assets | | | |
| Cash | $ 1,116,030 | $ - | $ - |
| Long-term investment | $ - | $ - | $ - |
| Bank loan | $ - | $ - | $ - |

## 9. FINANCIAL INSTRUMENTS (continued)

| April 30, 2011 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| Assets | | | |
| Cash | $ 2,308,180 | $ - | $ - |
| Long-term investment | $ - | $ 1,287,186 | $ - |
| Bank loan | $ - | $ (1,376,126) | $ - |

| May 1, 2010 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| Assets | | | |
| Cash | $ 6,386,141 | $ - | $ - |
| Long-term investment | $ - | $ 955,479 | $ - |
| Bank loan | $ - | $ (1,376,126) | $ - |

***Foreign exchange risk***

The Company incurs operating expenses and capital expenditures mostly in Canadian dollars. The Company's exposure to assets and liabilities denominated in foreign currencies is minimal. Accordingly, the Company does not have a significant exposure to losses arising from fluctuations in exchange rates.

***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 fluctuations on its cash and bank loans which bear a floating rate of interest. The risk is not considered significant.

## 10. CAPITAL DISCLOSURE

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the exploration and development of unproven mineral properties and to maintain a flexible capital structure. The capital structure of the Company consists of equity attributable to common shareholders comprised of issued capital, share-based payment reserve, and deficit. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets.

The Company currently does not produce any revenue and has relied on equity issuance and advances from related parties to fund its operations and expects continued financial support through the next twelve months.

The Company is currently not subject to externally imposed capital requirements.

There were no changes in the Company's approach to capital management during the period.

## 11. COMMITMENTS

The Company has committed to:

a) rent office space in the amount of $18,363 during fiscal 2012 and $17,284 during fiscal 2013; and

b) asset retirement obligations (see Note 4).

## 12. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

As stated in Note 2, these are the Company's first condensed interim financial statements for the period covered by the first annual financial statements prepared in accordance with IFRS. The accounting policies in Note 2 have been applied as follows:

- in preparing the condensed interim financial statements for the nine months ended January 31, 2012;
- the comparative information for the three and nine months ended January 31, 2011;
- the statement of financial position as at April 30, 2011; and
- the preparation of an opening IFRS statement of financial position on the Transition Date, May 1, 2010.

In preparing the opening IFRS statement of financial position, comparative information for the three and nine months ended January 31, 2011 and the financial statements for the year ended April 30, 2011, the Company has adjusted amounts reported previously in financial statements prepared in accordance with CAGAAP. An explanation of how the transition from CAGAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following table.

The guidance for the first time adoption of IFRS is set out in IFRS 1. IFRS 1 provides for certain mandatory exceptions and optional exemptions for first time adopters of IFRS. In preparing these financial statements, the Company has elected to apply the following transitional arrangements:

(a) IFRS 2 – Share-based payment transactions
IFRS 2 *Share-based Payment* has not been applied to equity instruments that were granted on or before November 7, 2002, nor has it been applied to equity instruments granted after November 7, 2002 that vested before May 1, 2010.

IFRS 2, similar to CAGAAP, requires the Company to measure share-based compensation related to share purchase options granted to employees at the fair value of the options on the date of grant and to recognize such expense over the vesting period of the options. However, under IFRS 2, the recognition of such expense must be done with a "graded vesting" methodology as opposed to the straight-line vesting method allowed under CAGAAP. In addition, under IFRS, forfeitures estimates are recognized in the period they are estimated, and are revised for actual forfeitures in subsequent periods; while under CAGAAP, forfeitures of awards are recognized as they occur. There is no adjustment required to the May 1, 2010's statement of financial position on the Transition Date.

(b) Reclassification within equity section
IFRS requires an entity to present for each component of equity, a reconciliation between the carrying amount at the beginning and end of the period, separately disclosing each change. The Company examined its "contributed surplus" account and concluded that as at the Transition Date, the entire amount of $5,422,838 (as at January 31, 2011 - $9,265,147) relates to "share-based payment reserve". As a result, the Company believes that a reclassification would be necessary in the equity section between "Contributed surplus" and the "Share-based payment reserve" account.

(c) Exploration and evaluation assets
Under CAGAAP, the Company followed the full cost method of accounting for its oil and gas properties, whereby all costs relating to the acquisition, exploration and development of oil and gas properties are capitalized in one cost centre.

Under IFRS, pre-exploration, exploration and evaluation and development and production expenditures are accounted for separately. The Company utilized the IFRS 1 deemed cost exemption that allowed the Company to measure its exploration and evaluation and development and production assets at the amount determined under CAGAAP.

## 12. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

***Financial Statement Impact on Transition to IFRS***

IFRS employs a conceptual framework that is similar to CAGAAP; however significant differences exist in certain matters of recognition, measurement and disclosure. While the adoption of IFRS will not change the cash flows of the Company, it resulted in changes to the Company's Balance Sheet, and Statement of Comprehensive Loss as set out below.

(d) Deferred incomes taxes

Conversion to IFRS affects deferred tax balances due to the initial recognition exemption for asset acquisitions and the calculation of temporary base differences on non-monetary items.

*Initial recognition exemption*

Under CAGAAP, the Company, on acquisition recognized an accumulated deferred income tax liability amounting to $10,947,818, based on the difference between the accounting and tax basis of the oil and gas interest. Under IFRS, as the acquisition did not arise from a business combination or at the time of the transaction, affect accounting or taxable income, a deferred tax liability, for the initial temporary difference is prohibited from being recognized.

The effect of the IFRS differences for deferred income tax calculations on the transitional – April 30, 2011, January 31, 2011 and May 1, 2010, and financial statements is as follows:

| Impact on Balance Sheets | April 30, 2011 | January 31, 2011 | May 1, 2010 |
|---|---|---|---|
| | $ | $ | $ |
| Oil and gas interest | (13,631,928) | (13,631,928) | (13,631,928) |
| Future income taxes liability | 10,947,818 | 11,906,968 | 11,906,968 |
| Deficit | 2,684,110 | 1,724,960 | 1,724,960 |

| Impact on Statements of Comprehensive Loss | April 30, 2011 | January 31, 2011 |
|---|---|---|
| | $ | $ |
| Future income taxes recovered | 959,150 | No Impact |
| Comprehensive loss | 959,150 | No Impact |

(e) Flow-through shares

The treatment of the tax effect of flow-through shares differs under CAGAAP and IFRS.

Under CAGAAP, share capital is credited with the net proceeds of the financing with no amount allocated to the sale of tax benefits. Upon renunciation of the exploration expenditures to investors for tax purposes, a future income tax liability is recorded in the amount of the estimated future tax savings given up and the offset is charged to share capital.

## 12. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Under IFRS there is no direct guidance on this issue. Acceptable accounting under the IFRS framework would require an allocation of the flow-through share purchase price between the shares acquired and the tax benefit. The Company has adopted a policy, for these transactions, that allocates the market value of the shares to the flow-through shares and any premium over the market value to the tax benefit purchased. The Tax benefit amount is recorded as a liability at the time of the financing. In future periods, when the exploration expenditures have been made that quality the transfer of tax benefits and renunciation of the benefit to the investor has been filed or is likely to be filed, the liability is settled and an offset is recorded to deferred income tax expense. At the time of the exploration expenditure, as the Company's policy is to capitalize exploration expenditures, a deferred tax liability will be created as the expenditures will have no tax basis.

As there is no exemption under IFRS for retrospective application of this difference, the effect of flow-through share financings from inception on the transitional – April 30, 2011, January 31, 2011 and May 1, 2010 financial statements is as follows:

| Impact on Balance Sheets | April 30, 2011 | January 31, 2011 | May 1, 2010 |
|---|---|---|---|
| | $ | $ | $ |
| Share capital | (2,469,811) | (2,469,811) | (2,469,811) |
| Deficit | 2,469,811 | 2,469,811 | 2,469,811 |

| Impact on Statements of Comprehensive Loss | April 30, 2011 | January 31, 2011 |
|---|---|---|
| | $ | $ |
| Comprehensive loss | No Impact | No Impact |

(f) Asset retirement obligation ("ARO")

The Company recognized an ARO, which met the recognition criteria of both IFRS and CAGAAP. However, a difference exists between IFRS and Canadian GAAP in the discount rate used to calculate present value. Under both methods, present value should be used where the effect of the time value of money is material. Under IFRS, the Company would use a risk-free rate of 3.92% to calculate present value; however, under CAGAAP, the Company used a credit adjusted risk free-rate of 8.00%.

The effect of the IFRS differences for ARO on the transitional – April 30, 2011, January 31, 2011 and May 1, 2010 financial statements is as follows:

| Impact on Balance Sheets | April 30, 2011 | January 31, 2011 | May 1, 2010 |
|---|---|---|---|
| | $ | $ | $ |
| Oil and gas interests | 290,544 | 280,808 | 280,808 |
| Asset retirement obligation | (299,853) | (290,047) | (289,843) |
| Deficit | 9,309 | 9,239 | 9,035 |

| Impact on Statements of Comprehensive Loss | April 30, 2011 | January 31, 2011 |
|---|---|---|
| | $ | $ |
| Comprehensive loss | 273 | 204 |

## 12. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

***Reconciliations of Canadian GAAP to IFRS***

A reconciliation of the above noted changes is included in the following balance sheets and statements of operations and comprehensive loss for the dates noted below. The changes to the financial statement as noted below have resulted in reclassifications of various amounts, within operating activities, on the statements of cash flows; however, as there have been no adjustments to net cash flows, no reconciliation of the statement of cash flows has been presented.

The May 1, 2010 CAGAAP balance sheet has been reconciled to IFRS as follows:

| | Note 12 | May 1, 2010<br>Canadian GAAP<br>$ | Effect of transition to IFRS | IFRS<br>$ |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **CURRENT ASSETS** | | | | |
| Cash | | 6,386,141 | - | 6,386,141 |
| Accounts receivable, prepaids and deposits | | 99,435 | - | 99,435 |
| | | 6,485,576 | - | 6,485,576 |
| **INVESTMENT** | | 955,479 | - | 955,479 |
| **OIL AND GAS INTERESTS** | 12(d,f) | 85,533,420 | (13,351,121) | 72,182,299 |
| | | 92,974,475 | (13,351,121) | 79,623,354 |
| **LIABILITIES** | | | | |
| **CURRENT LIABILITIES** | | | | |
| Accounts payable and accrued liabilities | | 141,255 | - | 141,255 |
| Bank loan | | 1,376,126 | - | 1,376,126 |
| | | 1,517,381 | - | 1,517,381 |
| **ASSET RETIREMENT OBLIGATION** | 12(f) | 257,468 | 289,843 | 547,311 |
| **FUTURE INCOME TAX LIABILITY** | 12(d,e) | 11,906,968 | (11,906,968) | - |
| | | 13,681,817 | (11,617,125) | 2,064,692 |
| **SHAREHOLDERS' EQUITY** | | | | |
| **SHARE CAPITAL** | 12(e) | 79,997,590 | 2,469,811 | 82,467,401 |
| **CONTRIBUTED SURPLUS** | 12(b) | 5,422,838 | (5,422,838) | - |
| **SHARE-BASED PAYMENT RESERVE** | 12(b) | - | 5,422,838 | 5,422,838 |
| **DEFICIT** | 12(d,e,f) | (6,127,770) | (4,203,807) | (10,331,577) |
| | | 79,292,658 | (1,733,996) | 77,558,662 |
| | | 92,974,475 | (13,351,121) | 79,623,354 |

## 12. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

The January 31, 2011 CAGAAP balance sheet has been reconciled to IFRS as follows:

| | Note 12 | January 31, 2011 | | |
|---|---|---|---|---|
| | | Canadian GAAP $ | Effect of transition to IFRS | IFRS $ |
| **ASSETS** | | | | |
| **CURRENT ASSETS** | | | | |
| Cash | | 2,759,712 | - | 2,759,712 |
| Accounts receivable, prepaids and deposits | | 109,739 | - | 109,739 |
| | | 2,869,451 | - | 2,869,451 |
| **INVESTMENT** | | 946,788 | - | 946,788 |
| **OIL AND GAS INTERESTS** | 12(d,f) | 88,134,433 | (13,351,120) | 74,783,313 |
| | | 91,950,672 | (13,351,120) | 78,599,552 |
| **LIABILITIES** | | | | |
| **CURRENT LIABILITIES** | | | | |
| Accounts payable and accrued liabilities | | 177,404 | - | 177,404 |
| Bank loan | | 1,376,126 | - | 1,376,126 |
| | | 1,553,530 | - | 1,553,530 |
| **ASSET RETIREMENT OBLIGATION** | 12(f) | 272,916 | 290,047 | 562,963 |
| **FUTURE INCOME TAX LIABILITY** | 12(d,e) | 11,906,968 | (11,906,968) | - |
| | | 13,733,414 | (11,616,921) | 2,116,493 |
| **SHAREHOLDERS' EQUITY** | | | | |
| **SHARE CAPITAL** | 12(e) | 79,713,638 | 2,469,811 | 82,183,449 |
| **CONTRIBUTED SURPLUS** | 12(b) | 9,265,147 | (9,265,147) | - |
| **SHARE-BASED PAYMENT RESERVE** | 12(b) | - | 9,265,147 | 9,265,147 |
| **DEFICIT** | 12(d,e,f) | (10,761,527) | (4,204,010) | (14,965,537) |
| | | 78,217,258 | (1,734,199) | 76,483,059 |
| | | 91,950,672 | (13,351,120) | 78,599,552 |

## 12. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

The April 30, 2011 CAGAAP balance sheet has been reconciled to IFRS as follows:

| | Note 12 | April 30, 2011 | | |
|---|---|---|---|---|
| | | Canadian GAAP $ | Effect of transition to IFRS | IFRS $ |
| **ASSETS** | | | | |
| **CURRENT ASSETS** | | | | |
| Cash | | 2,308,180 | - | 2,308,180 |
| Accounts receivable, prepaids and deposits | | 77,184 | - | 77,184 |
| | | 2,385,364 | - | 2,385,364 |
| **INVESTMENT** | | 1,287,186 | - | 1,287,186 |
| **OIL AND GAS INTERESTS** | 12(d,f) | 88,257,438 | (13,341,384) | 74,916,054 |
| | | 91,929,988 | (13,341,384) | 78,588,604 |
| **LIABILITIES** | | | | |
| **CURRENT LIABILITIES** | | | | |
| Accounts payable and accrued liabilities | | 116,673 | - | 116,673 |
| Bank loan | | 1,376,126 | - | 1,376,126 |
| | | 1,492,799 | - | 1,492,799 |
| **ASSET RETIREMENT OBLIGATION** | 12(f) | 297,159 | 299,853 | 597,012 |
| **FUTURE INCOME TAX LIABILITY** | 12(d,e) | 10,947,818 | (10,947,818) | - |
| | | 12,737,776 | (10,647,965) | 2,089,811 |
| **SHAREHOLDERS' EQUITY** | | | | |
| **SHARE CAPITAL** | 12(e) | 79,713,638 | 2,469,811 | 82,183,449 |
| **CONTRIBUTED SURPLUS** | 12(b) | 8,446,010 | (8,446,010) | - |
| **SHARE-BASED PAYMENT RESERVE** | 12(b) | - | 8,446,010 | 8,446,010 |
| **DEFICIT** | 12(d,e,f) | (8,967,436) | (5,163,230) | (14,130,666) |
| | | 79,192,212 | (2,693,419) | 76,498,793 |
| | | 91,929,988 | (13,341,384) | 78,588,604 |

## 12. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

The CAGAAP statement of comprehensive loss for the nine months ended January 31, 2011 has been reconciled to IFRS as follows:

| | Note 12 | Nine Months ended January 31, 2011 | | |
|---|---|---|---|---|
| | | Canadian GAAP $ | Effect of transition to IFRS | IFRS $ |
| **GENERAL AND ADMINISTRATIVE EXPENSES** | | | | |
| Administrative and management services | | 364,054 | - | 364,054 |
| Accretion and depreciation | 12(f) | 15,448 | 204 | 15,652 |
| Advertising | | 13,338 | - | 13,338 |
| Audit and accounting | | 56,486 | - | 56,486 |
| Corporate development | | 4,000 | - | 4,000 |
| Filing and regulatory | | 30,255 | - | 30,255 |
| General exploration | | 72,740 | - | 72,740 |
| Legal | | 64,311 | - | 64,311 |
| Office and miscellaneous | | 118,823 | - | 118,823 |
| Professional fees | | 45,166 | - | 45,166 |
| Rent | | 61,480 | - | 61,480 |
| Share based compensation | | 3,723,465 | - | 3,723,465 |
| Travel | | 77,195 | - | 77,195 |
| | | 4,646,761 | 204 | 4,646,965 |
| **LOSS BEFORE OTHER ITEMS** | | (4,646,761) | (204) | (4,646,965) |
| **OTHER ITEMS** | | | | |
| Foreign exchange | | 13 | - | 13 |
| Interest | | 12,992 | - | 12,992 |
| **LOSS BEFORE INCOME TAXES** | | (4,633,756) | (204) | (4,633,960) |
| **FUTURE INCOME TAXES RECOVERED** | | - | - | - |
| **NET LOSS AND COMPREHENSIVE LOSS** | | (4,633,756) | (204) | (4,633,960) |

## 12 TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

The CAGAAP statement of comprehensive loss for the three months ended January 31, 2011 has been reconciled to IFRS as follows:

| | | Three Months ended January 31, 2011 | | |
|---|---|---|---|---|
| | **Note 12** | **Canadian GAAP $** | **Effect of transition to IFRS** | **IFRS $** |
| **GENERAL AND ADMINISTRATIVE EXPENSES** | | | | |
| Administrative and management services | | 131,869 | - | 131,869 |
| Accretion and depreciation | 12(f) | 5,149 | 68 | 5,217 |
| Advertising | | 1,013 | - | 1,013 |
| Audit and accounting | | 15,700 | - | 15,700 |
| Corporate development | | - | - | - |
| Filing and regulatory | | 14,662 | - | 14,662 |
| General exploration | | 41,581 | - | 41,581 |
| Legal | | 27,778 | - | 27,778 |
| Office and miscellaneous | | 50,500 | - | 50,500 |
| Professional fees | | 26,164 | - | 26,164 |
| Rent | | 20,102 | - | 20,102 |
| Share based compensation | | - | - | - |
| Travel | | 41,092 | - | 41,092 |
| | | 375,610 | 68 | 375,678 |
| **LOSS BEFORE OTHER ITEMS** | | (375,610) | (68) | (375,678) |
| **OTHER ITEMS** | | | | |
| Foreign exchange | | (1) | - | (1) |
| Interest | | 5,427 | - | 5,427 |
| **LOSS BEFORE INCOME TAXES** | | (370,184) | (68) | (370,252) |
| **FUTURE INCOME TAXES RECOVERED** | | - | - | - |
| **NET LOSS AND COMPREHENSIVE LOSS** | | (370,184) | (68) | (370,252) |

## 12. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

The CAGAAP statement of comprehensive loss for the year ended April 30, 2011 has been reconciled to IFRS as follows:

| | | Year ended April 30, 2011 | | |
|---|---|---|---|---|
| | Note 12 | Canadian GAAP $ | Effect of transition to IFRS | IFRS $ |
| **GENERAL AND ADMINISTRATIVE EXPENSES** | | | | |
| Administrative and management services | | 498,024 | - | 498,024 |
| Accretion and depreciation | 12(f) | 20,597 | 273 | 20,870 |
| Advertising | | 22,434 | - | 22,434 |
| Audit and accounting | | 70,948 | - | 70,948 |
| Corporate development | | 4,000 | - | 4,000 |
| Filing and regulatory | | 53,463 | - | 53,463 |
| General exploration | | 105,975 | - | 105,975 |
| Legal | | 69,329 | - | 69,329 |
| Office and miscellaneous | | 157,262 | - | 157,262 |
| Professional fees | | 75,752 | - | 75,752 |
| Rent | | 81,072 | - | 81,072 |
| Share based compensation | | 2,904,328 | - | 2,904,328 |
| Travel | | 96,133 | - | 96,133 |
| | | 4,159,317 | 273 | 4,159,590 |
| **LOSS BEFORE OTHER ITEMS** | | (4,159,317) | (273) | (4,159,590) |
| **OTHER ITEMS** | | | | |
| Fair value adjustment to investment | | 331,707 | - | 331,707 |
| Foreign exchange | | (23) | - | (23) |
| Interest | | 28,817 | - | 28,817 |
| **LOSS BEFORE INCOME TAXES** | | (3,798,816) | (273) | (3,799,089) |
| **FUTURE INCOME TAXES RECOVERED** | 12(d) | 959,150 | (959,150) | - |
| **NET LOSS AND COMPREHENSIVE LOSS** | | (2,839,666) | (959,423) | (3,799,089) |