

COBRA VENTURE CORPORATION

FINANCIAL STATEMENTS

NOVEMBER 30, 2009

Auditors' Report

**To the Shareholders of
Cobra Venture Corporation**

We have audited the balance sheets of Cobra Venture Corporation as at November 30, 2009 and 2008, and the statements of operations, comprehensive income (loss) and deficit, and cash flows for the years then ended. These financial statements are the responsibility of the company's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in these financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at November 30, 2009, and 2008, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

**Vancouver, Canada
March 10, 2010**

***"MacKay LLP"*
Chartered Accountants**

COBRA VENTURE CORPORATION
BALANCE SHEETS
AS AT NOVEMBER 30

	2009	2008
ASSETS		
Current		
Cash and cash equivalents (Note 3)	\$ 1,027,611	\$ 1,784,900
Receivables	311,197	262,378
Prepaid expenses	28,535	25,620
Income tax receivable	<u>-</u>	<u>62,907</u>
	1,367,343	2,135,805
Investment (Note 4)	250,000	250,000
Equipment (Note 5)	2,922	4,174
Petroleum and natural gas interests (Note 6)	<u>1,261,191</u>	<u>1,334,564</u>
	<u>\$ 2,881,456</u>	<u>\$ 3,724,543</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (Note 10)	\$ 120,137	\$ 1,029,983
Income taxes payable	<u>29,779</u>	<u>-</u>
	149,916	1,029,983
Asset retirement obligation (Note 7)	18,476	16,800
Future income taxes (Note 11)	<u>300,500</u>	<u>375,300</u>
	<u>468,892</u>	<u>1,422,083</u>
Shareholders' equity		
Capital stock (Note 8)	3,616,027	3,616,027
Contributed surplus (Note 8)	307,704	201,619
Deficit	<u>(1,511,167)</u>	<u>(1,515,186)</u>
	<u>2,412,564</u>	<u>2,302,460</u>
	<u>\$ 2,881,456</u>	<u>\$ 3,724,543</u>

Nature of operations (Note 1)

On behalf of the Board:

"Daniel B. Evans"

Director

"Cyrus Driver"

Director

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

COBRA VENTURE CORPORATION
STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME AND DEFICIT
YEARS ENDED NOVEMBER 30

	2009	2008
OIL AND GAS REVENUES		
Production revenue	\$ 56,602	\$ 134,809
Royalty revenue	<u>747,351</u>	<u>898,875</u>
	<u>803,953</u>	<u>1,033,684</u>
DIRECT COSTS		
Production and operation costs	23,383	34,192
Royalties	9,338	33,844
Depletion	122,598	61,239
Accretion (Note 7)	<u>1,676</u>	<u>-</u>
	<u>156,995</u>	<u>129,275</u>
Gross profit	<u>646,958</u>	<u>904,409</u>
EXPENSES		
Abandonments	-	26,634
Amortization	1,252	2,315
Consulting fees	32,117	44,613
Corporate services	13,200	32,480
Management fees	183,000	152,000
Media and website	35,960	37,954
Mineral rights tax	281	966
Office and miscellaneous	31,916	31,085
Professional fees	200,419	161,382
Rent	61,389	17,310
Stock-based compensation (Note 9)	106,085	89,543
Transfer agent and regulatory fees	10,541	23,295
Travel and promotion	<u>13,453</u>	<u>23,724</u>
	<u>(689,613)</u>	<u>(643,301)</u>
Income (loss) before other items	<u>(42,655)</u>	<u>261,108</u>
OTHER ITEMS		
Gain on sale of leased land (Note 6)	-	330,737
Lease income	776	50,936
Interest income	<u>16,843</u>	<u>38,911</u>
	<u>17,619</u>	<u>420,584</u>

- Continued -

COBRA VENTURE CORPORATION
STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME AND DEFICIT
YEARS ENDED NOVEMBER 30

	2009	2008
<i>Continued...</i>		
Income (loss) before income taxes	(25,036)	681,692
Income taxes (recovery)		
Future income tax provision (recovery) (Note 11)	(74,800)	153,046
Income tax expense (Note 11)	<u>45,745</u>	<u>-</u>
	(29,055)	153,046
Income and comprehensive income for the year	4,019	528,646
Deficit, beginning of year	<u>(1,515,186)</u>	<u>(2,043,832)</u>
Deficit, end of year	<u>\$ (1,511,167)</u>	<u>\$ (1,515,186)</u>
Basic income per share	\$ 0.00	\$ 0.04
Diluted income per share	0.00	0.03
Weighted average common shares outstanding	<u>14,940,750</u>	<u>14,816,840</u>
Plus incremental shares from assumed conversions:		
Stock options	-	611,697
Warrants	<u>-</u>	<u>156,958</u>
Dilutive potential common shares	<u>-</u>	<u>768,655</u>
Adjusted weighted average shares	<u>14,940,750</u>	<u>15,585,495</u>

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

COBRA VENTURE CORPORATION
STATEMENTS OF CASH FLOWS
YEARS ENDED NOVEMBER 30

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Income for the year	\$ 4,019	\$ 528,646
Items not involving cash:		
Amortization	1,252	2,315
Depletion	122,598	61,239
Accretion	1,676	-
Stock-based compensation	106,085	89,543
Gain from sale of leased land	-	(330,737)
Future income tax provision	(74,800)	153,046
Changes in non-cash working capital items:		
Increase in receivables	(48,819)	(149,578)
Increase in prepaid expenses	(2,915)	(748)
Increase (decrease) in accounts payable and accrued liabilities	(11,448)	90,029
Increase (decrease) in income tax payable	29,779	(63,192)
Decrease (increase) income tax receivable	62,907	(62,907)
Cash provided by operating activities	<u>190,334</u>	<u>317,656</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Petroleum and natural gas expenditures	(947,623)	(443,806)
Proceeds from sale of leased land	-	790,000
Investment	<u>-</u>	<u>(250,000)</u>
Cash provided by (used in) investing activities	<u>(947,623)</u>	<u>96,194</u>
CASH FLOWS FROM FINANCING ACTIVITY		
Common shares issued for cash	<u>-</u>	<u>492,975</u>
Cash provided by financing activities	<u>-</u>	<u>492,975</u>
Change in cash and cash equivalents	(757,289)	906,825
Cash and cash equivalents, beginning of year	<u>1,784,900</u>	<u>878,075</u>
Cash and cash equivalents, end of year	<u>\$ 1,027,611</u>	<u>\$ 1,784,900</u>
Cash paid for interest	\$ -	\$ -
Cash recovered (paid) for income taxes	47,054	(62,907)
Cash and cash equivalents consist of:		
Cash	\$ 527,611	\$ 594,900
Cash equivalents (Note 3)	<u>500,000</u>	<u>1,190,000</u>
	<u>\$ 1,027,611</u>	<u>\$ 1,784,900</u>

Supplemental disclosure with respect to cash flows (Note 12)

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

1. NATURE OF OPERATIONS

The Company was incorporated under the Business Corporation Act (Alberta) on August 18, 1999 and its principal business activity is the exploration and development of petroleum and natural gas interests.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. Continued operations of the Company are dependent on the Company's ability to receive continued financial support, complete public equity financing, or generate profitable operations in the future. These financial statements do not include any adjustments to the amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue business.

	2009	2008
Working capital	\$ 1,217,427	\$ 1,105,822
Deficit	(1,511,167)	(1,515,186)

2. CHANGE IN ACCOUNTING POLICIES

Amendment to financial instruments – disclosures

CICA Handbook Section 3862, Financial Instruments – Disclosures was amended to require disclosure about the inputs used in making fair value measurements, including their classification within a hierarchy that prioritizes their significance. The three levels of the fair value hierarchy are:

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

See Note 13 for relevant disclosures.

Assessing going concern

Effective December 1, 2008 the Company implemented CICA Handbook Section 1400, to include requirements for management to assess and disclose an entity's ability to continue as a going concern. This section applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. The adoption of this section did not have an impact on the Company's financial results.

2. CHANGE IN ACCOUNTING POLICIES

Goodwill and intangible assets

The Canadian Accounting Standards Board (“AcSB”) issued CICA Handbook Section 3064 which replaces Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs. The new standard establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets, including those developed internally. At the same time, the AcSB amended Section 1000, Financial Statement Concepts, to clarify the criteria for recognition of an asset. Therefore items that no longer meet the definition of an asset are no longer recognized with assets. The new standard and amended standard are both effective for annual and interim periods beginning on or after October 1, 2008. Effective December 1, 2008, the Company adopted Section 3064. The adoption of Section 3064 had no impact on the Company’s balance sheets, statements of loss and comprehensive loss and statements of cash flows.

3. SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

Cash and cash equivalents include cash on deposit and Canadian guaranteed investment certificates (“GIC’s”) that are both with a major Canadian banking institution. As at November 30, 2009, cash equivalents are cashable GIC’s at an interest rate of prime less 2% per annum, maturing January 27, 2010 (2008 - cashable GIC’s, at an interest rate between prime less 2.05% and prime less 2.25%, matured between January 9, 2009 and June 17, 2009.)

Financial instruments

Section 3855 requires that all financial assets and financial liabilities (including derivatives) be measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods depends on whether the financial asset or liability has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables or other liabilities.

The Company has designated its cash and cash equivalents as held-for-trading, which is measured at fair value. Receivables are classified as loans and receivables, which are measured at amortized cost. Investment is classified as available for-sale, accounts payable and accrued liabilities, and asset retirement obligations are classified as other financial liabilities, which are measured at amortized cost.

Financial instruments classified as held-for-trading are measured at fair value and unrealized gains and losses are included in net income in the period in which they arise.

Available-for-sale assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as held-for-trading, held-to-maturity, or loans and receivables. Available-for-sale assets are measured at fair value on initial recognition with unrealized gains and losses recorded in other comprehensive income until realized, at which time they will be recognized in net income.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Financial instruments (cont'd...)

Other accounting implications arising upon the adoption of Section 3855 include the use of the effective interest method ("EIM") for any transaction costs or financing fees earned or incurred for financial instruments measured at amortized cost, and the recognition of the fair value of the obligation undertaken in issuing a guarantee that meets the definition of a guarantee pursuant to Accounting Guidelines 14, Disclosure of Guarantees (AcG 14). No subsequent re-measurement at fair value is required unless the financial guarantee qualifies as a derivative. If the financial guarantee meets the definition of a derivative, it is re-measured at fair value at each balance sheet date.

Transaction costs incurred in relation to the acquisition of a financial asset or liability are immediately expensed by the Company.

Measurement uncertainty and estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the possible impairment of assets, asset retirement obligations and useful lives for depletion and amortization, stock-based compensation, the fair value of financial instruments, and future income taxes. Financial results as determined by actual events could significantly differ from those estimates.

Financing costs

Costs directly identifiable with the raising of capital will be charged against the related capital stock. Costs related to shares not yet issued are recorded as deferred financing costs. These costs will be deferred until the issuance of the shares to which the costs relate, at which time the costs will be charged against the related capital stock or charged to operations if the shares are not issued.

Equipment

Equipment is recorded at cost less accumulated amortization. Amortization is recorded using the declining balance method over the estimated useful life of the equipment at the following annual rates, commencing when the related asset is available for use:

Computer hardware	30%
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Petroleum and natural gas interests

The Company follows the full cost method of accounting for petroleum and natural gas operations, whereby all costs of exploring for and developing petroleum and natural gas reserves are capitalized and accumulated in cost centres on a country-by-country basis. Costs include land acquisition costs, geological and geophysical charges, carrying charges on non-productive properties and costs of drilling both productive and non-productive wells. General and administrative costs are not capitalized other than to the extent of the Company's working interest in operated capital expenditure programs on which operator's fees have been charged equivalent to standard industry operating agreements.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Petroleum and natural gas interests (cont'd...)

The costs in each cost centre, including the costs of well equipment, are depleted and amortized using the unit-of-production method based on the estimated proved reserves before royalties. Natural gas reserves and production are converted to equivalent barrels of crude oil based on relative energy content. The costs of acquiring and evaluating significant unproved properties are initially excluded from depletion calculations. These unevaluated properties are assessed periodically to ascertain whether impairment has occurred. When proved reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion.

The net carrying value of the Company's petroleum and natural gas properties is limited to an ultimate recoverable amount. The Company tests impairment against undiscounted future net revenue from proved reserves using expected future prices and costs as well as the income tax in effect at the period end. Impairment is recognized when the carrying value of the assets is greater than the undiscounted future net revenues, in which case the assets are written down to the fair value of proved plus probable reserves plus the cost of unproved properties, net of impairment allowances. Fair value is determined based on discounted future net cash flows calculated using expected future prices and costs as well as the income tax legislation in effect at the period end. The discounted rate used is a risk free interest rate.

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

Proceeds from the sale of petroleum and natural gas properties are applied against capitalized costs, with no gain or loss recognized unless such a sale significantly alters the rate of depletion by greater than 20%.

Asset retirement obligations

The Company recognizes the fair value of liabilities related to legal obligations related to an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability.

Changes in the liability for an asset retirement obligation due to the passage of time will be measured by applying an interest method of allocation. The amount will be recognized as an increase in the liability and an accretion expense in the statement of operations. Changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease in the carrying amount of the liability and the related long-lived asset.

Flow-through common shares

Canadian tax legislation permits a company to issue flow-through shares whereby the deduction for tax purposes relating to qualified resource expenditures is claimed by the investors rather than the Company. Capitalizing these expenditures for accounting purposes gives rise to taxable temporary differences. The Company records a reduction in capital stock for the tax benefits transferred to shareholders.

Effective March 19, 2004, the Emerging Issues Committee of the Canadian Institute of Chartered Accountants requires that, when flow-through expenditures are renounced, a portion of the future income tax assets that were not recognized in previous years, due to the recording of a valuation allowance, be recognized as a recovery of income taxes in the statement of operations and comprehensive income (loss).

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Valuation of equity units issued in private placements

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component.

The fair value of the common shares issued in the private placements was determined to be the more easily measurable component and were valued at their fair value, as determined by the closing quoted bid price on the announcement date. The balance, if any, was allocated to the attached warrants. Any fair value attributed to the warrants is recorded as contributed surplus.

Stock-based compensation

The Company accounts for stock options granted to directors, officers, employees and non-employees using the fair value method of accounting. Accordingly, the fair value of the options at the date of the grant is determined using the Black-Scholes option pricing model and stock-based compensation is accrued and charged to operations, with an offsetting credit to contributed surplus, over the vesting periods. The fair value of stock options granted to non-employees is re-measured at the earlier of each financial reporting or vesting date, and any adjustment is charged or credited to operations upon remeasurement. If and when the stock options are exercised, the applicable amounts of contributed surplus are transferred to share capital. The Company has not incorporated an estimated forfeiture rate for stock options that will not vest; rather the Company accounts for actual forfeitures as they occur.

Earnings (loss) per share

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on earnings per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the year.

Basic earnings (loss) per share is calculated using the weighted-average number of shares outstanding during the year.

Future income taxes

Future income taxes are recorded using the asset and liability method whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in operations in the year that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Royalties, lease and fee simple revenue

Revenue and royalties from petroleum and natural gas operations are recognized at the time the oil is sold or natural gas is delivered, and collectability is reasonably assured.

Revenue from petroleum and natural gas leases is recognized over the term of the lease on a straight-line basis. Payments received in advance are recorded as deferred revenue.

Recent accounting pronouncements

International financial reporting standards (“IFRS”)

In 2006, the Canadian Accounting Standards Board (“AcSB”) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada’s own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of December 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended November 30, 2011. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

Business combinations

In January 2009, the CICA issued Handbook Sections 1582 “Business Combinations”, 1601 “Consolidated Financial Statements” and 1602 “Non-Controlling Interests”, which replace CICA Handbook Sections 1581 “Business Combinations” and 1600 “Consolidated Financial Statements”. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under IFRS. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. These sections are applicable for the Company’s interim and annual financial statements for its fiscal year beginning on or after January 1, 2011. Early adoption of these Sections is permitted, although all three Sections must be adopted concurrently. The Company will consider the impact of adopting the pronouncements on its financial statements if future acquisitions are completed.

Comparative figures

Certain comparative figures have been re-classified to conform with the current fiscal year’s presentation.

4. INVESTMENT

	2009	2008
Shares in a private company (measured at cost)	\$ 250,000	\$ 250,000

The Company holds 2,500,000 shares of a private company (2008 – 2,500,000) representing a 3.2% (2008 – 4.5%) interest in that company, which is related by virtue of a common director. The shares are being carried at cost because, without an active market for shares of a private company, fair value cannot be measured reliably.

COBRA VENTURE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
NOVEMBER 30, 2009

5. EQUIPMENT

	2009			2008		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer hardware	\$ 13,636	\$ 10,714	\$ 2,922	\$ 13,636	\$ 9,462	\$ 4,174

6. PETROLEUM AND NATURAL GAS INTERESTS

Petroleum and natural gas interests consist of the following:

	2009	2008
Proven petroleum and natural gas properties subject to depletion	\$ 452,663	\$ 911,926
Unproven petroleum and natural gas properties not subject to depletion	992,365	943,140
Sale of leased land	-	(459,263)
	1,445,028	1,395,803
Accumulated depletion	(183,837)	(61,239)
	\$ 1,261,191	\$ 1,334,564

The Company's reserves are estimated and assessed by a qualified, independent petroleum engineer. At November 30, 2009, petroleum and natural gas properties included \$992,365 (2008 - \$943,140) relating to unproved properties which have been excluded from the depletion calculation. No general and administrative costs were capitalized during the year (2008 - \$nil). The Company applied the ceiling test to its capitalized assets at November 30, 2009 and determined that no write-down of capitalized costs was required.

6. PETROLEUM AND NATURAL GAS INTERESTS (cont'd...)

The following table outlines the benchmark prices used in the impairment test at November 30, 2009:

<u>Year</u>	<u>Crude Oil</u> <u>\$ / BBL</u>	<u>Natural Gas</u> <u>\$ / MCF</u>
2009	\$ 81.76	\$ 3.58
2010	79.35	4.71
2011	82.93	5.46
2012	86.77	5.68
2013	90.33	6.39
2014	93.33	6.56

Benchmark prices escalated at 1.50 % per year thereafter.

Viewfield area, Saskatchewan

On October 10, 2002, the Company completed an agreement for the purchase of petroleum and natural gas assets ("Assets") from Charter Oil Corporation ("Charter"). The petroleum and natural gas assets consisted of an approximate 90% net working interest in 2,880 freehold acres in the Viewfield region of southeast Saskatchewan. In consideration of the acquisition of the Assets from Charter, the Company paid cash consideration of \$150,000, issued 400,000 common shares valued at \$240,000 and issued 830,000 Participating Redeemable Series "A" Preferred Shares at an agreed value of \$830,000, for total consideration of \$1,220,000.

The Company entered into several leases on portions of the Company's freehold acreage in the Viewfield area, Saskatchewan. These leases have terms varying from six months to two years. The Company is currently receiving fee simple royalty and rental revenue from 3 wells drilled in 2004.

On May 27, 2005, the Company entered into a sale agreement, for the sale of non-producing acres situated in the Province of Saskatchewan for a total purchase price of \$1.45 million. The transaction closed June 6, 2005, and the Company received the funds on July 15, 2005. The sale of the freehold properties represented approximately 39 percent of the Company's non-producing Saskatchewan landholdings.

During the year ended November 30, 2007, the Company entered into a multi-well farmout with a privately owned, Calgary based oil exploration company Acero Energy Inc. ("Acero"). The Company has an average 75% working interest in all of the combined lands in the farmout, and has negotiated a gross overriding royalty of 16% with no deductions on all production achieved on the subject lands.

During the year ended November 30, 2008, the Company sold 480 acres of 640 acres in the Province of Saskatchewan for a total purchase price of \$790,000, resulting in a gain of \$330,737.

During the period ended November 30, 2009, the Company received \$747,351 (2008 - \$898,875) in royalty revenue.

6. PETROLEUM AND NATURAL GAS INTERESTS (cont'd...)

Pembina area, Alberta

On November 14, 2005, the Company entered into a Participation Agreement with an operating industry partner to participate in the drilling of an initial three exploration wells and earn a working interest in the Pembina area of Alberta. The Company had the right to earn a 27% net working interest by paying 45% of all costs associated with the drilling program and to earn a 40% net working interest in the prospect area comprised of seven sections or approximately 4,480 acres.

The Company issued 100,000 shares as a finder's fee valued at \$15,000 during the year ended November 30, 2006.

The Company has earned a 27% working interest in two natural gas wells and is receiving production revenue from both wells. The Company also has a 40% net working interest in 4,200 acres where an additional 10-12 drill targets have been identified and are being evaluated for future development.

During the period ended November 30, 2009, the Company received \$56,602 in production revenue.

Alderson area, Alberta

During the year ended November 30, 2007, the Company acquired a 50% net working interest in 320 acres of land in Central Alberta for \$77,215.

Willesden Green area, Alberta

During the year ended November 30, 2007, the Company acquired a 40% net working interest in 160 acres of land in Central Alberta for \$18,570.

Iosegun area, Alberta

During the year ended November 30, 2007, the Company acquired a 20% net working interest in 160 acres of land in Central Alberta for \$15,543.

Morinville area, Alberta

During the year ended November 30, 2008, the Company acquired a 40% net working interest in a 5 year crown lease for \$73,675 and annual rental fees. The lease is for one section of land in Central Alberta.

Inga area N.E. British Columbia

During the year ended November 30, 2006, the Company acquired a 5 year crown lease of one section of land in Northeastern British Columbia for annual rental fees. The Company's net working interest is 75%.

COBRA VENTURE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
NOVEMBER 30, 2009

7. ASSET RETIREMENT OBLIGATION

	2009		2008	
Balance, beginning of year	\$	16,800	\$	-
Liabilities incurred		-		16,800
Accretion		1,676		-
Balance, end of year	\$	18,476	\$	16,800

The total future asset retirement obligations were estimated by management based on the Company's interests in all wells, estimated costs to reclaim and abandon wells, and the estimated timing of costs to be incurred in future periods. The undiscounted amount of the estimated cash flows required to settle the obligation is approximately \$70,000. The estimated cash flow has been discounted using a credit-adjusted risk free rate of 10%. The estimated settlement ranges to a maximum of fifteen years.

8. CAPITAL STOCK AND CONTRIBUTED SURPLUS

Authorized:

Unlimited common shares without par value

Unlimited preferred shares, issuable in series

Issued:

	2009			2008		
	Shares	Amounts	Contributed Surplus	Shares	Amounts	Contributed Surplus
Balance, beginning of year	14,940,750	\$3,616,027	\$ 201,619	13,135,750	\$ 3,240,052	\$ 112,076
Issued for:						
Private placement	-	-	-	1,000,000	300,000	-
Warrants exercised	-	-	-	386,500	154,600	-
Stock options exercised	-	-	-	418,500	63,375	-
Stock-based compensation	-	-	106,085	-	-	89,543
Future income taxes on exploration expenditures renounced	-	-	-	-	(142,000)	-
Balance, end of year	14,940,750	\$3,616,027	\$ 307,704	14,940,750	\$3,616,027	\$ 201,619

COBRA VENTURE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
NOVEMBER 30, 2009

8. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)

During the year ended November 30, 2008, the Company:

- a) issued 386,500 common shares on exercise of flow-through warrants for gross proceeds of \$154,600, \$25,000 of which was received prior to December 1, 2007.
- b) issued 418,500 common shares on exercise of stock options for gross proceeds of \$63,375.
- c) issued 1,000,000 flow-through units pursuant to a non-brokered private placement for gross proceeds of \$300,000. Each unit consisted of one flow through common share and one non-flow through common share purchase warrant enabling the holder to purchase an additional common share at \$0.35 per share until December 13, 2009.
- d) renounced \$454,600 of property expenditures to flow-through share subscribers resulting in share issue costs and a future tax liability of \$142,000.

9. STOCK OPTIONS AND WARRANTS

The Company has a stock option plan in place under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 20% (2,988,150) of the issued and outstanding common stock of the Company. Under the plan, the exercise price of each option equals the market price of the Company's stock as calculated on the date of grant. Options vest as determined by the board of directors. The options can be granted for a maximum term of 5 years.

As at November 30, 2009, the following incentive stock options and share purchase warrants are outstanding:

	Number of Shares	Exercise Price	Expiry Date
Options	500,000	0.15	October 25, 2010
	300,000	0.20	December 9, 2010
	5,000	0.27	June 19, 2012
	500,000	0.34	December 18, 2012
	1,050,000	0.16	April 3, 2014
Warrants	* 1,000,000	0.35	December 13, 2009

* subsequently expired unexercised.

COBRA VENTURE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
NOVEMBER 30, 2009

9. STOCK OPTIONS AND WARRANTS (cont'd...)

Stock option transactions are as follows:

	Number of Options	Weighted Average Exercise Price
Balance, November 30, 2007	1,333,500	\$ 0.17
Options granted	500,000	0.34
Options exercised	(418,500)	0.15
Options expired	<u>(10,000)</u>	0.15
Balance, November 30, 2008	1,405,000	0.23
Options granted	1,050,000	0.16
Options expired	<u>(100,000)</u>	0.23
Balance, November 30, 2009	2,355,000	\$ 0.20
Exercisable and outstanding	1,830,000	\$ 0.21

The weighted average remaining contractual life of options outstanding at November 30, 2009 was 3 years.

Stock-based compensation

During the year ended November 30, 2009, the Company granted 1,050,000 (2008 – 500,000) stock options with a total estimated fair value of \$134,705 (2008 - \$131,515). The fair value per option granted was \$0.13 (2008 - \$0.26). Vesting periods ranged from date of grant to a period of 18 months. For the year ended November 30, 2009, the Company recorded \$106,085 (2008 - \$89,543) as stock-based compensation expense for options vested during the year.

The following weighted average assumptions were used for the Black-Scholes valuation of stock options and warrants granted during the year:

	2009	2008
Risk-free interest rate	1.88 %	4.18 %
Expected life of options	5 years	5 years
Annualized volatility	112.68 %	81.79 %
Dividend rate	0 %	0 %

COBRA VENTURE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
NOVEMBER 30, 2009

9. STOCK OPTIONS AND WARRANTS (cont'd...)

Warrants

The following is a summary of warrant transactions during the year:

	Number of Shares	Weighted Average Exercise Price
Outstanding at November 30, 2007	1,037,500	\$ 0.40
Issued	1,000,000	0.35
Exercised	(386,500)	0.40
Expired	<u>(651,000)</u>	0.35
Outstanding November 30, 2008 and November 30, 2009	1,000,000	\$ 0.35

10. RELATED PARTY TRANSACTIONS

The fair value of the amounts due to or from related parties is not determinable as they have no fixed terms of repayment, do not bear interest and are unsecured.

During the year ended November 30, 2009, the Company entered into transactions with related parties as follows:

- i) paid or accrued \$58,277 (2008 - \$16,311) in rent to a company in which a director is a partial owner.
- ii) paid or accrued \$169,000 (2008 - \$144,000) in management fees to a company owned by a director and officer of the Company.
- iii) paid or accrued \$14,000 (2008 - \$8,000) in directors fees, disclosed as management fees, to directors and officers of the Company.
- iv) paid or accrued \$14,118 (2008 - \$23,743) in professional fees to a firm in which an officer of the Company is a partner.
- v) paid or accrued \$146,555 (2008 - \$114,900) in professional fees to a firm in which a director of the Company is a partner.
- vi) paid or accrued \$13,200 (2008 - \$31,700) in administrative fees disclosed as corporate services to a company owned by a director of the Company.

Included in accounts payable is \$40,543 (2008 - \$30,000) due to a firm in which a director of the Company is a partner, \$Nil (2008 - \$7,132) due to directors and officers, \$1,260 (2008 - \$Nil) due to a company owned by a director of the Company, and \$5,099 (2008 - \$Nil) due to a Company in which a director is a partial owner.

These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

COBRA VENTURE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
NOVEMBER 30, 2009

11. INCOME TAXES

A reconciliation of income taxes (recovery) for the year ended November 30, 2009 at statutory rates with reported taxes is as follows:

	2009	2008
Income (loss) before income taxes	\$ (25,036)	\$ 681,692
Combined federal and provincial tax rate	30.042%	31.302%
Income tax expense (recovery) at statutory rates	\$ (7,521)	\$ 213,383
Effect of tax rate change	(79,684)	(338)
Non-deductible items	32,103	(74,696)
Amounts recognized for tax	<u>26,047</u>	<u>14,697</u>
Total income tax (recovery) provision	<u>\$ (29,055)</u>	<u>\$ 153,046</u>

The significant components of the Company's future income tax assets (liabilities) are as follows:

	2009	2008
Future income tax assets (liabilities):		
Non-capital loss carry forwards	\$ -	\$ 17,900
Share issuance costs	1,300	4,100
Petroleum and natural gas interests	(313,500)	(416,900)
Equipment	<u>11,700</u>	<u>19,600</u>
Net future income tax assets (liabilities)	<u>\$ (300,500)</u>	<u>\$ (375,300)</u>

During the 2008 fiscal year, the Company issued common shares on a flow-through basis for gross proceeds of \$454,600. The flow-through agreements require the Company to renounce certain tax deductions for Canadian exploration expenditures incurred on the Company's oil and gas interests. The total expenditures renounced in 2008 resulted in a future tax liability of \$142,000.

12. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

For the year ended November 30, 2009, the Company's significant non-cash financing and investing transactions consisted of:

- a) Including in accounts payable and accrued liabilities \$6,150 (November 30, 2008 - \$904,548) of petroleum and natural gas expenditures.

12. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS (cont'd...)

For the year ended November 30, 2008, the Company's significant non-cash financing and investing transactions consisted of:

- a) Asset retirement obligations of \$16,800 were included in oil and gas expenditures;
- b) allocated \$25,000 subscriptions received in advance to capital stock.

13. FINANCIAL INSTRUMENTS AND RISK

Fair value

The carrying value of receivables and accounts payable and accrued liabilities approximated their fair value because of the short-term nature of these instruments.

Financial instruments measured at fair value on the balance sheet are summarized in levels of fair value hierarchy as follows:

Assets	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 1,027,611	\$ -	\$ -

Financial risk factors

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to accounts receivable. Management believes that the credit risk concentration with respect to accounts receivable is not significant.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when they become due. As at November 30, 2009, the Company had a cash and cash equivalents balance of \$1,027,611 (2008 - \$1,784,900) to settle current liabilities of \$149,916 (2008 - \$1,029,983). All of the Company's financial liabilities have contractual maturities of 30 days or due on demand and are subject to normal trade terms.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

13. FINANCIAL INSTRUMENTS AND RISK (cont'd...)

Financial risk factors (cont'd...)

Market risk (cont'd...)

(a) Interest rate risk

The Company has cash balances and cashable GIC's (November 30, 2009 - \$500,000) at prime less 2%. The Company is satisfied with the credit ratings of its banks. Since the GIC's are cashable anytime, the Company believes it is not exposed to significant interest rate risk.

(b) Foreign currency risk

The Company conducts its activities in Canada with Canadian dollars. Therefore, the Company believes it is not exposed to a significant foreign currency risk.

(c) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of petroleum and natural gas, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

The Company has determined that a 1% change in interest rates, foreign exchange rates, or commodity prices would not have a significant impact on the financial statements.

14. SEGMENTED INFORMATION

The Company operates in one business segment, being the exploration and development of petroleum and natural gas interests, in Canada.

15. CAPITAL MANAGEMENT

The Company's objective when managing capital is to safeguard the entity's ability to continue as a going concern.

In the management of capital, the Company monitors its adjusted capital which comprises all components of equity (ie share capital, contributed surplus and deficit).

The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue common shares through private placements. The Company is not exposed to any externally imposed capital requirements.

The Company's overall strategy remains unchanged from 2008.