Softrock Minerals Ltd.

Financial Statements

December 31, 2012 and 2011

(Expressed in Canadian dollars)

Softrock Minerals Ltd.

Financial Statements

December 31, 2012 and 2011

	Page
Independent Auditor's Report	3
Statements of Loss and Comprehensive Loss	4
Statements of Financial Position	5
Statements of Changes in Equity	6
Statements of Cash Flows	7
Notes to the Financial Statements	8 - 29

CHARTERED ACCOUNTANTS

MacKay LLP

Elveden House
1700, 717 – 7th Avenue SW
Calgary, AB T2P 0Z3

Phone:(403) 294-9292
Fax:(403) 294-9262

www.MacKay.ca

mackay.ca

Independent Auditor's 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, 2012 and December 31, 2011, and the statements of loss and comprehensive loss, changes in equity and cash flows for the years ended December 31, 2012 and December 31, 2011, 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, 2012, and December 31, 2011, and its financial performance and its cash flows for the years ended December 31, 2012 and December 31, 2011, 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 29, 2013

mackay.ca refers to the Canadian firm MacKay LLP

Softrock Minerals Ltd.

Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)

For the years ended December 31,	2012	2011
Revenue		
Royalty income	$ **29,001**	$ 32,609
Expenses		
Operating and transportation	**6,813**	1,738
Professional fees (note 11)	**43,918**	45,272
General and administrative	**46,100**	39,398
Depreciation and depletion	**9,882**	13,694
Exploration expenditures	**10,251**	39,712
Finance expense	**1,200**	900
	118,164	140,714
Net loss and comprehensive loss for the year	$ **(89,163)**	$ (108,105)
Loss per share		
Basic and diluted (note 8(c))	$ **(0.00)**	$ (0.01)

Softrock Minerals Ltd.

Statements of Financial Position
(Expressed in Canadian Dollars)

	December 31, 2012	December 31, 2011
Assets		
Current		
Cash and cash equivalents	**$ 14,143**	$ 19,634
Accounts receivable	**13,246**	10,208
	27,389	29,842
Property, plant and equipment (note 5)	**135,019**	144,901
Exploration and evaluation assets (note 6)	**57,098**	5,000
	$ 219,506	$ 179,743
Liabilities		
Current		
Accounts payable and accrued liabilities (note 11)	$ 63,311	$ 64,385
Decommissioning liabilities (note 7)	12,397	11,197
	75,708	75,582
Shareholders' equity		
Share capital (note 8 (b))	**2,766,709**	2,676,257
Warrants (note 8 (f))	**20,000**	**-**
Contributed surplus (note 9)	**173,928**	155,580
Deficit	**(2,816,839)**	(2,727,676)
	143,798	104,161
	$ 219,506	$ 179,743

Nature of operations and going concern (note 1)
Contingency (note 14)
Subsequent event (note 15)

On behalf of the Board:

(Signed) *"Nick Taylor"*, Director

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

Softrock Minerals Ltd.

Statements of Changes in Equity
(Expressed in Canadian Dollars)

	Number of shares	**Share capital**	**Warrants**	**Contributed surplus**	**Deficit**	**Total shareholders' equity**
December 31, 2011	21,759,146	$ 2,676,257	$ -	$ 155,580	$(2,727,676)	$ 104,161
Units issued, net (note 8(b))	2,000,000	90,452	20,000	18,348	-	128,800
Net loss and comprehensive loss	-	-	-	-	(89,163)	(89,163)
December 31, 2012	**23,759,146**	**$ 2,766,709**	**$ 20,000**	**$ 173,928**	**$(2,816,839)**	**$ 143,798**

	Number of shares	Share capital	Warrants	Contributed surplus	Deficit	Total shareholders' equity
December 31, 2010	20,934,446	$ 2,595,359	$ -	$ 159,243	$ (2,619,571)	$ 135,031
Warrants exercised (note 8(b))	824,700	80,898	-	(3,663)	-	77,235
Net loss and comprehensive loss	-	-	-	-	(108,105)	(108,105)
December 31, 2011	21,759,146	$ 2,676,257	$ -	$ 155,580	$(2,727,676)	$ 104,161

Softrock Minerals Ltd.

Statements of Cash Flows
(Expressed in Canadian Dollars)

For the years ended December 31,	**2012**	2011
Cash provided by (used for)		
Operating activities		
Net loss for the year	**$ (89,163)**	$ (108,105)
Items not affecting cash		
Depreciation and depletion	**9,882**	13,694
Accretion of decommissioning liabilities (note 7)	**1,200**	900
	(78,081)	(93,511)
Changes in non-cash working capital items		
Accounts receivable	**(3,038)**	(1,994)
Accounts payable and accrued liabilities	**(1,074)**	24,847
	(82,193)	(70,658)
Financing activities		
Issue of common shares for cash (note 8(b))	**140,000**	77,235
Share issue costs (note 8(b))	**(11,200)**	-
	128,800	77,235
Investing activities		
Expenditures on exploration and evaluation assets	**(52,098)**	(5,000)
Increase (decrease) in cash	**(5,491)**	1,577
Cash and cash equivalents, beginning of year	**19,634**	18,057
Cash and cash equivalents, end of year	**$ 14,143**	$ 19,634
Non-cash transaction		
Valuation of broker warrants	**$ 18,348**	$ -

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.

The registered address of the Company is 1010, 825 – 8th Avenue SW, Calgary, Alberta T2P 2T3.

These financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its obligations in the normal course of operations.

The Company's ability to maintain its current level of operations is dependent on its ability to generate sufficient cash to fund its strategic business plan. To date, the Company has no ongoing source of significant revenue other than its 3% gross overriding royalty interest. At December 31, 2012, the Company had cash of $14,143 (2011 - $19,634) and a working capital deficit of $35,922 (2011 - $34,543). These factors cast significant doubt as to the Company's ability to continue as a going concern.

In fiscal 2012, the Company completed private placements for gross proceeds of $140,000 (2011 - $nil) and had warrants exercised for $nil (2011 - $77,235). In addition to any capital raised from new financings, if any, there are 2,000,000 (2011 - nil) share purchase warrants exercisable at $0.10 expiring March 2017. Each share purchase warrant is exercisable into one common share.

While Management believes the Company has sufficient cash to discharge its obligations in the normal course of operations for the short-term, future operations will continue to be dependent upon the successful ongoing exploration and development of the Company's mineral property interests and/or raising of sufficient capital, and the corresponding generation of future cash flows. Management believes the going concern assumption is appropriate for these financial statements. The Company's ability to continue as a going concern on a longer term basis depends on its ability to successfully raise additional financing for further exploration activity and development or to enter into profitable operations. On April 4, 2013, the Company received a loan of $20,000 from a director and shareholder as detailed in note 15 (Subsequent Events) to the statements.

While the Company has been successful to date in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms acceptable to the Company. If the going concern assumption were not appropriate for these financial statements, adjustments might be necessary to the carrying value of assets and liabilities, reported revenues and expenses and the statement of financial position classifications used.

2. Basis of presentation

(a) Statement of compliance

The Corporation prepares its financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of financial statements as issued by the International Accounting Standards Board, and applicable International Accounting Standards ('IAS").

The policies applied in these financial statements are based on IFRS issued and outstanding as of April 29, 2013, the date the Board of Directors approved the statements.

(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.

(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.

3. Significant accounting policies (continued)

Revenue (continued)

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 fair value through profit or loss and are carried at Level 1 fair value measurement.

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. Deferred income tax assets are recognized to the extent that it is probable that there will be taxable profits against which deductible temporary differences can be utilized.

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 as intangible assets 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

(i) Recognition and measurement (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.

3. Significant accounting policies (continued)

Oil and natural gas exploration and evaluation expenditures

(ii) Depletion and depreciation (continued)

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.

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.

3. Significant accounting policies (continued)

Impairment

(i) Non-financial assets (continued)

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.

(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.

3. Significant accounting policies (continued)

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.

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 profit or 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 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 profit or 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.

3. Significant accounting policies (continued)

Financial instruments (continued)

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.

The Company classifies cash as fair value through profit or loss, accounts receivable as loans and receivables and accounts payable and accrued liabilities as other financial liabilities.

Share-based compensation

(i) Stock option awards

Share-based compensation 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.

(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.

3. Significant accounting policies (continued)

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.

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.

3. Significant accounting policies (continued)

Accounting standards issued but not yet applied (continued)

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 January 1, 2014.

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 and judgments 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, 2012 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 compensation

Expenses recorded for share-based compensation is 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. Property, plant and equipment

			December 31, 2012
	Cost	**Accumulated depletion**	**Net book value**
Petroleum and natural gas properties and facilities	**$ 1,169,785**	**$ 1,034,766**	**$ 135,019**
Furniture, fixtures and office equipment	**51,225**	**51,225**	**-**
	$ 1,221,010	**$ 1,085,991**	**$ 135,019**

			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

The Company's ceiling test calculation, performed at December 31, 2012 and 2011, did not result in an impairment loss.

The Company used the following benchmark reference prices ($/STB) for the years 2013 to 2016 adjusted for commodity differentials and transportation specific to the Corporation:

	2013	**2014**	**2015**	**2016**
WTI	72.37	77.01	77.66	81.48

6. Exploration and evaluation assets

The following table reconciles the Company's exploration and evaluation assets:

Cost	**Oil and gas properties**	**Mineral Properties**	**Total**
Balance, December 31, 2010	$ -	$ -	$ -
Additions	-	5,000	5,000
Balance, December 31, 2011	-	5,000	5,000
Additions	48,973	3,125	52,098
Balance, December 31, 2012	$ 48,973	$ 8,125	$ 57,098

6. Exploration and evaluation assets (continued)

The Company, as part of its impairment analysis evaluates its oil and natural gas and mineral evaluation and exploration assets based on management's thresholds of whether a property is technically feasible and potential commercial viability exists. No impairment provision has been recorded for the year ended December 31, 2012.

During the year, the Company acquired 50% petroleum and natural gas ("P&NG") rights interest with 30 months crown lease in the Spirit River area of Northern Alberta in the Charlie Lake for $48,973 paid in cash.

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 December 2013, 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.

In June 2012, the Company signed an additional five mineral permit agreements under the same terms and conditions as mentioned above. The minimum expenditure requirement per permit to be incurred prior to June 2014 is approximately $46,000 per permit.

7. Decommissioning liabilities

The Company's decommissioning liabilities result from working interests in oil and natural gas assets including well sites, gathering systems and processing facilities. As at December 31, 2012, 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 1.12% (2011 – 0.95%) and an inflation rate of 2.00% (2011 – 2.00%).

		2012		2011
Balance, beginning of year	**$**	**11,197**	$	10,297
Accretion		**1,200**		900
Balance, end of year	**$**	**12,397**	$	11,197

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

8. 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

	2012		2011	
	Number of shares	**Amount**	Number of shares	Amount
Balance, beginning of year	**21,759,146**	**$ 2,676,257**	20,934,446	$ 2,595,359
Issued:				
Warrants exercised	**-**	**-**	824,700	80,898
On private placement	**2,000,000**	**140,000**	-	-
Share issue costs in cash	**-**	**(11,200)**	-	-
Valuation of broker warrants (note 9)	**-**	**(18,348)**	-	-
Value assigned to common share purchase warrants	**-**	**(20,000)**	-	-
Balance, end of year	**23,759,146**	**$ 2,766,709**	21,759,146	$ 2,676,257

Share capital transactions in 2012:

The Company closed a brokered private placement of 2,000,000 units at a price of $0.07 per unit for total gross proceeds of $140,000. Each unit is comprised of one common share and one common share purchase warrant exercisable at $0.10 per warrant for five years.

In connection with the private placement the Company paid $11,200 broker's fee in cash and issued broker warrants entitling the broker to acquire 160,000 Units at a price of $0.07 per Unit until March 2017. Each unit is comprised of one common share and one common share purchase warrant exercisable at $0.10 per warrant for five years. The estimated fair value of $18,348 ($9,211 for the Units and $9,137 for the warrants), as calculated using the fair value based method (note 8 (e)), has been credited to contributed surplus.

The Company accounts for warrants issued using the residual value based method. Under this method, difference between the fair value ($0.06 per share) at the date of issue and the issued price ($0.07 per share) was assigned to the warrants. (Note 8 (f))

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.

8. Share capital (continued)

(c) Per share amounts

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

	2012	2011
Basic and diluted	**23,175,668**	21,559,230

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

(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.

		2012		2011
	Stock options	**Weighted average exercise price ($)**	Stock options	Weighted average exercise price ($)
Outstanding, beginning of year	**1,800,000**	**0.10**	1,800,000	0.10
Granted and fully vested	**-**	**-**	-	-
Cancelled	**-**	**-**	-	-
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, 2012:

Number outstanding at December 31, 2012	**Weighted average remaining contractual life (years)**	**Number exercisable at December 31, 2012**	**Exercise price ($)**
1,000,000	0.77	1,000,000	0.10
200,000	0.77	200,000	0.10
600,000	2.81	600,000	0.10
1,800,000	1.45	1,800,000	0.10

No stock options were granted during the years ended December 31, 2012 and December 31, 2011.

8. Share capital (continued)

(e) Broker warrants

A summary of the status of the broker warrants as of December 31, 2012 and 2011, and changes during the years then ended is presented as follows:

	2012		2011	
	Number of warrants	**Weighted average exercise price ($)**	Number of warrants	Weighted average exercise price ($)
Outstanding, beginning of year	**-**	**-**	236,500	0.05
Exercised	**-**	**-**	(104,700)	0.05
Issued	**160,000**	**0.07**	-	-
Expired	**-**	**-**	(131,800)	0.05
Outstanding, end of year	**160,000**	**0.07**	-	-

The Company accounts for broker warrants using the fair value based method. Under this method, the fair value of the broker warrants issued during the year was estimated on the date of the issue using the Black-Scholes option pricing model, with the following assumptions: zero dividend yield; weighted average expected volatility of 185%; weighted average risk-free rate of 1.43% and weighted average expected life of 5 years. (Note 8 (b)).

Estimated volatility is measured as the standard deviation of expected share price returns based on statistical analysis of historical daily share prices for a representative period.

(f) Common share purchase warrants

A summary of the status of the common share purchase warrants as of December 31, 2012 and 2011 and changes during the years then ended is presented as follows:

	2012	2011
Balance, beginning of year	**$ -**	$ -
Common share purchase warrants issued (note 8b)	**20,000**	-
Balance, end of year	**$ 20,000**	$ -

	2012		2011	
	Number of warrants	**Weighted average exercise price ($)**	Number of warrants	Weighted average exercise price ($)
Outstanding, beginning of year	**-**	**-**	2,380,000	0.10
Issued	**2,000,000**	**0.10**	-	-
Exercised	**-**	**-**	(720,000)	0.10
Expired	**-**	**-**	(1,660,000)	0.10
Outstanding, end of year	**2,000,000**	**0.10**	-	-

As of December 31, 2012, the 2,000,000 warrants are outstanding until March 6, 2017.

9. Contributed surplus

A summary of the status of contributed surplus as of December 31, 2012 and 2011, and the changes during the years then ended is presented below:

		2012		2011
Balance, beginning of year	**$**	**155,580**	$	159,243
Broker warrants issued (note 8 (b))		**18,348**		-
Broker warrants exercised		**-**		(3,663)
Balance, end of year	**$**	**173,928**	$	155,580

10. 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:

		2012		2011
Loss before income taxes	**$**	**(89,163)**	$	(108,105)
Enacted income tax rate		**25.0%**		26.5%
Expected income tax (recovery)	**$**	**(22,000)**	$	(28,000)
Increase (decrease) in taxes resulting from:				
Impact of change in effective tax rate		**-**		1,000
Change in unrecognized tax benefits		**30,000**		27,000
Other		**(8,000)**		-
Deferred income tax (recovery)	**$**	**-**	$	-

(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, 2012 and 2011 are as follows:

As at December 31,		**2012**		2011
Non-capital losses	**$**	**156,000**	$	135,000
Decommissioning liabilities		**3,000**		3,000
Property, plant and equipment		**336,000**		333,000
Capital loss		**2,000**		2,000
Share issue costs		**7,000**		1,000
Total gross deferred tax assets		**504,000**		474,000
Unrecognized deferred tax assets		**(504,000)**		(474,000)
Net deferred tax assets	**$**	**-**	$	-

10. Income taxes (continued)

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

The unrecognized deferred tax assets offset the gross deferred tax assets for which there is no assurance of recovery. The unrecognized deferred tax assets are evaluated considering positive and negative evidence about whether the deferred tax assets will be realized. At the time of evaluation, the amount is either increased or reduced.

(c) Tax pools

As at December 31, 2012, the Company has available for deduction, the following total tax pools against future taxable income, the approximate amounts:

	2012	Rate
Operating loss carry forwards	$ **626,000**	100%
Share issue costs	**26,000**	20%
Canadian oil and gas property expenses	**49,000**	100%
Canadian exploration expenditures	**222,000**	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**
2032	**87,000**
	$ **626,000**

11. 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:

		2012		2011
For accounting services	**$**	**4,497**	$	4,675

At December 31, 2012, $1,250 (2011 - $1,500) was included in accounts payable and accrued liabilities.

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 operators 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, 2012 and 2011, there were no allowances for doubtful accounts as all amounts receivable were current.

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.

The Company successfully raised $140,000 from private placements completed in February 2012 and the Management is planning to use this fund for working capital requirements and for capital expenditures. Management believes there is the opportunity for the Company to raise additional equity and/or enter into joint venture arrangements in 2013.

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

12. Financial instruments (continued)

iv) Fair value of financial instruments

The Company's financial instruments as at December 31, 2012 and 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.

At December 31, 2012 and 2011, cash and cash equivalents have been classified as Level 1 based on the fair value measurements disclosed in note 3 to the financial statements.

13. Risk management and capital management

The Company is a junior oil and gas and mineral exploration 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, 2012, the Company had a working capital deficiency of $35,922 and shareholders' equity of $143,798.

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. 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.

15. Subsequent event

In April 2013, the Company accepted a loan for an amount of $20,000 from the President of Company. The loan is an interest-only loan and payable quarterly at 8% per annum. The principal is repayable within 18 months.