



Condensed Consolidated Interim Financial Statements  
for the three & six months ended  
June 30, 2011 and 2010  
*(Unaudited)*

## Rodinia Oil Corp.

### CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

(Canadian Dollars)

(Unaudited)

As at	June 30, 2011	December 31, 2010
		(Note 3)
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	21,824,427	44,755,847
Term deposits (Note 4)	10,000,000	6,582,487
Accounts receivable	4,720,870	2,468,420
Prepaid expenses and deposits	215,156	572,597
Financial instruments (Note 10)	505,527	1,233,414
	37,265,980	55,612,765
Investment in PetroFrontier Corp. (Note 8)	3,363,326	2,743,060
Corporate assets (Note 5)	361,200	224,409
Exploration and evaluation assets (Note 5)	40,769,531	15,192,143
	<b>81,760,037</b>	<b>73,772,377</b>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	7,583,275	1,693,665
	7,583,275	1,693,665
Asset retirement obligations (Note 6)	869,438	-
	<b>8,452,713</b>	<b>1,693,665</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 7)	68,606,449	67,254,951
Warrants (Note 7)	3,221,095	3,328,595
Contributed surplus (Note 7)	8,898,355	5,256,923
Accumulated other comprehensive income (Note 7)	2,572,111	1,817,526
Deficit	(9,990,686)	(5,579,283)
	<b>73,307,324</b>	<b>72,078,712</b>
	<b>81,760,037</b>	<b>73,772,377</b>

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

Commitments (Note 12)

## Rodinia Oil Corp.

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

(Canadian Dollars)  
(Unaudited)

	Three Months ended June 30		Six Months ended June 30	
	2011	2010 (Note 12)	2011	2010 (Note 12)
<b>EXPENSES</b>				
General and administrative	854,543	934,304	1,624,244	1,135,952
Financial instruments	(191,979)	(369,612)	(227,112)	(369,612)
Depreciation	3,257	8,945	67,618	17,812
Share-based compensation (Note 7)	982,207	1,578,322	3,807,155	1,644,715
Foreign exchange loss	18,611	-	25,283	-
	<b>1,666,639</b>	<b>2,151,959</b>	<b>5,297,188</b>	<b>2,428,867</b>
<b>Results from operating activities</b>	<b>(1,666,639)</b>	<b>(2,151,959)</b>	<b>(5,297,188)</b>	<b>(2,428,867)</b>
Finance income	217,303	24,629	316,842	24,768
Finance costs	(3,083)	(16,176)	(7,032)	(19,253)
<b>Net finance income</b>	<b>214,220</b>	<b>8,453</b>	<b>309,810</b>	<b>5,515</b>
Gain (loss) on equity investment (Note 8)	647,380	(62,718)	575,975	(99,738)
<b>NET LOSS</b>	<b>(805,039)</b>	<b>(2,206,224)</b>	<b>(4,411,403)</b>	<b>(2,523,090)</b>
<b>OTHER COMPREHENSIVE EARNINGS (LOSS)</b>				
Gain (loss) on equity investment (Note 8)	50,641	(12,343)	44,291	(12,343)
Foreign exchange gain (loss) on translation of foreign operations	932,153	(427,247)	710,294	(428,367)
<b>COMPREHENSIVE EARNINGS (LOSS)</b>	<b>177,755</b>	<b>(2,645,814)</b>	<b>(3,656,818)</b>	<b>(2,963,800)</b>
Deficit, beginning of period	(9,185,647)	(4,391,643)	(5,579,283)	(4,074,777)
Deficit, end of period	(9,990,686)	(6,597,867)	(9,990,686)	(6,597,867)
<b>Net loss per share</b>				
<b>Basic and diluted</b> (Note 7)	<b>(0.01)</b>	<b>(0.03)</b>	<b>(0.04)</b>	<b>(0.05)</b>

See accompanying 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					(4,411,403)	(4,411,403)
Gain on equity investment				44,291		44,291
Foreign exchange gain on translation of foreign operations				710,294		710,294
Issued on exercise of warrants and stock options	1,351,498	(107,500)	(165,723)			1,078,275
Share-based compensation			3,807,155			3,807,155
<b>Balance at June 30, 2011</b>	<b>68,606,449</b>	<b>3,221,095</b>	<b>8,898,355</b>	<b>2,572,111</b>	<b>(9,990,686)</b>	<b>73,307,324</b>
Balance at January 1, 2010	12,071,933	-	2,576,488	1,385,642	(4,074,777)	11,959,286
Net loss					(2,523,090)	(2,523,090)
Loss on equity investment				(12,343)		(12,343)
Foreign exchange loss on translation of foreign operations				(428,367)		(428,367)
Issued on exercise of warrants and stock options	58,188,987	3,574,405	(37,233)			61,726,159
Issued for employee compensation	111,750	6,667				118,417
Issued for GORR	86,517					86,517
Share issue costs	(4,021,515)	(223,477)				(4,244,992)
Share-based compensation			1,551,381			1,551,381
Balance at June 30, 2010	66,437,672	3,357,595	4,090,636	944,932	(6,597,867)	68,232,968

See accompanying notes to the condensed consolidated interim financial statements

# Rodinia Oil Corp.

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

(Canadian Dollars)  
(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
<b>Cash provided by (used in)</b>				
<b>OPERATING</b>				
Net loss	(805,039)	(2,206,224)	(4,411,403)	(2,523,090)
Unrealized loss (gain) on financial instruments	325,021	(369,612)	727,888	(369,612)
Loss (gain) on equity investment	(647,380)	62,718	(575,975)	99,738
Share-based compensation	982,207	1,578,322	3,807,155	1,644,715
Depreciation	3,257	8,945	67,618	17,812
Net finance income	(214,220)	(8,453)	(309,810)	(5,515)
	(356,154)	(934,304)	(694,527)	(1,135,952)
Change in non-cash working capital (Note 9)	2,741,974	196,231	3,566,522	(130,787)
	2,385,820	(738,073)	2,871,995	(1,266,739)
<b>FINANCING</b>				
Issuance of Common Shares and warrants	-	57,358,750	-	61,526,159
Share issue costs	-	(4,153,882)	-	(4,244,992)
Issuance of Common Shares from exercise of warrants and stock options	422,400	200,000	1,078,275	200,000
Interest paid	(3,083)	(16,176)	(7,032)	(19,253)
	419,317	53,388,692	1,071,243	57,461,914
<b>INVESTING</b>				
Exploration and evaluation expenditures	(14,389,284)	(252,863)	(23,909,015)	(305,418)
Corporate asset expenditures	(201,162)	(12,377)	(204,409)	(12,177)
Interest received	249,863	24,629	409,893	24,768
	(14,340,583)	(240,611)	(23,703,531)	(292,827)
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	280,378	(50,996)	246,386	(51,326)
Increase (decrease) in cash and cash equivalents	(11,255,068)	52,359,012	(19,513,907)	55,851,022
Cash and cash equivalents and term deposits, beginning of the period	43,079,495	3,840,366	51,338,334	348,356
<b>Cash and cash equivalents and term deposits, end of the period</b>	<b>31,824,427</b>	<b>56,199,378</b>	<b>31,824,427</b>	<b>56,199,378</b>

See accompanying 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 condensed interim consolidated financial statements of the Corporation as at and for the three and six months ended June 30, 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 AND GOING CONCERN

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 June 30, 2011, the Corporation had working capital surplus of \$29,682,705 a deficit of \$9,990,686 and a net loss for the three, and six months ended June 30, 2011 of \$805,039 and \$4,411,403, respectively. 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 May 28, 2012. The Corporation will utilize these funds for future operations including seismic and drilling activities planned for 2011.

## 3. BASIS OF PRESENTATION AND ADOPTION OF IFRS

### A) Statement of compliance

These condensed interim consolidated financial statements for the three and six months ended June 30, 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 consolidated financial statements in accordance with previous Canadian generally accepted accounting principles (“GAAP”). The accounting policies followed in these interim financial statements are the same as those applied in the Corporation’s interim financial statements for the period ended March 31, 2011. The Corporation has consistently applied the same accounting policies throughout all periods presented, as if these policies had always been in effect.

## UNAUDITED NOTES (continued)

The adoption of IFRS resulted in selected changes to the Corporation's accounting policies as compared to those disclosed in the Corporation'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 13 along with reconciliations illustrating the impact of the transition to IFRS for the comparable periods as at and for the three and six months ended June 30, 2010.

These condensed interim consolidated financial statements should be read in conjunction with the Corporation's Canadian GAAP annual consolidated financial statements for the year ended December 31, 2010, and the Corporation's interim financial statements for the quarter ended March 31, 2011, prepared in accordance with IFRS.

The consolidated financial statements were authorized for issue by the Audit Committee on August 29, 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.

## **4. TERM DEPOSITS**

	<b>June 30, 2011</b>	December 31, 2010
Term Deposits (\$)	<b>10,000,000</b>	6,582,487
Effective interest rate (%) on term deposits	<b>1.38</b>	1.25
Average number of days to maturity for term deposits	<b>149</b>	160

**5. PROPERTY, PLANT AND EQUIPMENT**

	Exploration & Evaluation Assets	Corporate Assets
<b>Cost:</b>	(\$)	(\$)
At December 31, 2010	15,192,143	364,988
Additions	25,577,388	204,409
<b>At June 30, 2011</b>	<b>40,769,531</b>	<b>569,397</b>
<b>Accumulated depreciation:</b>		
At December 31, 2010	-	(140,579)
Depreciation	-	(67,618)
<b>At June 30, 2011</b>	<b>-</b>	<b>(208,197)</b>
<b>Net Book Value:</b>		
<b>At June 30, 2011</b>	<b>40,769,531</b>	<b>361,200</b>
At December 31, 2010	15,192,143	224,409

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

**6. ASSET RETIREMENT OBLIGATIONS**

The total future asset retirement obligations were estimated by management based on the expected costs to abandon and restore the well sites and the facilities and the estimated timing of costs to be incurred in future periods. The Corporation has estimated that the total undiscounted amount of cash flows required to settle its retirement obligations at June 30, 2011 was \$1,001,967, which will be incurred between 2011 and 2021. The Corporation used a risk free rate of 4.7% - 5.2% to calculate the present value of the asset retirement obligations and an inflation rate of 3.6% was used to inflate the costs.

Changes to the asset retirement obligations were as follows:

	June 30, 2011
	(\$)
Balance, beginning of period	-
Liabilities incurred	869,438
<b>Balance, end of period</b>	<b>869,438</b>

**7. 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**

Issued	Period ended June 30, 2011		Year Ended December 31, 2010	
	Number of shares	Amount (\$)	Number of shares	Amount (\$)
<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	547,400	588,123	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>107,104,440</b>	<b>68,606,449</b>	<b>105,994,540</b>	<b>67,254,951</b>
<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>	<b>32,854,111</b>	<b>3,328,595</b>

**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 June 30, 2011:

	June 30, 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	(547,400)	\$0.77	(1,700,000)	\$0.40
Expired	(6,666)	\$3.15	(58,334)	\$0.91
Granted	2,125,000	\$3.06	5,165,000	\$1.02
<b>Balance, end of period</b>	<b>9,802,600</b>	<b>\$1.35</b>	8,231,666	\$0.87

The following table summarizes stock options outstanding and exercisable under the plan at June 30, 2011:

Options outstanding				Options exercisable		
Exercise price	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	0.1	\$0.20	300,000	\$0.20	
\$0.40	600,000	2.4	\$0.40	600,000	\$0.40	
\$0.75	2,150,000	1.6	\$0.75	2,016,666	\$0.75	
\$1.00	4,384,267	3.9	\$1.00	2,865,927	\$1.00	
\$1.75	250,000	4.4	\$1.75	83,333	\$1.75	
\$2.25	75,000	4.8	\$2.25	25,000	\$2.25	
\$2.28	100,000	4.6	\$2.28	33,333	\$2.28	
\$2.85	100,000	4.5	\$2.85	33,333	\$2.85	
\$3.15	1,843,333	4.5	\$3.15	616,662	\$3.15	
	9,802,600	3.3	\$1.35	6,574,254	\$1.06	

**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:

	June 30, 2011	December 31, 2010
	(\$)	(\$)
Balance, beginning of year	5,256,923	2,576,488
Share-based compensation expense	3,807,155	2,986,045
Exercise of stock options	(165,723)	(305,610)
<b>Balance, end of period</b>	<b>(8,898,355)</b>	5,256,923

UNAUDITED NOTES (continued)

The fair value of the options granted during the quarter ended June 30, 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 June 30, 2011</b>
Risk free interest rate (%)	2.25
Expected life (years)	5.0
Expected volatility (%)	118
Expected dividends	-
<b>Weighted average fair value of options granted</b>	<b>2.48</b>

**E) Per common share amounts**

The basic weighted average number of Common Shares outstanding for the three and six months ended June 30 2011 were 106,752,915 and 106,505,173, respectively (68,490,826 and 55,240,926 for the same period in the prior year). The Corporation has recorded a loss for the three and six months ended June 30, 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>June 30, 2011</b>	December 31, 2010
	(\$)	(\$)
Balance, beginning of year	<b>1,817,526</b>	1,385,642
Gain (loss) on equity investment	<b>44,291</b>	43,592
Foreign exchange gain (loss) on translation of foreign operations	<b>710,294</b>	388,292
<b>Balance, end of period</b>	<b>2,572,111</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. As at June 30, 2011, the Corporation considers its capital structure to include shareholders' equity of \$73,307,324 (December 31, 2010 - \$72,078,712) and working capital of \$29,682,705 (December 31, 2010 - \$53,919,100).

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.

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

UNAUDITED NOTES (continued)

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.

**8. INVESTMENT IN PETROFRONTIER CORP.**

	<b>June 30, 2011</b>	December 31, 2010
	(\$)	(\$)
Balance, beginning of period	<b>2,743,060</b>	1,301,452
Loss on equity investment	<b>(204,780)</b>	(375,067)
Other comprehensive gain	<b>44,291</b>	43,592
Dilution gain	<b>780,755</b>	1,773,083
<b>Balance, end of period</b>	<b>3,363,326</b>	2,743,060

**9. SUPPLEMENTAL CASH FLOW INFORMATION**

**Changes in non-cash working capital**

	<b>Three Months Ended June 30</b>		<b>Six Months Ended June 30</b>	
	2011	2010	2011	2010
	(\$)	(\$)	(\$)	(\$)
Accounts receivable	<b>(1,576,873)</b>	189,271	<b>(2,345,501)</b>	(271,357)
Prepaid expenses and deposits	<b>608,893</b>	(18,992)	<b>357,441</b>	(13,417)
Accounts payables and accrued liabilities	<b>4,005,064</b>	21,276	<b>5,889,610</b>	130,681
Other	<b>(295,110)</b>	4,676	<b>(335,028)</b>	23,306
<b>Change in non-cash working capital</b>	<b>2,741,974</b>	196,231	<b>3,566,522</b>	(130,787)

**10. FINANCIAL INSTRUMENTS**

**Fair value of financial instruments**

The Corporation's financial instruments recognized in the statement of financial position 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

## UNAUDITED NOTES (continued)

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.

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

### Forward foreign currency exchange rate contracts

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 statement of financial position as an asset or liability based on reporting date fair values. As at June 30, 2011 the Corporation had the following forward foreign currency exchange rate contracts:

AUD bought	CAD sold	Rate	Term	Mark to Market Fair Value
(\$)	(\$)	(%)		
4,000,000	4,125,200	103.13	July 25, 2011	4,955
4,000,000	4,113,200	102.83	August 22, 2011	5,182
2,500,000	2,077,750	83.11	September 9, 2011	490,557
1,000,000	1,025,300	102.53	September 21, 2011	1,166
1,000,000	1,022,300	102.23	October 21, 2011	1,071
1,000,000	1,019,300	101.93	November 21, 2011	954
1,000,000	1,016,300	101.63	December 20, 2011	1,082
1,000,000	1,013,800	101.38	January 19, 2012	638
1,000,000	1,011,300	101.13	February 21, 2012	(78)
<b>Total</b>				<b>505,527</b>

### 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 June 30, 2011, the Corporation's cash and cash equivalents included approximately \$1,168,518 denominated in Australian dollars. A decrease or increase of one percent to the Australia / Canada foreign exchange rate would have decreased or increased the other comprehensive loss by

## UNAUDITED NOTES (continued)

\$11,976 for the six months ended June 30, 2011. Management continually monitors the Corporation's currency risk and believes this exposure is not material to its overall operations.

### Interest rate risk

At June 30, 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 the statement of financial position 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. The Corporation expects to satisfy obligations under accounts payable in less than one year.

### 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 June 30, 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.

## 11. RELATED PARTY TRANSACTIONS

In accordance with the terms of an Administrative Services Agreement ("ASA"), the Corporation provides certain administrative services and office accommodations to PetroFrontier Corp. ("PetroFrontier") on a cost recovery basis. PetroFrontier and the Corporation share five common directors and three common executives. ASA recoveries are recorded to general and administrative expenses in the Corporation's financial statements. For the three and six months ended June 30, 2011, the Corporation charged \$230,800 of ASA recoveries. Included in accounts receivable as at June 30, 2011, is a \$306,415 receivable due from PetroFrontier.

## 12. COMMITMENTS

The following table summarizes all of the Corporation's commitments over the following five years as at June 30, 2011:

	<b>Total</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
	(\$)	(\$)	(\$)	(\$)		
Drilling commitments	32,848,845	24,566,805	8,282,040	-	-	-
Operating leases	513,300	220,344	188,508	104,448	-	-
	<b>33,362,145</b>	<b>24,787,149</b>	<b>8,470,548</b>	<b>104,448</b>	-	-

### 13. RECONCILIATIONS OF GAAP TO IFRS

This note explains the principle adjustments made by the Corporation in restating its GAAP consolidated statement of financial position as at June 30, 2010, and its GAAP consolidated statement of loss and comprehensive loss for the three and six months ended June 30, 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.

***Cash flow statement*** – the transition from Canadian GAAP to IFRS has had no material effect upon the reported cash flows generated by the Corporation.

**RECONCILIATION OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT JUNE 30, 2010**

	Notes	GAAP	IFRS Adjustments	IFRS
<b>ASSETS</b>				
<b>Current</b>				
Cash and cash equivalents		56,199,378	-	56,199,378
Accounts receivable		307,644	-	307,664
Prepaid expenses and deposits		54,358	-	54,358
Financial instruments		304,679	-	304,679
		56,866,059	-	56,866,059
Financial instruments		64,933	-	64,933
Investment in PetroFrontier Corp.		1,189,371	-	1,189,371
Corporate assets		161,787	-	161,787
Exploration and evaluation assets	<b>13B</b>	10,690,705	(300,085)	10,390,620
		68,972,855	(300,085)	68,672,770
<b>LIABILITIES</b>				
<b>Current</b>				
Accounts payable and accrued liabilities		439,802	-	439,802
<b>SHAREHOLDERS' EQUITY</b>				
Share capital		66,437,672	-	66,437,672
Warrants		3,357,595	-	3,357,595
Contributed surplus	<b>13A</b>	4,023,725	66,911	4,090,636
Accumulated other comprehensive income		944,932	-	944,932
Deficit	<b>13A</b>	(6,230,871)	(366,996)	(6,597,867)
		68,533,053	(300,085)	68,232,968
		68,972,855	(300,085)	68,672,770

**RECONCILIATION OF CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS FOR THE THREE MONTHS ENDED JUNE 30, 2010**

	Notes	GAAP	IFRS Adjustments	IFRS
<b>OTHER INCOME</b>				
Financial instruments		369,612	-	<b>369,612</b>
		369,612	-	<b>369,612</b>
<b>EXPENSES</b>				
General and administrative		934,304	-	<b>934,304</b>
Share-based compensation	<b>13A</b>	1,552,783	25,539	<b>1,578,322</b>
Depreciation		8,945	-	<b>8,945</b>
		2,496,032	25,539	<b>2,521,571</b>
<b>Results from operating activities</b>		(2,126,420)	(25,539)	<b>(2,151,959)</b>
Finance income		24,629	-	<b>24,629</b>
Finance costs		(16,176)	-	<b>(16,176)</b>
<b>Net finance costs</b>		8,453	-	<b>8,453</b>
Loss on equity investment		(62,718)	-	<b>(62,718)</b>
<b>NET LOSS</b>		(2,180,685)	(25,539)	<b>(2,206,224)</b>
<b>OTHER COMPREHENSIVE LOSS</b>				
Loss on equity investment		(12,343)	-	<b>(12,343)</b>
Foreign exchange loss on translation of foreign operations		(427,247)	-	<b>(427,247)</b>
<b>COMPREHENSIVE LOSS</b>		(2,620,275)	(25,539)	<b>(2,645,814)</b>

**RECONCILIATION OF CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS FOR THE SIX MONTHS ENDED JUNE 30, 2010**

	Notes	GAAP	IFRS Adjustments	IFRS
<b>OTHER INCOME</b>				
Financial instruments		369,612	-	<b>369,612</b>
		369,612	-	<b>369,612</b>
<b>EXPENSES</b>				
General and administrative		1,135,952	-	<b>1,135,952</b>
Share-based compensation	<b>13A</b>	1,614,718	29,997	<b>1,644,715</b>
Depreciation		17,812	-	<b>17,812</b>
		2,768,482	29,997	<b>2,798,479</b>
<b>Results from operating activities</b>		(2,398,870)	(29,997)	<b>(2,428,867)</b>
Finance income		24,768	-	<b>24,768</b>
Finance costs		(19,253)	-	<b>(19,253)</b>
<b>Net finance costs</b>		5,515	-	<b>5,515</b>
Loss on equity investment		(99,738)	-	<b>(99,738)</b>
<b>NET LOSS</b>		(2,493,093)	(29,997)	<b>(2,523,090)</b>
<b>OTHER COMPREHENSIVE LOSS</b>				
Loss on equity investment		(12,343)	-	<b>(12,343)</b>
Foreign exchange loss on translation of foreign operations		(428,367)	-	<b>(428,367)</b>
<b>COMPREHENSIVE LOSS</b>		(2,933,803)	(29,997)	<b>(2,963,800)</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 and evaluation assets and an increase to deficit.