COBRA VENTURE CORPORATION

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

FOR THE SIX MONTHS ENDED MAY 31, 2012

UNAUDITED INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited condensed interim financial statements for the period ended May 31, 2012

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

	May 31, 2012	November 30, 2011 (Note 18)	December 1, 2010 (Note 18)
ASSETS			
Current assets			
Cash and cash equivalents	$ 6,673,077	$ 2,535,774	$ 2,914,709
Receivables (Note 4)	59,368	319,347	338,297
Prepaid expenses	35,934	37,302	27,037
Income taxes receivable	-	187,998	-
Total current assets	6,768,379	3,080,421	3,280,043
Non-current assets			
Investment (Note 5)	253,750	906,250	2,247,500
Property, plant and equipment (Note 6)	378,649	386,243	260,722
Exploration and evaluation assets (Note 7)	394,019	-	388,450
Total non-current assets	1,026,418	1,292,493	2,896,672
Total assets	$ 7,794,797	$ 4,372,914	$ 6,176,715
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities (Note 8)	$ 64,016	$ 310,828	$ 219,362
Income taxes payable	1,062,396	-	387,557
Total current liabilities	1,126,412	310,828	606,919
Non-current liabilities			
Decommissioning liabilities (Note 9)	46,864	46,286	45,159
Deferred income tax liability (Note 13)	172,015	174,208	387,706
Total non-current liabilities	218,879	220,494	432,865
Total liabilities	1,345,291	531,322	1,039,784
Shareholders' equity			
Capital stock (Note 10)	3,633,268	4,035,053	4,036,476
Reserves (Note 11)	356,311	345,722	356,996
Accumulated other comprehensive income	3,281	574,219	1,747,812
Retained earnings (deficit)	2,456,646	(1,113,402)	(1,004,353)
Total shareholders' equity	6,449,506	3,841,592	5,136,931
Total liabilities and shareholders' equity	$ 7,794,797	$ 4,372,914	$ 6,176,715

Nature, continuance of operations (Note 1)
Reconciliation of Canadian GAAP to IFRS (Note 18)
Subsequent event (Note 19)

On behalf of the Board on: July 27, 2012

"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)

	Three Months Ended May 31, 2012	Three Months Ended May 31, 2011 (Note 18)	Six Months Ended May 31, 2012	Six Months Ended May 31, 2011 (Note 18)
OIL AND GAS REVENUES				
Production revenue	$ 61,711	$ 44,383	$ 127,049	$ 75,592
Royalty revenue	-	347,824	90,335	765,614
	61,711	392,207	217,384	841,206
DIRECT COSTS				
Production and operation costs	26,962	16,025	39,434	25,029
Royalties	4,773	4,708	7,219	6,179
Depletion	7,913	39,798	26,525	79,596
Accretion expenses	289	282	578	564
	(39,937)	(60,813)	(73,756)	(111,368)
Gross profit	21,774	331,394	143,628	729,838
EXPENSES				
Amortization	506	240	1,012	479
Consulting fees	4,695	4,306	29,808	11,628
Corporate services	3,600	3,600	7,200	7,200
Management fees (Note 12)	67,000	67,000	134,000	134,000
Media and website	7,984	5,400	16,659	7,350
Office and miscellaneous	5,228	12,227	41,689	16,304
Professional fees	72,304	44,796	154,656	92,295
Property investigation costs	-	-	3,071	-
Rent	12,898	12,273	28,086	24,546
Share-based payments (Note 11)	10,589	7,883	10,589	15,807
Transfer agent and filing fees	7,371	(573)	21,669	10,680
Travel and promotion	1,461	-	5,690	-
	(193,636)	(157,152)	(454,129)	(320,289)
Income (loss) before other items	(171,862)	174,242	(310,501)	409,549
OTHER ITEMS				
Interest income	23,160	5,287	38,509	10,851
Gain on sale of property, plant and equipment	22,074	-	5,167,368	-
Total other items	45,234	5,287	5,205,877	10,851
Income (loss) before income taxes	(126,628)	179,529	4,895,376	420,400
Income tax				
Future income tax recovery (expense)	(98,264)	22,492	(79,369)	39,485
Income tax recovery (expense)	135,688	(60,349)	(1,117,644)	(136,964)
Total income tax recovery (expense)	37,424	(37,857)	(1,197,013)	(97,479)
Income (loss) for the period	$ (89,204)	$ 141,672	$ 3,698,363	$ 322,921
Basic and diluted income (loss) per common share	$ (0.00)	$ 0.01	$ 0.20	$ 0.02

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)

	Three Months Ended May 31, 2012	Three Months Ended May 31, 2011	Six Months Ended May 31, 2012	Six Months Ended May 31, 2011
Weighted average number of common shares outstanding	17,524,594	17,740,748	17,633,262	17,724,264
Plus incremental shares from assumed conversions:				
Stock options	617,308	675,179	617,308	675,179
Less treasury stock to be cancelled	-	(70,000)	-	(70,000)
Dilutive potential common shares	617,308	605,179	617,308	605,179
Adjusted weighted average shares	18,141,902	18,345,927	18,250,570	18,329,443

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

COBRA VENTURE CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME AND ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)
(Unaudited)
(Expressed in Canadian Dollars)

	Three Months Ended May 31, 2012	Three Months Ended May 31, 2011	Six Months Ended May 31, 2012	Six Months Ended May 31, 2011
Income (loss) for the period	$ (89,204)	$ 141,672	$ 3,698,363	$ 322,921
Other Comprehensive income (loss)				
Unrealized gain (loss) on available for sale investments, net of tax recovery $81,562 (2011 – net of tax $253,750)	(158,594)	1,617,656	(570,938)	1,776,250
Comprehensive income (loss)	$ (247,798)	$ 1,759,328	$ 3,127,425	$ 2,099,171

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

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

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

	Six Months Ended May 31, 2012	Six Months Ended May 31, 2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Income for the period	$ 3,698,363	$ 322,921
Items not affecting cash:		
Accretion	578	564
Amortization	1,012	479
Depletion	26,525	79,596
Share-based payments	10,589	15,807
Future income tax expense	79,369	(39,485)
Gain on sale of property, plant and equipment	(5,167,368)	-
Changes in non-cash working capital items:		
Decrease in receivables	259,979	71,974
Decrease in prepaid expenses	1,368	1,358
Decrease in accounts payable and accrued liabilities	(237,289)	(170,706)
Increase (decrease) in income tax payable	1,250,394	(488,796)
Net cash flows used in operating activities	(76,480)	(206,288)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(29,465)	(338,877)
Exploration and evaluation expenditures	(294,019)	(238,027)
Sale of royalty interest in Viewfield area (net of adjustments)	4,637,267	-
Net cash flows provided by (used in) investing activities	4,213,783	(576,904)
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 during the period	4,137,303	(741,076)
Cash and cash equivalents, beginning of period	2,535,774	2,914,709
Cash and cash equivalents, end of period	$ 6,673,077	$ 2,173,633
Cash and cash equivalents consist of:		
Cash	$ 4,923,077	$ 423,633
Cash equivalents	1,750,000	1,750,000
	$ 6,673,077	$ 2,173,633
Cash paid for income taxes	$ 44,762	$ 707,409

Supplemental disclosure with respect to cash flows (Note 14)

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

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

	Capital Stock					
	Number	Amount	Reserves	Accumulated Other Comprehensive Income	Retained earnings (deficit)	Total
Balance at December 1, 2010	17,440,748	$ 4,036,476	$ 356,996	$ 1,747,812	$ (1,004,353)	$ 5,136,931
Stock options exercised	300,000	60,000	-	-	-	60,000
Ascribed value of options exercised	-	31,461	(31,461)	-	-	-
Share-based payments	-	-	15,807	-	-	15,807
Flow-through renunciation	-	(75,000)	-	-	-	(75,000)
Unrealized gain on available for sale investments	-	-	-	1,776,250	-	1,776,250
Treasury Stock	(70,000)	(17,884)	-	-	-	(17,884)
Income for the period	-	-	-	-	322,921	322,921
Balance at May 31, 2011	17,670,748	$ 4,035,053	$ 341,342	$ 3,524,062	$ (681,432)	$ 7,219,025
Balance at November 30, 2011	17,740,748	$ 4,035,053	$ 345,722	$ 574,219	$ (1,113,402)	$ 3,841,592
Shares returned to treasury and cancelled (Note 10)	(70,000)	1,892	-	-	(1,892)	-
Shares returned to treasury and cancelled from sale of royalty interests in Viewfield area (Note 10)	(1,767,000)	(403,677)	-	-	(126,423)	(530,100)
Unrealized loss on available for sale investments	-	-	-	(570,938)	-	(570,938)
Share-based compensation	-	-	10,589	-	-	10,589
Income for the period	-	-	-	-	3,698,363	3,698,363
Balance at May 31, 2012	15,903,748	$ 3,633,268	$ 356,311	$ 3,281	$ 2,456,646	$ 6,449,506

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

1. NATURE, CONTINUANCE OF OPERATIONS

The Company was incorporated under the Business Corporation Act (Alberta) on August 18, 1999 and its principal business activity is the exploration and development of petroleum and natural gas interests. The Compay'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.

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

The Company's transition date to IFRS is December 1, 2011. The rules for first-time adoption of IFRS are set out in IFRS 1, "First-time adoption of International Financial Reporting Standards". In preparing the Company's first IFRS financial statements, these transition rules have been applied to the amounts previously reported in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Historical results and balances have been presented under IFRS.

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

These interim financial statements were approved by the Board of Directors for issue on July 27, 2012.

Significant accounting judgment and estimation uncertainties

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

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

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

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

Property, plant and equipment and exploration and evaluation assets

(i) Recognition and measurement

a) Exploration and evaluation costs

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

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

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

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

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

b) Development and production costs

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

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

(ii) Subsequent costs

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

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%

Deferred financing costs

Costs directly identifiable with the raising of capital will be charged against the related capital stock. Costs related to shares not yet issued are recorded as deferred financing costs. These costs will be deferred until the issuance of the shares to which the costs relate, at which time the costs will be charged against the related capital stock or charged to operations if the shares are no longer probable of being issued.

Deferred financing costs consist primarily of corporate finance fees, filing fees and legal fees.

Decommissioning liabilities

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Impairment of tangible and intangible assets (cont'd…)

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.

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:

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

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

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

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-base 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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

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.

Income taxes

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Financial instruments

Financial assets

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

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

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

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

Financial liabilities

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

Royalties, lease and fee simple revenue

Revenue and royalties from oil and gas operations are recognized at the time the oil is sold or natural gas is delivered, and collectability is reasonably assured.

Revenue from petroleum and natural gas leases is recognized over the term of the lease on a straight-line basis. Payments received in advance are recorded as deferred revenue.

New standards not yet adopted

Effective for accounting periods beginning on or after January 1, 2013 unless specified:

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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

New standards not yet adopted (cont'd…)

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.

IFRS 13, *Fair Value Measurement*, effective for the Company`s annual reporting period beginning May 1, 2013. 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).

IAS 1, *Presentation of Financial Statements*, requires an entity to group items presented in statement of other comprehensive income on the basis of whether they may be reclassified to profit or loss subsequent to initial recognition. For items presented before tax, the amendments also require that the tax related to the two separate groups to be presented separately. This standard is effective for accounting periods beginning on or after July 1, 2012.

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

4. RECEIVABLES

The Company's receivables are as follows:

	May 31, 2012	November 30, 2011	December 1, 2010
Trade receivable	$ 29,722	$ 291,949	$ 317,001
Government sales tax receivable	26,646	27,398	21,296
	$ 56,368	$ 319,347	$ 338,297

5. INVESTMENT

	May 31, 2012	November 30, 2011	December 1, 2010
Shares in Zodiac Exploration Corp.	$ 253,750	$ 906,250	$ 2,247,500

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

During the year ended November 30, 2010, the above mentioned private company underwent an amalgamation with a wholly owned subsidiary of Peninsula Resources Ltd. and the 2,500,000 common shares held by the Company were exchanged for 3,625,000 common shares of Zodiac Exploration Corp. As of May 31, 2012, the Company has 3,625,000 shares.

During the period ended May 31, 2012, the Company recorded an unrealized loss of $570,938 (2011 – gain of $1,776,250) to adjust the shares to market value, net of tax recovery $81,562 (2011 – net of tax $253,750) as other comprehensive income.

6. PROPERTY, PLANT AND EQUIPMENT

	Oil and Gas Properties	Computer Equipment	Total Property, Plant and Equipment
Cost			
Balance, December 1, 2010	$ 257,537	$ 14,976	$ 272,513
Recovery	(3,368)	-	(3,368)
Transfer from exploration and evaluation assets	289,035	-	289,035
Balance, November 30, 2011	543,204	14,976	558,180
Additions	51,692	4,520	56,212
Disposition	(36,269)	-	(36,269)
Balance, May 31, 2012	$ 558,627	$ 19,496	$ 578,123
Accumulated amortization and depletion			
Balance, December 1, 2010	$ -	$ 11,791	$ 11,791
Amortization and depletion	159,191	955	160,146
Balance, November 30, 2011	159,191	12,746	171,937
Amortization and depletion	26,525	1,012	27,537
Balance, May 31, 2012	$ 185,716	$ 13,758	$ 199,474
Carrying amounts			
As at December 1, 2010	$ 257,537	$ 3,185	$ 260,722
As at November 30, 2011	$ 384,013	$ 2,230	$ 386,243
As at May 31, 2012	$ 372,911	$ 5,738	$ 378,649

Viewfield area, Saskatchewan

On October 10, 2002, the Company purchased petroleum and natural gas assets consisting of 90% net working interests in 2,880 freehold acres in the Viewfield region of southeast Saskatchewan ("Assets") from Charter Oil Corporation. The Company paid cash of $150,000, issued 400,000 common shares valued at $240,000 and issued 830,000 Participating Redeemable Series "A" Preferred Shares at an agreed value of $830,000, for total consideration of $1,220,000.

During the year ended November 30, 2011, the Company entered into a lease agreement with an independent large oil production company, on 160 acres of the Company's lands in the Viewfield area. The lease had a term of two years with a net gross overriding production royalty of 20% to the Company. The Company received a bonus sum of $200,000 in connection with the agreement.

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

Proceeds consisted of:

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

The Company recorded a gain of $5,167,368 in connection with the sale.

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

Pembina area, Alberta

On November 14, 2005, the Company entered into a Participation Agreement with an operating industry partner to participate in the drilling of an initial three exploration wells and earn a working interest in the Pembina area of Alberta. The Company had the right to earn a 27% net working interest by paying 45% of all costs associated with the drilling program and to earn a 40% net working interest in the prospect area comprised of seven sections or approximately 4,480 acres. Currently there are 4 sections of land under active mineral leases.

The Company issued 100,000 shares as a finder's fee valued at $15,000 during the year ended November 30, 2006.

The Company has earned a 27% net working interest in one natural gas well and a 6.67% net working interest in another and is receiving production revenue from both wells. The Company also has a 40% net working interest in additional areas within the Pembina property where an additional 10-12 drill targets have been identified and are being evaluated for future development.

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

During the period ended May 31, 2012, the Company received $1,855 (2011 - $5,741) in production revenue.

Willesden Green area, Alberta

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

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

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

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

During the period ended May 31, 2012, the Company received $56,079 (2011 - $61,491) 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, 2012, the Company received $69,115 (2011 - $8,360) in production revenue.

7. EXPLORATION AND EVALUATION ASSETS

		Amount
Balance, December 1, 2010	$	388,450
Mineral leases		7,815
Geological fees		9,518
Drilling		455,380
Completion		61,010
Field work		2,243
Transfer to property, plant and equipment		(289,035)
Write-down of exploration and evaluation assets		(635,381)
Balance, November 30, 2011	$	-
Acquisition costs		394,019
Balance, May 31, 2012	$	394,019

Rocky View area, Alberta

During the period ended May 31, 2012, the Company entered into an assignment and assumption agreement (the "Assignment Agreement") with a company controlled by an director of the Company (the "Assignor"), whereby the Assignor has agreed to assign to the Company all of its right and interest in an offer to purchase (the "Offer to Purchase") between the Assignor, as purchaser, and a third party who is arm's length party to the Company (the "Vendor"), as vendor. The Offer to Purchase is in respect of the acquisition of 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 (the "Lands") for an aggregate purchase price of $3,975,000 Pursuant to the Assignment Agreement, the Company has paid an aggregate of $375,000 which is non-refundable.

Subsequent to the period ended May 31, 2012, the Company has paid the remaining $3,600,000 (Note 19).

Alderson area, Alberta

During the year ended November 30, 2007, the Company acquired a 50% net working interest in 320 acres of land in Central Alberta for $77,215. During the year ended November 30, 2011, the interest has been abandoned and the cost of the property was written-off.

Iosegun area, Alberta

During the year ended November 30, 2007, the Company acquired a 20% net working interest in 160 acres of land in Central Alberta for $15,543. During the year ended November 30, 2011, the interest has been abandoned and the cost of the property was written-off.

Morinville area, Alberta

During the year ended November 30, 2008, the Company acquired a 40% net working interest in a 5 year crown lease for $73,675 and annual rental fees. The lease is for one section of land in Central Alberta. During the year ended November 30, 2011, the interest has been abandoned and the cost of the property was written-off.

Cabri area, Saskatchewan

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

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are as follows:

	May 31, 2012	November 30, 2011	December 1, 2010
Trade payables	$ 14,008	$ 40,714	$ 19,858
Due to related parties (Note 12)	37,008	234,114	155,904
Accrued liabilities	13,000	36,000	43,600
Total	$ 64,016	$ 310,828	$ 219,362

9. DECOMMISSIONING LIABILITIES

	2012
Balance, December 1, 2010	$ 45,159
Accretion expense	1,127
Balance, November 30, 2011	46,286
Accretion expense	578
Balance, May 31, 2012	$ 46,864

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 $47,492. The estimated cash flow has been discounted using a credit-adjusted risk free rate of 2.69%. The estimated settlement ranges to a maximum of thirteen years.

10. SHARE CAPITAL

Authorized:

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

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

i) cancelled 70,000 common shares of the Company held in treasury for $17,884 resulting in an adjustment of $1,892 to deficit.

ii) received and cancelled 1,767,000 common shares of the Company for a fair value of $530,100 from the sale its remaining freehold petroleum and natural gas royalty interest in the Viewfield area (Note 6).

10. SHARE CAPITAL (Cont'd….)

During the period ended May 31, 2011, the Company:

i) issued 300,000 common shares from the exercise of stock options for gross proceeds of $60,000.

ii) repurchased 70,000 common shares for cancellation for $17,884.

iii) renounced $300,000 in exploration expenditures to flow-through share investors and recorded the tax effect as a $75,000 reduction in share capital and increase in future tax liability.

11. STOCK OPTIONS, WARRANTS AND RESERVES

The Company has a stock option plan in place under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 20% of the issued and outstanding common stock of the Company. Under the plan, the exercise price of each option equals the market price of the Company's stock as calculated on the date of grant. Options vest as determined by the board of directors. The options can be granted for a maximum term of 5 years.

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

Expiry Date	Exercise Price	November 30, 2011	Granted	Expired / Forfeited	May 31, 2012	Exercisable
December 18, 2012	0.34 *	500,000	-	-	500,000	500,000
April 3, 2014	0.16	1,050,000	-	-	1,050,000	1,050,000
May 27, 2015	0.17	600,000	-	-	600,000	600,000
May 25, 2017	0.24	-	225,000	-	225,000	56,250
Total		2,150,000	225,000	-	2,375,000	2,206,250
Weighted average exercise price		0.21	0.24	-	0.21	0.21
Weighted average remaining contractual life (years)					2.16	

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

Share-based payments

During the period ended May 31, 2012, the Company granted 225,000 (2011 - Nil) stock options with a fair value calculated using the Black-Scholes option pricing model of $38,576 (2011 - Nil) of which $10,589 (2011 - $15,807) was recognized as Share-based payments expense for options vested during the current period. The options vest 25% on each of the following dates: on grant, 6 months, 12 months and 18 months. The fair value per option granted during the period was $0.17.

11. STOCK OPTIONS AND WARRANTS AND RESERVES (cont'd…)

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

	May 31, 2011	May 31, 2010
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	-

12. RELATED PARTY TRANSACTIONS

Amounts paid or accrued to related parties are as follows:

Paid to:	Nature of transactions	May 31, 2012	May 31, 2011
a company owned by the Chief Executive Officer	Rent	28,086	24,546
a firm of which a Director is a partner	Accounting	75,920	74,250
a firm of which the Corporate Secretary is a partner	Legal	68,995	6,815
a company of which a Director is the president	Land acquisition	375,000	-
		$ 548,001	$ 105,611

Key management compensation are as follows:

Paid to:	Nature of transactions	May 31, 2012	May 31, 2011
Salaries and benefits	Management	$ 134,000	$ 134,000
Share-based payments		10,589	15,807
		$ 144,589	$ 149,807

(i) Share-based payments is the fair value of options granted and vested.
(ii) There were no post-employment benefits, termination benefits, or other long-term employment benefits paid to key management in either 2012 or 2011.

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

12. RELATED PARTY TRANSACTIONS (cont'd…)

The amounts due to related parties are as follows:

	Notes	May 31, 2012	November 30, 2011	December 1, 2010
A firm of which a Director is a partner	*	$ 37,008	43,576	38,904
A firm of which the Corporate Secretary is a partner	*	-	14,036	-
Management and Directors	*	-	176,502	117,000
		$ 37,008	$ 234,114	$ 155,904

* Included in accounts payable

13. INCOME TAXES

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

	May 31, 2012	November 30, 2011
Income (loss) before income taxes	$ 4,895,376	$ (31,618)
Combined federal and provincial tax rate	25.00%	27.50%
Income tax expense (recovery) at statutory rates	$ 1,223,844	$ (8,693)
Effect of tax rate change	-	(11,359)
Non-deductible items	(106,164)	11,914
Amounts recognized for tax	79,333	29,628
Total income tax expense provision	$ 1,197,013	$ 21,490

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

	May 31, 2012	November 30, 2011
Deferred income tax liabilities:		
Investments	$ (469)	$ (82,031)
Share issuance costs and cumulative eligible cost	1,599	2,112
Property, plant and equipment	(173,145)	(94,289)
Net deferred tax liabilities	$ (172,015)	$ (174,208)

14. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS (cont'd…)

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

i) a premium of $128,315 to deficit on cancellation of shares (2011 - $Nil).

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

i) $33,626 of exploration and evaluation expenditures in accounts payable and accrued liabilities.

ii) $31,461 fair value transferred from contributed surplus to share capital upon exercise of 300,000 stock options

iii) $75,000 reduction in share capital due to renunciation of flow-through shares.

15. FINANCIAL INSTRUMENTS AND RISK

Fair value

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

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
Level 3 – Inputs that are not based on observable market data.

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

Financial risk factors

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

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

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, 2012, the Company had a cash and cash equivalents balance of $6,673,077 (November 30, 2011 - $2,535,774; December 1, 2010 - $2,914,709) to settle current liabilities of $1,126,412 (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.

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

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

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 an interest rate of prime less 1.8% (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.

16. SEGMENTED INFORMATION

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

17. CAPITAL MANAGEMENT

The Company's objective when managing capital is to safeguard the entity's ability to continue as a going concern.

In the management of capital, the Company monitors its adjusted capital which comprises all components of equity (ie share capital, contributed surplus, accumulated other comprehensive income and deficit).

The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue common shares through private placements. The Company is not exposed to any externally imposed capital requirements.

The Company's overall strategy remains unchanged from 2011.

18. RECONCILIATION OF CANADIAN GAAP TO IFRS

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

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

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

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

18. 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 May 31, 2011			As at November 30, 2011		
		Canadian GAAP	Effect of transition to IFRS	IFRS	Canadian GAAP	Effect of transition to IFRS	IFRS	Canadian GAAP	Effect of transition to IFRS	IFRS
ASSETS										
Current assets										
Cash and cash equivalents		$ 2,914,709	$ -	$ 2,914,709	$ 2,173,633	$ -	$ 2,173,633	$ 2,535,774	$ -	$ 2,535,774
Receivables		338,297	-	338,297	266,323	-	266,323	319,347	-	319,347
Prepaid and expense advances		27,037	-	27,037	25,679	-	25,679	37,302	-	37,302
Income tax receivable		-	-	-	101,239	-	101,239	187,998	-	187,998
Total current assets		3,280,043	-	3,280,043	2,566,874	-	2,566,874	3,080,421	-	3,080,421
Non-current assets										
Investment		2,247,500	-	2,247,500	4,277,500	-	4,277,500	906,250	-	906,250
Property, plant and equipment		3,185	257,537	260,722	2,706	334,079	336,785	2,230	384,013	386,243
Exploration and evaluation assets	18 iv), vi)	623,804	(235,354)	388,450	1,036,912	(235,354)	801,558	436,362	(436,362)	-
Total non-current assets		2,874,489	22,183	2,896,672	5,317,118	98,725	5,415,843	1,344,842	(52,349)	1,292,493
TOTAL ASSETS		$ 6,154,532	$ 22,183	$ 6,176,715	$ 7,883,992	$ 98,725	$ 7,982,717	$ 4,425,263	$ (52,349)	$ 4,372,914
LIABILITIES AND SHAREHOLDERS' EQUITY										
Current liabilities										
Accounts payable and accrued liabilities		$ 219,362	$ -	$ 219,362	$ 40,998	$ -	$ 40,998	$ 310,828	$ -	$ 310,828
Income taxes payable		387,557	-	387,557	-	-	-	-	-	-
Total current liabilities		606,919	-	606,919	40,998	-	40,998	310,828	-	310,828
Non-current liabilities										
Decommissioning liabilities	18 v)	26,495	18,664	45,159	27,820	17,903	45,723	24,986	21,300	46,286
Deferred income taxes liability		387,706	-	387,706	676,971	-	676,971	174,208	-	174,208
Total non-current liabilities		414,201	18,664	432,865	704,791	17,903	722,694	199,194	21,300	220,494
Total liabilities		1,021,120	18,664	1,039,784	745,789	17,903	763,692	510,022	21,300	531,322
Shareholders' equity										
Share capital	18 iii)	4,026,292	10,184	4,036,476	4,024,869	10,184	4,035,053	4,024,869	10,184	4,035,053
Reserves	18 iii)	381,977	(24,981)	356,996	370,880	(29,538)	341,342	391,930	(46,208)	345,722
Accumulated other comprehensive income		1,747,812	-	1,747,812	3,524,062	-	3,524,062	574,219	-	574,219
Deficit	18 iii)	(1,022,669)	18,316	(1,004,353)	(781,608)	100,176	(681,432)	(1,075,777)	(37,625)	(1,113,402)
Total shareholders' equity		5,133,412	3,519	5,136,931	7,138,203	80,822	7,219,025	3,915,241	(73,649)	3,841,592
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY		$ 6,154,532	$ 22,183	$ 6,176,715	$ 7,883,992	$ 98,725	$ 7,982,717	$ 4,425,263	$ (52,349)	$ 4,372,914

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

		Three months ended May 31, 2011			Six months ended May 31, 2011			Year ended November 30, 2011		
		Canadian GAAP	Effect of transition to IFRS	IFRS	Canadian GAAP	Effect of transition to IFRS	IFRS	Canadian GAAP	Effect of transition to IFRS	IFRS
OIL AND GAS REVENUES										
Production revenue		$ 44,383	$ -	$ 44,383	$ 75,592	$ -	$ 75,592	$ 249,648	$ -	$ 249,648
Royalty revenue		347,824	-	347,824	765,614	-	765,614	1,270,546	-	1,270,546
		392,207	-	392,207	841,206	-	841,206	1,520,194	-	1,520,194
DIRECT COSTS										
Production and operation costs		16,025	-	16,025	25,029	-	25,029	73,660	-	73,660
Royalties		4,708	-	4,708	6,179	-	6,179	19,306	-	19,306
Depletion	18 vi)	89,066	(49,268)	39,798	156,138	(76,542)	79,596	224,849	(65,658)	159,191
Accretion expense		663	(381)	282	1,325	(761)	564	2,650	(1,523)	1,127
		(110,462)	49,649	(60,813)	(188,671)	77,303	(111,368)	(320,465)	67,181	(253,284)
Gross profit		281,745	49,649	331,394	652,535	77,303	729,838	1,199,729	67,181	1,266,910
EXPENSES										
Amortization		240	-	240	479	-	479	955	-	955
Consulting fees		4,306	-	4,306	11,628	-	11,628	82,128	-	82,128
Corporate services		3,600	-	3,600	7,200	-	7,200	14,400	-	14,400
Management fees		67,000	-	67,000	134,000	-	134,000	443,000	-	443,000
Media and website		5,400	-	5,400	7,350	-	7,350	23,700	-	23,700
Office and miscellaneous		12,227	-	12,227	16,304	-	16,304	33,170	-	33,170
Professional fees		44,796	-	44,796	92,295	-	92,295	244,514	-	244,514
Rent		12,273	-	12,273	24,546	-	24,546	2,925	-	2,925
Property investigation costs		-	-	-	-	-	-	49,092	-	49,092
Share-based payments	18 ii)	10,182	(2,299)	7,883	20,364	(4,557)	15,807	41,414	(19,493)	21,921
Transfer agent and filing fees		(573)	-	(573)	10,680	-	10,680	16,016	-	16,016
Travel and related costs		-	-	-	-	-	-	9,069	-	9,069
		(159,451)	2,299	(157,152)	(324,846)	4,557	(320,289)	(960,383)	19,493	(940,890)
Income before other items		122,294	51,948	174,242	327,689	81,860	409,549	239,346	86,674	326,020
OTHER ITEMS										
Interest and other income		5,287	-	5,287	10,851	-	10,851	18,973	-	18,973
Lease income		-	-	-	-	-	-	201,096	-	201,096
Write-off of exploration and evaluation assets		-	-	-	-	-	-	(491,033)	(144,349)	(635,382)
Total other items		5,287	-	5,287	10,851	-	10,851	(270,964)	(144,349)	(415,313)
Income before income taxes		127,581	51,948	179,529	338,540	81,860	420,400	(31,618)	(57,675)	(89,293)
Income tax recovery (expense)										
Future income tax recovery		22,492	-	22,492	39,485	-	39,485	120,841	-	120,841
Income tax expense		(60,349)	-	(60,349)	(136,964)	-	(136,964)	(142,331)	-	(142,331)
Total income tax expense		(37,857)	-	(37,857)	(97,479)	-	(97,479)	(21,490)	-	(21,490)
Income (loss) and comprehensive loss for the period		$ 89,724	$ 51,948	$ 141,672	$ 241,061	$ 81,860	$ 322,921	$ (53,108)	$ (57,675)	$ (110,783)

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

The guidance for the first time adoption of IFRS are 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 $4,557 for the period ended May 31, 2011 and decreased share-based payments by $19,493 for the year ended November 30, 2011.

iii) Reclassification of share-based reserve

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

iv) Oil and gas entities

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

a) Exploration and evaluation assets were reclassified from full cost pool to exploration and evaluation assets at the amount it was recorded under Canadian GAAP; and

b) The remaining full cost pool was allocated to the respective CGU's and components in property, plant and equipment pro rata using reserve values.

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

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

v) Decommissioning liabilities

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

vi) Amortization and depletion expense

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

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

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

19. SUBSEQUENT EVENTS

Subsequent to the period ended May 31, 2012, the Company has paid the remaining $3,600,000 pursuant to the agreement with regard to Rocky View Area, Alberta (Note 7).