COBRA VENTURE CORPORATION

FINANCIAL STATEMENTS

NOVEMBER 30, 2011

CHARTERED ACCOUNTANTS
MacKay LLP

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Independent Auditor's Report

To the Shareholders of
Cobra Venture Corporation

We have audited the accompanying financial statements of Cobra Venture Corporation, which comprise the balance sheets as at November 30, 2011 and November 30, 2010, and the statements of operations and deficit, comprehensive income and accumulated other comprehensive income and cash flows for the years then ended, 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 Canadian generally accepted accounting principles, 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 audits 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 Cobra Venture Corporation as at November 30, 2011 and November 30, 2010 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"MacKay LLP"

Chartered Accountants
Vancouver, British Columbia
March 15, 2012

COBRA VENTURE CORPORATION
BALANCE SHEETS
AS AT NOVEMBER 30

	2011	2010
ASSETS		
Current		
Cash and cash equivalents (note 2)	$ 2,535,774	$ 2,914,709
Receivables	319,347	338,297
Prepaid expenses	37,302	27,037
Income taxes receivable	187,998	-
Total current assets	3,080,421	3,280,043
Investment (Note 3)	906,250	2,247,500
Equipment (Note 4)	2,230	3,185
Petroleum and natural gas interests (Note 5)	436,362	623,804
Total assets	$ 4,425,263	$ 6,154,532
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (Note 9)	$ 310,828	$ 219,362
Income taxes payable	-	387,557
Total current liabilities	310,828	606,919
Asset retirement obligations (Note 6)	24,986	26,495
Future income taxes (Note 10)	174,208	387,706
	510,022	1,021,120
Shareholders' equity		
Capital stock (Note 7)	4,024,869	4,026,292
Contributed surplus (Note 7)	391,930	381,977
Accumulated other comprehensive income	574,219	1,747,812
Deficit	(1,075,777)	(1,022,669)
Total shareholders' equity	3,915,241	5,133,412
Total liabilities and shareholders' equity	$ 4,425,263	$ 6,154,532

Nature and continuance of operations (Note 1)
Subsequent events (Note 15)

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
YEARS ENDED NOVEMBER 30

	2011	2010
OIL AND GAS REVENUES		
Production revenue	$ 249,648	$ 124,442
Royalty revenue	1,270,546	1,849,931
	1,520,194	1,974,373
DIRECT COSTS		
Production and operation costs	73,660	50,169
Royalties	19,306	13,476
Depletion	224,849	240,188
Accretion expense (Note 6)	2,650	1,843
	(320,465)	(305,676)
Gross profit	1,199,729	1,668,697
EXPENSES		
Amortization	955	1,077
Consulting fees	82,128	63,563
Corporate services	14,400	15,600
Management fees (Note 9)	443,000	378,000
Media and website	23,700	18,578
Office and miscellaneous	33,170	24,672
Professional fees (Note 9)	244,514	203,504
Property investigation costs	2,925	-
Rent (Note 9)	49,092	58,690
Stock-based compensation (Note 8)	41,414	116,631
Transfer agent and regulatory fees	16,016	18,151
Travel and promotion	9,069	13,033
	(960,383)	(911,499)
Income before other items	239,346	757,198
OTHER ITEMS		
Lease income	201,096	1,096
Interest income	18,973	8,235
Write-down of petroleum and natural gas interests	(491,033)	-
Total other items	(270,964)	9,331
Income (loss) before income taxes	(31,618)	766,529
Income tax recovery (expense) (Note 10)		
Future income tax recovery	120,841	160,118
Income tax expense	(142,331)	(438,149)
Total income tax expense	(21,490)	(278,031)
Income (loss) for the year	(53,108)	488,498
Deficit, beginning of year	(1,022,669)	(1,511,167)
Deficit, end of year	$ (1,075,777)	$ (1,022,669)

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

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

	2011	2010
Continued…		
Basic income (loss) per share	$ (0.00)	$ 0.03
Diluted income (loss) per share	$ (0.00)	$ 0.03
Weighted average number of shares outstanding	17,732,529	15,795,544
Plus incremental shares from assumed conversions:		
Stock options	-	364,286
Dilutive potential common shares	-	364,286
Adjusted weighted average shares	17,732,529	16,159,830

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

COBRA VENTURE CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME AND ACCUMULATED OTHER COMPREHENSIVE INCOME
YEARS ENDED NOVEMBER 30

		2011		2010
Income (loss) for the year before other comprehensive income	$	(53,108)	$	488,498
Other Comprehensive income (loss)				
Unrealized gain (loss) on available for sale investments, net of tax recovery $167,657 (2010 – net of tax $249,688)		(1,173,593)		1,747,812
Comprehensive income (loss)	$	(1,226,701)	$	2,236,310
Accumulated other comprehensive income, beginning of year	$	1,747,812	$	-
Other comprehensive income (loss) for the year, net of tax recovery $167,657 (2010 – net of tax $249,688)		(1,173,593)		1,747,812
Accumulated other comprehensive income, end of year	$	574,219	$	1,747,812

The accumulated other comprehensive income is comprised of unrealized gain on available-for-sale investments, net of tax.

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

COBRA VENTURE CORPORATION
STATEMENTS OF CASH FLOWS
YEARS ENDED NOVEMBER 30

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) for the year	$ (53,108)	$ 488,498
Items not involving cash:		
Accretion	2,650	1,843
Amortization	955	1,077
Depletion	224,849	240,188
Stock-based compensation	41,414	116,631
Future income tax recovery	(120,841)	(160,118)
Write-down of petroleum and natural gas interests	491,033	-
Changes in non-cash working capital items:		
Decrease (increase) in receivables	18,950	(27,100)
Decrease (increase) in prepaid expenses	(10,265)	1,498
Increase in accounts payable and accrued liabilities	98,882	97,717
(Decrease) increase in income tax payable	(575,555)	357,778
Cash provided by operating activities	118,964	1,118,012
CASH FLOWS FROM INVESTING ACTIVITIES		
Petroleum and natural gas recovery	-	460,000
Petroleum and natural gas expenditures	(540,015)	(55,117)
Purchase of equipment	-	(1,340)
Cash provided by (used in) investing activities	(540,015)	403,543
CASH FLOWS FROM FINANCING ACTIVITIES		
Common shares issued for cash net of share issue costs	60,000	365,543
Common shares repurchased for cancellation	(17,884)	-
Cash provided by financing activities	42,116	365,543
Change in cash and cash equivalents	(378,935)	1,887,098
Cash and cash equivalents, beginning of year	2,914,709	1,027,611
Cash and cash equivalents, end of year	$ 2,535,774	$ 2,914,709
Cash and cash equivalents consists of:		
Cash	$ 535,774	$ 1,164,709
Cash equivalents (Note 2)	2,000,000	1,750,000
	$ 2,535,774	$ 2,914,709
Cash paid for interest	$ -	$ -
Cash paid for income taxes	712,824	77,923

Supplemental disclosure with respect to cash flows (Note 11)

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

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

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, 2011, cash equivalents are cashable GIC's at an interest rate of prime less 1.8%, maturing between January 31, 2012 and July 27, 2012 (2010 - cashable GIC's, at an interest rate between prime less 1.75% and prime less 1.95%, maturing between January 26, 2011 and July 29, 2011).

Financial instruments

All financial assets and financial liabilities (including derivatives) are 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 are measured at fair value. Receivables are classified as loans and receivables, which are measured at amortized cost. Investments are classified as available-for-sale and measured at fair value. Accounts payable and accrued liabilities, and asset retirement obligation 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 with unrealized gains and losses recorded in other comprehensive income until realized, at which time they will be recognized in net income.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

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 long-lived 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%

Petroleum and natural gas interests

The Company follows the full cost method of accounting for petroleum and natural gas interests, 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.

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 unless such an impairment significantly affects the rate of depletion by greater than 20%.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Petroleum and natural gas interests (cont'd…)

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 rate 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.

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, is recognized as a recovery of income taxes in the statement of operations and comprehensive income.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Valuation of equity units issued in private placements (cont'd…)

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 at fair value. 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, on a straight line basis 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 and for the benefit of losses available to be carried forward for tax purposes that are more likely than not to be realized. 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Comparative figures

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

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, 2010 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.

3. INVESTMENT

	2011	2010
Shares in Zodiac Exploration Corp.	$ 906,250	$ 2,247,500

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.

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. As of November 30, 2011, the Company has 3,625,000 shares.

During the year ended November 30, 2011, the Company recorded an unrealized loss of $1,341,250 (2010 – gain of $1,997,500) to adjust the shares to market value, net of tax recovery $167,657 (2010 – net of tax $249,688) as other comprehensive income.

4. EQUIPMENT

	2011			2010		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer hardware	$ 14,976	$ 12,746	$ 2,230	$ 14,976	$ 11,791	$ 3,185

5. PETROLEUM AND NATURAL GAS INTERESTS

Petroleum and natural gas interests consist of the following:

November 30, 2011	Cost	Accumulated Depletion	Net Book Value
Oil and gas properties			
Proven properties (Note 5 i))	$ 1,085,236	$ (648,874)	$ 436,362
Unproven properties not subject to depletion (Note 5 ii)	-	-	-
	$ 1,085,236	$ (648,874)	$ 436,362

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

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

	2011	2010
i) Proven properties		
Acquisition costs		
Carrying value beginning of year	$ (720,643)	$ (442,171)
Mineral leases	794	2,263
Option payments	-	(460,000)
Transfer from unproven properties (Note 5 ii))	26,250	179,265
	(693,599)	(720,643)
Exploration costs		
Carrying value beginning of year	1,524,371	894,834
Drilling costs	246,080	12,365
Other	3,614	6,645
ARO	(4,159)	6,176
Transfer from unproven properties (Note 5 ii))	8,929	604,351
	1,778,835	1,524,371
	$ 1,085,236	$ 803,728
ii) Unproven properties		
Acquisition costs		
Carrying value beginning of year	$ 204,601	$ 357,616
Mineral leases	7,815	-
Option payments	-	26,250
Transfer to proven properties (Note 5 i))	(26,250)	(179,265)
	186,166	204,601
Exploration costs		
Carrying value beginning of year	39,500	634,749
Drilling costs	210,806	-
Other	63,490	9,102
Transfer to proven properties (Note 5 i))	(8,929)	(604,351)
	304,867	39,500
Write-off of petroleum and natural gas interests	(491,033)	-
	$ -	$ 244,101

The Company's reserves are estimated and assessed by a qualified, independent petroleum engineer. No general and administrative costs were capitalized during the year ended November 30, 2011 (2010 - $Nil). The Company reviewed its capitalized assets at November 30, 2011 and determined that a write-down of $491,033 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, 2011:

Year	Crude Oil $ / BBL	Natural Gas $ / MCF
2012	95.32	3.62
2013	98.43	4.33
2014	98.51	4.82
2015	98.54	5.31
2016	98.40	5.80

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 year ended November 30, 2011, the Company received $1,274,553 (2010 - $1,844,165) in royalty revenue.

During the year ended November 30, 2011, the Company entered into a lease agreement with an independent large oil production company, on 160 acres of the Company's lands in the Viewfield area, southeast Saskatchewan. The land is a 100% owned fee simple mineral title by the Company. The lease has a term of two years with a net gross overriding production royalty of 20% to the Company. The Company also received a bonus sum of $200,000.

Subsequent to the year ended November 30, 2011, the Company sold all of its remaining freehold petroleum and natural gas royalty interests in the Viewfield area (Note 15a).

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% net working interest in one natural gas well and a 6.67% net working interest 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 year ended November 30, 2011, the Company received $8,176 (2010 - $35,924) 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 an 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 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 prepare 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 year ended November 30, 2011, the Company repaid $4,007 (2010 - $5,766) in royalty revenue and received $164,684 (2010 - $88,518) in production revenue.

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

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.

During the year ended November 30, 2011, the Company received $76,788 (2010 - $Nil) 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. The interest has been abandoned during the year and the cost of the property was written-off.

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. The interest has been abandoned during the year and the cost of the property was written-off.

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. The interest has been abandoned during the year and the cost of the property was written-off.

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%.

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

During the year ended November 30, 2011, the crown lease expired.

Cabri area, Saskatchewan

During the year ended November 30, 2011 the Company entered into an agreement for a 50% interest in a well located in the Cabri area. The interest has been abandoned during the year and the cost of $291,392 was written-off.

6. ASSET RETIREMENT OBLIGATION

	2011	2010
Balance, beginning of year	$ 26,495	$ 18,476
Adjustment	(4,159)	6,176
Accretion	2,650	1,843
Balance, end of year	$ 24,986	$ 26,495

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 $74,263. The estimated cash flow has been discounted using a credit-adjusted risk free rate of 10%. The estimated settlement ranges to a maximum of fourteen years.

7. CAPITAL STOCK AND CONTRIBUTED SURPLUS

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

Issued:

	2011			2010		
Common shares	Shares	Amounts	Contributed Surplus	Shares	Amounts	Contributed Surplus
Balance, beginning of year	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	-	-	41,414	-	-	116,631
Tax effect on flow-through renunciation	-	(75,000)	-	-	-	-
Share issuance costs, net of tax	-	-	-	-	(7,093)	-
	17,740,748	4,042,753	391,930	17,440,748	4,026,292	381,977
Less treasury stock	(70,000)	(17,884)	-	-	-	-
Balance, end of year	17,670,748	$4,024,869	$ 391,930	17,440,748	$4,026,292	$ 381,977

7. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd…)

During the year ended November 30, 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 (Cancelled subsequent to year end, refer to Note 15b)).

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.

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 November 30, 2011, the following incentive stock options are outstanding:

	Number of Shares		Exercise Price	Expiry Date
Options	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 potential dilutive common shares as of November 30, 2010 as their inclusion is anti-dilutive.

8. STOCK OPTIONS AND WARRANTS (cont'd…)

Stock option transactions are as follows:

	Number of Options		Weighted Average Exercise Price
Balance, November 30, 2009	2,355,000	$	0.20
Options granted	600,000		0.175
Options cancelled	(500,000)		(0.15)
Balance, November 30, 2010	2,455,000		0.21
Options cancelled	(5,000)		(0.27)
Options exercised	(300,000)		(0.20)
Balance, November 30, 2011	2,150,000		0.21
Vested and exercisable	2,150,000	$	0.21

Stock-based compensation

During the year ended November 30, 2011, the Company recorded $41,414 (2010 - $116,631) as stock-based compensation expense for options vested during the year.

During the year ended November 30, 2010, the Company granted 600,000 stock options, which were valued at $82,826 using the Black-Scholes option pricing model. The options vest 25% on each of the following dates: on grant, 6 months, 12 months and 18 months. The fair value per option granted during the year was $0.14.

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

	2011	2010
Risk-free interest rate	-	2.71 %
Expected life of options	-	5 years
Annualized volatility	-	108%
Dividend rate	-	0 %

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 year ended November 30, 2011, the Company paid or accrued:

i) $49,092 (2010 - $58,680) in rent to a company in which a director and officer holds an interest.

9. RELATED PARTY TRANSACTIONS (cont'd…)

ii) $220,000 (2010 - $307,000) in management fees to a company owned by a director and officer of the Company.

iii) $223,000 (2010 - $71,000) in directors fees, disclosed as management fees, to directors and officers of the Company.

iv) $53,484 (2010 - $33,752) in professional fees to a firm in which an officer of the Company is a partner.

v) $160,150 (2010 - $144,475) in professional fees to a firm in which a director of the Company is a partner.

Included in accounts payable is $43,576 (2010 - $38,904) due to a firm in which a director of the Company is a partner, $14,036 (2010 - $Nil) to a firm in which an officer of the Company is a partner, and $176,502 (2010 - $117,000) 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 year ended November 30, 2011 and 2010, at statutory rates with reported taxes is as follows:

	2011	2010
Income (loss) before income taxes	$ (31,618)	$ 766,529
Combined federal and provincial tax rate	27.50%	28.92%
Income tax expense at statutory rates	$ (8,693)	$ 221,680
Effect of tax rate change	(11,359)	(24,335)
Non-deductible items	11,914	34,502
Amounts recognized for tax	29,628	46,184
Total income tax expense provision	$ 21,490	$ 278,031

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

	2011	2010
Future income tax liabilities:		
Investments	$ (82,031)	$ (249,688)
Share issuance costs and cumulative eligible cost	2,112	2,510
Petroleum and natural gas interests	(100,907)	(149,327)
Equipment	6,619	8,799
Net future tax liabilities	$ (174,208)	$ (387,706)

11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

For the year ended November 30, 2011, the Company included:

i) $9,523 (2010 - $7,658) of petroleum and natural gas expenditures in accounts payable and accrued liabilities.

ii) $31,461 (2010 - $42,358) fair value transferred from contributed surplus to share capital upon exercise of 300,000 (2010 – 500,000) stock options.

12. FINANCIAL INSTRUMENTS AND RISK

Fair value

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. 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.

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:

	2011			2010		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 2,535,774	$ -	$ -	$ 2,914,709	$ -	$ -
Investment	$ 906,250	$ -	$ -	$ 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 November 30, 2011, the Company had a cash and cash equivalents balance of $2,535,774 (2010 - $2,914,709) to settle current liabilities of $310,828 (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 of $2,000,000 (2010 - $1,750,000) at an interest rate of prime less 1.8% (2010 - at an interest rate between prime less 1.75% and prime less 1.95%, maturing between January 26, 2011 and July 29, 2011). 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 10% change in investments would result in an increase/decrease of $90,625 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.

15. SUBSEQUENT EVENTS

Subsequent to November 30, 2011, the Company:

a) has sold all of its freehold petroleum and natural gas royalty interests in the Province of Saskatchewan for a gross amount of $5,250,000 less $68,436 due to industry adjustments for the period between the effective date and the date of closing for net proceeds of $5,181,564. The consideration received by the Company consisted of:

   i) 1,767,000 common shares of the Company which were owned by the buyer at $0.30 per share (returned to treasury); and

   ii) $4,651,564 in cash.

b) cancelled 70,000 common share certificates of the Company and returned them to treasury.