



Condensed Consolidated Interim Financial  
Statements  
for the three months Ended  
March 31, 2011 and 2010  
*(Unaudited)*

## Rodinia Oil Corp.

### CONDENSED CONSOLIDATED INTERIM BALANCE SHEETS

(Canadian Dollars)

(Unaudited)

As at	March 31, 2011	December 31, 2010	January 1, 2010
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents	<b>43,079,495</b>	51,338,334	348,356
Accounts receivable	<b>3,176,557</b>	2,468,420	36,287
Prepaid expenses and deposits	<b>824,049</b>	572,597	40,941
Financial instruments (Note 9)	<b>830,548</b>	1,233,414	-
	<b>47,910,649</b>	55,612,765	425,584
Investment in PetroFrontier Corp. (Note 7)	<b>2,665,305</b>	2,743,060	1,301,452
Corporate assets (Note 5)	<b>163,295</b>	224,409	167,422
Exploration and evaluation assets (Note 5)	<b>24,563,924</b>	15,192,143	10,373,949
	<b>75,303,173</b>	73,772,377	12,268,407
<b>LIABILITIES</b>			
<b>Current</b>			
Accounts payable and accrued liabilities	<b>3,578,211</b>	1,693,665	309,121
<b>SHAREHOLDERS' EQUITY</b>			
Share capital (Note 6)	<b>68,018,326</b>	67,254,951	12,071,933
Warrants (Note 6)	<b>3,221,095</b>	3,328,595	-
Contributed surplus (Note 6)	<b>8,081,871</b>	5,256,923	2,576,488
Accumulated other comprehensive income (Note 6)	<b>1,589,317</b>	1,817,526	1,385,642
Deficit	<b>(9,185,647)</b>	(5,579,283)	(4,074,777)
	<b>71,724,962</b>	72,078,712	11,959,286
	<b>75,303,173</b>	73,772,377	12,268,407

See accompany notes to the condensed consolidated interim financial statements

Commitments (Note 10)

## Rodinia Oil Corp.

### CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(Canadian Dollars)

(Unaudited)

	Three Months Ended March 31,	
	2011	2010
<b>Other Income</b>		
Financial instruments	35,133	-
	<b>35,133</b>	-
<b>EXPENSES</b>		
General and administrative	769,701	201,648
Share-based compensation (Note 6)	2,824,948	66,393
Depreciation	64,361	8,867
Foreign exchange loss	6,672	-
	<b>3,665,682</b>	276,908
<b>Results from operating activities</b>	<b>(3,630,549)</b>	(276,908)
Finance income	99,539	139
Finance costs	(3,949)	(3,077)
<b>Net finance income (costs)</b>	<b>95,590</b>	(2,938)
Loss on equity investment (Note 7)	(71,405)	(37,020)
<b>NET LOSS</b>	<b>(3,606,364)</b>	(316,866)
<b>OTHER COMPREHENSIVE LOSS</b>		
Loss on equity investment (Note 7)	(6,350)	-
Foreign exchange loss on translation of foreign operations	(221,859)	(1,120)
<b>COMPREHENSIVE LOSS</b>	<b>(3,834,573)</b>	(317,986)
Deficit, beginning of year	(5,579,283)	(4,074,777)
Deficit, end of year	<b>(9,185,647)</b>	(4,391,643)
<b>Net loss per share</b>		
<b>Basic and diluted</b> (Note 6)	<b>\$0.03</b>	\$0.01

*See accompany notes to the condensed consolidated interim financial statements*

## Rodinia Oil Corp.

### CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

(Canadian Dollars)

(Unaudited)

	Three Months Ended March 31,	
	2011	2010
<b>Cash provided by (used in)</b>		
<b>OPERATING</b>		
Net loss	(3,606,364)	(316,866)
Unrealized loss on financial instruments	402,867	-
Loss on equity investment	71,405	37,020
Share-based compensation	2,824,948	66,393
Depreciation	64,361	8,867
Net finance (income) costs	(95,590)	2,938
	(338,373)	(201,648)
Change in non-cash working capital (Note 8)	77,162	57,290
	(261,211)	(144,358)
<b>FINANCING</b>		
Issuance of common shares and warrants net of share issue costs	-	4,076,299
Issuance of common shares from exercise of warrants	655,875	-
Interest paid	(3,949)	(3,077)
Change in non-cash working capital (Note 8)	-	(401,250)
	651,926	3,671,972
<b>INVESTING</b>		
Exploration and evaluation expenditures	(9,519,731)	(39,978)
Corporate asset expenditures	(3,247)	(12,377)
Interest received	160,030	139
Changes in non-cash working capital (Note 8)	713,394	16,612
	(8,649,554)	(35,604)
Increase (decrease) in cash and cash equivalents	(8,258,839)	3,492,010
Cash and cash equivalents, beginning of the period	51,338,334	348,356
<b>Cash and cash equivalents, end of the period</b>	<b>43,079,495</b>	<b>3,840,366</b>

*See accompany notes to the condensed consolidated interim financial statements*

## Rodinia Oil Corp.

### CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Canadian Dollars)

(Unaudited)

	Share Capital	Warrants	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total Equity
<b>Balance at January 1, 2011</b>	67,254,951	3,328,595	5,256,923	1,817,526	(5,579,283)	72,078,712
Net loss					(3,606,364)	(3,606,364)
Loss on equity investment				(6,350)		(6,350)
Foreign exchange loss on translation of foreign operations				(221,859)		(221,859)
Issued on exercise of warrants	763,375	(107,500)				655,875
Share-based compensation			2,824,948			2,824,948
<b>Balance at March 31, 2011</b>	<b>68,018,326</b>	<b>3,221,095</b>	<b>8,081,871</b>	<b>1,589,317</b>	<b>(9,185,647)</b>	<b>71,724,962</b>
Balance at January 1, 2010	12,071,933	-	2,576,488	1,385,642	(4,074,777)	11,959,286
Net loss					(316,866)	(316,866)
Foreign exchange loss on translation of foreign operations				(1,120)		(1,120)
Issued for cash	3,611,754	555,655				4,167,409
Issued for employee compensation	68,417					68,417
Share issue costs	(91,110)					(91,110)
Share-based compensation			23,059			23,059
Balance at March 31, 2010	15,660,994	555,655	2,599,547	1,384,522	(4,391,643)	15,809,075

*See accompany notes to the condensed consolidated interim financial statements*

## 1. REPORTING ENTITY

Rodinia Oil Corp. (the “Corporation”) was incorporated in Alberta, Canada on July 21, 2006 under the name Officer Basin Energy Inc. On March 5, 2008, the Corporation filed articles of amendment to change its name to Rodinia Oil Corp. The Corporation’s registered office is 320, 715 – 5<sup>th</sup> Avenue S.W. Calgary, Alberta, Canada T2P 2X6. The Corporation is engaged in the business of international petroleum exploration in South Australia and Western Australia, through its wholly owned subsidiary, Rodinia Oil (Australia) Pty. Ltd. (“Rodinia Australia”). The consolidated financial statements of the Corporation as at and for the three months ended March 31, 2011 comprise the Corporation and Rodinia Australia and unless otherwise indicated the term “Corporation” refers to both the Corporation and Rodinia Australia.

## 2. EXPLORATION STAGE CORPORATION

The Corporation is engaged primarily in the pursuit of petroleum and natural gas through exploration in South Australia and Western Australia. Since inception, the efforts of the Corporation have been devoted to the pursuit of petroleum exploration licenses, land access agreements with aboriginal stakeholders, and initial stage seismic acquisition. To date, the Corporation has not earned revenue from these operations and is considered to be in the exploration stage. The recoverability of the costs incurred to date is uncertain and dependent upon achieving commercial production or sale, the ability of the Corporation to obtain sufficient financing to fulfill its obligations under the petroleum exploration licenses and upon future profitable operations.

These condensed financial statements have been prepared by management in accordance with accounting principles applicable to a going concern which assumes the Corporation will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. At March 31, 2011, the Corporation had working capital surplus of \$44,332,438 a deficit of \$9,185,647 and a net loss for the three months ended March 31, 2011 of \$3,606,364. The Corporation’s petroleum licenses are in the exploration stage.

The Corporation is dependent upon obtaining sufficient financing to fulfill its obligations under its petroleum exploration licenses and upon future profitable operations. On May 28, 2010 and June 11, 2010, the Corporation closed its initial public offering (the “IPO”) and the over-allotment to the IPO for gross proceeds of \$52,500,000 and \$4,858,750, respectively. The IPO financing consisted of the sale of units at an ascribed price of \$1.00 per unit (the “IPO Units”). Each IPO Unit is comprised of one common share and one half of one common share purchase warrant (the “IPO Warrants”) with a full IPO Warrant entitling the holder to purchase one common share of the Corporation at a price of \$1.33 per share until the date that is 24 months following the closing date. The Corporation will utilize these funds for future operations including seismic and drilling activities planned for 2011 in addition to working capital funds that management believes will allow the Corporation to operate well into 2012.

## 3. BASIS OF PRESENTATION

### A) Statement of compliance

These condensed interim consolidated financial statements for the three months ended March 31, 2011 and comparable periods are unaudited and have been prepared in accordance with International Accounting Standard (“IAS”) 34, “Interim Financial Reporting” using the accounting policies consistent with International Financial Reporting Standards (“IFRSs”) and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied. Previously, the Corporation prepared its

## UNAUDITED NOTES (continued)

consolidated financial statements in accordance with previous Canadian generally accepted accounting principles (“GAAP”).

The adoption of IFRS resulted in selected changes to the Corporation’s accounting policies as compared to those disclosed in the Company’s annual audited Consolidated Financial Statements for the period ended December 31, 2010 issued under Canadian GAAP. A summary of the significant changes to the accounting policies are presented in note 11 along with reconciliations illustrating the impact of the transition to IFRS for the comparable periods as at January 1, 2010, as at and for the three months ended March 31, 2010 and for the year ended December 31, 2010.

The consolidated financial statements were authorized for issue by the Audit Committee on June 14, 2011.

### **B) Basis of measurement**

The condensed interim consolidated financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- held-for-trading financial instruments are measured at fair value through profit or loss

### **C) Functional and presentation currency**

These condensed interim consolidated financial statements are presented in Canadian dollars, which is the Corporation’s functional currency.

### **D) Use of estimates and judgements**

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

Note 4 A) (ii) – classification of investment property

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the condensed interim consolidated financial statements is included in the following notes:

Note 4 E) – valuation of exploration and evaluation costs

Note 4 G) – provisions and contingencies

Note 4 H) – utilization of tax losses

Note 4 K) – measurement of share-based payments

#### **4. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out below have been applied consistently to all periods presented in these consolidated interim financial statements and in preparing the opening IFRS statement of financial position at January 1, 2010 for the purposes of the transition to IFRSs, unless otherwise indicated.

##### **A) Basis of consolidation**

###### **(i) Subsidiaries**

Subsidiaries are entities controlled by the Corporation. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Control exists when the Corporation has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The accounting policies of subsidiaries have been changed when necessary to align with the policies adopted by the Corporation.

###### **(ii) Investments in associates (equity accounted investees)**

Associates are those entities in which the Corporation has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Corporation holds between 20 and 50 percent of the voting power of another entity or in which the Corporation has significant influence by nature of common management.

Investments in associates are accounted for using the equity method (equity accounted investees) and are recognized initially at cost. The consolidated financial statements include the Corporation's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Corporation, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Corporation's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Corporation has an obligation or has made payments on behalf of the investee.

The Corporation accounts for its investment in PetroFrontier Corp. as an equity investment.

###### **(iii) Jointly controlled operations**

A jointly controlled operation is a joint venture carried on by each venturer using its own assets in pursuit of the joint operations. The consolidated financial statements include the assets that the Corporation controls and the liabilities that it incurs in the course of pursuing the joint operation and the expenses that the Corporation incurs and its share of the income that it earns from the joint operation.

###### **(iv) Transactions eliminated on consolidation**

All intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

## **B) Foreign currency**

### **(i) Foreign currency transactions**

Transactions in foreign currencies are translated to the respective functional currencies of the Corporation's entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical costs in a foreign currency are translated using the exchange rate at the date of transaction. Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the translation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognized in other comprehensive income.

### **(ii) Foreign operations**

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Canadian dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Canadian dollars at exchange rates at the dates of the transactions.

Foreign currency differences are recognized in other comprehensive income in the cumulative translation account.

When a foreign operation is disposed of, the relevant amount in the cumulative amount of foreign currency translation differences is transferred to profit or loss as part of the profit or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income in the cumulative amount of foreign currency translation differences.

## **C) Financial instruments**

### **(i) Non-derivative financial instruments**

Non-derivative financial instruments consist of cash and cash equivalents, accounts receivable and accounts payable. Non-derivative financial instruments are recognized initially at fair value plus any direct attributable transaction costs unless the non-derivative financial instrument is designated at fair value through profit or loss. Subsequent measurement is then based on each financial instrument being classified into one of five categories; held for trading, held to maturity, loans and receivables, available for sale and other liabilities. The Corporation has measured its accounts receivable and accounts payable at amortized cost using the effective interest rate method less any impairment losses. Cash and cash equivalents include cash on hand, term deposits held with banks and other short-term highly liquid investments.

**(ii) Derivative financial instruments**

The Corporation holds derivative financial instruments to hedge its foreign currency risk exposures.

Derivatives are recognized initially at fair value and attributable transaction costs are recognized in profit or loss as incurred. When a derivative financial instrument is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognized immediately in profit or loss.

**(iii) Share capital**

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

**D) Property, plant and equipment**

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of any asset retirement obligations, and borrowing costs for qualifying assets, if any. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. The capitalized value of a finance lease is also included within oil and gas properties.

Depletion of oil and natural gas assets and depreciation of production equipment are calculated using the unit-of-production method, based on volumes of total proved and probable oil and natural gas reserves and production, before royalties, converted at the energy equivalent conversion ratio of six thousand cubic feet of natural gas to one barrel of oil. The depletable base includes all capitalized costs, estimated future development costs of proved and probable undeveloped reserves, and future estimated asset restoration costs. Computer and office equipment are recorded at cost and amortized on a declining basis using a rate of 20 – 50% per annum. Leasehold improvements are recorded at cost and amortized over the remaining term of the office lease or the estimated useful life, if shorter.

An asset within oil and gas properties is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period in which the item is derecognized.

The Corporation assesses assets or groups of assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If any such indication of impairment exists, the Corporation makes an estimate of the asset's recoverable amount. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets (the "cash-generating unit" or "CGU").

A CGU's recoverable amount is the higher of its fair value less costs to sell and its value in use. Where the carrying amount of a CGU exceeds its recoverable amount, the CGU is considered impaired and its assets are written down to the CGU's recoverable amount. Value in use is generally computed by reference to the present value, using a pre-tax discount rate that reflects current market assessment of the time value of money, of the future cash flows expected to be derived from production of proven and probable reserves. Fair value is determined to be the amount for which the asset could be sold in an arm's length transaction.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been objective evidence of a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

#### **E) Exploration and evaluation assets**

Exploration license and leasehold property acquisition costs, geological and geophysical costs and costs directly associated with an exploration well and appraisal activities are capitalized as either tangible or intangible exploration and evaluation assets according to the nature of the asset acquired. Intangible exploration costs do not include general prospecting or other evaluation costs incurred prior to receiving the legal rights to explore an area, which are expensed when incurred.

Exploration and evaluation costs are reviewed at each reporting date to confirm that there is no indication that the carrying amount exceeds the recoverable amount. All such carried costs are subject to technical, commercial and management review at least once a year to confirm the continued intent to develop or otherwise extract value from the associated oil and gas interests. If no future activity is planned, the capitalized costs are expensed. Upon commercial viability, technical feasibility and internal approval for development, the related capitalized costs are first tested for impairment and then reclassified to property, plant and equipment. The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proved reserves are determined to exist.

#### **F) Business combinations and goodwill**

Business combinations are accounted for using the acquisition method of accounting. The cost of an acquisition is measured as the cash paid and the fair value of other assets given, equity instruments issued and liabilities and contingent liabilities incurred or assumed at the date of exchange. The acquired identifiable assets, liabilities and contingent liabilities are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the net fair value of the identifiable assets, liabilities and contingent liabilities acquired is recognized as goodwill. At the acquisition date, any goodwill is allocated to a CGU or a group of CGUs expected to benefit from the combination's synergies.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is assessed for impairment annually at year end or more frequently if events occur that indicate a possible impairment. Impairment is determined by assessing the recoverable amount of the CGU or group of CGUs to which the goodwill relates. Where the recoverable amount of the cash-generating unit or units with allocated goodwill is less than the carrying amount, an impairment loss of goodwill is recognized.

#### **G) Provisions**

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be

## UNAUDITED NOTES (continued)

required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money. Provisions are not recognized for future operating losses.

### *Asset retirement obligations*

The Corporation's activities give rise to dismantling, decommissioning and site disturbance remediation activities. Provision is made for the estimated cost of asset retirement and capitalized in the relevant asset category. Asset retirement obligations are Management's best estimate of the future costs associated with removal, site restoration and asset retirement. The fair value of the liability for the Corporation's asset retirement obligations is recorded in the period in which it is incurred, discounted to its present value using a risk-free interest rate and the corresponding amount is recognized by increasing the carrying amount of oil and gas properties. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is recognized as a finance cost in the period. Revisions to the estimated timing of cash flows or to the original estimated undiscounted cost could also result in an increase or decrease to the provision. Actual costs incurred upon settlement of the asset retirement obligations are charged against the provision to the extent of the liability recorded.

## **H) Income taxes**

Income tax expense comprises current and deferred tax. Income tax expense is recognized in earnings except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

The Corporation uses the balance sheet method for calculating deferred income taxes. Temporary differences arising from the differences between the tax basis of an asset or liability and the carrying amount on the balance sheet are used to calculate deferred income tax assets or liabilities. Deferred income tax assets or liabilities are calculated using the currently enacted, or substantively enacted, tax rates anticipated to apply in the periods that the temporary differences are expected to reverse. A valuation allowance is recorded against any deferred income tax assets if it is probable that the asset will not be realized. The effect of a change in income tax rates on deferred income tax assets and liabilities is recognized in the period that the change occurs. Interpretation of tax regulations and legislations in the jurisdictions in which the Corporation operates are subject to change, as such income taxes are subject to measurement uncertainty.

## **I) Finance income and costs**

Finance income comprises interest income on funds invested and changes in the fair value of financial instruments at fair value through profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings, changes in the fair value of financial instruments at fair value through profit or loss and impairment losses recognized on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

#### **J) Per share amounts**

The Corporation presents basic and diluted earnings per share (EPS) data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Corporation by the weighted average number of common shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for own shares held, for the effects of all potentially dilutive common shares, which comprise warrants and share options granted to employees.

#### **K) Share-based compensation plan**

The Corporation has a share-based compensation plan enabling officers, directors, employees and key consultants to purchase common shares at exercise prices equal to the price determined by the directors on the date the option is granted. Stock option awards are accounted for based on the fair value method of accounting (Note 6). Under this method, share-based compensation is recorded as an expense over the vesting period of the option, with a corresponding increase in contributed surplus. Share-based compensation is based on the estimated fair value of the related stock option at the time of the grant using the Black-Scholes option model, except for stock options granted to consultants that are revalued at subsequent reporting dates. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest. When stock options are exercised, the consideration paid to the Corporation, along with amounts previously credited to contributed surplus, is credited to share capital. Compensation costs recognized for share-based compensation plans are subject to the estimation of what ultimate payout will be using pricing models such as Black-Scholes option model, which is based on significant assumptions such as volatility, dividend yield and expected term.

#### **L) New Standards and interpretations not yet adopted**

IFRS 9 Financial Instruments, as issued in November 2009 and revised in October 2010 is required to be adopted by 2013, subject to confirmation by the International Accounting Standards Board. The standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 and divides all financial assets that are currently in the scope of IAS 39 into two classifications; amortized cost and those measured at fair value. The Corporation has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

**5. PROPERTY, PLANT AND EQUIPMENT**

	Exploration & Evaluation Assets	Corporate Assets
	(\$)	(\$)
<b>Cost:</b>		
At January 1, 2010	10,373,949	250,276
Additions	4,818,194	114,712
At December 31, 2010	15,192,143	364,988
Additions	9,371,781	3,247
<b>At March 31, 2011</b>	<b>24,563,924</b>	<b>368,235</b>
<b>Accumulated depreciation:</b>		
At January 1, 2010	-	(82,854)
Depreciation	-	(57,725)
At December 31, 2010	-	(140,579)
Depreciation	-	(64,361)
<b>At March 31, 2011</b>	<b>-</b>	<b>(204,940)</b>
<b>Net Book Value:</b>		
<b>At March 31, 2011</b>	<b>24,563,924</b>	<b>163,295</b>
At December 31, 2010	15,192,143	224,409
At January 1, 2010	10,373,949	167,422

No amounts relating to general and administrative expenses or share-based compensation were capitalized in 2011 or 2010.

**6. SHAREHOLDERS' EQUITY****A) Authorized**

Unlimited number of voting Class A Common Shares, without nominal or par value

Unlimited number of non-voting Class B Common Shares, without nominal or par value

Unlimited number of voting Class C Preferred Common Shares, without nominal or par value

Unlimited number of non-voting Class D Preferred Common Shares, without nominal or par value

**B) Common shares, issued and outstanding**

<b>Issued</b>	<b>Period ended March 31, 2011</b>		<b>Year Ended December 31, 2010</b>	
	<b>Number of shares</b>	<b>Amount (\$)</b>	<b>Number of shares</b>	<b>Amount (\$)</b>
<b>Common Shares</b>				
Balance, beginning of year	105,994,540	67,254,951	41,040,693	12,071,933
Private placement	-	-	5,556,545	3,611,754
Issued for employee compensation	-	-	216,945	111,750
Exercise of stock options	-	-	1,700,000	989,361
Exercise of warrants	562,500	763,375	145,001	195,751
GORR acquisition	-	-	135,356	101,517
IPO	-	-	57,200,000	54,340,000
Share issue costs	-	-	-	(4,167,115)
<b>Balance, end of period</b>	<b>106,557,040</b>	<b>68,018,326</b>	105,994,540	67,254,951
<b>Warrants</b>				
Balance, beginning of year	32,854,111	3,328,595	-	-
Private placement	-	-	2,778,278	555,655
Issued for employee compensation	-	-	33,334	6,667
IPO	-	-	30,187,500	3,018,750
Exercise of warrants	(562,500)	(107,500)	(145,001)	(29,000)
Share issue costs	-	-	-	(223,477)
<b>Balance, end of period</b>	<b>32,291,611</b>	<b>3,221,095</b>	32,854,111	3,328,595

For the three months ended March 31, 2011, 512,500 private placement warrants and 50,000 IPO warrants were exercised having an exercise price of \$1.15 and \$1.33, respectively.

**C) Stock options**

Employees, officers and directors of the Corporation and contractors acting in their capacity as service providers may be granted options to purchase Common Shares. Options granted typically have a term of five years to expiry and vest equally over a two year period on the basis of one-third on the date of grant, one-third on the first anniversary date of the grant, and one-third on the second anniversary date of the grant. In certain circumstances and as directed by the board of directors, certain stock option grants to directors and executive have been granted with immediate vesting terms. The exercise price of each option equals the market price of the Corporation's Common Shares on the date of grant.

UNAUDITED NOTES (continued)

The following table sets forth a reconciliation of the Plan activity through March 31, 2011:

	March 31, 2011		December 31, 2010	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
<b>Balance, beginning of year</b>	<b>8,231,666</b>	<b>\$0.87</b>	4,825,000	\$0.55
Exercised	-	-	(1,700,000)	\$0.40
Expired	-	-	(58,334)	\$0.91
Granted	<b>2,050,000</b>	<b>3.09</b>	5,165,000	\$1.02
<b>Balance, end of period</b>	<b>10,281,666</b>	<b>1.31</b>	8,231,666	\$0.87

The following table summarizes stock options outstanding and exercisable under the plan at March 31, 2011:

Exercise price	Options outstanding			Options exercisable	
	Number outstanding at period end	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at period end	Weighted average exercise price
\$0.20	300,000	0.4	\$0.20	300,000	\$0.20
\$0.40	600,000	2.7	\$0.40	600,000	\$0.40
\$0.75	2,650,000	1.5	\$0.75	2,383,333	\$0.75
\$1.00	4,431,666	4.2	\$1.00	1,454,999	\$1.00
\$1.75	250,000	4.7	\$1.75	83,333	\$1.75
\$2.28	100,000	4.9	\$2.28	33,333	\$2.28
\$2.85	100,000	4.8	\$2.85	33,333	\$2.85
\$3.15	1,850,000	4.8	\$3.15	616,662	\$3.15
	10,281,666	3.4	\$1.31	5,504,993	\$1.05

#### D) Share-based compensation plan

The Corporation accounts for its share-based compensation plan using the fair value method. Under this method, a compensation cost is charged over the vesting period for stock options granted to employees, officers and directors of the Corporation, with a corresponding increase to contributed surplus.

The following table summarizes the changes in contributed surplus:

	March 31, 2011	December 31, 2010
	(\$)	(\$)
<b>Balance, beginning of year</b>	<b>5,256,923</b>	2,576,488
<b>Share-based compensation expense</b>	<b>2,824,948</b>	2,986,045
<b>Exercise of stock options</b>	-	(305,610)
<b>Balance, end of period</b>	<b>8,081,871</b>	5,256,923

UNAUDITED NOTES (continued)

The fair value of the options granted during the quarter ended March 31, 2011 was estimated on the date of grant using the Black-Scholes option pricing model with weighted average assumptions and resulting values for grants as follows:

<b>Assumptions</b>	<b>Period ended March 31, 2011</b>
<b>Risk free interest rate (%)</b>	<b>2.24</b>
<b>Expected life (years)</b>	<b>5.0</b>
<b>Expected volatility (%)</b>	<b>118</b>
<b>Expected dividends</b>	<b>-</b>
<b>Weighted average fair value of options granted</b>	<b>2.50</b>

**E) Per common share amounts**

The basic weighted average number of Common Shares outstanding for the quarters ended March 31, 2011 and 2010 were 106,254,679 and 41,753,836, respectively. The Corporation has recorded a loss for the quarters ended March 31, 2011 and 2010 and as such no addition is made to the basic weighted average number of Common Shares when calculating diluted weighted average number of Common Shares as the diluted per Common Share amounts are anti-dilutive.

**F) Accumulated other comprehensive income**

	<b>March 31, 2011</b>	December 31, 2010
	(\$)	(\$)
Balance, beginning of year	<b>1,817,526</b>	1,385,642
Gain (loss) on equity investment	<b>(6,350)</b>	43,592
Foreign exchange gain (loss) on translation of foreign operations	<b>(221,859)</b>	388,292
<b>Balance, end of period</b>	<b>1,589,317</b>	1,817,526

**G) Management of capital structure**

The Corporation's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business.

The Corporation manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying petroleum and natural gas assets. The Corporation considers its capital structure to include shareholders' equity of \$71,724,962 and \$72,078,712 and working capital of \$44,332,438 and \$53,919,100 as at March 31, 2011 and December 31, 2010, respectively.

As the Corporation is in the exploration phase and has not yet generated funds from operations, it is unable to monitor capital based on the ratio of net debt to annualized funds generated from operations. Therefore, the Corporation monitors capital based on the projected rate of capital spending and available funds on hand. In order to adjust the capital structure, the Corporation may from time to time issue shares and/or adjust its capital spending levels.

UNAUDITED NOTES (continued)

On March 19 and 25, 2010, the Corporation closed a non-brokered private placement financing for aggregate gross proceeds of \$4,167,409 through the issuance of 5,556,545 Private Placement Units. In addition to the private placement, on May 28, 2010 and June 11, 2010, the Corporation closed its IPO and the over-allotment to the IPO for gross proceeds of \$52,500,000 and \$4,858,750, respectively. The Corporation will utilize these funds for future operations including seismic and drilling activities planned for the remainder of 2011 in addition to working capital requirements. Management believes that these funds will allow the Corporation to operate well into 2012.

**7. INVESTMENT IN PETROFRONTIER CORP.**

	<b>March 31, 2011</b>	December 31, 2010
	(\$)	(\$)
Balance, beginning of period	<b>2,743,060</b>	1,301,452
Loss on equity investment	<b>(71,405)</b>	(375,067)
Other comprehensive gain	<b>(6,350)</b>	43,592
Dilution gain	-	1,773,083
<b>Balance, end of period</b>	<b>2,665,305</b>	2,743,060

**8. SUPPLEMENTAL CASH FLOW INFORMATION**

**Changes in non-cash working capital**

	<b>Period Ended March 31</b>	
	<b>2011</b>	2010
	(\$)	(\$)
<b>Subscription receivable</b>	-	(401,250)
<b>Accounts receivable</b>	<b>(768,628)</b>	(59,375)
<b>Prepaid expenses and deposits</b>	<b>(251,452)</b>	5,575
<b>Accounts payables and accrued liabilities</b>	<b>1,884,546</b>	109,405
<b>Other</b>	<b>(73,910)</b>	18,297
<b>Change in non-cash working capital</b>	<b>790,556</b>	(327,348)
<b>Relating to:</b>		
<b>Operating activities</b>	<b>77,162</b>	57,290
<b>Financing activities</b>	-	(401,250)
<b>Investing activities</b>	<b>713,394</b>	16,612
	<b>790,556</b>	(327,348)

**9. FINANCIAL INSTRUMENTS**

**Fair value of financial instruments**

The fair value of accounts receivable, accounts payable and accrued liabilities approximate their carrying amounts due to their short-terms to maturity.

UNAUDITED NOTES (continued)

The Corporation uses forward foreign currency exchange rate contracts in order to reduce its exposure to currency risks from fluctuations in the Canadian and Australian currencies. These contracts are classified as Level 2 within the fair value hierarchy and are recorded on the Corporation's balance sheet as an asset or liability based on reporting date fair values. As at March 31, 2011 the Corporation had the following forward foreign currency exchange rate contracts:

Type of contract	AUD bought	CAD sold	Rate	Term	Mark to Market Fair Value
	(\$)	(\$)	(%)		
Currency exchange	2,500,000	2,088,000	83.52	June 9, 2011	422,184
Currency exchange	2,500,000	2,077,750	83.11	September 9, 2011	408,364
<b>Total</b>					<b>830,548</b>

**Fair value of financial instruments**

The Corporation's financial instruments recognized in the balance sheet consist of cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities and foreign exchange forward contracts. The fair value of these financial instruments, except for foreign exchange forward contracts, approximates their carrying amounts due to their short terms to maturity.

As the foreign exchange forward contracts are designated as held-for-trading they are carried at fair value.

The Corporation classifies the fair value of the financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument.

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level.

The fair value of accounts receivable, accounts payable and accrued liabilities approximate their carrying amounts due to their short-terms to maturity.

**Credit risk**

As the Corporation is currently in the exploration phase, accounts receivable is limited to amounts largely pertaining to joint venture receivables and income tax credits on goods and services taxes in Australia and in Canada which are subject to normal credit risks.

**Currency risks**

The Corporation is exposed to exchange rate fluctuations in relation to amounts due to services it must purchase in foreign currencies including the Australian and United States dollars. As at March 31, 2011, the Corporation's cash and cash equivalents included approximately \$2,283,411 denominated in Australian dollars. Management continually monitors the Corporation's currency risk and believes this exposure is not material to its overall operations.

**Interest rate risk**

At March 31, 2011, the Corporation had no outstanding bank debt and is not exposed to interest rate risk at this time.

**Liquidity risk**

Liquidity risk relates to the risk the Corporation will encounter difficulty in meeting obligations associated with financial liabilities. The financial liabilities on its balance sheet are limited to accounts payable. The Corporation anticipates it will continue to have adequate liquidity to fund its existing financial liabilities and ongoing operating and general administrative expenses through its existing working capital. The pace of future capital investment and the related financial liabilities incurred from the capital investment program will be dependent upon the Corporation's capacity to secure additional equity financing on favorable terms. The Corporation had no defaults or breaches on any of its financial liabilities.

**Market risk**

Market risk is comprised of currency risk, interest rate risk and other price risks which consist primarily of fluctuations in petroleum and natural gas prices. With no bank debt as at March 31, 2011, there is no direct exposure to fluctuations in interest rates. As the Corporation is in the exploration stage, fluctuations in commodity prices bear no direct risk to the Corporation's revenue, however adverse fluctuations in interest rates, exchange rates and commodity prices may indirectly affect the Corporation's ability to obtain equity financing and future bank debt, if required, and on favorable terms.

**10. COMMITMENTS**

The following table summarizes all of the Corporation's commitments over the following five years as at March 31, 2011:

	<b>Total</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Drilling commitments	31,823,903	27,812,090	4,011,813	-	-	-
Operating leases	639,093	348,760	185,885	104,448	-	-
	<b>32,462,996</b>	<b>28,160,850</b>	<b>4,197,698</b>	<b>104,448</b>	-	-

## 11. RECONCILIATIONS OF GAAP TO IFRS

For all periods up to and including the year ended December 31, 2010, the Corporation prepared its consolidated financial statements in accordance with previous Canadian GAAP. As stated in Note 3, these are the Corporation's first set of condensed consolidated interim financial statements prepared in accordance with IAS 34.

Accordingly, the Corporation has prepared condensed consolidated interim financial statements which comply with IFRS applicable for periods beginning on or after January 1, 2011. The accounting policies set out in note 3 have been applied in preparing the condensed interim consolidated financial statements for the period ended March 31, 2011, January 1, 2010 transitional consolidated statement of financial position and the comparative financial statements for the periods ended March 31, 2010 and December 31, 2010. IFRS 1 *First-time Adoption of IFRS* and International Accounting Standard ("IAS") 34 *Interim Financial Reporting* have been applied to these condensed interim Consolidated Financial Statements.

As a result of applying IFRS, the Corporation is required to present comparative information with the application of IFRS accounting policies as at the January 1, 2010 transition date and comparative information for the three months ended March 31, 2010 and for the year ended December 31, 2010. IFRS 1 provides for certain mandatory and optional exemptions for first-time adopters to alleviate the retrospective application of all the accounting standards under IFRS.

This note explains the principle adjustments made by the Corporation in restating its GAAP consolidated statement of financial position as at January 1, 2010, March 31, 2010, and December 31, 2010, and its GAAP consolidated statement of loss and comprehensive loss for the periods ending March 31, 2010 and December 31, 2010. The following are the significant accounting policies that the Corporation adopted under IFRS that resulted in transition adjustments and the IFRS 1 exemptions taken by the Corporation at January 1, 2010:

***Fair Value or revaluation as deemed cost*** – exemption not applied: the Corporation elected to restate the property, plant and equipment balance to the historical cost basis that would have existed if IFRS policies had been in place since inception.

***Share-based payment transactions*** – exemption applied: the Corporation has elected to use the option under IFRS 1 to revalue only those options that were unvested at January 1, 2010. All unvested options have been revalued under IFRS 2, Share-Based Payment.

**RECONCILIATION OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT JANUARY 1, 2010**

	Notes	GAAP	IFRS Adjustments	IFRS
<b>ASSETS</b>				
<b>Current</b>				
Cash and cash equivalents		348,356	-	<b>348,356</b>
Accounts receivable		36,287	-	<b>36,287</b>
Prepaid expenses and deposits		40,941	-	<b>40,941</b>
		425,584	-	<b>425,584</b>
Investment in PetroFrontier Corp.		1,301,452	-	<b>1,301,452</b>
Corporate assets		167,422		<b>167,422</b>
Exploration and evaluation assets	<b>11B</b>	10,674,034	(300,085)	<b>10,373,949</b>
		12,568,492	(300,085)	<b>12,268,407</b>
<b>LIABILITIES</b>				
<b>Current</b>				
Accounts payable and accrued liabilities		309,121	-	<b>309,121</b>
<b>SHAREHOLDERS' EQUITY</b>				
Share capital		12,071,933	-	<b>12,071,933</b>
Contributed surplus	<b>11A</b>	2,539,574	36,914	<b>2,576,488</b>
Accumulated other comprehensive income		1,385,642	-	<b>1,385,642</b>
Deficit	<b>11A, 11B</b>	(3,737,778)	(336,999)	<b>(4,074,777)</b>
		12,259,371	(300,085)	<b>11,959,286</b>
		12,568,492	(300,085)	<b>12,268,407</b>

**RECONCILIATION OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT MARCH 31, 2010**

	Notes	GAAP	IFRS Adjustments	IFRS
<b>ASSETS</b>				
<b>Current</b>				
Cash and cash equivalents		3,840,366	-	<b>3,840,366</b>
Subscription receivable		401,250	-	<b>401,250</b>
Accounts receivable		95,665	-	<b>95,665</b>
Prepaid expenses and deposits		35,366	-	<b>35,366</b>
		4,372,647	-	<b>4,372,647</b>
Investment in PetroFrontier Corp.		1,264,432	-	<b>1,264,432</b>
Corporate assets		170,932	-	<b>170,932</b>
Exploration and evaluation assets	<b>11B</b>	10,719,675	(300,085)	<b>10,419,590</b>
		16,527,686	(300,085)	<b>16,227,601</b>
<b>LIABILITIES</b>				
<b>Current</b>				
Accounts payable and accrued liabilities		418,526	-	<b>418,526</b>
<b>SHAREHOLDERS' EQUITY</b>				
Share capital		15,660,994	-	<b>15,660,994</b>
Warrants		555,655	-	<b>555,655</b>
Contributed surplus	<b>11A</b>	2,558,175	41,372	<b>2,599,547</b>
Accumulated other comprehensive income		1,384,522	-	<b>1,384,522</b>
Deficit	<b>11A</b>	(4,050,186)	(341,457)	<b>(4,391,643)</b>
		16,109,160	(300,085)	<b>15,809,075</b>
		16,527,686	(300,085)	<b>16,227,601</b>

**RECONCILIATION OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2010**

	Notes	GAAP	IFRS Adjustments	IFRS
<b>ASSETS</b>				
<b>Current</b>				
Cash and cash equivalents		51,338,334	-	<b>51,338,334</b>
Accounts receivable		2,468,420	-	<b>2,468,420</b>
Prepaid expenses and deposits		572,597	-	<b>572,597</b>
Financial instruments		1,233,414	-	<b>1,233,414</b>
		55,612,765	-	<b>55,612,765</b>
Investment in PetroFrontier Corp.		2,743,060	-	<b>2,743,060</b>
Corporate assets		224,409	-	<b>224,409</b>
Oil and gas properties	<b>11B</b>	15,492,228	(300,085)	<b>15,192,143</b>
		74,072,462	(300,085)	<b>73,772,377</b>
<b>LIABILITIES</b>				
<b>Current</b>				
Accounts payable and accrued liabilities		1,693,665	-	<b>1,693,665</b>
<b>SHAREHOLDERS' EQUITY</b>				
Share capital	<b>11A</b>	67,261,558	(6,607)	<b>67,254,951</b>
Warrants		3,328,595	-	<b>3,328,595</b>
Contributed surplus	<b>11A</b>	4,868,156	388,767	<b>5,256,923</b>
Accumulated other comprehensive income		1,817,526	-	<b>1,817,526</b>
Deficit	<b>11A, 11B</b>	(4,897,038)	(682,245)	<b>(5,579,283)</b>
		72,378,797	(300,085)	<b>72,078,712</b>
		74,072,462	(300,085)	<b>73,772,377</b>

**RECONCILIATION OF CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS  
FOR THE THREE MONTHS ENDED MARCH 31, 2010**

	Notes	GAAP	IFRS Adjustments	IFRS
<b>EXPENSES</b>				
General and administrative		201,648	-	<b>201,648</b>
Share-based compensation	<b>11A</b>	61,935	4,458	<b>66,393</b>
Depreciation		8,867	-	<b>8,867</b>
<b>Results from operating activities</b>		<b>272,450</b>	<b>4,458</b>	<b>276,908</b>
Finance income		139	-	<b>139</b>
Finance costs		(3,077)	-	<b>(3,077)</b>
<b>Net finance costs</b>		<b>(2,938)</b>	<b>-</b>	<b>(2,938)</b>
Loss on equity investment		(37,020)	-	<b>(37,020)</b>
<b>NET LOSS</b>		<b>(312,408)</b>	<b>(4,458)</b>	<b>(316,866)</b>
<b>OTHER COMPREHENSIVE LOSS</b>				
Foreign exchange loss on translation of foreign operations		(1,120)	-	<b>(1,120)</b>
<b>COMPREHENSIVE LOSS</b>		<b>(313,528)</b>	<b>(4,458)</b>	<b>(317,986)</b>

**RECONCILIATION OF CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Notes	GAAP	IFRS Adjustments	IFRS
<b>OTHER INCOME</b>				
Realized gain on financial instruments		601,075	-	<b>601,075</b>
Unrealized gain on financial instruments		1,233,414	-	<b>1,233,414</b>
		1,834,489	-	<b>1,834,489</b>
<b>EXPENSES</b>				
General and administrative		1,854,355	-	<b>1,854,355</b>
Share-based compensation	<b>11A</b>	2,759,218	345,245	<b>3,104,463</b>
Depreciation		57,725	-	<b>57,725</b>
Bad debt recovery		(38,972)	-	<b>(38,972)</b>
		4,632,326	345,245	<b>4,977,571</b>
<b>Results from operating activities</b>		<b>(2,797,837)</b>	<b>(345,245)</b>	<b>(3,143,082)</b>
Finance income		267,194	-	<b>267,194</b>
Finance costs		(26,633)	-	<b>(26,633)</b>
<b>Net finance income</b>		<b>240,561</b>	-	<b>240,561</b>
Gain on equity investment		1,398,016	-	<b>1,398,016</b>
<b>NET LOSS</b>		<b>(1,159,260)</b>	<b>(345,245)</b>	<b>(1,504,505)</b>
<b>OTHER COMPREHENSIVE EARNINGS</b>				
Gain on equity investment		43,592	-	<b>43,592</b>
Foreign exchange gain on translation of foreign operations		388,292	-	<b>388,292</b>
<b>COMPREHENSIVE LOSS</b>		<b>(727,376)</b>	<b>(345,245)</b>	<b>(1,072,621)</b>

**Notes to the reconciliations**

**A. Share-based payments**

Under Canadian GAAP, the Corporation recognized an expense related to share-based payments on a straight-line basis over the vesting period of the options. Under IFRS, the expense is calculated using graded vesting. The net result is an increase to contributed surplus and an increase to deficit.

**B. Oil and gas properties**

Under Canadian GAAP, the Corporation followed the full cost method of accounting for oil and natural gas operations, whereby all costs related to the acquisition, exploration and development of oil and natural gas reserves were capitalized. Under IFRS, costs incurred prior to receiving the legal rights to explore an area are expensed when incurred. The net result is a decrease to exploration & evaluation assets and an increase to deficit.