

**COBRA VENTURE CORPORATION**

**CONDENSED INTERIM FINANCIAL STATEMENTS**  
**(Unaudited)**  
**(Expressed in Canadian Dollars)**

**FOR THE NINE MONTHS ENDED AUGUST 31, 2012**

## **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 condensed interim financial statements for the period ended August 31, 2012

**COBRA VENTURE CORPORATION**  
**CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION**  
(Unaudited - Expressed in Canadian Dollars)

	Notes	August 31, 2012	November 30, 2011 (Note 18)	December 1, 2010 (Note 18)
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents		\$ 2,874,722	\$ 2,535,774	\$ 2,914,709
Receivables	4	65,240	319,347	338,297
Prepaid expenses		38,242	37,302	27,037
Income taxes receivable		-	187,998	-
<b>Total current assets</b>		<u>2,978,204</u>	<u>3,080,421</u>	<u>3,280,043</u>
<b>Non-current assets</b>				
Investment	5	181,250	906,250	2,247,500
Property, plant and equipment	6	4,414,869	386,243	260,722
Exploration and evaluation assets	7	-	-	388,450
<b>Total non-current assets</b>		<u>4,596,119</u>	<u>1,292,493</u>	<u>2,896,672</u>
<b>Total assets</b>		<u>\$ 7,574,323</u>	<u>\$ 4,372,914</u>	<u>\$ 6,176,715</u>
<b>LIABILITIES AND EQUITY</b>				
<b>Current liabilities</b>				
Accounts payable and accrued liabilities	8	\$ 93,799	\$ 310,828	\$ 219,362
Income taxes payable		1,101,097	-	387,557
<b>Total current liabilities</b>		<u>1,194,896</u>	<u>310,828</u>	<u>606,919</u>
<b>Non-current liabilities</b>				
Decommissioning liabilities	9	47,153	46,286	45,159
Deferred income tax liability	13	63,694	174,208	387,706
<b>Total non-current liabilities</b>		<u>110,847</u>	<u>220,494</u>	<u>432,865</u>
<b>Total liabilities</b>		<u>1,305,743</u>	<u>531,322</u>	<u>1,039,784</u>
<b>Equity</b>				
Capital stock	10	3,633,268	4,052,937	4,036,476
Treasury stock	10	-	(17,884)	-
Reserves	11	365,177	345,722	356,996
Accumulated other comprehensive income		(60,156)	574,219	1,747,812
Retained earnings (deficit)		2,330,291	(1,113,402)	(1,004,353)
<b>Total equity</b>		<u>6,268,580</u>	<u>3,841,592</u>	<u>5,136,931</u>
<b>Total liabilities and equity</b>		<u>\$ 7,574,323</u>	<u>\$ 4,372,914</u>	<u>\$ 6,176,715</u>

Approved on October 29, 2012 on behalf of the Board:

<u>"Daniel B. Evans"</u> Daniel B. Evans	Director	<u>"Cyrus Driver"</u> Cyrus Driver	Director
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The accompanying notes are an integral part of these condensed interim financial statements.

**COBRA VENTURE CORPORATION**  
**CONDENSED INTERIM STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
(Unaudited - Expressed in Canadian Dollars)

	Notes	Three Months Ended August 31, 2012	Three Months Ended August 31, 2011 (Note 18)	Nine Months Ended August 31, 2012	Nine Months Ended August 31, 2011 (Note 18)
<b>OIL AND GAS REVENUES</b>					
Production revenue		\$ 47,651	\$ 54,336	\$ 174,700	\$ 129,928
Royalty revenue		-	254,337	90,335	1,019,951
		<u>47,651</u>	<u>308,673</u>	<u>265,035</u>	<u>1,149,879</u>
<b>DIRECT COSTS</b>					
Production and operation costs		17,516	13,730	56,950	38,759
Royalties		1,393	6,500	8,612	12,679
Depletion		4,974	39,798	31,499	119,394
Accretion expenses		289	282	867	846
		<u>(24,172)</u>	<u>(60,310)</u>	<u>(97,928)</u>	<u>(171,678)</u>
<b>Gross profit</b>		<u>23,479</u>	<u>248,363</u>	<u>167,107</u>	<u>978,201</u>
<b>EXPENSES</b>					
Amortization		168	238	1,180	717
Consulting fees		25,087	2,885	54,895	14,513
Corporate services		3,600	3,600	10,800	10,800
Management fees	12	67,000	67,000	201,000	201,000
Media and website		5,675	3,675	22,334	11,025
Office and miscellaneous		11,684	8,571	53,373	24,875
Professional fees	12	69,292	47,656	223,948	139,951
Property investigation costs		-	1,950	3,071	1,950
Rent	12	12,640	12,273	40,726	36,819
Share-based payments	11, 12	8,866	3,125	19,455	18,932
Transfer agent and filing fees		2,951	1,165	24,620	11,845
Travel and promotion		3,299	-	8,989	-
		<u>(210,262)</u>	<u>(152,138)</u>	<u>(664,391)</u>	<u>(472,427)</u>
<b>Income (loss) before other items</b>		<u>(186,783)</u>	<u>96,225</u>	<u>(497,284)</u>	<u>505,774</u>
<b>OTHER ITEMS</b>					
Lease income		-	200,040	-	200,040
Interest income		21,265	3,409	59,774	14,260
Gain on sale of property, plant and equipment		-	-	5,167,368	-
<b>Total other items</b>		<u>21,265</u>	<u>203,449</u>	<u>5,227,142</u>	<u>214,300</u>
<b>Income (loss) before income taxes</b>		<u>(165,518)</u>	<u>299,674</u>	<u>4,729,858</u>	<u>720,074</u>
<b>INCOME TAXES</b>					
Deferred income tax recovery (expense)		99,258	(9,643)	19,889	29,842
Income tax recovery (expense)		(60,095)	(90,926)	(1,177,739)	(227,890)
<b>Total income tax recovery (expense)</b>	13	<u>39,163</u>	<u>(100,569)</u>	<u>(1,157,850)</u>	<u>(198,048)</u>
<b>Income (loss) for the period</b>		<u>\$ (126,355)</u>	<u>\$ 199,105</u>	<u>\$ 3,572,008</u>	<u>\$ 522,026</u>
<b>Income (loss) per common share</b>					
Basic		\$ (0.01)	\$ 0.01	\$ 0.22	\$ 0.03
Fully Diluted		\$ (0.01)	\$ 0.01	\$ 0.21	\$ 0.03
<b>Weighted average number of common shares outstanding</b>					
Basic		15,833,748	17,740,748	16,250,323	17,729,799
Fully Diluted		16,226,056	18,345,748	16,642,631	18,334,779

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

**COBRA VENTURE CORPORATION**  
**CONDENSED INTERIM STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
(Unaudited - Expressed in Canadian Dollars)

	Notes	Three Months Ended August 31, 2012	Three Months Ended August 31, 2011	Nine Months Ended August 31, 2012	Nine Months Ended August 31, 2011
<b>Income (loss) for the period</b>		<u>\$ (126,355)</u>	<u>\$ 199,105</u>	<u>\$ 3,572,008</u>	<u>\$ 522,026</u>
<b>OTHER COMPREHENSIVE LOSS</b>					
Unrealized loss on available-for-sale investments, net of tax recovery \$90,625 (2011 - \$77,032)	5	<u>(63,437)</u>	<u>(2,315,468)</u>	<u>(634,375)</u>	<u>(539,218)</u>
<b>Comprehensive income (loss)</b>		<u>\$ (189,792)</u>	<u>\$ (2,116,363)</u>	<u>\$ 2,937,633</u>	<u>\$ (17,192)</u>

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

**COBRA VENTURE CORPORATION**  
**CONDENSED INTERIM STATEMENTS OF CASH FLOWS**  
(Unaudited - Expressed in Canadian Dollars)

Notes	Nine Months Ended August 31, 2012	Nine Months Ended August 31, 2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income for the period	\$ 3,572,008	\$ 522,026
Items not affecting cash:		
Accretion	9 867	846
Amortization	6 1,180	717
Depletion	6 31,499	119,394
Share-based payments	11 19,455	18,932
Deferred income tax recovery	(19,889)	(29,842)
Gain on sale of property, plant and equipment	6 (5,167,368)	-
Interest income	(59,774)	(14,260)
Changes in non-cash working capital items:		
Decrease in receivables	267,018	141,161
Increase in prepaid expenses	(940)	(61,817)
Decrease in accounts payable and accrued liabilities	(210,327)	(150,492)
Increase (decrease) in income tax payable	1,289,095	(459,112)
Net cash flows provided by (used in) operating activities	<u>(277,176)</u>	<u>87,553</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	46,863	11,283
Acquisition of property, plant and equipment	(4,068,006)	3,659
Exploration and evaluation expenditures	-	(520,206)
Sale of royalty interest in Viewfield area (net of adjustments)	4,637,267	-
Net cash flows provided by (used in) investing activities	<u>616,124</u>	<u>(505,264)</u>
<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)
Net cash flows provided by financing activities	<u>-</u>	<u>42,116</u>
<b>Change in cash and cash equivalents during the period</b>	<b>338,948</b>	<b>(375,595)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>2,535,774</b>	<b>2,914,709</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 2,874,722</b>	<b>\$ 2,539,114</b>
<b>Cash and cash equivalents consist of:</b>		
Cash	\$ 167,638	\$ 539,114
Cash equivalents	2,707,084	2,000,000
	<u>\$ 2,874,722</u>	<u>\$ 2,539,114</u>
<b>Cash paid for income taxes</b>	<b>\$ 65,356</b>	<b>\$ 768,651</b>

Supplemental disclosure with respect to cash flows (Note 14)

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

**COBRA VENTURE CORPORATION**  
**CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY**  
(Unaudited - Expressed in Canadian Dollars)

	Notes	Capital Stock		Treasury Stock 1)	Reserves	Accumulated Other Comprehensive Income	Retained Earnings (Deficit)	Total Equity
		Number of Shares	Amount					
<b>Balance at December 1, 2010</b>		17,440,748	\$ 4,036,476	\$ -	\$ 356,996	\$ 1,747,812	\$ (1,004,353)	\$ 5,136,931
Stock options exercised	10	300,000	60,000	-	-	-	-	60,000
Stock options expired		-	-	-	(1,734)	-	1,734	-
Ascribed value of options exercised		-	31,461	-	(31,461)	-	-	-
Share-based payments	11	-	-	-	18,932	-	-	18,932
Flow-through renunciation	10	-	(75,000)	-	-	-	-	(75,000)
Unrealized loss on available-for-sale investments	5	-	-	-	-	(539,218)	-	(539,218)
Repurchase of 70,000 treasury shares	10	-	-	(17,884)	-	-	-	(17,884)
Income for the period		-	-	-	-	-	522,026	522,026
<b>Balance at August 31, 2011</b>		17,740,748	\$ 4,052,937	\$ (17,884)	\$ 342,733	\$ 1,208,594	\$ (480,593)	\$ 5,105,787
<b>Balance at November 30, 2011</b>		17,740,748	\$ 4,052,937	\$ (17,884)	\$ 345,722	\$ 574,219	\$ (1,113,402)	\$ 3,841,592
Cancellation of 70,000 treasury shares	10	(70,000)	(15,992)	17,884	-	-	(1,892)	-
Repurchase and cancellation of 1,767,000 treasury shares	10	(1,767,000)	(403,677)	-	-	-	(126,423)	(530,100)
Unrealized loss on available-for-sale investments	5	-	-	-	-	(634,375)	-	(634,375)
Share-based payments	11	-	-	-	19,455	-	-	19,455
Income for the period		-	-	-	-	-	3,572,008	3,572,008
<b>Balance at August 31, 2012</b>		15,903,748	\$ 3,633,268	\$ -	\$ 365,177	\$ (60,156)	\$ 2,330,291	\$ 6,268,580

1) As at August 31, 2012, Nil (August 31, 2011 – 70,000) shares were held in treasury.

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

**COBRA VENTURE CORPORATION**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
(Unaudited - Expressed in Canadian Dollars)  
FOR THE NINE MONTHS ENDED AUGUST 31, 2012

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**1. NATURE, 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. The Company's head office is located at 2489 Bellevue Avenue, West Vancouver, BC V7V 1E1. The Company's registered and records office is located at 1900, 530 – 3<sup>rd</sup> Avenue SW, Calgary, AB T2P 0R3.

**2. BASIS OF PREPARATION AND FIRST-TIME ADOPTION OF IFRS**

**Statement of compliance**

The Company previously prepared its financial statements in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP") as set in the Handbook of the Canadian Institute of Chartered Accountant ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate IFRS ("International Financial Reporting Standards") and requires publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in these financial statements.

These are the Company's third interim financial statements prepared in accordance with IFRS. In the financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS. These interim financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB").

The Company's transition date to IFRS is December 1, 2010. The rules for first-time adoption of IFRS are set out in IFRS 1, "First-time adoption of International Financial Reporting Standards". In preparing the Company's first IFRS financial statements, these transition rules have been applied to the amounts previously reported in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Historical results and balances have been presented under IFRS.

The disclosure in Note 18 provides IFRS information as at November 30, 2011 and December 1, 2010 and for the period ended August 31, 2011 that is material to the understanding of these financial statements.

**Significant accounting judgment and estimation uncertainties**

The preparation of these financial statements in conformity with IFRS requires estimates and assumptions that affect the amounts reported in these financial statements. The following are the estimates and judgments applied by management that most significantly affect the Company's financial statements.

*Exploration and evaluation expenditures* – Costs incurred to acquire rights to explore for oil and natural gas may be grouped in either exploration and evaluation or development and production, depending on facts and circumstances. Costs incurred in respect to properties that have been determined to have proved and probable reserves are classified as development and production properties. In such circumstances, technical feasibility and commercial viability are considered to be established. Costs incurred in respect of new prospects with no nearby established development past or present and no proved or probable reserves assigned are classified as exploration and evaluation assets (Note 7).



**2. BASIS OF PREPARATION AND FIRST-TIME ADOPTION OF IFRS (cont'd....)**

**Significant accounting judgment and estimation uncertainties (cont'd....)**

*Reserves base* – The oil and gas development and production properties are depleted on a unit-of-production (“UOP”) basis at a rate calculated by reference to proved and probable reserves determined in accordance with National Instrument 51-101 “Standards of Disclosure for Oil and Gas Activities” and incorporating the estimated future cost of developing and extracting those reserves. Proved plus probable reserves are determined using estimates of oil and natural gas in place, recovery factors and future oil and natural gas prices. Future development costs are estimated using assumptions as to number of wells required to produce the reserves, the cost of such wells and associated production facilities and other capital costs.

*Depletion of oil and gas assets* – Oil and gas properties are depleted using a UOP method over proved plus probable reserves. The calculation of the UOP rate of depletion could be impacted to the extent that actual production in the future is different from current forecasts production based on proved plus probable reserves.

*Impairment indicators and calculation of impairment* – At each reporting date, the Company assesses whether or not there are circumstances that indicate a possibility that the carrying values of exploration and evaluation assets and property, plant and equipment are not recoverable, or impaired. Such circumstances include incidents of physical damage, deterioration of commodity prices, changes in the regulatory environment, or a reduction in estimates of proved and probable reserves. When management judges that circumstances indicate potential impairment, property, plant and equipment are tested for impairment by comparing the carrying values to their recoverable amounts. The recoverable amounts of cash generating units are determined based on the higher of value-in-use calculations and fair value less costs to sell. These calculations require the use of estimates and assumptions, that are subject to change as new information becomes available including information on future commodity prices, expected production volumes, quantities of reserves, discount rates, future development costs and operating costs.

*Decommissioning liabilities* – The calculation of decommissioning liabilities includes estimates of the future costs to settle the liability, the timing of the cash flows to settle the liability, the credit-adjusted rate and the future inflation rates. The impact of differences between actual and estimated costs, timing and inflation on the financial statements of future period may be material.

*Income taxes* - The Company is periodically required to estimate the tax basis of assets and liabilities. Where applicable tax laws and regulations are either unclear or subject to varying interpretations, it is possible that changes in these estimates could occur that materially affect the amounts of deferred income tax assets and liabilities recorded in the financial statements. Changes in deferred tax assets and liabilities generally have a direct impact on earnings in the period that the changes occur. Each period, the Company evaluates the likelihood of whether some portion or all of each deferred tax asset will not be realized. This evaluation is based on historic and future expected levels of taxable income, the pattern and timing of reversals of taxable temporary timing differences that give rise to deferred tax liabilities, and tax planning initiatives.

*Share-based payments* – The fair value of share-based payments is determined using a Black-Scholes Option pricing model. Such option pricing models require the input of subjective assumptions including the expected price volatility, option life, dividend yield, risk-free rate and estimated forfeitures at the initial grant.

### **3. SIGNIFICANT ACCOUNTING POLICIES**

#### **Cash and cash equivalents**

Cash and cash equivalents include cash on deposit and with maturities on the date of purchase of 90 days or less. Cash and cash equivalents are considered to be financial instruments and are classified as “Loans and Receivables”.

#### **Property, plant and equipment and exploration and evaluation assets**

(i) Recognition and measurement

a) Exploration and evaluation costs

Pre-license costs are recognized in the profit or loss as incurred.

All exploratory costs incurred subsequent to acquiring the right to explore for oil and natural gas and before technical feasibility and commercial viability of the area have been established are capitalized. Such costs can typically include costs to acquire land rights, geological and geophysical costs, decommissioning costs, and exploration well costs.

Exploration and evaluation costs are not depreciated and are accumulated in cost centers by well, field or exploration area and carried forward pending determination of technical feasibility and commercial viability.

The technical feasibility and commercial viability of extracting a mineral resource from exploration and evaluation assets is considered to be generally determinable when proved and probable reserves are determined to exist. Upon determination of proved and probable reserves, exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from exploration and evaluation assets to development and production assets, net of any impairment loss.

Management reviews and assesses exploration and evaluation assets to determine if technical feasibility and commercial viability exist. If Management decides not to continue the exploration and evaluation activity, the unrecoverable costs are charged to exploration and evaluation expense in the period in which the determination occurs.

b) Development and production costs

Items of property, plant and equipment, which include oil and gas development and production assets, are measured at cost less accumulated depletion and accumulated impairment losses. Costs include lease acquisition, drilling and completion, production facilities, decommissioning costs, geological and geophysical costs and directly attributable general and administrative costs related to development and production activities, net of any government incentive programs.

When significant parts of an item of property, plant and equipment, including oil and natural gas interests, have different useful lives, they are accounted for as separate items (major components).

(ii) Subsequent costs

Costs incurred subsequent to development and production that are significant are recognized as oil and gas property only when they increase the future economic benefits embodied in the specific asset to which they relate.

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS  
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FOR THE NINE MONTHS ENDED AUGUST 31, 2012

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

**Property, plant and equipment and exploration and evaluation assets (cont'd...)**

(iii) Amortization and depletion

The net carrying value of oil and gas properties is amortized using the unit-of-production method by reference to the ratio of production in the period to the related proved and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers at least annually.

For other assets amortization is recognized in profit or loss on a declining-balance method over the estimated useful lives of each part of an item of property, plant and equipment.

The estimated useful lives for other assets are as follows:

Computer Equipment - 30%

**Share issuance 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 no longer probable of being issued. Share issuance costs consist primarily of corporate finance fees, filing fees and legal fees.

**Impairment of tangible and intangible assets**

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

**Decommissioning liabilities**

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Decommissioning liabilities are determined by discounting the expected future cash flows at a pre-tax credit adjusted rate.

**COBRA VENTURE CORPORATION**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
(Unaudited - Expressed in Canadian Dollars)  
FOR THE NINE MONTHS ENDED AUGUST 31, 2012

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

**Flow-through common shares**

The Company finances a portion of its exploration activities through financings in which flow-through common shares are issued. These shares transfer the tax deductibility of qualifying resource expenditures to investors. At the time of closing a financing involving flow-through shares, the Company allocates the gross proceeds received (i.e. the "flow-through commitment") as follows:

- Capital stock
- Warrant reserve; and
- Flow-through share premium – recorded as a liability and equal to the estimated premium, if any, investors pay for the flow-through feature

Thereafter, as qualifying resource expenditures are incurred, these costs are capitalized to exploration and evaluation assets.

At the end of each reporting period, the Company reviews its tax position and records an adjustment to its deferred tax expense/liability accounts for taxable temporary differences, including those arising from the transfer of tax benefits to investors through flow-through shares. For this adjustment, the Company considers the tax benefits (of qualifying resource expenditures already incurred) to have been effectively transferred, if it has formally renounced those expenditures at any time (before or after the end of the reporting period). Additionally, the Company reverses the liability for the flow-through share premium to other income as the expenses are incurred.

**Earnings (loss) per share**

Basic earnings (loss) per share is computed by dividing net earnings (loss) available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods.

**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 a reserve.

**Royalties, lease and fee simple revenue**

Revenue and royalties from oil and 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.

**COBRA VENTURE CORPORATION**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
(Unaudited - Expressed in Canadian Dollars)  
FOR THE NINE MONTHS ENDED AUGUST 31, 2012

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

**Share-based payments**

The Company grants stock options to acquire common shares of the Company to directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes, or provides services similar to those performed by an employee.

The fair value of stock options is measured on the date of grant, using the Black-Scholes option pricing model, and is recognized over the vesting period. Consideration paid for the shares on the exercise of stock options is credited to capital stock. When vested options are forfeited or are not exercised at the expiry date the amount previously recognized in share-based compensation is transferred to accumulated losses (deficit). The Company estimates a forfeiture rate and adjusts the corresponding expense each period based on an updated forfeiture estimate.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at the fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

**Income taxes**

Income tax expense comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity. Current tax expense is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for the initial recognition of assets or liabilities that affect neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred income tax assets and liabilities are presented as non-current.

**Financial instruments**

Financial assets

The Company classifies its financial assets into one of the following categories as follows:

*Loans and receivables ("LAR")* - Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognized at fair value plus any direct attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

*Available-for-sale ("AFS")* - Non-derivative financial assets not included the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in the statement of comprehensive loss.

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

**Financial instruments (cont'd...)**

Financial assets (cont'd...)

The Company has classified its cash and cash equivalents and receivables as LAR. The investments are classified as AFS.

Financial liabilities

The Company classifies its financial liabilities as *Other financial liabilities*: This category consists of accounts payable, accrued liabilities and decommissioning liabilities carried at amortized cost using the effective interest method.

**New accounting pronouncements**

Certain new accounting standards and interpretations have been published that are not mandatory for the August 31, 2012 reporting period. These standards and interpretations have not been adopted and are yet to be assessed by the Company:

- Amendments to IFRS 7, *Financial Instruments: Disclosures*, to require information about all recognized financial instruments that are set off in accordance with paragraph 42 of IAS 32 *Financial Instruments: Presentation*. This standard is effective for years beginning on or after January 1, 2013.
- New standard IFRS 9, *Financial Instruments*, classification and measurement is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39, "Financial Instruments: Recognition and Measurement." IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is at fair value through profit and loss. This standard is effective for years beginning on or after January 1, 2015.
- New standard IFRS 10, *Consolidated Financial Statements*, replaces the guidance on control and consolidation in IAS 27, *Consolidated and Separate Financial statements*, and SIC-12, *Consolidation – Special Purpose Entities*. IFRS 10 changes the definition of control under IFRS so that the same criteria are applied to all entities to determine control. This standard is effective for years beginning on or after January 1, 2013.
- New standard IFRS 11, *Joint arrangements*, requires a venture to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for joint operation, the venture will recognize its share of assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionally consolidate or equity account for interest in joint ventures. IFRS 11 supersedes IAS 31 – *Interest in Joint Ventures* and SIC 13 – *Jointly Controlled Entities – Non-monetary Contributions by Venturers*. This standard is effective for years beginning on or after January 1, 2013.
- New standard IFRS 12, *Disclosure of Interests in Other Entities*. This new standard provides the disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and consolidated structured entities. This standard is effective for years beginning on or after January 1, 2013.

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

**New accounting pronouncements (cont'd...)**

- New standard IFRS 13, *Fair Value Measurement*. This standard defines fair value and sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. The standard does not determine when an asset, a liability or an entity's own equity instrument is measured at fair value. Rather, the measurement and disclosure requirements of IFRS 13 apply when another IFRS requires or permits the item to be measured at fair value (with limited exceptions). This standard is effective for years beginning on or after January 1, 2013.
- Amendments to IAS 12, *Income Taxes*, to provide a presumption that recovery of the carrying amount of an asset measured using the fair value model in IAS 40 *Investment Property* will, normally, be through sale. As a result of the amendments, SIC-21 *Income Taxes — Recovery of Revalued Non-Depreciable Asset* would no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC-21, which is accordingly withdrawn. This standard is effective for years beginning on or after January 1, 2012.
- Reissued IAS 27, *Separate Financial Statements*, requires that when an entity prepares separate financial statements, investments in subsidiaries, associates, and jointly controlled entities are accounted for either at cost, or in accordance with IFRS 9 *Financial Instruments*. This standard is effective for years beginning on or after January 1, 2013.
- Reissued IAS 28, *Investment in Associates and Joint Ventures*, supersedes IAS 28 *Investments in Associates* and defines 'significant influence' and provides guidance on how the equity method of accounting is to be applied (including exemptions from applying the equity method in some cases). It also prescribes how investments in associates and joint ventures should be tested for impairment. This standard is effective for years beginning on or after January 1, 2013.
- Amendments to IAS 1, *Presentation of Financial Statements*, to revise the way other comprehensive income ("OCI") is presented. The amendments require entities to group items presented in OCI based on whether they are potentially reclassifiable to profit or loss subsequently. i.e. those that might be reclassified and those that will not be reclassified. It also requires tax associated with items presented before tax to be shown separately for each of the two groups of OCI items (without changing the option to present items of OCI either before tax or net of tax). This standard is effective for years beginning on or after July 1, 2012.

**4. RECEIVABLES**

The Company's receivables are as follows:

	August 31, 2012	November 30, 2011	December 1, 2010
Trade receivables	\$ 30,490	\$ 291,949	\$ 317,001
Interest receivables	16,999	-	-
HST receivable	<u>17,751</u>	<u>27,398</u>	<u>21,296</u>
	<u>\$ 65,240</u>	<u>\$ 319,347</u>	<u>\$ 338,297</u>

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**5. INVESTMENT**

	August 31, 2012	November 30, 2011	December 1, 2010
Shares in Zodiac Exploration Corp.	\$ 181,250	\$ 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 August 31, 2012, the Company has 3,625,000 shares.

During the period ended August 31, 2012, the Company recorded an unrealized loss of \$634,375 (2011 – \$539,218) to adjust the shares to market value, net of tax recovery \$90,625 (2011 – \$77,032) as other comprehensive loss.

**6. PROPERTY, PLANT AND EQUIPMENT**

	Oil and Gas Properties	Computer Equipment	Land	Total Property, Plant and Equipment
<b>Cost</b>				
Balance, December 1, 2010	\$ 257,537	\$ 14,976	\$ -	\$ 272,513
Recovery	(3,368)	-	-	(3,368)
Transfer from exploration and evaluation assets	<u>289,035</u>	<u>-</u>	<u>-</u>	<u>289,035</u>
Balance, November 30, 2011	543,204	14,976	-	558,180
Additions	54,109	4,520	4,038,945	4,097,574
Disposition	<u>(36,269)</u>	<u>-</u>	<u>-</u>	<u>(36,269)</u>
<b>Balance, August 31, 2012</b>	<b>\$ 561,044</b>	<b>\$ 19,496</b>	<b>\$ 4,038,945</b>	<b>\$ 4,619,485</b>
<b>Accumulated amortization and depletion</b>				
Balance, December 1, 2010	\$ -	\$ 11,791	\$ -	\$ 11,791
Amortization and depletion	<u>159,191</u>	<u>955</u>	<u>-</u>	<u>160,146</u>
Balance, November 30, 2011	159,191	12,746	-	171,937
Amortization and depletion	<u>31,499</u>	<u>1,180</u>	<u>-</u>	<u>32,679</u>
<b>Balance, August 31, 2012</b>	<b>\$ 190,690</b>	<b>\$ 13,926</b>	<b>\$ -</b>	<b>\$ 204,616</b>
<b>Carrying amounts</b>				
As at December 1, 2010	\$ 257,537	\$ 3,185	\$ -	\$ 260,722
As at November 30, 2011	\$ 384,013	\$ 2,230	\$ -	\$ 386,243
As at August 31, 2012	<u>\$ 370,354</u>	<u>\$ 5,570</u>	<u>\$ 4,038,945</u>	<u>\$ 4,414,869</u>



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**6. PROPERTY, PLANT AND EQUIPMENT (cont'd...)**

**Land**

During the period ended August 31, 2012, the Company acquired 100% interest in certain lands and premises located in the Municipal District of Rocky View No. 44, in the Province of Alberta, consisting of approximately 15.78 acres, excepting thereout all mines and minerals, for \$3,975,000, closing costs of \$63,945, for a total of \$4,038,945.

**Oil and gas properties**

***Viewfield area, Saskatchewan***

On October 10, 2002, the Company purchased petroleum and natural gas assets consisting of 90% net working interests in 2,880 freehold acres in the Viewfield region of southeast Saskatchewan ("Assets") from Charter Oil Corporation. The Company paid cash 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.

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. The lease had a term of two years with a net gross overriding production royalty of 20% to the Company. The Company received a bonus sum of \$200,000 in connection with the agreement.

During the period ended August 31, 2012, the Company sold all of its remaining freehold petroleum and natural gas royalty interests in the Viewfield area for an aggregate sale price of \$5,250,000.

Proceeds consisted of:

- i) \$4,719,900 in cash; and
- ii) 1,767,000 common shares of the Company at a deemed price of \$0.30 for a fair value of \$530,100 returned to treasury and cancelled (Note 10).

The Company recorded a gain of \$5,167,368 after closing adjustments of \$46,362 in connection with the sale.

***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:

- 1) 27% net working interest by paying 45% of all costs associated with the drilling program; and
- 2) 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% 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 period ended August 31, 2012, the Company received \$2,417 (2011 - \$7,383) in production revenue.

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**6. PROPERTY, PLANT AND EQUIPMENT (cont'd...)**

*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 period ended August 31, 2012, the Company received \$78,065 (2011 - \$110,745) in production revenue.

*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 period ended August 31, 2012, the Company received \$94,218 (2011 - \$11,800) in production revenue.

**7. EXPLORATION AND EVALUATION ASSETS**

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	Amount
<b>Balance, December 1, 2010</b>	\$ 388,450
Leases	7,815
Geological fees	9,518
Drilling	455,380
Completion	61,010
Field work	2,243
Transfer to property, plant and equipment	(289,035)
Write-down of exploration and evaluation assets	(635,381)
<b>Balance, November 30, 2011 and August 31, 2012</b>	<b>\$ -</b>

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**7. EXPLORATION AND EVALUATION ASSETS (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. During the year ended November 30, 2011, the interest has been abandoned 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. During the year ended November 30, 2011, the interest has been abandoned 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. During the year ended November 30, 2011, the interest has been abandoned and the cost of the property was written-off.

*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. During the year ended November 30, 2011, the interest has been abandoned and the cost of the property was written-off.

**8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Accounts payable and accrued liabilities are as follows:

	August 31, 2012	November 30, 2011	December 1, 2010
Trade payables	\$ 24,317	\$ 40,714	\$ 19,858
Due to related parties (Note 12)	49,982	234,114	155,904
Accrued liabilities	19,500	36,000	43,600
<b>Total</b>	<b>\$ 93,799</b>	<b>\$ 310,828</b>	<b>\$ 219,362</b>

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**9. DECOMMISSIONING LIABILITIES**

	2012
Balance, December 1, 2010	\$ 45,159
Accretion expense	<u>1,127</u>
Balance, November 30, 2011	46,286
Accretion expense	<u>867</u>
Balance, August 31, 2012	<u>\$ 47,153</u>

The total provision was 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 2.69%. The estimated settlement ranges to a maximum of thirteen years.

**10. CAPITAL STOCK**

**Authorized:**

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

During the period ended August 31, 2012, the Company:

- i) cancelled 70,000 common shares of the Company held in treasury for \$17,884. The excess cost of these shares over their book value of \$15,992 has been charged to retained earnings.
- ii) received and cancelled 1,767,000 common shares of the Company for a fair value of \$530,100 from the sale of its remaining freehold petroleum and natural gas royalty interest in the Viewfield area (Note 6). The excess fair value of these shares over their book value of \$403,677 has been charged to retained earnings.

During the period ended August 31, 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 to treasury stock 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 capital stock and increase in deferred tax liability.

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**11. RESERVES**

**Stock options**

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.

A continuity of share purchase options for the period ended August 31, 2012 is as follows:

Expiry Date	Exercise Price	November 30, 2011	Granted	Expired / Forfeited	August 31, 2012	Exercisable
December 18, 2012	0.34 *	500,000	-	-	500,000	500,000
April 3, 2014	0.16	1,050,000	-	-	1,050,000	1,050,000
May 27, 2015	0.17	600,000	-	-	600,000	600,000
May 25, 2017	0.24 *	-	225,000	-	225,000	56,250
<b>Total</b>		<b>2,150,000</b>	<b>225,000</b>	<b>-</b>	<b>2,375,000</b>	<b>2,206,250</b>
<b>Weighted average exercise price</b>		<b>0.21</b>	<b>0.24</b>	<b>-</b>	<b>0.21</b>	<b>0.21</b>
<b>Weighted average remaining contractual life (years)</b>					<b>1.91</b>	

\* not included in the calculation of potential dilutive common shares as of August 31, 2012 as their inclusion is anti-dilutive.

**Share-based payments**

During the period ended August 31, 2012, the Company granted 225,000 (2011 - Nil) stock options with a fair value calculated using the Black-Scholes option pricing model of \$38,576 (2011 - Nil) of which \$19,455 (2011 - \$18,932) was recognized as share-based payments expense for options vested during the current period. 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 period was \$0.17.

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

	August 31, 2012	August 31, 2011
Risk-free interest rate	1.31%	-
Expected life of options	4.25 years	-
Annualized volatility	102%	-
Dividend rate	0%	-
Forfeiture rate	0%	-
Stock price at date of grant	0.24	-

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**12. RELATED PARTY TRANSACTIONS**

Amounts paid or accrued to related parties are as follows:

Paid to:	Nature of transactions	Nine Months Ended August 31, 2012	Nine Months Ended August 31, 2011
a limited partnership of which a Director is a partner	Rent	\$ 40,726	\$ 36,819
a firm of which a Director is a partner	Accounting	107,020	114,300
a firm of which the Corporate Secretary is a partner	Legal	<u>96,377</u>	<u>7,536</u>
		\$ 244,123	\$ 158,655

Key management compensations are as follows:

Paid to:	Nature of transactions	Nine Months Ended August 31, 2012	Nine Months Ended August 31, 2011
Salaries and benefits <sup>(i)</sup>	Management	\$ 201,000	\$ 201,000
Share-based payments <sup>(ii)</sup>		<u>19,455</u>	<u>14,200</u>
		\$ 220,455	\$ 215,200

(i) Share-based payments are the fair value of options granted and vested.

(ii) There were no post-employment benefits, termination benefits, or other long-term employment benefits paid to key management in either 2012 or 2011.

Key management personnel is defined as those persons having authority and responsibility for planning, directing and controlling activities of the Company, directly or indirectly including any director (whether executive or otherwise) of the Company. The Company's key management personnel include the Chief Executive Officer and certain Directors.

The amounts due to related parties included in accounts payable and accrued liabilities are as follows:

	August 31, 2012	November 30, 2011	December 1, 2010
A firm of which a Director is a partner	\$ 42,192	\$ 43,576	\$ 38,904
A firm of which the Corporate Secretary is a partner	-	14,036	-
Management and Directors	<u>7,790</u>	<u>176,502</u>	<u>117,000</u>
	\$ 49,982	\$ 234,114	\$ 155,904

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**13. INCOME TAXES**

A reconciliation of income taxes for the period ended August 31, 2012, at statutory rates with reported taxes is as follows:

	August 31, 2012	November 30, 2011
Income (loss) before income taxes	\$ 4,729,858	\$ (31,618)
Combined federal and provincial tax rate	25.00%	27.50%
Income tax expense (recovery) at statutory rates	\$ 1,182,465	\$ (8,693)
Effect of tax rate change	-	(11,359)
Non-deductible items	4,899	11,914
Amounts recognized for tax	<u>(29,514)</u>	<u>29,628</u>
Total income tax expense provision	<u>\$ 1,157,850</u>	<u>\$ 21,490</u>

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

	August 31, 2012	November 30, 2011
Deferred income tax liabilities:		
Investments	\$ 8,594	\$ (82,031)
Share issuance costs and cumulative eligible cost	1,599	2,112
Property, plant and equipment	<u>(73,886)</u>	<u>(94,289)</u>
Net deferred tax liabilities	<u>\$ (63,694)</u>	<u>\$ (174,208)</u>

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

During the period ended August 31, 2012, the Company had included:

- i) \$2,821 of exploration and evaluation expenditures in accounts payable and accrued liabilities; and
- ii) \$128,315 of premium on cancellation of shares to deficit.

During the period ended August 31, 2011, the Company had included:

- i) \$28,965 of exploration and evaluation expenditures in accounts payable and accrued liabilities;
- ii) \$31,461 fair value transferred from reserves to capital stock upon exercise of 300,000 stock options; and
- iii) \$75,000 reduction in capital stock due to renunciation of flow-through shares.

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**15. 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 fair value of the Company's cash and cash equivalents, receivables, accounts payable and accrued liabilities approximate their carrying values. The Company's investments are measured at fair value using Level 1 inputs.

**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 counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to trade receivable and cash and cash equivalents. Management believes that the credit risk concentration with respect to trade receivable is not significant and cash and cash equivalents is remote as it maintains accounts with highly-rated financial institutions.

*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 August 31, 2012, the Company had a cash and cash equivalents balance of \$2,874,722 (November 30, 2011 - \$2,535,774; December 1, 2010 - \$2,914,709) to settle current liabilities of \$1,194,896 (November 30, 2011 - \$310,828; December 1, 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 \$1,750,000 (November 30, 2011 - \$2,000,000; December 1, 2010 - \$1,750,000) at interest rates of prime less 1.8% and prime less 1.95% (November 30, 2011 - at an interest rate of prime less 1.8%; December 1, 2010 - 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.



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

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

c) *Price risk*

The Company has limited exposure 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.

**16. SEGMENTED INFORMATION**

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

**17. 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. capital stock, treasury stock, reserves, 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.

There were no changes in the Company's approach to capital management during the period ended August 31, 2012.

**18. RECONCILIATION OF CANADIAN GAAP TO IFRS**

As stated in Note 2, these condensed interim financial statements are for the period covered by the Company's first annual financial statements prepared in accordance with IFRS.

The accounting policies in Note 3 have been applied as follows:

- in preparing the condensed interim financial statements for the period ended August 31, 2012;
- the comparative information for the period ended August 31, 2011;
- the statement of financial position as at November 30, 2011; and
- in preparing the opening IFRS statement of financial position on the Transition Date, December 1, 2010.

An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables:

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**18. RECONCILIATION OF CANADIAN GAAP TO IFRS (cont'd...)**

Reconciliation between Canadian GAAP and IFRS statements of financial position:

	Notes	As at December 1, 2010			As at August 31, 2011			As at November 30, 2011		
		Canadian GAAP	Effect of transition to IFRS	IFRS	Canadian GAAP	Effect of transition to IFRS	IFRS	Canadian GAAP	Effect of transition to IFRS	IFRS
<b>ASSETS</b>										
<b>Current assets</b>										
Cash and cash equivalents		\$ 2,914,709	\$ -	\$ 2,914,709	\$ 2,539,114	\$ -	\$ 2,539,114	\$ 2,535,774	\$ -	\$ 2,535,774
Receivables		338,297	-	338,297	200,113	-	200,113	319,347	-	319,347
Prepaid and expense advances		27,037	-	27,037	88,854	-	88,854	37,302	-	37,302
Income tax receivable		-	-	-	71,555	-	71,555	187,998	-	187,998
<b>Total current assets</b>		<u>3,280,043</u>	<u>-</u>	<u>3,280,043</u>	<u>2,899,636</u>	<u>-</u>	<u>2,899,636</u>	<u>3,080,421</u>	<u>-</u>	<u>3,080,421</u>
<b>Non-current assets</b>										
Investment		2,247,500	-	2,247,500	1,631,250	-	1,631,250	906,250	-	906,250
Property, plant and equipment	18 iv), vi)	3,185	257,537	260,722	2,468	254,810	257,278	2,230	384,013	386,243
Exploration and evaluation assets	18 iv), vi)	623,804	(235,354)	388,450	1,044,991	(235,354)	809,637	436,362	(436,362)	-
<b>Total non-current assets</b>		<u>2,874,489</u>	<u>22,183</u>	<u>2,896,672</u>	<u>2,678,709</u>	<u>19,456</u>	<u>2,698,165</u>	<u>1,344,842</u>	<u>(52,349)</u>	<u>1,292,493</u>
<b>TOTAL ASSETS</b>		<u>\$ 6,154,532</u>	<u>\$ 22,183</u>	<u>\$ 6,176,715</u>	<u>\$ 5,578,345</u>	<u>\$ 19,456</u>	<u>\$ 5,597,801</u>	<u>\$ 4,425,263</u>	<u>\$ (52,349)</u>	<u>\$ 4,372,914</u>
<b>LIABILITIES AND EQUITY</b>										
<b>Current liabilities</b>										
Accounts payable and accrued liabilities		\$ 219,362	\$ -	\$ 219,362	\$ 90,177	\$ -	\$ 90,177	\$ 310,828	\$ -	\$ 310,828
Income taxes payable		387,557	-	387,557	-	-	-	-	-	-
<b>Total current liabilities</b>		<u>606,919</u>	<u>-</u>	<u>606,919</u>	<u>90,177</u>	<u>-</u>	<u>90,177</u>	<u>310,828</u>	<u>-</u>	<u>310,828</u>
<b>Non-current liabilities</b>										
Decommissioning liabilities	18 v)	26,495	18,664	45,159	28,483	17,522	46,005	24,986	21,300	46,286
Deferred income taxes liability		387,706	-	387,706	355,832	-	355,832	174,208	-	174,208
<b>Total non-current liabilities</b>		<u>414,201</u>	<u>18,664</u>	<u>432,865</u>	<u>384,315</u>	<u>17,522</u>	<u>401,837</u>	<u>199,194</u>	<u>21,300</u>	<u>220,494</u>
<b>Total liabilities</b>		<u>1,021,120</u>	<u>18,664</u>	<u>1,039,784</u>	<u>474,492</u>	<u>17,522</u>	<u>492,014</u>	<u>510,022</u>	<u>21,300</u>	<u>531,322</u>
<b>Equity</b>										
Capital stock	18 iii)	4,026,292	10,184	4,036,476	4,042,753	10,184	4,052,937	4,042,753	10,184	4,052,937
Treasury stock		-	-	-	(17,884)	-	(17,884)	(17,884)	-	(17,884)
Reserves	18 iii)	381,977	(24,981)	356,996	381,405	(38,672)	342,733	391,930	(46,208)	345,722
Accumulated other comprehensive income		1,747,812	-	1,747,812	1,208,594	-	1,208,594	574,219	-	574,219
Deficit	18 iii)	(1,022,669)	18,316	(1,004,353)	(511,015)	30,422	(480,593)	(1,075,777)	(37,625)	(1,113,402)
<b>Total equity</b>		<u>5,133,412</u>	<u>3,519</u>	<u>5,136,931</u>	<u>5,103,853</u>	<u>1,934</u>	<u>5,105,787</u>	<u>3,915,241</u>	<u>(73,649)</u>	<u>3,841,592</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<u>\$ 6,154,532</u>	<u>\$ 22,183</u>	<u>\$ 6,176,715</u>	<u>\$ 5,578,345</u>	<u>\$ 19,456</u>	<u>\$ 5,597,801</u>	<u>\$ 4,425,263</u>	<u>\$ (52,349)</u>	<u>\$ 4,372,914</u>

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**18. RECONCILIATION OF CANADIAN GAAP TO IFRS (cont'd...)**

	Notes	Three months ended August 31, 2011			Nine months ended August 31, 2011			Year ended November 30, 2011		
		Canadian GAAP	Effect of transition to IFRS	IFRS	Canadian GAAP	Effect of transition to IFRS	IFRS	Canadian GAAP	Effect of transition to IFRS	IFRS
<b>OIL AND GAS REVENUES</b>										
Production revenue		\$ 54,336	\$ -	\$ 54,336	\$ 129,928	\$ -	\$ 129,928	\$ 249,648	\$ -	\$ 249,648
Royalty revenue		254,337	-	254,337	1,019,951	-	1,019,951	1,270,546	-	1,270,546
		<u>308,673</u>	<u>-</u>	<u>308,673</u>	<u>1,149,879</u>	<u>-</u>	<u>1,149,879</u>	<u>1,520,194</u>	<u>-</u>	<u>1,520,194</u>
<b>DIRECT COSTS</b>										
Production and operation costs		13,730	-	13,730	38,759	-	38,759	73,660	-	73,660
Royalties		6,500	-	6,500	12,679	-	12,679	19,306	-	19,306
Depletion (recovery)	18 vi)	(39,471)	79,269	39,798	116,667	2,727	119,394	224,849	(65,658)	159,191
Accretion expense	18 v)	663	(381)	282	1,988	(1,142)	846	2,650	(1,523)	1,127
		<u>18,578</u>	<u>(78,888)</u>	<u>(60,310)</u>	<u>(170,093)</u>	<u>(1,585)</u>	<u>(171,678)</u>	<u>(320,465)</u>	<u>67,181</u>	<u>(253,284)</u>
Gross profit		<u>327,251</u>	<u>(78,888)</u>	<u>248,363</u>	<u>979,786</u>	<u>(1,585)</u>	<u>978,201</u>	<u>1,199,729</u>	<u>67,181</u>	<u>1,266,910</u>
<b>EXPENSES</b>										
Amortization		238	-	238	717	-	717	955	-	955
Consulting fees		2,885	-	2,885	14,513	-	14,513	82,128	-	82,128
Corporate services		3,600	-	3,600	10,800	-	10,800	14,400	-	14,400
Management fees		67,000	-	67,000	201,000	-	201,000	443,000	-	443,000
Media and website		3,675	-	3,675	11,025	-	11,025	23,700	-	23,700
Office and miscellaneous		8,571	-	8,571	24,875	-	24,875	33,170	-	33,170
Professional fees		47,656	-	47,656	139,951	-	139,951	244,514	-	244,514
Rent		12,273	-	12,273	36,819	-	36,819	2,925	-	2,925
Property investigation costs		1,950	-	1,950	1,950	-	1,950	49,092	-	49,092
Share-based payments	18 ii)	10,525	(7,400)	3,125	30,889	(11,957)	18,932	41,414	(19,493)	21,921
Transfer agent and filing fees		1,165	-	1,165	11,845	-	11,845	16,016	-	16,016
Travel and related costs		-	-	-	-	-	-	9,069	-	9,069
		<u>(159,538)</u>	<u>7,400</u>	<u>(152,138)</u>	<u>(484,384)</u>	<u>11,957</u>	<u>(472,427)</u>	<u>(960,383)</u>	<u>19,493</u>	<u>(940,890)</u>
Income before other items		<u>167,713</u>	<u>(71,488)</u>	<u>96,225</u>	<u>495,402</u>	<u>10,372</u>	<u>505,774</u>	<u>239,346</u>	<u>86,674</u>	<u>326,020</u>
<b>OTHER ITEMS</b>										
Interest and other income		3,409	-	3,409	14,260	-	14,260	18,973	-	18,973
Lease income		200,040	-	200,040	200,040	-	200,040	201,096	-	201,096
Write-off of exploration and evaluation assets		-	-	-	-	-	-	(491,033)	(144,349)	(635,382)
<b>Total other items</b>		<u>203,449</u>	<u>-</u>	<u>203,449</u>	<u>214,300</u>	<u>-</u>	<u>214,300</u>	<u>(270,964)</u>	<u>(144,349)</u>	<u>(415,313)</u>
<b>Income before income taxes</b>		<u>371,162</u>	<u>(71,488)</u>	<u>299,674</u>	<u>709,702</u>	<u>10,372</u>	<u>720,074</u>	<u>(31,618)</u>	<u>(57,675)</u>	<u>(89,293)</u>
<b>INCOME TAXES</b>										
Deferred income tax recovery (expense)		(9,643)	-	(9,643)	29,842	-	29,842	120,841	-	120,841
Income tax expense		(90,926)	-	(90,926)	(227,890)	-	(227,890)	(142,331)	-	(142,331)
<b>Total income tax expense</b>		<u>(100,569)</u>	<u>-</u>	<u>(100,569)</u>	<u>(198,048)</u>	<u>-</u>	<u>(198,048)</u>	<u>(21,490)</u>	<u>-</u>	<u>(21,490)</u>
<b>Income (loss) for the period</b>		<u>\$ 270,593</u>	<u>\$ (71,488)</u>	<u>\$ 199,105</u>	<u>\$ 511,654</u>	<u>\$ 10,372</u>	<u>\$ 522,026</u>	<u>\$ (53,108)</u>	<u>\$ (57,675)</u>	<u>\$ (110,783)</u>

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**18. RECONCILIATION OF CANADIAN GAAP TO IFRS (cont'd...)**

The guidance for the first time adoption of IFRS is set out in IFRS 1. IFRS 1 provides for certain mandatory exceptions and optional exemptions for the first time adopters of IFRS. The Company has elected to take the following IFRS 1 optional exemptions:

i) Business combinations

IFRS 1 provides the option to apply IFRS 3, Business Combinations, retrospectively or prospectively from the Transition Date. The retrospective basis would require restatement of all business combinations that occurred prior to the Transition Date. The Company elected not to retrospectively apply IFRS 3 to business combinations that occurred prior to its Transition Date and such business combinations have not been restated.

ii) Share-based payments

IFRS 2, Share-based Payments, encourages application of its provisions to equity instruments granted on or before November 7, 2002, but permits the application only to equity instruments granted after November 7, 2002 that had not vested by the Transition Date. The Company elected to take the exemption available under IFRS 1 and applied IFRS 2 for all equity instruments granted after November 7, 2002 that had not vested by the Transition Date.

As a result, the Company decreased share-based payments by \$11,957 for the period ended August 31, 2011 and decreased share-based payments by \$19,493 for the year ended November 30, 2011.

iii) Reclassification of share-based reserves

The Company reclassified from equity reserves lapse of brokers/agents warrants that were not exercised of \$10,184 for December 1, 2010, August 31, 2011 and November 30, 2011 to capital stock and lapse of stock options that were not exercised in the amount of \$14,797, \$16,531 and \$16,531 for December 1, 2010, August 31, 2011 and November 30, 2011 respectively to deficit.

iv) Oil and gas entities

The Company elected an IFRS 1 exemption whereby the Canadian GAAP full cost pool was measured upon transition to IFRS as follows:

- a) Exploration and evaluation assets were reclassified from full cost pool to exploration and evaluation assets at the amount it was recorded under Canadian GAAP; and
- b) The remaining full cost pool was allocated to the respective CGU's and components in property, plant and equipment pro rata using reserve values.

As a result, the Company reclassified \$235,354 of exploration and evaluation assets to property plant and equipment as of transition date.

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**18. RECONCILIATION OF CANADIAN GAAP TO IFRS (cont'd...)**

v) Decommissioning liabilities

Disclosed as asset retirement obligations under Canadian GAAP, calculated using a credit adjusted discount rate under IFRS resulted in an increase of \$18,664 to decommissioning liabilities at transition date.

vi) Amortization and depletion expense

Under IFRS the Company has chosen to calculate depletion expense based on proved plus probable reserves as compared with proved reserves under previous Canadian GAAP. This has resulted in a decrease of depletion provision with an offsetting increase to property, plant and equipment of \$65,658 for the year ended November 30, 2011.

Additionally, in accordance with IFRS 1, an entity's estimates under IFRS at the date of IFRS must be consistent with estimates made for the same date under previous Canadian GAAP, unless there is objective evidence that those estimates were in error. The Company's IFRS estimates as of December 1, 2010 are consistent with its Canadian GAAP estimates for the same date.

There were no significant differences between IFRS and GAAP in connection with the Company's statements of cash flows for the period ended August 31, 2011 and the year ended November 30, 2011.