COBRA VENTURE CORPORATION

FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

NOVEMBER 30, 2012

CHARTERED ACCOUNTANTS
MacKay LLP

1100 – 1177 West Hastings Street
Vancouver, BC V6E 4T5
Tel: 604-687-4511
Fax: 604-687-5805
Toll Free: 1-800-351-0426
www.MacKay.ca

mackay.ca

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 statements of financial position as at November 30, 2012, November 30, 2011, and December 1, 2010, and the statements of comprehensive income (loss), changes in equity and cash flows for the years ended November 30, 2012 and November 30, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the 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, 2012, November 30, 2011, and December 1, 2010 and its financial performance and its cash flows for the years ended November 30, 2012 and November 30, 2011 in accordance with International Financial Reporting Standards.

Emphasis of matter
Without modifying our opinion, we draw attention to Note 1 to the financial statements which describes the material uncertainty that may cast significant doubt about the ability of Cobra Venture Corporation to continue as a going concern.

"Mackay LLP"

Chartered Accountants
Vancouver, British Columbia
March 25, 2013

COBRA VENTURE CORPORATION
STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian dollars)

	Notes	As at November 30, 2012	November 30, 2011 (Note 19)	December 1, 2010 (Note 19)
ASSETS				
Current assets				
Cash and cash equivalents		$ 2,681,566	$ 2,535,774	$ 2,914,709
Receivables	4	51,511	319,347	338,297
Prepaid expenses		37,567	37,302	27,037
Income taxes receivable		-	187,998	-
Total current assets		2,770,644	3,080,421	3,280,043
Non-current assets				
Investment	5	308,125	906,250	2,247,500
Property and equipment	6	4,204,457	278,337	114,185
Exploration and evaluation assets	7	-	-	244,101
Total non-current assets		4,512,582	1,184,587	2,605,786
Total assets		$ 7,283,226	$ 4,265,008	$ 5,885,829
LIABILITIES AND EQUITY				
Current liabilities				
Accounts payable and accrued liabilities	8	$ 117,929	$ 310,828	$ 219,362
Income taxes payable		1,072,719	-	387,557
Total current liabilities		1,190,648	310,828	606,919
Non-current liabilities				
Decommissioning liabilities	9	37,234	46,286	45,159
Deferred income tax liability	13	36,166	129,291	316,337
Total non-current liabilities		73,400	175,577	361,496
Total liabilities		1,264,048	486,405	968,415
Equity				
Capital stock	10	3,579,953	4,127,937	4,036,476
Treasury stock	10	-	(17,884)	-
Reserves	11	373,679	345,722	356,996
Accumulated other comprehensive income		50,859	574,219	1,747,812
Retained earnings (deficit)		2,014,687	(1,251,391)	(1,223,870)
Total equity		6,019,178	3,778,603	4,917,414
Total liabilities and equity		$ 7,283,226	$ 4,265,008	$ 5,885,829

Approved on March 25, 2013 on behalf of the Board:

"Daniel B. Evans" Director — Daniel B. Evans

"Cyrus Driver" Director — Cyrus Driver

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

COBRA VENTURE CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Expressed in Canadian dollars)

	Notes	For the year ended November 30, 2012	November 30, 2011 (Note 19)
OIL AND GAS REVENUES			
Production revenue		$ 208,974	$ 249,648
DIRECT COSTS			
Production and operation costs		76,361	72,066
Royalties		9,551	23,312
Depletion	6	82,745	120,560
Accretion	9	1,156	1,127
		(169,813)	(217,065)
Gross profit		39,161	32,583
EXPENSES			
Amortization	6	1,347	955
Consulting fees		85,039	82,128
Corporate services		14,400	14,400
Management fees	12	274,000	443,000
Media and website		27,509	23,700
Office and miscellaneous		67,363	33,170
Professional fees	12	291,302	244,514
Property investigation costs		3,430	2,925
Property taxes		8,916	-
Rent	12	53,366	49,092
Share-based payments	11, 12	27,957	21,921
Transfer agent and filing fees		25,571	16,016
Travel and promotion		14,548	9,069
		(894,748)	(940,890)
Loss before other items		(855,587)	(908,307)
OTHER ITEMS			
Lease income		-	201,096
Interest income		59,124	18,973
Write-down of petroleum and natural gas interests	6, 7	(23,706)	(491,033)
Total other items		35,418	(270,964)
Loss before income taxes from continuing operations		(820,169)	(1,179,271)
INCOME TAXES			
Deferred income tax recovery	13	18,360	19,389
Income tax recovery		186,890	207,670
Total income tax recovery		205,250	227,059
Loss after income taxes from continuing operations		$ (614,919)	$ (952,212)
Income after income taxes from discontinued operation	15	$ 3,880,997	$ 922,957
Income (loss) for the year		$ 3,266,078	$ (29,255)
Basic and fully diluted income (loss) per common share from:			
Continuing operations		$ (0.04)	$ (0.05)
Discontinued operations		$ 0.24	$ 0.05
Weighted average number of common shares outstanding		16,742,573	17,732,529

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

COBRA VENTURE CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Expressed in Canadian dollars)

	Notes	For the year ended November 30, 2012	November 30, 2011 (Note 19)
Income (loss) for the year		$ 3,266,078	$ (29,255)
OTHER COMPREHENSIVE LOSS			
Unrealized loss on available-for-sale investments, net of tax recovery $74,765 (2011 - $167,657)	5	(523,360)	(1,173,593)
Comprehensive income (loss)		$ 2,742,718	$ (1,202,848)

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

COBRA VENTURE CORPORATION
STATEMENTS OF CASH FLOWS
(Expressed in Canadian dollars)

	Notes	For the year ended November 30, 2012	For the year ended November 30, 2011 (Note 19)
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss after income taxes from continuing operations		$ (614,919)	$ (952,212)
Items not affecting cash:			
Accretion	9	1,156	1,127
Amortization	6	1,347	955
Depletion	6	82,745	120,560
Share-based payments	11	27,957	21,921
Deferred income tax recovery		(18,360)	(19,389)
Write-down of petroleum and natural gas interests		23,706	491,033
Interest income		(59,124)	(18,973)
Changes in non-cash working capital items:			
Decrease in receivables		276,496	21,011
Increase in prepaid expenses		(265)	(10,265)
Increase (decrease) in accounts payable and accrued liabilities		(183,376)	98,882
Decrease in income tax payable		(107,310)	(925,556)
Net cash flows used in operating activities - continuing operations		(569,947)	(1,170,906)
Net cash flows provided by operating activities - discontinued operation		100,676	1,272,958
Net cash flows provided by (used in) operating activities		(469,271)	102,052
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		50,464	16,912
Acquisition of property, plant and equipment		(4,108,938)	-
Exploration and evaluation expenditures		-	(540,015)
Net cash flows used in investing activities - continuing operations		(4,058,474)	(523,103)
Net cash flows provided by investing activities - discontinued operation		4,673,537	-
Net cash flows provided by (used in) investing activities		615,063	(523,103)
CASH FLOWS FROM FINANCING ACTIVITIES			
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		-	42,116
Change in cash and cash equivalents during the year		145,792	(378,935)
Cash and cash equivalents, beginning of year		2,535,774	2,914,709
Cash and cash equivalents, end of year		$ 2,681,566	$ 2,535,774
Cash and cash equivalents consist of:			
Cash		$ (29,053)	$ 535,774
Cash equivalents		2,710,619	2,000,000
		$ 2,681,566	$ 2,535,774
Cash paid for interest		$ -	$ -
Cash paid for income taxes		$ 97,132	$ 768,651

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

COBRA VENTURE CORPORATION
STATEMENTS OF CHANGES IN EQUITY
(Expressed in Canadian dollars)

		Capital Stock						
	Notes	Number of Shares	Amount	Treasury stock 1)	Reserves	Accumulated other comprehensive income	Retained earnings (deficit)	Total equity
Balance at December 1, 2010	19	17,440,748	$ 4,036,476	$ -	$ 356,996	$ 1,747,812	$ (1,223,870)	$ 4,917,414
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	-	-	-	21,921	-	-	21,921
Unrealized loss on available-for-sale investments	5	-	-	-	-	(1,173,593)	-	(1,173,593)
Repurchase of 70,000 treasury shares	10	-	-	(17,884)	-	-	-	(17,884)
Loss for the year		-	-	-	-	-	(29,255)	(29,255)
Balance at November 30, 2011	19	17,740,748	4,127,937	(17,884)	345,722	574,219	(1,251,391)	3,778,603
Cancellation of 70,000 treasury shares	10	(70,000)	(17,884)	17,884	-	-	-	-
Repurchase and cancellation of 1,767,000 treasury shares	10	(1,767,000)	(530,100)	-	-	-	-	(530,100)
Unrealized loss on available-for-sale investments	5	-	-	-	-	(523,360)	-	(523,360)
Share-based payments	11	-	-	-	27,957	-	-	27,957
Income for the year		-	-	-	-	-	3,266,078	3,266,078
Balance at November 30, 2012		15,903,748	$ 3,579,953	$ -	$ 373,679	$ 50,859	$ 2,014,687	$ 6,019,178

1) As at November 30, 2012, Nil (November 30, 2011 – 70,000; December 1, 2010 - Nil) shares were held in treasury.

The accompanying notes are an integral part of these financial statements

1. NATURE, CONTINUANCE OF OPERATIONS

The Company was incorporated under the Business Corporation Act (Alberta) on August 18, 1999. The Company's principal business activity is the exploration and development of petroleum and natural gas interests and its common shares are listed on the TSX Venture Exchange ("the Exchange") under the symbol "CBV". 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 – 3rd Avenue SW, Calgary, AB T2P 0R3.

These financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and settle its obligations in the normal course of business. The ability of the Company to carry out its planned business objectives is dependent on its ability to raise adequate financing from lenders, shareholders and other investors and/or generate operating profitability and positive cash flow. There is substantial doubt that the Company can meet general operating and property expenditures due to its limited working capital. There can be no assurances that the Company will be able to raise additional financial resources necessary and/or achieve profitability or positive cash flows. If the Company is unable to obtain adequate additional financing, the Company will be required to curtail operations, exploration and evaluation activities and there would be substantial doubt whether the Company would continue as a going concern and realize its assets and settle its liabilities and commitments in the normal course of business.

	November 30, 2012	November 30, 2011	December 1, 2010
Working capital	$ 1,579,996	$ 2,769,593	$ 2,673,124
Retained earnings (deficit)	$ 2,014,687	$ (1,251,391)	$ (1,223,870)

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 first annual 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 annual financial statements have been prepared in accordance with IFRS issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

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 GAAP. Historical results and balances have been presented under IFRS.

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

Statement of compliance (cont'd…)

The disclosure in Note 19 provides IFRS information as at November 30, 2011 and December 1, 2010 and for the year ended November 30, 2011 that is material to the understanding of these financial statements.

The policies applied in these financial statements are based on IFRS issued and outstanding as at March 25, 2013, the date the Board of Directors approved the statements.

Significant accounting judgments and critical accounting estimates

The preparation of these financial statements in conformity with IFRS requires estimates and assumptions that affect the amounts reported in these financial statements.

Significant accounting judgments

Significant accounting judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the financial statements include, but are not limited to, the following:

i) Determination of categories of financial assets and financial liabilities; and

ii) Assessment of any indicators of impairment of the carrying value of the Company's exploration and evaluation assets.

Critical accounting estimates

Key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year include, but are not limited to, the following:

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.

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

Significant accounting judgments and critical accounting estimates (cont'd….)

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 rate and the future inflation rates. The impact of differences between actual and estimated costs, timing and inflation on the financial statements of future periods 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.

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.

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 risk-free rate.

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 if applicable; 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 oil and gas leases is recognized over the term of the lease on a straight-line basis. Payments received in advance are recorded as deferred revenue.

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 or in other comprehensive income (loss). 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 year-end 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 category 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.

Transaction costs associated with assets classified as AFS are included in initial carrying amount of the assets.

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

Other financial liabilities ("OFL") - This category consists of liabilities carried at amortized cost using the effective interest method which are initially recognized at fair value less directly attributable transaction costs.

The Company classifies its accounts payable, accrued liabilities and decommissioning liabilities as OFL.

New accounting pronouncements

Certain new accounting standards and interpretations have been published that are not mandatory for the November 30, 2012 reporting period. These standards and interpretations have not been adopted and are yet to be assessed by the Company unless otherwise stated:

- 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.

- Amendments to IAS 32, *Financial Instruments*: *Presentation*, to provide clarification on the application of offsetting rules. This standard is effective for years beginning on or after January 1, 2014.

- 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.

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. The amendments are expected to have minimal impact on the Company's financial statements.

- 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. The amendments are expected to have minimal impact on the Company's financial statements.

4. RECEIVABLES

The Company's receivables are as follows:

	November 30, 2012	November 30, 2011	December 1, 2010
Trade receivables	$ 20,010	$ 291,949	$ 317,001
Interest receivable	12,748	-	-
HST receivable	18,753	27,398	21,296
	$ 51,511	$ 319,347	$ 338,297

5. INVESTMENT

	November 30, 2012	November 30, 2011	December 1, 2010
Shares in Zodiac Exploration Corp.	$ 308,125	$ 906,250	$ 2,247,500

As of November 30, 2012, the Company has 3,625,000 shares of Zodiac Exploration Corp.

During the year ended November 30, 2012, the Company recorded an unrealized loss of $523,360 (2011 – $1,173,593) to adjust the shares to market value, net of tax recovery $74,765 (2011 – $167,657) as other comprehensive loss.

6. PROPERTY AND EQUIPMENT

	Oil and Gas Properties	Computer Equipment	Land	Total Property and Equipment
Cost				
Balance, December 1, 2010	$ 111,000	$ 14,976	$ -	$ 125,976
Recovery	(3,368)	-	-	(3,368)
Transfer from exploration and evaluation assets	289,035	-	-	289,035
Balance, November 30, 2011	396,667	14,976	-	411,643
Additions	53,999	4,520	4,021,876	4,080,395
Disposition	(70,183)	-	-	(70,183)
Balance, November 30, 2012	$ 380,483	$ 19,496	$ 4,021,876	$ 4,421,855
Accumulated amortization and depletion				
Balance, December 1, 2010	$ -	$ 11,791	$ -	$ 11,791
Amortization and depletion	120,560	955	-	121,515
Balance, November 30, 2011	120,560	12,746	-	133,306
Amortization and depletion	82,745	1,347	-	84,092
Balance, November 30, 2012	$ 203,305	$ 14,093	$ -	$ 217,398
Carrying amounts				
As at December 1, 2010	$ 111,000	$ 3,185	$ -	$ 114,185
As at November 30, 2011	$ 276,107	$ 2,230	$ -	$ 278,337
As at November 30, 2012	$ 177,178	$ 5,403	$ 4,021,876	$ 4,204,457

6. PROPERTY AND EQUIPMENT (cont'd…)

Land

During the year ended November 30, 2012, the Company acquired a 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, and closing costs of $46,876, for a total of $4,021,876.

Oil and gas properties

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 year ended November 30, 2012, the Company received $3,190 (2011 - $8,176) in production revenue.

During the year ended November 30, 2012 the Company entered into a Quitclaim, Surrender and Assignment of Interest Agreement with West Isle Energy Inc. according to which the Company agreed to dispose of all of its rights, interests and obligations in the Pembina area and make a one-time payment of $7,955 (paid), and consequently, recorded a write-down of petroleum and natural gas interests of $23,706 (2011 - $Nil) net of recovery of decommissioning liabilities for $10,208 (Note 9).

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.

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

Willesden Green area, Alberta (cont'd...)

During the year ended November 30, 2012, the Company repaid $9,551 (2011 - $4,007) in royalty revenue and received $89,939 (2011 - $164,684) 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 year ended November 30, 2012, the Company received $116,674 (2011 - $76,788) in production revenue.

7. EXPLORATION AND EVALUATION ASSETS

		Amount
Balance, December 1, 2010	$	244,101
Leases		7,816
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		(491,033)
Balance, November 30, 2011 and November 30, 2012	$	-

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.

7. EXPLORATION AND EVALUATION ASSETS (cont'd...)

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:

	November 30, 2012	November 30, 2011	December 1, 2010
Trade payables	$ 21,494	$ 40,714	$ 19,858
Due to related parties (Note 12)	60,435	234,114	155,904
Accrued liabilities	36,000	36,000	43,600
Total	$ 117,929	$ 310,828	$ 219,362

9. DECOMMISSIONING LIABILITIES

Balance, December 1, 2010	$ 45,159
Accretion expense	1,127
Balance, November 30, 2011	46,286
Accretion expense	1,156
Property disposition (Note 6)	(10,208)
Balance, November 30, 2012	$ 37,234

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 $58,355. The estimated cash flow has been discounted using a risk free rate of 2.69%. The estimated settlement ranges to a maximum of twelve years.

10. CAPITAL STOCK

Authorized:

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

10. CAPITAL STOCK (cont'd…)

Authorized: (cont'd…)

During the year ended November 30, 2012, the Company:

i) cancelled 70,000 common shares of the Company held in treasury for $17,884; and

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 15).

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; and

ii) repurchased 70,000 common shares to treasury stock for $17,884.

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%, being 3,180,749, 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 year ended November 30, 2012 and 2011 is as follows:

Expiry Date	Exercise Price	Dec 1, 2010	Expired/ cancelled	Exercised	Nov 30, 2011	Granted	Nov 30, 2012	Exercisable
December 12, 2010	0.20	300,000	-	(300,000)	-	-	-	-
June 19, 2012	0.27	5,000	(5,000)	-	-	-	-	-
December 18, 2012	0.34 **	500,000	-	-	500,000	-	500,000*	500,000
April 3, 2014	0.16	1,050,000	-	-	1,050,000	-	1,050,000	1,050,000
May 27, 2015	0.17	600,000	-	-	600,000	-	600,000	600,000
May 25, 2017	0.24 **	-	-	-	-	225,000	225,000	112,500
Total		2,455,000			2,150,000	225,000	2,375,000	2,262,500
Weighted average exercise price			0.27	0.20	0.21	0.24	0.21	0.21
Weighted average market share price on exercise				0.28				
Weighted average remaining contractual life							1.66 years	

* Expired subsequent to the year ended November 30, 2012.
** Not included in the calculation of potential dilutive common shares as of November 30, 2012 as their inclusion is anti-dilutive.

11. RESERVES (cont'd…)

Share-based payments

During the year ended November 30, 2012, the Company granted 225,000 (2011 - Nil) stock options with an estimated weighted average fair value of $0.17 (2011 - $Nil) calculated using the Black-Scholes option pricing model. The fair value of stock options vested during the year and recognized as share-based payments expense was $27,957 (2011 - $21,921).

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

	November 30, 2012	November 30, 2011
Risk-free interest rate	1.31%	-
Expected life of options	4.25 years	-
Annualized volatility	102%	-
Dividend rate	0.00%	-
Forfeiture rate	0.00%	-
Stock price at date of grant	0.24	-

Annualized volatility is estimated using the historical stock price of the Company.

12. RELATED PARTY TRANSACTIONS

Amounts paid or accrued to related parties are as follows:

Paid to:	Nature of transactions	For the Year Ended November 30, 2012	For the Year Ended November 30, 2011
A limited partnership of which a Director is a partner	Rent	$ 53,366	$ 49,092
A firm of which a Director is a partner	Accounting	152,270	160,150
A firm of which the Corporate Secretary is a partner(iii)	Legal	147,696	53,484
		$ 353,332	$ 262,726

12. RELATED PARTY TRANSACTIONS (cont'd…)

Key management compensations are as follows:

Paid to:	Nature of transactions	For the Year Ended November 30, 2012	For the Year Ended November 30, 2011
Salaries and benefits[(i)]	Management	$ 54,000	$ 223,000
A company owned by a Director and Officer	Management	220,000	220,000
Share-based payments[(ii)]		27,957	16,441
		$ 301,957	$ 459,441

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

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

(iii) During the year ended November 30, 2012, $1,949 (2011 - $Nil) was included in property, plant and equipment and $54,640 (2011 - $Nil) in cost of sale of property, plant and equipment.

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 Directors.

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

	November 30, 2012	November 30, 2011	December 1, 2010
A firm of which a Director is a partner	$ 49,560	$ 43,576	$ 38,904
A firm of which the Corporate Secretary is a partner	244	14,036	-
Management and Directors	10,631	176,502	117,000
	$ 60,435	$ 234,114	$ 155,904

13. INCOME TAXES

A reconciliation of income taxes for the year ended November 30, 2012 and 2011, at statutory rates with reported taxes is as follows:

	November 30, 2012	November 30, 2011
Loss before income taxes from continuing operations	$ (820,169)	$ (1,179,271)
Expected income tax expense (recovery) at statutory rates	$ (213,757)	$ (324,241)
Effect of tax rate change	(780)	(8,719)
Non-deductible items	7,727	6,555
Tax amounts not recognized	1,560	99,346
Total income tax expense	$ (205,250)	$ (227,059)
Current income tax recovery	$ (186,890)	$ (207,670)
Deferred tax recovery	$ (18,360)	$ (19,389)

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

	November 30, 2012	November 30, 2011	December 1, 2010
Deferred tax assets (liabilities):			
Investment	$ (7,266)	$ (82,031)	$ (249,688)
Exploration and evaluation assets	-	-	(61,025)
Decommissioning liabilities	9,309	11,572	11,290
Share issuance costs and cumulative eligible cost	1,244	1,639	2,037
Property, plant and equipment	(39,453)	(60,471)	(18,951)
Net deferred tax liabilities	$ (36,166)	$ (129,291)	$ (316,337)

14. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

For the year ended November 30, 2012, the Company included:

i) $17,884 reduction in equity for cancellation of treasury stock; and

ii) $530,100 fair value of shares received from the sale of the Company's remaining freehold petroleum and natural gas royalty interest in the Viewfield area (Note 15).

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

i) $9,523 of exploration and evaluation expenditures in accounts payable and accrued liabilities; and

ii) $31,461 fair value transferred from reserves to capital stock upon exercise of 300,000 stock options.

15. DISCONTINUED OPERATION

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 year ended November 30, 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 with a fair price of $0.30 for a total value of $530,100 returned to treasury and cancelled (Note 10).

The Company recorded a gain of $5,148,348 after closing adjustments of $46,362 in connection with the sale.

The Company has accounted for the financial results associated with the assets as discontinued operation in these financial statements and has reclassified the related accounts for the prior year. Income and cash flows for the operation are reported separately in the financial statements in accordance with IFRS 5: *Non-current Assets Held for Sale and Discontinued Operations*. There were no assets and liabilities for the discontinued operation as at the reporting date.

15. DISCONTINUED OPERATION (cont'd...)

Results of discontinued operation comprise the following:

	For the year ended	
	November 30, 2012	November 30, 2011 (Note 19)
Revenues	$ 100,705	$ 1,274,552
Expenses	(29)	(1,594)
Income before other items	100,676	1,272,958
Gain on sale of property, plant and equipment	5,148,348	-
Income before income taxes	5,249,024	1,272,958
Income tax expense	(1,368,027)	(350,001)
Income after taxes from discontinued operation	$ 3,880,997	$ 922,957

16. 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 investment is 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.

16. FINANCIAL INSTRUMENTS AND RISK (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, 2012, the Company had a cash and cash equivalents balance of $2,681,566 (November 30, 2011 - $2,535,774; December 1, 2010 - $2,914,709) to settle current liabilities of $1,190,648 (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 1.80% and prime less 2.05% (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.

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.

17. SEGMENTED INFORMATION

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

18. 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 retained earnings or deficit).

18. CAPITAL MANAGEMENT (cont'd…)

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 year ended November 30, 2012.

19. RECONCILIATION OF CANADIAN GAAP TO IFRS

As stated in Note 2, these financial statements are for the year 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 financial statements for the year ended November 30, 2012;
- the comparative information for the year ended November 30, 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.

19. RECONCILIATION OF CANADIAN GAAP TO IFRS (cont'd…)

Reconciliation between Canadian GAAP and IFRS statements of financial position:

		As at December 1, 2010			As at November 30, 2011		
	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS	Canadian GAAP	Effect of transition to IFRS	IFRS
ASSETS							
Current assets							
Cash and cash equivalents		$ 2,914,709	$ -	$ 2,914,709	$ 2,535,774	$ -	$ 2,535,774
Receivables		338,297	-	338,297	319,347	-	319,347
Prepaid and expense advances		27,037	-	27,037	37,302	-	37,302
Income tax receivable		-	-	-	187,998	-	187,998
Total current assets		3,280,043	-	3,280,043	3,080,421	-	3,080,421
Non-current assets							
Investment		2,247,500	-	2,247,500	906,250	-	906,250
Property, plant and equipment	19 iv), vi)	3,185	111,000	114,185	2,230	276,107	278,337
Exploration and evaluation assets	19 iv), vi)	623,804	(379,703)	244,101	436,362	(436,362)	-
Total non-current assets		2,874,489	(268,703)	2,605,786	1,344,842	(160,255)	1,184,587
TOTAL ASSETS		$ 6,154,532	$ (268,703)	$ 5,885,829	$ 4,425,263	$ (160,255)	$ 4,265,008
LIABILITIES AND EQUITY							
Current liabilities							
Accounts payable and accrued Liabilities		$ 219,362	$ -	$ 219,362	$ 310,828	$ -	$ 310,828
Income taxes payable		387,557	-	387,557	-	-	-
Total current liabilities		606,919	-	606,919	310,828	-	310,828
Non-current liabilities							
Decommissioning liabilities	19 v)	26,495	18,664	45,159	24,986	21,300	46,286
Deferred income taxes liability		387,706	(71,369)	316,337	174,208	(44,917)	129,291
Total non-current liabilities		414,201	(52,705)	361,496	199,194	(23,617)	175,577
Total liabilities		1,021,120	(52,705)	968,415	510,022	(23,617)	486,405
Equity							
Capital stock	19 iii)	4,026,292	10,184	4,036,476	4,042,753	85,184	4,127,937
Treasury stock		-	-	-	(17,884)	-	(17,884)
Reserves	19 ii), iii)	381,977	(24,981)	356,996	391,930	(46,208)	345,722
Accumulated other comprehensive Income		1,747,812	-	1,747,812	574,219	-	574,219
Deficit	19 iii)	(1,022,669)	(201,201)	(1,223,870)	(1,075,777)	(175,614)	(1,251,391)
Total equity		5,133,412	(215,998)	4,917,414	3,915,241	(136,638)	3,778,603
TOTAL LIABILITIES AND EQUITY		$ 6,154,532	$ (268,703)	$ 5,885,829	$ 4,425,263	$ (160,255)	$ 4,265,008

19. RECONCILIATION OF CANADIAN GAAP TO IFRS (cont'd…)

	Notes	Year ended November 30, 2011 Canadian GAAP	Effect of transition to IFRS	IFRS
OIL AND GAS REVENUES				
Production revenue		$ 249,648	$ -	$ 249,648
DIRECT COSTS				
Production and operation costs		72,066	-	72,066
Royalties		23,312	-	23,312
Depletion (recovery)	19 vi)	224,849	(104,289)	120,560
Accretion expense	19 v)	2,650	(1,523)	1,127
		(322,877)	105,812	(217,065)
Gross profit (loss)		(73,229)	105,812	32,583
EXPENSES				
Amortization		955	-	955
Consulting fees		82,128	-	82,128
Corporate services		14,400	-	14,400
Management fees		443,000	-	443,000
Media and website		23,700	-	23,700
Office and miscellaneous		33,170	-	33,170
Professional fees		244,514	-	244,514
Rent		2,925	-	2,925
Property investigation costs		49,092	-	49,092
Share-based payments	19 ii)	41,414	(19,493)	21,921
Transfer agent and filing fees		16,016	-	16,016
Travel and related costs		9,069	-	9,069
		(960,383)	19,493	(940,890)
Loss before other items		(1,033,612)	125,305	(908,307)
OTHER ITEMS				
Interest and other income		18,973	-	18,973
Lease income		201,096	-	201,096
Write-off of exploration and evaluation assets		(491,033)	-	(491,033)
Total other items		(270,964)	-	(270,964)
Loss before income taxes from continuing operations		(1,304,576)	125,305	(1,179,271)
INCOME TAXES				
Deferred income tax recovery		120,841	(101,452)	19,389
Income tax recovery		207,670	-	207,670
Total income tax recovery		328,511	(101,452)	227,059
Loss after income taxes from continuing operation		$ (976,065)	$ 23,853	$ (952,212)
Income after income taxes from discontinued operations	15	$ 922,957	-	$ 922,957
Loss for the year		$ (53,108)	$ 23,853	$ (29,255)

19. 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 $19,493 for the year ended November 30, 2011.

iii) Reclassification of share-based reserves

The Company reclassified from equity reserves brokers/agents warrants that were not exercised prior to expiry of $10,184 for December 1, 2010 and November 30, 2011 to capital stock. In addition, the Company reclassified stock options that were not exercised in the amount of $14,797 and $16,531 for December 1, 2010 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 recorded under Canadian GAAP; and

b) The remaining full cost pool was allocated to the respective cash-generating unit's ("CGU") and components in property, plant and equipment pro rata using reserve values. CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

As a result, the Company reclassified $111,000 of exploration and evaluation assets to property plant and equipment as of transition date.

19. RECONCILIATION OF CANADIAN GAAP TO IFRS (cont'd…)

v) Decommissioning liabilities

Treatment under Canadian GAAP and IFRS are very similar in their requirements for subsequent measurement in that they both require adjustments to be made for changes in the timing or amount of the cash flows and the unwinding of the discount. However, under IFRS, changes in discount rates alone result in a remeasurement of the provision.

The Company recalculated using a risk free rate under IFRS, and 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 $104,289 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 year ended November 30, 2011.