

COBRA VENTURE CORPORATION

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

FOR THE SIX MONTHS ENDED MAY 31, 2013

UNAUDITED CONDENSED 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 May 31, 2013.

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

	Notes	May 31, 2013	November 30, 2012 (Audited)
ASSETS			
Current assets			
Cash and cash equivalents		\$ 1,188,301	\$ 2,681,566
Receivables	3	33,026	51,511
Prepaid expenses		36,198	37,567
Income taxes receivable		<u>150,338</u>	<u>-</u>
Total current assets		<u>1,407,863</u>	<u>2,770,644</u>
Non-current assets			
Investment	4	163,125	308,125
Property and equipment	5	<u>4,201,638</u>	<u>4,204,457</u>
Total non-current assets		<u>4,364,763</u>	<u>4,512,582</u>
Total assets		<u>\$ 5,772,626</u>	<u>\$ 7,283,226</u>
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	6	\$ 89,556	\$ 117,929
Income taxes payable		<u>-</u>	<u>1,072,719</u>
Total current liabilities		<u>89,556</u>	<u>1,190,648</u>
Non-current liabilities			
Decommissioning liabilities	7	37,734	37,234
Deferred tax liability	11	<u>17,900</u>	<u>36,166</u>
Total non-current liabilities		<u>55,634</u>	<u>73,400</u>
Total liabilities		<u>145,190</u>	<u>1,264,048</u>
Equity			
Capital stock	8	3,579,953	3,579,953
Reserves	9	249,822	373,679
Accumulated other comprehensive income (loss)		(75,291)	50,859
Retained earnings		<u>1,872,952</u>	<u>2,014,687</u>
Total equity		<u>5,627,436</u>	<u>6,019,178</u>
Total liabilities and equity		<u>\$ 5,772,626</u>	<u>\$ 7,283,226</u>

Subsequent event (Note 17)

Approved on July 30, 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 condensed interim financial statements.

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

	Notes	Three Months Ended May 31, 2013	Three Months Ended May 31, 2012	Six Months Ended May 31, 2013	Six Months Ended May 31, 2012
OIL AND GAS REVENUES					
Production revenue		\$ 27,308	\$ 61,711	\$ 39,746	\$ 127,049
DIRECT COSTS					
Production and operation costs		10,377	26,962	23,790	39,405
Royalties		-	4,773	-	7,219
Depletion	5	2,828	7,913	3,688	26,525
Accretion	7	251	289	500	578
		<u>(13,456)</u>	<u>(39,937)</u>	<u>(27,978)</u>	<u>(73,727)</u>
Gross profit		<u>13,852</u>	<u>21,774</u>	<u>11,768</u>	<u>53,322</u>
EXPENSES					
Amortization	5	409	506	809	1,012
Consulting fees		2,792	4,695	50,672	29,808
Corporate services		3,600	3,600	7,200	7,200
Management fees	10	70,000	67,000	140,000	134,000
Media and website		4,725	7,984	9,900	16,659
Office and miscellaneous		52,676	5,228	69,150	41,689
Professional fees	10	41,098	72,304	83,788	154,656
Property investigation costs		-	-	-	3,071
Rent	10	11,232	12,898	19,048	28,086
Share-based payments	9	3,793	10,589	7,657	10,589
Transfer agent and filing fees		3,469	7,371	9,488	21,669
Travel and promotion		-	1,461	-	5,690
		<u>(193,794)</u>	<u>(193,636)</u>	<u>(397,712)</u>	<u>(454,129)</u>
Loss before other item		<u>(179,942)</u>	<u>(171,862)</u>	<u>(385,944)</u>	<u>(400,807)</u>
OTHER ITEM					
Interest income		2,347	23,160	9,002	38,509
Loss before income taxes from continuing operations		<u>(177,595)</u>	<u>(148,702)</u>	<u>(376,942)</u>	<u>(362,298)</u>
INCOME TAXES					
Deferred tax expense	11	(961)	(98,264)	(584)	(79,369)
Income tax recovery	11	48,752	135,688	104,277	249,959
Total income tax recovery		<u>47,791</u>	<u>37,424</u>	<u>103,983</u>	<u>170,590</u>
Loss after income taxes from continuing operations		<u>(129,804)</u>	<u>(111,278)</u>	<u>(273,249)</u>	<u>(191,708)</u>
Income after income taxes from discontinued operations					
	13	-	22,074	-	3,890,071
Income (loss) for the period		<u>\$ (129,804)</u>	<u>\$ (89,204)</u>	<u>\$ (273,249)</u>	<u>\$ 3,698,363</u>
Basic and fully diluted income (loss) per common share from:					
Continuing operations		\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.01)
Discontinued operations		\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.22
Weighted average number of common shares outstanding					
		15,903,748	17,524,594	15,903,748	17,633,262

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 May 31, 2013	Three Months Ended May 31, 2012	Six Months Ended May 31, 2013	Six Months Ended May 31, 2012
Income (loss) for the period		\$ (129,804)	\$ (89,204)	\$ (273,249)	\$ 3,698,363
Other comprehensive loss					
Unrealized loss on available-for-sale investments, net of tax recovery \$18,850 (2012 – \$81,562)	4	<u>(126,150)</u>	<u>(158,594)</u>	<u>(126,150)</u>	<u>(570,938)</u>
Comprehensive income (loss)		<u>\$ (255,954)</u>	<u>\$ (247,798)</u>	<u>\$ (399,399)</u>	<u>\$ 3,127,425</u>

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

Notes	Six Months Ended May 31, 2013	Six Months Ended May 31, 2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the period from continuing operations	\$ (273,249)	\$ (191,708)
Items not affecting cash:		
Accretion	7 500	578
Amortization	5 809	1,012
Depletion	5 3,688	26,525
Share-based payments	9 7,657	10,589
Deferred tax expense	584	79,369
Interest income	(9,002)	(38,509)
Changes in non-cash working capital items:		
Decrease in receivables	6,973	259,979
Decrease in prepaid expenses	1,369	1,368
Decrease in accounts payable and accrued liabilities	(28,373)	(237,289)
Decrease in income taxes payable	<u>(1,223,057)</u>	<u>(117,209)</u>
Net cash flows used in operating activities – continuing operations	(1,512,101)	(205,295)
Net cash flows provided by operating activities – discontinued operations	<u>-</u>	<u>90,306</u>
Net cash flows used in operating activities	<u>(1,512,101)</u>	<u>(114,989)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	20,514	38,509
Acquisition of property and equipment	-	(29,465)
Exploration and evaluation expenditures	<u>(1,678)</u>	<u>(394,019)</u>
Net cash flows provided by (used in) investing activities – continuing operations	18,836	(384,975)
Net cash flows provided by investing activities – discontinued operations	<u>-</u>	<u>4,637,267</u>
Net cash flows provided by investing activities	<u>18,836</u>	<u>4,252,292</u>
Change in cash and cash equivalents during the period	(1,493,265)	4,137,303
Cash and cash equivalents, beginning of period	<u>2,681,566</u>	<u>2,535,774</u>
Cash and cash equivalents, end of period	<u>\$ 1,188,301</u>	<u>\$ 6,673,077</u>
Cash and cash equivalents consist of:		
Cash	\$ 822,994	\$ 4,923,077
Cash equivalents	<u>365,307</u>	<u>1,750,000</u>
	<u>\$ 1,188,301</u>	<u>\$ 6,673,077</u>
Cash paid for interest	\$ -	\$ -
Cash paid for income taxes	<u>\$ 1,122,339</u>	<u>\$ 44,762</u>

Supplemental disclosure with respect to cash flows (Note 12)

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)

	Note	Capital stock		Treasury stock	Reserves	Accumulated other comprehensive income (loss)	Retained earnings (deficit)	Total equity
		Number	Amount					
Balance at November 30, 2011		17,740,748	\$ 4,127,937	\$ (17,884)	\$ 345,722	\$ 574,219	\$(1,251,391)	\$ 3,778,603
Cancellation of 70,000 treasury shares	8	(70,000)	(17,884)	17,884	-	-	-	-
Repurchase and cancellation of 1,767,000 treasury shares	8	(1,767,000)	(530,100)	-	-	-	-	(530,100)
Share-based payments		-	-	-	10,589	-	-	10,589
Unrealized loss on available-for-sale investments		-	-	-	-	(570,938)	-	(570,938)
Income for the period		-	-	-	-	-	<u>3,698,506</u>	<u>3,698,506</u>
Balance at May 31, 2012		15,903,748	\$ 3,579,953	\$ -	\$ 356,311	\$ 3,281	\$ 2,447,115	\$ 6,386,660
Balance at November 30, 2012		15,903,748	\$ 3,579,953	\$ -	\$ 373,679	\$ 50,859	\$ 2,014,687	\$ 6,019,178
Stock options expired		-	-	-	(131,514)	-	131,514	-
Share-based payments		-	-	-	7,657	-	-	7,657
Unrealized loss on available-for-sale investments		-	-	-	-	(126,150)	-	(126,150)
Loss for the period		-	-	-	-	-	<u>(273,249)</u>	<u>(273,249)</u>
Balance at May 31, 2013		15,903,748	\$ 3,579,953	\$ -	\$ 249,822	\$ (75,291)	\$ 1,872,952	\$ 5,627,436

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 SIX MONTHS ENDED MAY 31, 2013

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 condensed interim 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.

	May 31, 2013	November 30, 2012
Working capital	\$ 1,318,307	\$ 1,579,996
Retained earnings	1,872,952	2,014,687

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

These condensed interim financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting* ("IAS 34"), as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the IFRS Interpretations Committee (IFRICs). Accordingly, they do not include all of the information required for full annual financial statements by International Financial Reporting Standards ("IFRS") for complete financial statements for year end reporting purposes. Results for the period ended May 31, 2013, are not necessarily indicative of future results.

The accounting policies applied by the Company in these condensed interim financial statements other than as noted in Note 2 (d) are the same as those applied by the Company in its most recent annual financial statements as at and for the year ended November 30, 2012 as filed on SEDAR at www.sedar.com.

b) Basis of presentation

The condensed interim financial statements have been prepared on historical cost basis, except for certain financial instruments which are stated at their fair value.

COBRA VENTURE CORPORATION
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
(Unaudited)
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2. SIGNIFICANT ACCOUNTING POLICIES (cont'd....)

c) Significant accounting judgments and critical accounting estimates

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

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.

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.

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

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

Critical accounting estimates (cont'd)

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 condensed interim 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 condensed interim 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.

d) New accounting pronouncements

The Company has not yet applied the following new or revised standards that have been issued but are not yet effective at May 31, 2013.

i) Effective for annual periods beginning on or after January 1, 2013

- New standard IFRS 10, *Consolidated Financial Statements*
- New standard IFRS 11, *Joint Arrangements*
- New standard IFRS 12, *Disclosure of Interests in Other Entities*
- New standard IFRS 13, *Fair Value Measurement*
- Reissued IAS 27, *Separate Financial Statements*
- Reissued IAS 28, *Investments in Associates and Joint Ventures*

ii) Effective for annual periods beginning on or after January 1, 2014

- Amended IAS 32, *Financial Instruments: Presentation*

iii) Effective for annual periods beginning on or after January 1, 2015

- New standard IFRS 9, *Financial Instruments, Classification and Measurement*

The Company is currently assessing the impact that these standards will have on the Company's condensed interim financial statements.

COBRA VENTURE CORPORATION
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3. RECEIVABLES

The Company's receivables are as follows:

	May 31, 2013	November 30, 2012
Trade receivables	\$ 20,002	\$ 20,010
Interest receivable	1,236	12,748
HST receivable	<u>11,788</u>	<u>18,753</u>
	<u>\$ 33,026</u>	<u>\$ 51,511</u>

4. INVESTMENT

	May 31, 2013	November 30, 2012
Shares in Zodiac Exploration Corp.	\$ 163,125	\$ 308,125

As of May 31, 2013, the Company has 3,625,000 (November 30, 2012 – 3,625,000) shares of Zodiac Exploration Corp., classified as an available-for-sale investment.

During the period ended May 31, 2013, the Company recorded an unrealized loss of \$126,150 (May 31, 2012 – \$570,938) to adjust the shares to market value, net of tax recovery \$18,850 (May 31, 2012 – \$81,562) as other comprehensive loss.

5. PROPERTY AND EQUIPMENT

	Oil and Gas Properties	Computer Equipment	Land	Total Property and Equipment
Cost				
Balance, November 30, 2012	\$ 380,483	\$ 19,496	\$ 4,021,876	\$ 4,421,855
Additions	<u>1,678</u>	<u>-</u>	<u>-</u>	<u>1,678</u>
Balance, May 31, 2013	\$ 382,161	\$ 19,496	\$ 4,021,876	\$ 4,423,533
Accumulated amortization and depletion				
Balance, November 30, 2012	\$ 203,305	\$ 14,093	\$ -	\$ 217,398
Amortization and depletion	<u>3,688</u>	<u>809</u>	<u>-</u>	<u>4,497</u>
Balance, May 31, 2013	\$ 206,993	\$ 14,902	\$ -	\$ 221,895
Carrying amounts				
As at November 30, 2012	\$ 177,178	\$ 5,403	\$ 4,021,876	\$ 4,204,457
As at May 31, 2013	<u>\$ 175,168</u>	<u>\$ 4,594</u>	<u>\$ 4,021,876</u>	<u>\$ 4,201,638</u>

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5. 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 there out 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%.

As at 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.

During the period ended May 31, 2013, the Company received \$986 (May 31, 2012 - \$1,855) in production revenue.

Willesden Green area, Alberta

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

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

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

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5. PROPERTY AND EQUIPMENT (cont'd...)

Oil and gas properties (cont'd...)

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

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 May 31, 2013, the Company received \$9,864 (May 31, 2012 - \$56,079) 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 May 31, 2013, the Company received \$28,896 (May 31, 2012 - \$69,115) in production revenue.

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are as follows:

	May 31, 2013	November 30, 2012
Trade payables	\$ 52,056	\$ 21,494
Due to related parties (Note 10)	20,000	60,435
Accrued liabilities	<u>17,500</u>	<u>36,000</u>
Total	\$ 89,556	\$ 117,929

7. DECOMMISSIONING LIABILITIES

Balance, November 30, 2011	\$ 46,286
Accretion	1,156
Property disposition	<u>(10,208)</u>
Balance, November 30, 2012	37,234
Accretion	<u>500</u>
Balance, May 31, 2013	\$ 37,734

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7. DECOMMISSIONING LIABILITIES (cont'd...)

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.

8. CAPITAL STOCK

Authorized:

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

During the period ended May 31, 2013, the Company did not have any share activities.

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

- i) Cancelled 70,000 common shares of the Company held in treasury for \$17,884.
- 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 13).

9. 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 period ended May 31, 2013 is as follows:

Expiry Date	Exercise Price	November 30, 2012	Granted	Expired/cancelled	Exercised	May 31, 2013	Exercisable
December 18, 2012	0.34	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	168,750
Total		2,375,000	-	(500,000)	-	1,875,000	1,818,750
Weighted average exercise price		0.21	-	0.34	-	0.17	0.17
Weighted average remaining contractual life						1.59 years	

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9. RESERVES (cont'd...)

Share-based payments

During the period ended May 31, 2013, the Company granted Nil (2012 - 225,000) stock options with a fair value calculated using the Black-Scholes option pricing model of \$Nil (2012 - \$38,576). The fair value of stock options previously granted and vested during the period ended May 31, 2013 and recognized as share-based payments expense was \$7,657 (2012 - \$10,589).

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

	May 31, 2013	May 31, 2012
Risk-free interest rate	-	1.31%
Expected life of options	-	4.25 years
Annualized volatility	-	10.2%
Dividend rate	-	0%
Forfeiture rate	-	0%
Stock price at date of grant	-	0.24

10. RELATED PARTY TRANSACTIONS

Amounts paid or accrued to related parties are as follows:

Paid to:	Nature of transactions	Six Months Ended May 31, 2013	Six Months Ended May 31, 2012
a limited partnership of which a Director is a partner	Rent	\$ 19,048	\$ 28,086
a firm of which a Director is a partner	Accounting	60,850	75,920
a firm of which the Corporate Secretary is a partner	Legal	<u>3,194</u>	<u>68,995</u>
		<u>\$ 83,092</u>	<u>\$ 173,001</u>

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10. RELATED PARTY TRANSACTIONS (cont'd)

Key management compensations are as follows:

Paid to:	Nature of transactions	Six Months Ended May 31, 2013	Six Months Ended May 31, 2012
Salaries and benefits ⁽ⁱ⁾	Management	\$ 30,000	\$ 24,000
A company owned by a Director and Officer	Management	110,000	110,000
Share-based payments ⁽ⁱⁱ⁾		<u>7,657</u>	<u>10,589</u>
		<u>\$ 147,657</u>	<u>\$ 144,589</u>

(i) There were no post-employment benefits, termination benefits, or other long-term employment benefits paid to key management in either 2013 or 2012.

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

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:

	May 31, 2013	November 30, 2012
A firm of which a Director is a partner	\$ 20,000	\$ 49,560
A firm of which the Corporate Secretary is a partner	-	244
Management and Directors	<u>-</u>	<u>10,631</u>
	<u>\$ 20,000</u>	<u>\$ 60,435</u>

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11. INCOME TAXES

A reconciliation of income taxes for the period ended May 31, 2013, at statutory rates with reported taxes is as follows:

	May 31, 2013	May 31, 2012
Loss before income taxes from continuing operations	\$ (376,942)	\$ (362,298)
Combined federal and provincial tax rate	26.00%	25.00%
Income tax recovery at statutory rates	\$ (98,005)	\$ (90,575)
Effect of tax rate change	(1,883)	-
Non-deductible items	1,991	(106,164)
Tax amounts (not) recognized	<u>(5,796)</u>	<u>26,149</u>
Total income tax recovery	\$ (103,693)	\$ (170,590)
Current income tax recovery	\$ (104,277)	\$ (249,959)
Deferred tax expense	<u>\$ 584</u>	<u>\$ 79,369</u>

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

	May 31, 2013	November 30, 2012
Deferred tax assets (liabilities)		
Investments	\$ 11,294	\$ (7,266)
Decommissioning liabilities	9,811	9,309
Share issuance costs and cumulative eligible cost	1,294	1,244
Property and equipment	<u>(40,299)</u>	<u>(39,453)</u>
Net deferred tax liabilities	<u>\$ (17,900)</u>	<u>\$ (36,166)</u>

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12. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

During the period ended May 31, 2013, the Company included:

- i) transfer of \$131,514 to deficit on expiry of 500,000 stock options (Note 9).

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

- i) a premium of \$128,315 to deficit on cancellation of shares.

13. DISCONTINUED OPERATIONS

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 8).

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 condensed interim financial statements and has reclassified the related accounts for the comparative period. Income and cash flows for the operation are reported separately in the condensed interim 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.

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13. DISCONTINUED OPERATIONS (cont'd)

Results of discontinued operations comprise the following:

	Six Months Ended	
	May 31, 2013	May 31, 2012
Revenues	\$ -	\$ 90,335
Direct costs	-	(29)
Income before other item	-	90,306
Gain on sale of property and equipment	-	5,167,368
Income before income taxes	-	5,257,674
Income tax expense	-	(1,367,603)
Income after taxes from discontinued operations	\$ -	\$ 3,890,071

14. 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.

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14. 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 May 31, 2013, the Company had a cash and cash equivalents balance of \$1,188,301 (November 30, 2012 - \$2,681,566) to settle current liabilities of \$89,556 (November 30, 2012 - \$1,190,648). 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 \$300,000 (November 30, 2012 - \$1,750,000) at interest rates of prime less 1.75% (November 30, 2012 - at an interest rate of prime less 1.80% and prime less 2.05%). Since the GIC's are cashable anytime, the Company believes it is not exposed to significant interest rate risk.

a) *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.

b) *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.

15. SEGMENTED INFORMATION

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

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16. 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 or loss and retained earnings or 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 May 31, 2013.

17. SUBSEQUENT EVENT

Subsequent to the period ended May 31, 2013, the Company entered into a Participation Agreement in which Taku Gas Limited granted the Company (and two other arm's length companies) the right to equally participate to drill and complete up to 4 initial test wells (each "Test Well"). Under the agreement, the Company will pay 29.33% of the drilling costs of each Test Well to earn a net working interest of 14.665% in each well. Based on all 4 Test Wells being drilled, the Company's net earned position will be equal to 14.665% of 1640 acres.