

**COBRA VENTURE CORPORATION**

**INTERIM FINANCIAL STATEMENTS  
(Unaudited – Prepared by Management)**

**THREE MONTHS ENDED FEBRUARY 28, 2011**

## **UNAUDITED INTERIM FINANCIAL STATEMENTS**

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited financial statements for the three month period ended February 28, 2011.

**COBRA VENTURE CORPORATION**  
**BALANCE SHEETS**  
(Unaudited – Prepared by Management)

	February 28, 2011	November 30, 2010
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 2,392,517	\$ 2,914,709
Receivables	304,938	338,297
Prepaid expenses	26,369	27,037
Income taxes receivable	<u>85,446</u>	<u>-</u>
	2,809,270	3,280,043
<b>Investment</b> (Note 3)	2,428,750	2,247,500
<b>Equipment</b> (Note 4)	2,946	3,185
<b>Petroleum and natural gas interests</b> (Note 5)	<u>920,659</u>	<u>623,804</u>
	<u>\$ 6,161,625</u>	<u>\$ 6,154,532</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (Note 9)	\$ 245,458	\$ 219,362
Income taxes payable	<u>-</u>	<u>387,557</u>
	245,458	606,919
<b>Asset retirement obligation</b> (Note 6)	27,157	26,495
<b>Future income taxes</b> (Note 10)	<u>468,369</u>	<u>387,706</u>
	<u>740,984</u>	<u>1,021,120</u>
<b>Shareholders' equity</b>		
Capital stock (Note 7)	4,024,869	4,026,292
Contributed surplus (Note 7)	360,698	381,977
Accumulated other comprehensive income	1,906,406	1,747,812
Deficit	<u>(871,332)</u>	<u>(1,022,669)</u>
	<u>5,420,641</u>	<u>5,133,412</u>
	<u>\$ 6,161,625</u>	<u>\$ 6,154,532</u>

**Nature and continuance 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 DEFICIT**  
(Unaudited – Prepared by Management)

	Three Month Period Ended February 28, 2011	Three Month Period Ended February 28, 2010
<b>OIL AND GAS REVENUES</b>		
Production revenue	\$ 31,209	\$ 15,041
Royalty revenue	<u>417,790</u>	<u>522,786</u>
	<u>448,999</u>	<u>537,827</u>
<b>DIRECT COSTS</b>		
Production and operation costs	9,004	3,815
Royalties	1,471	2,143
Depletion	67,072	92,362
Accretion expense (Note 6)	<u>662</u>	<u>1,071</u>
	<u>78,209</u>	<u>99,391</u>
<b>Gross profit</b>	<u>370,790</u>	<u>438,436</u>
<b>EXPENSES</b>		
Amortization	239	219
Consulting fees	7,322	20,346
Corporate services	3,600	3,600
Management fees	67,000	40,000
Media and website	1,950	2,950
Office and miscellaneous	4,077	2,599
Professional fees	47,499	27,347
Rent	12,273	20,986
Stock-based compensation (Note 8)	10,182	22,615
Transfer agent and regulatory fees	11,253	5,742
Travel and promotion	<u>-</u>	<u>3,311</u>
	<u>(165,395)</u>	<u>(149,715)</u>
<b>Income (loss) before other items</b>	<u>205,395</u>	<u>288,721</u>
<b>OTHER ITEMS</b>		
Lease income	-	-
Interest income	<u>5,564</u>	<u>888</u>
	<u>5,564</u>	<u>888</u>
<b>Income before income taxes</b>	<u>210,959</u>	<u>289,609</u>
<b>Income tax recovery (expense) (Note 10)</b>		
Future income tax recovery	16,993	22,300
Income tax expense	<u>(76,615)</u>	<u>(119,490)</u>
	<u>(59,622)</u>	<u>(97,190)</u>
Income for the period	151,337	192,419
Deficit, beginning of period	<u>(1,022,669)</u>	<u>(1,511,167)</u>
<b>Deficit, end of year</b>	<u>\$ (871,332)</u>	<u>\$ (1,318,748)</u>

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

**COBRA VENTURE CORPORATION**  
**STATEMENTS OF OPERATIONS AND DEFICIT**  
(Unaudited – Prepared by Management)

	Three Month Period Ended February 28, 2011	Three Month Period Ended February 28, 2010
<i>Continued...</i>		
<b>Basic income per share</b>	\$ 0.01	\$ 0.01
<b>Diluted income per share</b>	0.01	0.01
<b>Weighted average number of shares outstanding</b>	<u>17,474,081</u>	<u>14,940,750</u>
<b>Plus incremental shares from assumed conversions</b>		
<b>Stock options</b>	638,889	-
<b>Less treasury stock to be cancelled</b>	<u>(70,000)</u>	<u>-</u>
<b>Dilutive potential common shares</b>	<u>568,889</u>	<u>-</u>
<b>Adjusted weighted average shares</b>	<u>18,042,970</u>	<u>14,940,750</u>

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

**COBRA VENTURE CORPORATION**  
**STATEMENTS COMPREHENSIVE INCOME AND ACCUMULATED OTHER COMPREHENSIVE INCOME**  
(Unaudited – Prepared by Management)

	Three Month Period Ended February 28, 2011	Three Month Period Ended February 28, 2010
Income for the period before other comprehensive income	\$ 151,337	\$ 192,419
Other Comprehensive income		
Unrealized gain on available for sale investments, net of tax \$22,656	<u>158,594</u>	<u>-</u>
<b>Comprehensive Income</b>	<b>\$ 309,931</b>	<b>\$ 192,419</b>
Accumulated other comprehensive income, beginning of period	\$ 1,747,812	\$ -
Other comprehensive income for the period, net of tax \$22,656	<u>158,594</u>	<u>-</u>
<b>Accumulated other comprehensive income, end of period</b>	<b>\$ 1,906,406</b>	<b>\$ -</b>

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

**COBRA VENTURE CORPORATION**  
**STATEMENTS OF CASH FLOWS**  
(Unaudited – Prepared by Management)

	Three Month Period Ended February 28, 2011	Three Month Period Ended February 28, 2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income for the period	\$ 151,337	\$ 192,419
Items not involving cash:		
Accretion	662	1,071
Amortization	239	219
Depletion	67,072	92,362
Stock-based compensation	10,182	22,615
Future income tax recovery	(16,993)	(22,300)
Changes in non-cash working capital items:		
Decrease (increase) in receivables	33,359	(230,179)
Decrease in prepaid expenses	668	2,352
Increase (decrease) in accounts payable and accrued liabilities	128	(28,053)
(Decrease) increase in income tax payable	(473,003)	62,488
Cash provided by operating activities	(226,349)	92,994
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Petroleum and natural gas expenditures	(337,959)	(6,084)
Cash provided by (used in) investing activities	(337,959)	(6,084)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Common shares issued for cash net of share issue costs	60,000	-
Common shares repurchased for cancellation	(17,884)	-
Cash provided by financing activities	42,116	-
<b>Change in cash and cash equivalents</b>	(522,192)	86,910
<b>Cash and cash equivalents, beginning of year</b>	2,914,709	1,027,611
<b>Cash and cash equivalents, end of year</b>	\$ 2,392,517	\$ 1,114,521
<b>Cash and cash equivalents consists of:</b>		
Cash	\$ 638,426	\$ 114,521
Cash equivalents	1,754,091	1,000,000
	\$ 2,392,517	\$ 1,114,521
<b>Cash paid for interest</b>	\$ -	\$ -
<b>Cash paid for income taxes</b>	549,618	57,000

Supplemental disclosure with respect to cash flows (Note 11)

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

**COBRA VENTURE CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(Unaudited – Prepared by Management)  
FEBRUARY 28, 2011

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**1. NATURE AND CONTINUANCE 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.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**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. The Company is currently evaluating the impact of the conversion on the Company’s financial statements and is considering accounting policy choices under IFRS.

*Business combinations / Consolidated financial statements / Non-controlling interests*

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. At this point, the Company doesn’t anticipate adopting these sections prior to the adoption of IFRS and therefore does not expect any impact on the financial statements.

**3. INVESTMENT**

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	February 28, 2011	November 30, 2010
Shares in Zodiac Exploration Corp.	\$ 2,428,750	\$ 2,247,500

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At November 30, 2009, the Company held 2,500,000 shares of a private company representing a 3.2% interest in that company, which is related by virtue of a common director. The shares were being carried at cost because, without an active market for shares of a private company, fair value could not be measured reliably.



**COBRA VENTURE CORPORATION**  
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**3. INVESTMENT**

During the year ended November 30, 2010, the above mentioned private company underwent an amalgamation with a wholly owned subsidiary of Peninsula Resources Ltd. and the 2,500,000 common shares held by the Company were exchanged for 3,625,000 common shares of Zodiac Exploration Corp. The new shares are to be released over a period of 15 months. As of February 28, 2011, the Company has received 1,812,500 shares and the balance of 1,812,500 shares remain in escrow.

During the period ended February 28, 2011, the Company recorded an unrealized gain of \$181,250 (2009 - \$Nil) to adjust the shares to market value, net of tax \$22,656 as other comprehensive income.

**4. EQUIPMENT**

	February 28, 2011			November 30, 2010		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer hardware	\$ 14,976	\$ 12,030	\$ 2,946	\$ 14,976	\$ 11,791	\$ 3,185

**5. PETROLEUM AND NATURAL GAS INTERESTS**

Petroleum and natural gas interests consist of the following:

February 28, 2011	Cost	Accumulated Depletion	Net Book Value
Oil and gas properties			
Proven properties (Note 5 i))	\$ 961,860	\$ (491,097)	\$ 470,763
Unproven properties not subject to depletion (Note 5 ii)	449,896	-	449,896
	\$ 1,411,756	\$ (491,097)	\$ 920,659

  

November 30, 2010	Cost	Accumulated Depletion	Net Book Value
Oil and gas properties			
Proven properties (Note 5 i))	\$ 803,728	\$ (424,025)	\$ 379,703
Unproven properties (Note 5 ii))	244,101	-	244,101
	\$ 1,047,829	\$ (424,025)	\$ 623,804

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**5. PETROLEUM AND NATURAL GAS INTERESTS (cont'd...)**

	Three Month Period Ended February 28, 2011	Year Ended November 30, 2010
<b>i) Proven properties</b>		
<b>Acquisition costs</b>		
Carrying value beginning of period	\$ (720,643)	\$ (442,171)
Mineral leases	-	2,263
Option payments	-	(460,000)
Transfer from unproven properties (Note 5 ii))	-	179,265
	<u>(720,643)</u>	<u>(720,643)</u>
<b>Exploration costs</b>		
Carrying value beginning of period	1,524,371	894,834
Drilling costs	154,518	12,365
Other	3,614	6,645
ARO	-	6,176
Transfer from unproven properties (Note 5 ii))	-	604,351
	<u>1,682,503</u>	<u>1,524,371</u>
	<u>\$ 961,860</u>	<u>\$ 803,728</u>
<b>ii) Unproven properties</b>		
<b>Acquisition costs</b>		
Carrying value beginning of period	\$ 204,601	\$ 357,616
Option payments	-	26,250
Transfer to proven properties (Note 5 i))	-	(179,265)
	<u>204,601</u>	<u>204,601</u>
<b>Exploration costs</b>		
Carrying value beginning of period	39,501	634,749
Drilling costs	205,794	-
Other	-	9,102
Transfer to proven properties (Note 5 i))	-	(604,351)
	<u>245,295</u>	<u>39,500</u>
	<u>\$ 449,896</u>	<u>\$ 244,101</u>

The Company's reserves are estimated and assessed by a qualified, independent petroleum engineer. No general and administrative costs were capitalized during the year (2010 - \$Nil). The Company applied the ceiling test to its capitalized assets at November 30, 2010 and determined that no write-down of capitalized costs was required.

**5. PETROLEUM AND NATURAL GAS INTERESTS (cont'd...)**

The following table outlines the benchmark prices used in the impairment test at November 30, 2010:

<u>Year</u>	<u>Crude Oil \$ / BBL</u>	<u>Natural Gas \$ / MCF</u>
2011	88.96	3.94
2012	91.16	4.67
2013	91.89	5.20
2014	93.43	6.81
2015	95.03	6.92

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 and are in good standing. 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 negotiated a gross overriding royalty of 16% with no deductions on all production achieved on the subject lands (at varying working interest in the combined 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 year ended November 30, 2009, two horizontal wells were completed and the Company has retained a 20% overriding royalty interest in these wells.

During the year ended November 30, 2010, four horizontal wells were completed and the Company has retained a 20% overriding royalty interest in these wells. Additional horizontal wells are possible and would be completed under the terms of the same agreement.

**5. PETROLEUM AND NATURAL GAS INTERESTS (cont'd...)**

*Viewfield area, Saskatchewan (cont'd...)*

During the three month period ended February 28, 2011, the Company received \$416,031 (2010 - \$522,786) in royalty revenue.

*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. Currently there are 4 sections of land under active mineral leases.

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% in one natural gas well and a 6.67% working interests in another and is receiving production revenue from both wells. The Company also has a 40% net working interest in additional areas within the Pembina property where an additional 10-12 drill targets have been identified and are being evaluated for future development.

On July 26, 2010, the Company amended the participation agreement dated February 21, 2006 for a reduction of the original 3% Gross Overriding Royalty ("GOR") to 2.5%.

During the three month period ended February 28, 2011, the Company received \$5,306 (2010 - \$15,041) in production revenue.

*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.

During the year ended November 30, 2008, the Company acquired a 80% working interest in an oil well located in the Willesden Green area which is subject to applicable royalties, by incurring all costs, risk and expenses associated with completing the test well.

During the year ended November 30, 2009, The Company has entered into an arrangement with a private oil and gas operator in the area and the operator has agreed to perform some remedial work in the well and equip and tie-in the well to earn 50% of the Company's interest being a 40% working interest.

During the year ended November 30, 2010, the operator completed its obligations, paid the Company \$460,000 based on a BOE/day calculation and earned its 40% working interest.

During the three month period ended February 28, 2011, the Company received \$1,759 (2010 - \$Nil) in royalty revenue and \$25,903 (2010 - \$Nil) in production revenue.

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**5. PETROLEUM AND NATURAL GAS INTERESTS (cont'd...)**

*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.

*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%.

During the year ended November 30, 2010, the Company determined the property to be impaired and the cost of the property became subject to depletion.

*Davey Lake area, Alberta*

During the year ended November 30, 2010, the Company entered into an agreement with RNM Services Ltd. ("RNM") to earn a 13.5% working interest in a well located in the Davey Lake area by incurring all RNM's costs to drill, case, complete and equip and tie-in (or abandon) the well. The Company paid RNM a one-time fee of \$26,250 to enter into this agreement.

**6. ASSET RETIREMENT OBLIGATION**

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	February 28, 2011	November 30, 2010
Balance, beginning of year	\$ 26,495	\$ 18,476
Adjustment	-	6,176
Accretion	<u>662</u>	<u>1,843</u>
Balance, end of year	<u>\$ 27,157</u>	<u>\$ 26,495</u>

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 \$59,121. The estimated cash flow has been discounted using a credit-adjusted risk free rate of 10%. The estimated settlement ranges to a maximum of thirteen years.

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**7. CAPITAL STOCK AND CONTRIBUTED SURPLUS**

**Authorized:**

Unlimited number of common voting shares  
Unlimited number of preferred shares, issuable in series

**Issued:**

	Three Month Period Ended February 28, 2011			Year Ended November 30, 2010		
	Shares	Amounts	Contributed Surplus	Shares	Amounts	Contributed Surplus
Balance, beginning of period	17,440,748	\$ 4,026,292	\$ 381,977	14,940,750	\$ 3,616,027	\$ 307,704
Private placement	-	-	-	1,999,998	300,000	-
Stock options exercised	300,000	60,000	-	500,000	75,000	-
Ascribed value of options exercised	-	31,461	(31,461)	-	42,358	(42,358)
Stock-based compensation	-	-	10,182	-	-	116,631
Flow-through renunciation	-	(75,000)	-	-	-	-
Share issuance costs, net of tax	-	-	-	-	(7,093)	-
	17,740,748	4,042,753	360,698	17,440,748	4,026,292	381,977
Less treasury stock	(70,000)	(17,884)	-	-	-	-
Balance, end of period	17,670,748	\$4,024,869	\$ 360,698	\$17,440,748	\$4,026,292	\$ 381,977

During the three months ended February 28, 2011, the Company:

- i) issued 300,000 common shares from the exercise of stock options for gross proceeds of \$60,000.
- ii) repurchased 70,000 common shares for cancellation for \$17,884.
- iii) renounced \$300,000 in exploration expenditures to flow-through share investors and recorded the tax effect as a \$75,000 reduction in share capital and increase in future tax liability.

During the year ended November 30, 2010, the Company:

- i) completed a non-brokered private placement of 1,999,998 common shares in the capital of the Company issued on a “flow-through basis” (the “FT Shares”) at a price of \$0.15 per FT Share, for gross proceeds of \$300,000; and
- ii) issued 500,000 common shares from the exercise of stock options for gross proceeds of \$75,000.

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**8. 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% 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 February 28, 2011, the following incentive stock options are outstanding:

	Number of Shares	Exercise Price	Expiry Date
<b>Options</b>	5,000 *	0.27	June 19, 2012
	500,000 *	0.34	December 18, 2012
	1,050,000	0.16	April 3, 2014
	600,000	0.175	May 27, 2015

\* not included in the calculation of dilutive potential common shares as their inclusion is anti-dilutive.

Stock option transactions are as follows:

	Number of Options	Weighted Average Exercise Price
Balance, November 30, 2010	2,455,000	\$ 0.21
Options exercised	(300,000)	0.15
Balance, February 28, 2011	2,155,000	0.21
Vested and exercisable	2,155,000	\$ 0.21

**Stock-based compensation**

During the period ended February 28, 2011, the Company recorded \$10,182 (2010 - \$22,615) as stock-based compensation expense for options vested during the year.

**9. 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 three month period ended February 28, 2011, the Company paid or accrued:

- i) \$12,273 (2010 - \$20,986) in rent to a company in which a director and officer holds an interest.
- ii) \$55,000 (2010 - \$36,000) in management fees to a company owned by a director and officer of the Company.

**COBRA VENTURE CORPORATION**  
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**9. RELATED PARTY TRANSACTIONS (cont'd...)**

- iii) \$12,000 (2010 - \$4,000) in directors fees, disclosed as management fees, to directors and officers of the Company.
- iv) \$3,904 (2010 - \$799) in professional fees to a firm in which an officer of the Company is a partner.
- v) \$39,950 (2010 - \$15,225) in professional fees to a firm in which a director of the Company is a partner.

Included in accounts payable is:

- i) \$34,142 (2010 - \$13,571) due to a firm in which director of the Company is a partner.
- ii) \$12,000 (2010 - \$10,007) due to directors and officers.

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.

**10. INCOME TAXES**

A reconciliation of income taxes for the three month period ended February 28, 2011, at statutory rates with reported taxes is as follows:

	February 28, 2011	November 30, 2010
Income before income taxes	\$ 210,959	\$ 766,529
Combined federal and provincial tax rate	26.50%	28.92%
Income tax expense at statutory rates	\$ 55,904	\$ 221,680
Effect of tax rate change	(1,020)	(24,335)
Non-deductible items	2,698	34,502
Amounts recognized for tax	<u>2,040</u>	<u>46,184</u>
Total income tax expense provision	\$ 59,622	\$ 278,031

The significant components of the Company's future income liabilities are as follows:

	February 28, 2011	November 30, 2010
Future income tax liabilities:		
Investments	\$ (272,344)	\$ (249,688)
Share issuance costs and cumulative eligible cost	2,510	2,510
Petroleum and natural gas interests	(207,394)	(149,327)
Equipment	<u>8,859</u>	<u>8,799</u>
Net future income liabilities	\$ (468,369)	\$ (387,706)



**COBRA VENTURE CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(Unaudited – Prepared by Management)  
**FEBRUARY 28, 2011**

**11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

For three month period ended February 28, 2011, the Company had included:

- i) \$33,626 (2010 - \$Nil) of petroleum and natural gas expenditures in accounts payable and accrued liabilities.
- ii) \$31,461 (2010 - \$Nil) fair value transferred from contributed surplus to share capital upon exercise of 300,000 stock options.
- iii) \$75,000 (2010 - \$Nil) reduction in share capital due to renunciation of flow-through shares.

For the year ended November 30, 2010, the Company had included:

- i) \$7,658 (2009 - \$6,150) of petroleum and natural gas expenditures in accounts payable and accrued liabilities.
- ii) \$42,358 (2009 - \$Nil) fair value transferred from contributed surplus to share capital upon exercise of 500,000 stock options.

**12. 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:

	February 28, 2011			November 30, 2010		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 2,392,517	\$ -	\$ -	\$ 2,914,709	\$ -	\$ -
Investment	\$ 2,428,750	\$ -	\$ -	\$ 2,247,500	\$ -	\$ -

**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 and cash and cash equivalents. Management believes that the credit risk concentration with respect to accounts receivable is not significant and cash and cash equivalents is remote as it maintains accounts with highly-rated financial institutions.

**12. FINANCIAL INSTRUMENTS AND RISK (cont'd...)**

**Financial risk factors (cont'd...)**

*Liquidity risk*

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at February 28, 2011, the Company had a cash and cash equivalents balance of \$2,392,517 (November 30, 2010 - \$2,914,709) to settle current liabilities of \$245,458 (November 30, 2010 - \$606,919). 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.

(a) Interest rate risk

The Company has cash balances and cashable GIC's (February 28, 2011 - \$1,750,000) at an interest rate between prime less 1.75% and prime less 1.95%. 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 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's price risk is primarily attributable to investments. Management believes that the price risk concentration with respect to investments is high, and that a 1% change in investments would result in an increase/decrease of \$24,288 in other comprehensive income before taxes.

**13. SEGMENTED INFORMATION**

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

**14. 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, accumulated other comprehensive income 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 2010.