Softrock Minerals Ltd.

Financial Statements

December 31, 2011 and 2010

(Expressed in Canadian dollars)

Softrock Minerals Ltd.

Financial Statements

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Independent Auditors' Report

To the Shareholders of Softrock Minerals Ltd.

We have audited the accompanying financial statements of Softrock Minerals Ltd., which comprise the statements of financial position as at December 31, 2011, December 31, 2010 and January 01, 2010, and the statements of loss and comprehensive loss, changes in equity 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 Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of 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 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Softrock Minerals Ltd. as at December 31, 2011, December 31, 2010 and January 01, 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.

Emphasis of Matter
Without modifying our opinion, we draw attention to note 1 in the financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the company's ability to continue as a going concern.

MacKay LLP
Chartered Accountants

Calgary, Canada
April 25, 2012

mackay.ca refers to the Canadian firm MacKay LLP

Softrock Minerals Ltd.

Statements of Loss and Comprehensive Loss

For the years ended December 31,	2011	2010
Revenue		
Royalty income	$ 32,609	$ 28,847
Expenses		
Operating and transportation	1,738	7,658
Professional fees (note 14)	45,272	39,836
General and administrative (note 14)	39,398	42,342
Depreciation and depletion	13,694	14,919
Exploration expenditures (note 7)	39,712	4,160
Stock-based compensation (note 9(d))	-	27,370
Write-down of mineral property interests (note 7)	-	1,875
Finance costs (note 8)	900	1,000
	140,714	139,160
Loss before income taxes	(108,105)	(110,313)
Deferred income tax recovery (note 11)	-	4,375
Net loss and comprehensive loss for the year	$ (108,105)	$ (105,938)
Loss per share		
Basic and diluted (note 9(c))	$ (0.01)	$ (0.01)

Softrock Minerals Ltd.

Statements of Financial Position

	December 31, 2011	December 31, 2010 (Note 5)	January 1, 2010 (Note 5)
Assets			
Current			
Cash and cash equivalents	**$ 19,634**	$ 18,057	$ 125,626
Accounts receivable	**10,208**	8,214	8,802
	29,842	26,271	134,428
Property, plant and equipment (note 6)	**144,901**	158,595	169,474
Mineral property interests (note 7)	**5,000**	-	1,875
	$ 179,743	$ 184,866	$ 305,777
Liabilities			
Current			
Accounts payable and accrued liabilities (note 14)	**$ 64,385**	$ 39,538	$ 78,506
Other current liabilities (note 5)	**-**	-	4,375
	64,385	39,538	82,881
Decommissioning liability (note 8)	**11,197**	10,297	9,297
	$ 75,582	$ 49,835	92,178
Shareholders' equity			
Share capital (note 9(b))	**2,676,257**	2,595,359	2,595,359
Contributed surplus (note 10)	**155,580**	159,243	131,873
Deficit	**(2,727,676)**	(2,619,571)	(2,513,633)
	104,161	135,031	213,599
	$ 179,743	$ 184,866	$ 305,777

Nature of operations and going concern (note 1)
Contingency (note 15)
Subsequent event (note 16)

On behalf of the Board:

(Signed) *"Nick Taylor"*, Director

(Signed) *"T. M. M. Bender*, Director

Softrock Minerals Ltd.

Statements of Changes in Equity

	Number of shares	**Share capital**	**Contributed surplus**	**Deficit**	Total shareholders' equity
Balance at December 31, 2010	20,934,446	$ 2,595,359	$ 159,243	$ (2,619,571)	$ 135,031
Warrants exercised (note 9(b))	824,700	80,898	(3,663)	-	77,235
Net loss and comprehensive loss	-	-	-	(108,105)	(108,105)
Balance at December 31, 2011	21,759,146	$ 2,676,257	$ 155,580	$ (2,727,676)	$ 104,161

	Number of shares	**Share capital**	**Contributed surplus**	**Deficit**	Total shareholders' equity
Balance at January 1, 2010	20,934,446	$ 2,595,359	$ 131,873	$ (2,513,633)	$ 213,599
Share-based compensation (note 9(d))		-	27,370	-	27,370
Net loss and comprehensive loss		-	-	(105,938)	(105,938)
Balance at December 31, 2010	20,934,446	$ 2,595,359	$ 159,243	$ (2,619,571)	$ 135,031

Softrock Minerals Ltd.

Statements of Cash Flows

For the year ended December 31,	2011	2010
Cash provided by (used for)		
Operating activities		
Net loss for the year	$ (108,105)	$ (105,938)
Items not affecting cash		
Depreciation and depletion	13,694	14,919
Deferred income tax recovery (note 5)	-	(4,375)
Accretion of decommissioning liability (note 8)	900	1,000
Write-down of mineral property interests (note 7)	-	1,875
Stock-based compensation (note 9(d))	-	27,370
	(93,511)	(65,149)
Changes in non-cash working capital items		
Accounts receivable	(1,994)	588
Accounts payable and accrued liabilities	24,847	(38,968)
	(70,658)	(103,529)
Financing activities		
Issue of common shares for cash (note 9(b))	77,235	-
Investing activities		
Expenditures on property, plant and equipment	-	(13,943)
Expenditures on mineral property interests	(5,000)	-
Proceeds from sale of property, plant and equipment	-	9,903
	(5,000)	(4,040)
Increase (decrease) in cash	1,577	(107,569)
Cash and cash equivalents, beginning of year	18,057	125,626
Cash and cash equivalents, end of year	$ 19,634	$ 18,057

1. Nature of operations and going concern

Softrock Minerals Ltd., (the "Company") is a public company incorporated under the Alberta Business Corporations Act with its shares traded on the TSX Venture Exchange. Softrock Minerals Ltd. carries on the business of oil and gas exploration and development in Western Canada and Quebec. It is in initial stages of acquiring mineral claims in Alberta for the exploration and development of potash and lithium.

These financial statements have been prepared on the basis of accounting principles applicable to a "going concern", which assumes that the Company will continue operations in the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. The ability to continue as a going concern is assessed in note 13.

The Company has incurred recurring operating losses and had a working capital deficiency of $34,542 at December 31, 2011 (working capital deficiency of $13,266 at December 31, 2010). The Company's ability to continue as a going concern and to recover the recorded costs for property, plant and equipment is dependent upon the Company's ability to raise sufficient capital either through debt or equity issues and/or enter into joint venture or farm-out arrangements in the next twelve months. Subsequent to year-end, the Company successfully raised $140,000 from private placements completed in February 2012 and the Management is planning to use this fund to meet its minimum working capital requirements for the next twelve months and for capital expenditures. The Company's ability to continue as a going concern on a long-term basis and realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation is primarily dependent upon its ability to develop, sell or option its property, plant and equipment and its ability to borrow or raise additional financing from equity markets. The outcome of these events is not determinable at this time.

Management believes there is opportunity for the Company to raise additional equity and/or enter into joint venture arrangements in 2012 and therefore continue as a going concern. However, there are no assurances that the Company will be successful in achieving these objectives. These financial statements do not give effect to any adjustments which could be necessary should the Company be unable to continue as a going concern and therefore, be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying financial statements. The business of oil and gas exploration and development involves a high degree of risk and there can be no assurance that current or future exploration programs will result in economically recoverable reserves.

2. Basis of presentation

(a) Statement of compliance

These are the Company's first IFRS annual financial statements. Note 5 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 financial statements were approved and signed by the Chief Executive Officer and the Chief Financial Officer on April 20, 2012, having been duly authorized to do so by the Board of Directors.

2. Basis of presentation (continued)

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except as detailed in the Company's accounting policies disclosed in Note 3. The accounting policies described in Note 3 have been applied consistently to all periods presented in these financial statements except for the opening IFRS statement of financial position, which has utilized optional exemptions available and mandatory exemptions under IFRS 1 as described in note 5.

(c) Functional and reporting currencies

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

(d) Use of estimates and judgment

The timely preparation of financial statements requires that management make estimates and assumptions and use judgment regarding assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as at the date of the financial statements. Accordingly, actual results may differ from estimated amounts as future confirming events occur. Significant accounting estimates and judgments used in the preparation of the financial statements are described in note 4.

3. Significant accounting policies

Revenue

Revenue from the sale of natural gas, oil and natural gas liquids is recognized based on volumes delivered to customers at contractual delivery points and rates. Revenue is measured net of royalties.

Revenue is recognized when persuasive evidence exists that the significant risks and rewards have been transferred to the customer and the amount of revenue can be measured reliably, and when recovery of the consideration is probable. Recognition occurs upon delivery.

Tariffs and tolls charged to other entities for use of pipelines and facilities owned by the Company are recognized as revenue as they accrue in accordance with the terms of the service or tariff and tolling agreement.

Royalty income is recognized on operating lease rights as it accrues in accordance with the terms of the overriding royalty agreements.

The costs associated with the delivery, including operating and maintenance costs, transportation, and production-based royalty expenses are recognized in the same period in which the related revenue is earned and recorded.

Cash and cash equivalents

Cash and cash equivalents include cash in bank accounts and short-term deposits that are redeemable at any time without penalty. Cash and cash equivalents are designated as held-for trading and are carried at fair value determined using Level 1 as described in note 12.

3. Significant accounting policies (continued)

Income taxes

The Company follows the liability method of accounting for income taxes whereby deferred income taxes are recorded for unused tax losses, tax credits and the effect of differences between the accounting and income tax basis of an asset or liability. Deferred income tax assets and liabilities are measured using enacted or substantively enacted income tax rates at the statement of financial position date that are anticipated to apply to taxable income in the years in which temporary differences are anticipated to be recovered or settled. Changes to these balances are recognized in income in the period which they occur. Investment tax credits are recorded as an offset to the related expenditures.

Mineral exploration and evaluation expenditures

Pre-exploration costs

Pre-exploration costs are expenditures in the period in which they are incurred.

Exploration and evaluation expenditures

Exploration expenditures are expensed as incurred until an economic feasibility study has established the presence of proven and probable reserves, at which time exploration expenditures incurred on the property thereafter are capitalized.

Costs relating to the acquisition and claim maintenance of mineral properties, including option payments and annual fees to maintain the property in good standing, are capitalized and deferred by property until the project to which they relate is sold, abandoned, impaired or placed into production.

The Company assesses its capitalized mineral property costs for indications of impairment on a regular basis and when events and circumstances indicate a risk of impairment. A property is written down or written off when the Company determines that an impairment of value has occurred or when exploration results indicate that no further work is warranted.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers, or title may be affected by undetected defects.

3. Significant accounting policies (continued)

Oil and natural gas exploration and evaluation expenditures

(i) Recognition and measurement

Costs of exploring for and evaluating oil and natural gas properties are initially capitalized within exploration and evaluation assets. Such exploration and evaluation costs may include costs of license acquisition, technical services and studies, seismic acquisition, exploration drilling and testing, directly attributable overhead and administration expenses and the projected costs of retiring the assets (if any), but do not include exploration or evaluation costs incurred prior to having obtained the legal rights to explore an area, which are expensed directly to net income or loss as they are incurred.

Exploration and evaluation assets are not amortized, but are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the net book value exceeds the recoverable amount. These assets are subject to technical, commercial and management review to confirm the continued intent to develop and extract the underlying resources. If an area or exploration well is no longer considered commercially viable, the assets may be transferred to intangible assets when it meets the recognition criteria for intangible assets. Not proceeding with development of the asset is an impairment indicator, and as a result of the decision impairment testing would be performed.

When management determines with reasonable certainty that an exploration and evaluation asset will be developed, as evidenced by the classification of proved or probable reserves and the appropriate internal and external approvals, the asset is first tested for impairment and then reclassified to property, plant and equipment.

Items of property, plant and equipment are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. When significant parts of an item of property, plant and equipment, including oil and natural gas interests, have different useful lives, they are accounted for as separate items.

The costs to acquire developed or producing oil and gas properties and to develop oil and gas properties, including completing geological and geophysical surveys and drilling development wells, and the costs to construct and install dedicated infrastructure such as wellhead equipment and supporting assets, are capitalized as oil and gas properties within property plant and equipment.

The costs of major inspection, overhaul and work-over activities that maintain property, plant and equipment and benefit future years of operations are capitalized. Similar recurring planned maintenance managed on shorter intervals is expensed. Replacements outside major inspection, overhaul or work-overs are capitalized when it is probable that future economic benefits will flow to the Company and the associated net book value of the replaced asset is derecognized.

Gains and losses on disposal of an item of property, plant and equipment, including oil and natural gas interests, and intangible exploration assets, are determined by comparing the proceeds from disposal with its net book value and are recognized within “other income” or “other expenses” in net income or loss.

3. Significant accounting policies (continued)

Oil and natural gas exploration and evaluation expenditures (continued)

Borrowing costs incurred for the construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the assets for their intended use or sale. All other borrowing costs are recognized in net income or loss using the effective interest method. Capitalization of borrowing costs ceases when the asset is in the location and condition necessary for it to be capable of operating as intended. Capitalization of borrowing costs is suspended when the construction of an asset is ceased for extended periods.

The capitalization rate used to determine the amount of borrowing costs to be capitalized is the weighted average interest rate applicable to the Company's borrowings during the year.

(ii) Depletion and depreciation

The net book value of development or production assets is depleted using the unit of production method by reference to the ratio of production in the year to the related proved and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves.

Proved and probable reserves are estimated annually by independent reserve engineers and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. There should be a more than 50% statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as proved and probable. The equivalent statistical probability for the proved component is 90%.

Such reserves may be considered economically producible if management has the intention of developing and producing them and such intention is based upon:

- a reasonable assessment of the future economics of such production;
- a reasonable expectation that there is a market for all or substantially all the expected oil and natural gas production;
- evidence that necessary production, transmission and transportation facilities are available or can be made available; and
- availability of capital to develop reserves.

Reserves may only be considered proved and probable if supported by either actual production or a conclusive formation test. The area of reservoir considered proved includes (a) that portion delineated by drilling and defined by gas-oil and/or oil-water contacts, if any, or both, and (b) the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geophysical, geological and engineering data. In the absence of information on fluid contacts, the lowest known structural occurrence of oil and natural gas controls the lower proved limit of the reservoir.

Reserves which can be produced economically through application of unproved recovery techniques (such as fluid injection) are only included in the proved and probable classification when successfully tested by a pilot project, the operation of an installed program in the reservoir or other reasonable evidence (such as, experience of the same techniques on similar reservoirs or reservoir simulation studies) provides support for the engineering analysis on which the project or program was based.

3. Significant accounting policies (continued)

Other equipment

For other equipment, depreciation is recognized in net income or loss on a declining balance basis over its estimated useful life at rates varying from 20% to 100%. Land is not depreciated.

Depreciation methods, useful lives and residual values are reviewed annually.

Impairment

(i) Non-financial assets

The net book value of the Company's non-financial assets, other than exploration and evaluation assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Exploration and evaluation assets are assessed for impairment when they are reclassified to property, plant and equipment and also if facts and circumstances suggest that the net book value exceeds the recoverable amount.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proved and probable reserves.

In assessing fair value less cost to sell, the fair value reflects the price a market participant would be willing to pay to acquire the asset or CGU less selling costs to complete the transaction. Fair value is generally determined based on recent transactions, crown land sales and other market metrics.

Exploration and evaluation assets are allocated to the CGUs on a geographical basis when they are assessed for impairment, both at the time of any triggering facts and circumstances as well as upon their eventual reclassification to oil and natural gas interests in property, plant and equipment.

An impairment loss is recognized if the net book value of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in net income or loss. Impairment losses recognized in respect of CGUs reduce the net book value of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss recognized in prior years is assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's net book value does not exceed the net book value that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized.

3. Significant accounting policies (continued)

Impairment (continued)

(ii) Financial assets

A financial asset, other than a financial asset designated as fair value through profit and loss, is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its net book value, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in net income or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized and is recognized in net income or loss.

Assets held for sale

Assets and liabilities are classified as held for sale if their net book values are expected to be recovered through a disposition rather than through continuing use. The assets or disposal groups are measured at the lower of their net book value and fair value less cost to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognized in net income or loss. Assets classified as held for sale are not depreciated, depleted or amortized.

Flow-through shares

Resource expenditure deductions for income tax purposes related to exploratory activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. Pursuant to the terms of the flow-through share agreements, these shares transfer the tax deductibility of qualifying resource expenditures to investors. On issuance, the Company bifurcates the flow-through share into i) a flow-through share premium, equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as a liability, and ii) share capital. Upon expenses being incurred, the Company derecognizes the liability and recognizes a deferred tax liability for the amount of tax reduction renounced to the shareholders. The premium is recognized as other income and the related deferred tax is recognized as a tax provision.

Basic and diluted per share amounts

Basic per share amounts are calculated by dividing net income or loss attributable to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share amounts are calculated by adjusting the net income or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares, which comprise, warrants, and share options granted to employees.

3. Significant accounting policies (continued)

Financial instruments

Financial assets and liabilities designated as fair value through profit or loss ("FVTPL") are measured at fair value with changes in those fair values recognized in the statement of loss and comprehensive loss. Financial assets classified as available-for-sale are measured at fair value, with changes in those fair values recognized in other comprehensive income. Financial assets classified as held to maturity, loans and other receivables and other financial liabilities are measured at amortized cost using the effective interest method.

Derivatives are classified as FVTPL and are measured at their fair value. Gains or losses related to periodic revaluation are recorded in the statement of loss and comprehensive loss.

Fair value measurements are classified 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. 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 an active market 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 market place.

Level 3: Valuation at this level are those inputs for the asset or liability that are not based on observable market data.

Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy.

Transaction costs associated with FVTPL and available-for-sale financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

Share-based compensation

(i) Stock option awards

Share-based compensation expense is recorded in net income or loss for all options granted on a graded basis over the vesting period of the option with a corresponding increase recorded as contributed surplus. Compensation expense is based on the estimated fair values of the options at the time of the grant as determined using a Black-Scholes option pricing model. The Company incorporates an estimated forfeiture rate when determining compensation expense for stock options that will not vest.

Upon the exercise of the stock options, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase in share capital. In the event that vested options expire, previously recognized compensation expense associated with such stock options is not reversed.

3. Significant accounting policies (continued)

Share-based compensation (continued)

(ii) Stock unit awards

Stock unit awards are only payable in cash. Obligations are accrued based on the vesting period of the stock unit awards using the market value of the Company's common shares. The obligations are revalued each reporting period based on the change in the fair value of the Company's common shares and the number of vested stock unit awards outstanding. The Company reduces the liability when the units are surrendered for cash.

Share capital

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial asset or liability. The Company's common shares, warrants, options and flow-through shares are classified as equity instruments. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the liability. Provisions are not recognized for future operating losses. Further details on specific provisions are as follows:

(i) Decommissioning liabilities

The Company recognizes the estimated liability associated with decommissioning at the time the asset is acquired and the liability is incurred. The estimated present value of the future payments of the decommissioning liability is recorded as a long term liability, with a corresponding increase in the net book value of property, plant and equipment. Amounts are discounted using the risk-free rate. The capitalized amount is depleted on a unit-of-production method over the life of proved and probable reserves. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to net income or loss in the period. The liability can also increase or decrease due to changes in the estimates of timing of cash flows, changes to the risk-free rate or changes in the original estimated undiscounted cost. The change in the provision as a result of these changes is capitalized in the net book value of the related asset. Actual costs incurred upon settlement of decommissioning liabilities are charged against the decommissioning liability to the extent of the liability recorded.

(ii) Onerous contracts

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligation under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net costs of continuing with the contract.

3. Significant accounting policies (continued)

Accounting standards issued but not yet applied

The following pronouncements and amendments are effective for annual periods beginning on or after January 1, 2013 unless otherwise stated. Adopting these standards is expected to have minimal or no impact on the consolidated financial statements.

i) IFRS 9 – Financial Instruments: Classification and Measurement applies to classification and measurement of financial assets and liabilities as defined in IAS 39. It is effective for annual periods beginning on or after January 1, 2015 with early adoption permitted.

ii) IFRS 10 – Consolidation replaces SIC-12 Consolidation—Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements and requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

iii) IFRS 11 – Joint Arrangements requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas joint operations, the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. IFRS 11 supersedes IAS 31 Interests in Joint Ventures, and SIC-13 Jointly Controlled Entities—Non-monetary Contributions by Venturers.

iv) IFRS 12 – Disclosure of Interest in Other Entities establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, and special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces additional disclosures addressing the nature of, and risks associated with, an entity's interests in other entities.

v) IFRS 13 – Fair Value Measurement is a comprehensive standard that defines fair value, requires disclosure about fair value measurement and provides a framework for measuring fair value when it is required or permitted within the IFRS standards.

vi) IAS 27 – Separate Financial Statement addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements

vii) IAS 28 – Investments in Associates and Joint Ventures has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 13.

viii) IAS 1 – Presentation of Financial Statements amendment requires components of other comprehensive income (OCI) to be separately presented between those that may be reclassified to income and those that will not. The amendments are effective for annual periods beginning on or after July 1, 2012.

ix) IAS 32 – Financial Instruments: Presentation amendment provides clarification on the application of offsetting rules. The amendments are effective for annual periods beginning on or after July 1, 2012.

4. Significant accounting estimates and judgments

The timely preparation of the financial statements requires that management make estimates and assumptions, and use judgment regarding assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, actual results may differ from estimated amounts as future confirming events occur. Significant estimates used in the preparation of the financial statements include, but are not limited to, those areas discussed below.

(a) Oil and gas reserves and resources

Certain depletion, depreciation, impairment and decommissioning and restoration charges are measured based on the Company's estimate of oil and gas reserves and resources. The estimation of reserves and resources is an inherently complex process and involves the exercise of professional judgment. Reserves and resources have been evaluated at December 31, 2011 by independent petroleum consultants in accordance with National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities*. The reserves and resources estimates are based on the definitions and guidelines contained in the Canadian Oil and Gas Evaluation Handbook.

Oil and gas reserves and resources estimates are based on a range of geological, technical and economic factors, including projected future rates of production, estimated commodity prices, engineering dates, and the timing and amount of future expenditures, all of which are subject to uncertainty. Assumptions reflect market and regulatory conditions existing at each annual reporting date, which could differ significantly from other points in time throughout the year, or future periods. Changes in market and regulatory conditions and assumptions can materially impact the estimation of net reserves.

(b) Exploration and evaluation costs

Certain exploration and evaluation costs are initially capitalized with the intent to establish commercially viable reserves. The Company is required to make estimates and judgments about the future events and circumstances regarding the economic viability of extracting the underlying resources. The costs are subject to technical, commercial and management review to confirm the continued intent to develop and extract the underlying resources. Unsuccessful drilling, or changes to project economics, resource quantities, expected production techniques, production costs and required capital expenditures, are important factors when making this determination. If a judgment is made that the extraction of resources is not viable, the associated exploration and evaluation costs are impaired and charged to net income or loss.

(c) Decommissioning liabilities and other provisions

The Company recognizes liabilities for the future decommissioning and restoration of property, plant and equipment. These provisions are based on estimated costs, which take into account the anticipated method and extent of restoration, technological advances and the possible future use of the site. Actual costs are uncertain and estimates can vary as a result of changes to relevant laws and regulations, the emergence of new technology, operating experience and prices. The expected timing of future decommissioning and restoration may change due to certain factors, including reserve life. Changes to assumptions related to future expected costs, discount rates and timing may have a material impact on the amounts presented. Other provisions are recognized in the period in which it becomes probable that there will be a future cash outflow.

4. Significant accounting estimates and judgments (continued)

(d) Deferred taxes

Deferred tax assets are recognized when it is considered probable that unused tax losses, tax credits and deductible temporary differences will be recovered in the foreseeable future. To the extent that future taxable income and the application of existing tax laws in each jurisdiction differ significantly from the Company's estimate, the ability of the Company to realize the deferred tax asset could be impacted.

Deferred tax liabilities are recognized for taxable temporary differences. The Company records a provision for the amount that is expected to be settled, which requires the application of judgment as to the ultimate outcome. Deferred tax liabilities could be impacted by changes in the Company's estimate of the likelihood of a future outflow, the expected settlement amount, and the tax laws in the jurisdiction which the Company operates.

(e) Impairment of assets

The allocation of assets into cash generating units ("CGU's") requires significant judgment and interpretations with respect to the integration between assets, the existence of active markets, similar exposure to market risks, shared infrastructures, and the way in which management monitors the operations.

The recoverable amounts of CGU's and individual assets have been determined based on the higher of fair value less costs to sell. The key assumptions the Company uses in estimating future cash flows for recoverable amounts are anticipated future commodity prices, expected production volumes and future operating and development costs. Changes to these assumptions will affect the recoverable amounts of CGU's and individual assets and may then require a material adjustment to their related net book value.

(f) Share-based payment

Expenses recorded for share-based payments are based on the historical volatility of the Company's share price which may not be indicative of the future volatility. Accordingly, those amounts are subject to measurement uncertainty.

5. Reconciliation of statement of financial position from Canadian GAAP to IFRS

IFRS transition exemptions

The Company has reviewed IFRS 1 - First Time Adoption of International Financial Reporting Standards. IFRS 1 requires the presentation of comparative information at January 1, 2010 transition date and subsequent comparative periods as well as the consistent and retrospective application of IFRS accounting policies. To assist with the transition, the provisions of IFRS 1 allow for certain mandatory and optional exemptions for first-time adopters to alleviate the retrospective application of all IFRSs. The Company has applied the following exemptions to full retrospective application of IFRS in accordance with IFRS 1:

Deemed cost of property, plant and equipment

The Company has elected to apply the exemption under IFRS 1 allowing the measurement of oil and gas assets at the date of transition to IFRS to be determined based on the amounts disclosed under the full cost method of accounting in accordance with Canadian GAAP.

Decommissioning liabilities

The exemption provided in IFRS 1 from the full retrospective application of IFRS 1 has been applied and the difference between the net book values of the Company's decommissioning liabilities as measured under IFRS and their net book values under Canadian GAAP as of January 1, 2010 has been recognized directly in opening deficit.

Share-based payments

The Company has elected not to apply IFRS 2, share-based payments to equity instruments granted after November 7, 2002, that have not vested by the transition date.

Borrowing costs

The Company has applied the borrowing cost exemption in IFRS 1. It has applied the requirement of IAS 23 to borrowing costs relating to qualifying assets on a prospective basis from the date of transition to IFRS.

Business combinations

IFRS 1 allows an entity to use IFRS rules for business combinations on a prospective basis rather than restating all business combinations.

Mandatory exceptions to retrospective application

Hindsight was not used to create or revise estimates and accordingly the estimates previously made by the Company under Canadian GAAP are consistent with their application under IFRS.

The remaining IFRS 1 exemptions were not applicable or material to the preparation of the Company's Statement of Financial Position at the date of transition on January 1, 2010.

5. Reconciliation of statement of financial position from Canadian GAAP to IFRS (continued)

Reconciliation of assets, liabilities and shareholders' equity

The following reconciliations present the adjustments made to the Company's Canadian GAAP financial results of operations and financial position to comply with IFRS. A summary of the significant accounting policy changes and applicable exemptions are discussed following the reconciliations.

		December 31, 2010			January 1, 2010		
	Notes	Canadian GAAP	Adj	IFRS	Canadian GAAP	Adj	IFRS
ASSETS							
Current							
Cash and equivalents		$ 18,057	$ -	$ 18,057	$ 125,626	$ -	$ 125,626
Accounts receivable		8,214	-	8,214	8,802	-	8,802
		26,271	-	26,271	134,428	-	134,428
Mineral property interests		-	-	-	1,875	-	1,875
Property, plant and equipment		161,538	(2,943)	158,595	169,474	-	169,474
		$ 187,809	$ (2,943)	$ 184,866	$ 305,777	$ -	$ 305,777
LIABILITIES							
Current							
Accounts payable and accrued liabilities		$ 39,538	$ -	$ 39,538	$ 78,506	$ -	$ 78,506
Other current liabilities		-	-	-	-	4,375	4,375
		39,538	-	39,538	78,506	4,375	82,881
Decommissioning liability		10,297	-	10,297	9,297	-	9,297
		49,835	-	49,835	87,803	4,375	92,178
SHAREHOLDERS' EQUITY							
Share capital		2,536,234	59,125	2,595,359	2,536,234	59,125	2,595,359
Contributed surplus		159,243	-	159,243	131,873	-	131,873
Deficit		(2,557,503)	(62,068)	(2,619,571)	(2,450,133)	(63,500)	(2,513,633)
		137,974	(2,943)	135,031	217,974	(4,375)	213,599
		$ 187,809	$ -	$ 184,866	$ 305,777	$ -	$ 305,777

5. Reconciliation of statement of financial position from Canadian GAAP to IFRS (continued)

Reconciliation of net loss and comprehensive loss

				Year ended December 31, 2010
	Notes	Canadian GAAP	Adj	IFRS
Revenue				
Royalty income		$ 28,847	$ -	$ 28,847
Expenses				
Operating and exploration		7,658	-	7,658
Professional fees		39,836	-	39,836
General and administrative		42,342	-	42,342
Depreciation and depletion		11,976	2,943	14,919
Exploration		4,160	-	4,160
Stock-based compensation		27,370	-	27,370
Write-down of mineral property interests		1,875	-	1,875
Finance costs		1,000	-	1,000
		136,217	2,943	139,160
Loss before taxes		(107,370)	(2,943)	(110,313)
Deferred income tax recovery		-	4,375	4,375
Net loss and comprehensive loss		$ (107,370)	$ 1,432	$ (105,938)

Explanation of significant adjustments

Decommissioning provision:

Under Canadian GAAP, increases in the estimated cash flows were discounted using the current credit-adjusted risk-free rate while downward revisions in the estimated cash flows were discounted using the credit-adjusted risk-free rate that existed when the original liability was recognized. Under IFRS, estimated cash flows are discounted using the risk-free rate that exists at the date of the statement of financial position.

In accordance with IFRS 1, the Company elected to re-measure its decommissioning provision at the IFRS transition date and has estimated the related asset by discounting the liability to the date in which the liability arose and recalculated the accumulated depreciation and depletion under IFRS. Adjustments at the IFRS transition date are immaterial and no adjustment will be recorded to opening deficit. Adjustments arising as a result of changes in the interest rate during 2010 period have been recorded to property, plant and equipment. The impact of these changes on accretion is immaterial and no adjustments have been reflected as a change in finance costs.

5. Reconciliation of statement of financial position from Canadian GAAP to IFRS (continued)

Exploration and evaluation assets and property, plant and equipment

Under Canadian GAAP, the Company applied the full cost method of accounting for oil and gas exploration, development, and production activities. Under the full cost method, all costs associated with these activities were capitalized. Under IFRS, the Company elected an IFRS 1 exemption whereby the Canadian GAAP full cost pool was measured upon transition to IFRS as follows:

- exploration and evaluation assets were reclassified from the full cost pool to exploration and evaluation assets at the amount that was recorded under Canadian GAAP;
- non-oil and gas assets (corporate assets) were reclassified from the full cost pool to property, plant and equipment; and
- the remaining full cost pool was allocated to the producing/development assets and components pro rata using reserve values.

The Company's exploration and evaluation assets consist of its 20% working interest in one section of Crown lease land in Minhik area of Alberta. In addition, the Company has the same interest in the same section in a shut-in Edmonton gas well.

The Company's exploration assets have been impaired in previous years given results of shut-in well and lack of further exploration by joint venture partner on Minhik Property. Accordingly, no value has been assigned to the Company's Exploration and Evaluation assets on transition.

Corporate assets were also adjusted out of the full cost pool as these were considered non-oil and gas related costs and therefore not subject to the application of the deemed cost exemption. Corporate assets were evaluated for impairment and subsequently recorded at its net book value in property, plant and equipment.

The Company's corporate assets consist of office furniture, computer hardware and software and are fully amortized at transition.

The Company's remaining full cost pool was allocated to the producing assets and components pro rata using reserve values. In the case of the Company, the full amount of the full cost pool has been allocated to the Company's 3% GORR interest as it is its only CGU.

The Company's producing assets were assessed for impairment on transition under IFRS.

The company's producing assets consists of a 3% GORR (gross overriding royalty) held in three (3) producing Grand Forks AB oil wells.

5. Reconciliation of statement of financial position from Canadian GAAP to IFRS (continued)

Impairments

Under Canadian GAAP, an item of property, plant and equipment is deemed recoverable if the undiscounted future cash flows exceed the net book value of the asset group. Under IFRS, recoverability of property, plant and equipment is based on the higher of fair value less costs to sell and value in use of the CGU.

The Company did not record an impairment on its only CGU on the IFRS transition date as the recoverable amount using 2P and 10% discounted exceeded the carrying amount of the producing assets. Under IFRS, the Company evaluated these assets for indicators of impairment at each reporting period - no impairments were identified relation to its only CGU.

Depletion and depreciation

Under IFRS, the Company adopted a policy of depleting its producing and developed oil and gas assets on a unit of production basis over estimated proved plus probable reserves. The depletion policy under Canadian GAAP was based on units of production over proved reserves. Under Canadian GAAP, depletion was calculated using all of Canada as a single cost centre. IFRS requires depletion and depreciation to be calculated based on individual components (ie. fields or combinations thereof) or CGU's. Under IFRS, the Company has designated that depletion will be based on proved plus probable reserves based on the CGU's.

Share-based payments

Under Canadian GAAP, the Company recognized an expense related to share-based payments on a straight-line basis through the date of full vesting and did not incorporate a forfeiture multiplier. Under IFRS, the Company is required to recognize the expense over the individual vesting periods for the graded vesting awards and estimate a forfeiture rate.

The Company's share-based payment transactions relate to stock options granted to directors which vest immediately. Forfeiture rates are set at 0% as it is assumed by management that all options will be held by directors until maturity.

Based on the above there is no impact to the financial statements on transition to IFRS.

Flow-through shares

Under Canadian GAAP, proceeds from flow-through shares are recorded to share capital. When the tax benefits have been renounced to the flow-through shareholder, the Company records a reduction in share capital with a corresponding increase in the deferred tax liability. Under IFRS, share capital for flow-through shares issued is recorded to share capital at the quoted value of the shares at the date of issuance. The difference between the quoted value and the gross proceeds received on the issuance of the shares is recorded as a liability. The tax cost resulting deduction renouncements, less any proceeds received in excess of the quoted value of the shares, must be included in the determination of the tax expense. The Company's had issuances of flow-through shares was in 2009 and 2006 resulting in the difference being applied as an increase to share capital with an offset to opening deficit on the IFRS transition date for 2006 issuance and an decrease to share capital and increase in liability for the 2009 issuance.

6. Property, plant and equipment

			December 31, 2011
	Cost	**Accumulated depletion**	**Net book value**
Petroleum and natural gas properties and facilities	**$ 1,169,785**	**$ 1,024,884**	**$ 144,901**
Furniture, fixtures and office equipment	**51,225**	**51,225**	**-**
	$ 1,221,010	**$ 1,076,109**	**$ 144,901**

			December 31, 2010
	Cost	Accumulated depletion	Net book value
Petroleum and natural gas properties and facilities	$ 1,169,785	$ 1,011,190	$ 158,595
Furniture, fixtures and office equipment	51,225	51,225	-
	$ 1,221,010	$ 1,062,415	$ 158,595

			January 1, 2010
	Cost	Accumulated depletion	Net book value
Petroleum and natural gas properties and facilities	$ 1,165,745	$ 996,271	$ 169,474
Furniture, fixtures and office equipment	51,225	51,225	-
	$ 1,216,970	$ 1,047,496	$ 169,474

The Company's ceiling test calculation, performed at December 31, 2011 and 2010, did not result in an impairment loss. The Company used the following benchmark reference prices ($US/STB) for the years 2012 to 2015 adjusted for commodity differentials and transportation specific to the Corporation:

	2012	**2013**	**2014**	**2015**
WTI	98.00	96.00	100.00	100.00

7. Mineral property interests

Acquisition costs		Chinchaga Project
Balance, January 1, 2010	$	1,875
Written-off during the year		(1,875)
Balance, December 31, 2010		-
Additions during the year		5,000
Balance, December 31, 2011	$	5,000

Chinchaga Project Part A

In January 2009, the Company signed three mineral permit agreements with the Alberta Government Metallic and Industrial Minerals in Northern Alberta for the exploration of Potash. Each mineral permit is granted for a 14 year period that allows exclusive exploration rights to each area and requires a renewal every two years after the commencement date. In order to renew the permit, the Company is required to have met the minimum exploration spending requirement, or pay the difference in cash. If the Company decides not to renew the permit, no additional amounts are due.

In January 2011, the Company made the decision to abandon two of the three permits signed in 2009. The third permit was renewed for an additional two years by paying $39,712 on renewal in order to meet the minimum exploration spending requirement. As this amount was paid to offset the exploration spending requirement, it was deemed to be an exploration cost as opposed to an acquisition cost and was expensed for the year ended December 31, 2011. Prior to the next renewal date, the minimum expenditure requirement is $92,160.

In August 2011, the Company signed an additional eight mineral permit agreements with the Alberta Government Metallic and Industrial Minerals in Northern Alberta under the same terms and conditions as mentioned above. The minimum expenditure requirement per permit to be incurred prior to August 2013 is approximately $46,000 per permit.

8. Decommissioning liability

The Company's decommissioning liability result from working interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. As at December 31, 2011, the Company estimates the total undiscounted amount of cash flows required to settle its liability to be approximately $13,016. The liability was determined using an average risk-free rate of 0.95% (2010 – 1.67%) and an inflation rate of 2.00% (2010 – 2.00%).

		2011		2010
Balance, beginning of year	$	**10,297**	$	9,297
Accretion expense		**900**		1,000
Balance, end of year	$	**11,197**	$	10,297

Accretion expense is included under finance costs in the Statements of Loss and, Comprehensive Loss.

9. Share capital

(a) Authorized

Unlimited number of:
Common shares without nominal or par value
First and second preferred shares issuable in series

(b) Common shares

	2011		2010	
	Number of shares	**Amount**	Number of shares	Amount
Balance, beginning of year	**20,934,446**	**$ 2,595,359**	20,934,446	$ 2,595,359
Issued:				
Conversion of warrants	**824.700**	**80,898**	-	-
Balance, end of year	**21,759,146**	**$ 2,676,257**	20,934,446	$ 2,595,359

Share capital transactions in 2011:

The Company had 720,000 warrants converted to common shares at $0.10 per share in February 2011 and 104,700 broker warrants converted to common shares at $0.05 per share in August and November 2011.

(c) Per share amounts

The following table summarizes the weighted average common shares used in calculating comprehensive income (loss) per common share:

	2011	2010
Basic and diluted	**21,559,230**	20,934,446

Diluted weighted average common shares outstanding are equal to basic as dilutive instruments are not in the money.

9. Share capital (continued)

(d) Stock options

Under the Company's stock option plan, the Company may grant options to employees, officers and directors up to 10% of its issued and outstanding common stock. In addition, the aggregate number of shares so reserved for issuance to any one person shall not exceed 5% of the issued and outstanding shares. Under the plan, options are exercisable upon issuance and an option's maximum term is five years.

		2011		2010
	Stock options	**Weighted average exercise price ($)**	Stock options	Weighted average exercise price ($)
Outstanding, beginning of year	**1,800,000**	**0.10**	1,200,000	0.10
Granted and fully vested	**-**	**-**	800,000	0.10
Cancelled	**-**	**-**	(200,000)	0.10
Outstanding, end of year	**1,800,000**	**0.10**	1,800,000	0.10

The following table summarizes information about stock options outstanding and exercisable at December 31, 2011:

Number outstanding at December 31, 2011	**Weighted average remaining contractual life (years)**	**Number exercisable at December 31, 2011**	**Exercise price ($)**
1,000,000	1.75	1,000,000	0.10
200,000	1.75	200,000	0.10
600,000	3.75	600,000	0.10
1,800,000	2.45	1,800,000	0.10

The Company accounts for its stock-based compensation plan using the fair value based method. Under this method, compensation costs of $27,370 were recorded in the financial statements during the year ended December 31, 2010. The fair value of the options granted during the year was estimated on the date of the grant using the Black-Scholes option pricing model, estimated forfeiture rate of 0%, with the following assumptions: zero dividend yield; weighted average expected volatility of 182%; weighted average risk-free rate of 1.30% and weighted average expected life of 4.5 years.

No stock options were granted during the year ended December 31, 2011.

9. Share capital (continued)

(e) Broker warrants

A summary of the status of the broker warrants as of December 31, 2011 and 2010, and changes during the years then ended is presented as follows:

		2011		2010
	Number of warrants	**Weighted average exercise price ($)**	Number of warrants	Weighted average exercise price ($)
Outstanding, beginning of year	**236,500**	**0.05**	236,500	0.05
Issued	**-**	**-**	-	-
Exercised	**(104,700)**	**0.05**	-	-
Expired	**(131,800)**	**0.05**	-	-
Outstanding, end of year	**-**	**-**	236,500	0.05

(f) Common share purchase warrants

A summary of the status of the common share purchase warrants as of December 31, 2011 and 2010, and changes during the years then ended is presented as follows:

		2011		2010
	Number of warrants	**Weighted average exercise price ($)**	Number of warrants	Weighted average exercise price ($)
Outstanding, beginning of year	**2,380,000**	**0.10**	4,380,000	0.10
Issued	**-**	**-**	-	-
Exercised	**(720,000)**	**0.10**	(2,000,000)	0.10
Expired	**(1,660,000)**	**0.10**	(2,000,000)	0.10
Outstanding, end of year	**-**	**-**	2,380,000	0.10

The Company accounts for warrants issued using the residual value based method. Under this method, fair value is not assigned to the warrants.

10. Contributed surplus

A summary of the status of contributed surplus as of December 31, 2011 and 2010, and the changes during the years then ended is presented below:

	2011	2010
Balance, beginning of year	**$ 159,243**	$ 131,873
Stock-based compensation	**-**	27,370
Broker warrants exercised	**(3,663)**	27,370
Balance, end of year	**$ 155,580**	$ 159,243

11. Income taxes

(a) Deferred income tax recovery

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

		2011		2010
Loss before income taxes	**$**	**(108,105)**	$	(105,938)
Enacted income tax rate		**26.5%**		28.0%
Expected income tax (recovery)		**(28,000)**		(30,000)
Increase (decrease) in taxes resulting from:				
Stock-based compensation		**-**		8,000
Other		**-**		5,600
Impact of change in effective tax rate		**1,000**		2,400
Change in valuation allowance		**27,000**		9,625
Deferred income tax (recovery)		**-**	$	(4,375)

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

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

As at December 31,		**2011**		2010
Non-capital losses	**$**	**135,000**	$	111,000
Decommissioning liability		**3,000**		2,000
Property, plant and equipment		**333,000**		330,000
Capital loss		**2,000**		2,000
Share issue costs		**1,000**		2,000
Total gross deferred tax assets		**474,000**		447,000
Valuation allowance		**(474,000)**		(447,000)
Net deferred tax assets	**$**	**-**	$	-

The valuation allowance offsets the net deferred tax assets for which there is no assurance of recovery. The valuation allowance is evaluated considering positive and negative evidence about whether the deferred tax assets will be realized. At the time of evaluation, the allowance is either increased or reduced. Reduction could result in the complete elimination of the allowance, if positive evidence indicated that the value of the deferred tax assets is no longer impaired and the allowance is no longer required.

11. Income taxes (continued)

(c) Tax pools

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

		2011	Rate
Operating loss carry forwards	$	**539,000**	100%
Share issue costs		**6,000**	20%
Canadian exploration expenditures		**204,000**	100%
Foreign exploration and development expenditures		**1,153,000**	10%
Capital loss		**18,000**	50%
Capital cost allowances		**102,000**	20-25%

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

Year expire:		Amount
2015	$	**7,000**
2026		**7,000**
2027		**212,000**
2028		**80,000**
2029		**63,000**
2030		**74,000**
2031		**96,000**
	$	**539,000**

12. Financial instruments

The Company is exposed to normal financial risks inherent within the oil and gas industry, including credit risk, interest rate risk and liquidity risk. The nature of the financial risks and the Company's strategy for managing these risks has not changed significantly from the prior year. The Company does not utilize derivative instruments to manage risks.

i) Credit risk

Credit risk is the risk a third party fails to meet its contractual obligations that could result in the Company incurring a loss. The Company's accounts receivable are primarily with joint venture partners and Canadian federal government. Receivables from joint venture partners arise from the Company's ownership of a gross overriding royalty on certain oil and gas interests. Receivables from Canadian federal government arise from input tax credits for Goods and Services taxes. As at December 31, 2011, 2010, and January 1, 2010 there were no allowances for doubtful accounts as all amounts receivable were current.

12. Financial instruments (continued)

ii) Interest rate risk

The Company is not exposed to interest rate risk because of fluctuating interest rates. Fluctuations in market rates do not have a significant impact on the Company's operations as the Company does not maintain any cash equivalents or debt subject to interest.

iii) Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient funds to meet its liabilities. The Company has no liabilities, other than routine current accounts payable, incurred in the normal course of business.

In 2010, the Company used proceeds from private placements completed in December, 2009 to meet its working capital requirements in 2010. Subsequent to year-end, the Company successfully raised $140,000 from private placements completed in February 2012 and the Management is planning to use this fund to minimum working capital requirements for next twelve months (approximately $55,000) and to capital expenditure. The Management believes there is the opportunity for the Company to raise additional equity and/or enter into joint venture arrangements in 2012.

The outcome of these matters cannot be determined at this time.

iv) Fair value of financial instruments

The Company's financial instruments as at December 31, 2011 include cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities. The fair values of accounts receivable and accounts payable and accrued liabilities approximate their carrying amounts due to their short terms to maturity.

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 on-going 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, 2010 and January 1, 2010, cash and cash equivalents have been classified as Level 1.

13. Risk management and capital management

The Company is a junior oil and gas company and considers items included in shareholders' equity as capital. The Company has no debt and does not expect to enter into debt financing. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of underlying assets. In order to maintain or adjust its capital structure, the Company may issue new shares, purchase shares for cancellation pursuant to normal course issuer bids or make special distributions to shareholders. The Company is not subject to any externally imposed capital requirements and does not presently utilize any quantitative measures to monitor its capital.

The Company currently receives royalty income from a gross overriding royalty held. Revenues are not sufficient to meet ongoing obligations and meet future exploration commitments in respect of its property, plant and equipment. In order to fund future projects and pay for administrative costs, the Company is required to raise additional funds as needed in the equity markets and/or rely on advances from directors. As at December 31, 2011, the Company had a working capital deficiency of $34,542 and shareholders' equity of $99,162. Subsequent to year-end, the Company successfully raised $140,000 from private placements completed in February 2012 and the Management is planning to use this fund to meet its minimum working capital requirements for the next twelve months and for capital expenditures. The Company's ability to continue as a going concern on a long-term basis and realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation is primarily dependent upon its ability to develop, sell or option its property, plant and equipment and its ability to borrow or raise additional financing from equity markets. The outcome of these events is not determinable at this time.

14. Related party transactions

The Company has entered into transactions with related parties in the normal course of business, which were valued at the exchange amount established and agreed to by the related parties. During the year, the related party transactions were as follows:

The Company paid to its directors and officers, either directly, or indirectly, the following amounts:

	2011	2010
For accounting services	**$ 4,675**	$ 5,488
For geologic services	**1,500**	-

At December 31, 2011, $1,500 (2010 - $1,500) was included in accounts payable and accrued liabilities.

15. Contingency

Environmental regulations

The Company's activities are subject to various government laws and regulations relating to the protection of the environment. These environmental regulations are continually changing in Canada and generally are becoming more restrictive. The Company believes its operations comply in all material respects with all applicable laws and regulations.

16. Subsequent event

In February 2012, the Company raised gross proceeds of $140,000 from private placement. The Company issued 2,000,000 units. Each unit consists of one common shares and one common share purchase warrant at a price of $0.10 per share for a period of five years.