Anterra Energy Inc.
Condensed Interim Financial Statements
FOR THE SIX MONTHS ENDED June 30, 2011

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor. The accompanying unaudited interim financial statements of Anterra Energy Inc. (the “Company”) have been prepared by and are the responsibility of the management of the Company. The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

ANTERRA ENERGY INC.

Statement of Financial Position

(unaudited)

(Canadian dollars)	Note	June 30, 2011	December 31, 2010	January 1, 2010
ASSETS				
Current assets				
Cash		-	43,293	25,839
Trade and other receivables	7	1,744,639	1,083,969	878,936
Prepaid expenses and deposits		561,869	1,414,992	279,456
		2,306,508	2,542,254	1,184,231
Non-current assets				
Intangible assets	8	-	-	10,001
Evaluation and exploration assets	9	3,827,723	3,079,706	678,000
Property, plant and equipment	10	29,455,906	25,535,564	24,466,168
		33,283,629	28,615,270	25,154,169
Total Assets		35,590,137	31,157,524	26,338,400
LIABILITIES				
Current liabilities				
Trade and other payables	11	2,652,940	1,262,031	2,968,623
Bank indebtedness	12	3,126,290	1,299,841	3,277,664
Flow-through shares premium		-	-	80,002
Debentures	13	-	487,455	-
		5,779,230	3,049,327	6,326,289
Non-current assets liabilities				
Debentures	13	-	-	483,924
Decommissioning provisions	14	3,891,733	3,764,035	3,573,803
Deferred tax liability		563,305	806,231	1,822,589
		4,455,038	4,570,266	5,880,316
SHAREHOLDERS' EQUITY				
Share capital	15	31,225,812	31,085,812	19,363,152
Contributed surplus	15	2,245,164	1,483,148	1,092,825
Accumulated deficit		(8,115,107)	(9,031,029)	(6,324,182)
		25,355,869	23,537,931	14,131,795
Total Liabilities and Shareholders' Equity		35,590,137	31,157,524	26,338,400

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

ANTERRA ENERGY INC.

Condensed Statement of Comprehensive Income (Loss)

(unaudited)

(Canadian dollars)	Notes	Six months ended June 30, 2011	Six months ended June 30, 2010	Three months ended June 30, 2011	Three months ended June 30, 2010
Revenue		**5,179,134**	2,547,716	**2,683,083**	1,235,652
Royalties		**(567,599)**	(127,893)	**(369,982)**	(61,008)
		4,611,535	2,419,823	**2,313,101**	1,174,644
Operating expense		**(1,457,858)**	(1,616,319)	**(850,900)**	(722,413)
Transportation expense		**-**	(79,644)	**-**	(37,184)
Share-based payment expense	15	**(762,016)**	-	**(36,265)**	-
Depletion, depreciation and amortization	10	**(698,689)**	(800,895)	**(395,879)**	(405,579)
General and administrative		**(978,163)**	(1,064,103)	**(495,700)**	(538,472)
Income (loss) from operations		**714,809**	(1,141,138)	**534,357**	(529,004)
Finance expense		**(41,813)**	(94,744)	**11,092**	(51,134)
Income (loss) before income tax		**672,996**	(1,235,882)	**545,449**	(580,138)
Deferred tax recovery		**(242,926)**	(503,430)	**(68,831)**	(234,171)
Comprehensive income (loss)		**915,922**	(732,452)	**609,280**	(345,967)
Earnings (loss) per share	20				
Basic		**0.004**	(0.003)	**0.002**	(0.001)
Diluted		**0.004**	(0.003)	**0.002**	(0.001)

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

ANTERRA ENERGY INC.
Condensed Statement of Changes in Shareholders' Equity
(unaudited)

(Canadian dollars)	Note	Share Capital $	Contributed surplus $	Accumulated Deficit $	Total Shareholders' Equity $
As at January 1, 2010		19,363,152	1,092,825	(6,324,182)	14,131,795
Total comprehensive loss		-	-	(732,452)	(732,452)
Share issuance	15	12,000,000	-	-	12,000,000
Share issue costs, net of tax		(490,940)	-	-	(490,940)
Warrant issuance	15	153,600	-	-	153,600
As at June 30, 2010		**31,025,812**	**1,092,825**	**(7,056,634)**	**25,062,003**
As at December 31, 2010		31,085,812	1,483,148	(9,031,029)	23,537,931
Total comprehensive loss				915,922	915,922
Share-based payment expense	15		762,016		762,016
Warrant exercised for shares	15	140,000			140,000
As at June 30, 2011		**31,225,812**	**2,245,164**	**(8,115,107)**	**25,355,869**

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

ANTERRA ENERGY INC.
Condensed Statement of Cash flows
(unaudited)

(Canadian dollars)	Note	Six months ended June 30, 2011	2010
Cash provided by (used for) the following activities			
Operating activities			
Net comprehensive income (loss)		**915,922**	(732,452)
Add (deduct) items not affecting cash:			
Depletion, depreciation and amortization	10	**698,689**	800,895
Share-based payment expense	15	**762,016**	-
Deferred tax recovery		**(242,926)**	(503,430)
Accretion of decommissioning provisions		**59,263**	119,885
		2,192,964	(315,102)
Change in non-cash working capital			
Change in trade and other receivables		**(660,670)**	(498,458)
Change in prepaid expenses and deposits		**853,123**	(1,132,510)
Change in trade and other payables		**263,272**	(139,339)
Cash from (used in) operating activities		**2,648,689**	(2,085,409)
Investment activities			
Additions to property, plant and equipment	10	**(4,550,597)**	(2,213,092)
Additions to exploration and evaluation assets	9	**(748,017)**	(3,079,706)
Change in non-cash working capital		**1,127,638**	(1,641,633)
Cash used in investing activities		**(4,170,976)**	(6,934,431)
Financing activities			
Issuance of common shares	15	**140,000**	12,000,000
Share issue cost		**-**	(596,251)
Debentures repaid		**(487,455)**	(2,821)
Increase (decrease) of bank indebtedness		**1,826,449**	(2,406,927)
Cash from (used in) financing activities		**1,478,994**	**8,994,001**
Decrease (Increase) in cash		**(43,293)**	(25,839)
Cash and cash equivalents, beginning of period		**43,293**	25,839
Cash and cash equivalents, end of period		**-**	-

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

1. General information

Anterra Energy Inc. (the "Company" or "Anterra") is a public company that was incorporated under the Alberta Business Corporations Act on March 22, 2000 as Holy Smoke Capital Corp. On November 1, 2002, the Company changed its name to Anterra Corporation. On January 1, 2007, Anterra Corporation and its wholly owned subsidiaries Anterra Resources Inc. and Anterra Midstream Inc. were amalgamated under the name of Anterra Corporation. On May 1, 2007, Anterra Corporation completed an amalgamation with Resolve Energy Inc. under the name of Anterra Energy Inc. The principal activities of the Company are the exploration, development and production of petroleum and natural gas properties. The address of the registered office is #1420, 1122 4th Street SW, Calgary, Alberta.

The financial statements of the Company for the period ended June 30, 2011 were authorised for issue in accordance with a resolution of the directors on August 26, 2011.

2. Going concern

These condensed interim financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assume that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its obligations in the normal course of operation. The Company reported a net profit of $915,922 and generated a positive cash flow from operating activities of $2,648,689 for the period ended June 30, 2011. The Company had a net working capital deficit of $3,472,722 at June 30, 2011 and had an accumulated deficit of $8,115,107. The Company is in compliance with its covenants with its lender and has $5,373,710 undrawn on its credit facility.

The Company's ability to continue as a going concern is dependent upon the ability to raise capital, the generation of positive cash flow, the maintenance of its existing reserve and production base, the success of the development and exploration program and the continued support of its lender. There is no certainty that such events will occur and that sources of financing will be obtained on terms acceptable to management. Whether and when the Company can attain profitability and positive cash flows is also uncertain. These uncertainties cast significant doubt about the Company's ability to continue as going concern. The accompanying financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

3. Basis of preparation

Statement of compliance

These interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB") and using the accounting policies the Corporation expects to adopt in its consolidated financial statements as at and for the year ending December 31, 2011.

The Company adopted IFRS in accordance with IFRS 1 First-time Adoption of International Financial Reporting Standards ("IFRS 1") with a transition date to IFRS of January 1, 2010. Consequently the comparative figures for 2010 and the Company's statement of financial position as at January 1, 2010 have been restated from pre-changeover accounting principles generally accepted in Canada ("Canadian GAAP") to comply with IFRS.

The reconciliations to IFRS from the previously published Canadian GAAP consolidated financial statements are summarized in note 24. In addition, IFRS 1 allows certain exemptions from retrospective application of IFRS in the opening statement of financial position. Where these have been used they are explained in note 24.

3. Basis of preparation (continued)

The interim condensed consolidated financial statements should be read in conjunction with the Company's pre-changeover Canadian GAAP annual consolidated financial statements for the year ended December 31, 2010, as well as the Company's interim consolidated financial statements for the period ended March 31, 2011.

Basis of measurement

These condensed interim financial statements are stated in Canadian dollars and were prepared on a going concern basis, under historical cost.

Use of estimates and judgments

The preparation of financial statements in conformity with IAS34 and IFRS1 requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. Areas where estimates are significant to the condensed interim financial statements are disclosed in Note 5.

Functional and presentation currency

These condensed interim financial statements are presented in Canadian dollars, which is the Company's functional currency.

4. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these condensed interim financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

A) Basis of Consolidation

Jointly controlled operations and jointly controlled assets

Certain of the Company's exploration and development activities are conducted jointly with others, and accordingly, the condensed interim financial statements reflect only the Company's proportionate interest in such activities.

B) Cash

Cash includes cash on deposit with the bank.

C) Revenue recognition

Revenue from the sale of crude oil and natural gas is recognized when title and the risks and rewards of ownership passes to the buyer, normally at the pipeline delivery point for natural gas and at the wellhead for crude oil, and collection is reasonably assured.

D) Financial instruments

Financial instruments are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs.

At initial recognition, all financial instruments are classified in one of the following categories depending on the purpose for which the instruments were acquired:

D) Non-derivative financial instruments (continued)

Loans and receivables

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less any impairment losses, with interest expense recognized on an effective yield basis. Assets in this category include trade and other receivables.

Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis. Liabilities in this category include trade and other payables, bank indebtedness and debentures.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

E) Exploration and evaluation expenditures

Exploration and evaluation (“E&E”) expenditures incurred prior to acquiring the legal right to explore are charged to the statement of comprehensive loss as incurred.

E&E expenditures incurred subsequent to acquisition of the legal right to explore, including license and property acquisition costs, geological and geophysical expenditures, costs of drilling exploratory wells and directly attributable overhead including salaries and employee benefits, are initially capitalized as E&E assets. E&E assets are not depleted and are moved into property, plant and equipment when they are determined to meet certain technical feasibility and commercial viability thresholds as determined by management. Upon transfer to property, plant and equipment, E&E assets are assessed for impairment in addition to regular impairment reviews to ensure they are not carried at amounts above their estimated recoverable values.

F) Property, Plant, and equipment

Property, plant and equipment include petroleum and natural gas properties and furniture and fixtures.

Petroleum and natural gas properties

Expenditures on developed oil and gas properties such as drilling of development wells, tangible costs of facilities and infrastructure construction are capitalized to oil and gas properties when it is probable that a future economic benefit will flow to the Company as a result of the expenditure and the cost can be reliably measured.

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 decommissioning liabilities associated with the asset and finance charges on qualifying assets.

<u>Depletion and depreciation</u>

Oil and gas properties are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Oil and gas properties are depleted using the unit-of-production method over their reserve life, unless the useful life of the asset is less than the reserve life, in which case the asset is depreciated over its estimated useful life using the straight-line method. Future development costs are included in costs subject to depletion. Reserves and estimated future development costs are determined annually by qualified independent reserve engineers. Changes in factors such as estimates of reserves that affect unit-of-production calculations are dealt with on a prospective basis.

F) Property, plant and equipment (continued)

Disposals

Development and production assets are derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss on derecognition of the asset, calculated as the difference between the proceeds on disposal, if any, and the carrying value of the asset, is recognized in the statement of comprehensive income in the period of derecognition.

Processing facilities and furniture and fixtures

Furniture and fixtures are carried at cost less accumulated depreciation. Depreciation is charged so as to write-off the cost of these assets less residual value on a straight-line basis over their estimated useful economic lives, from 5 to 20 years.

G) Intangible assets

Intangible assets consist of certain permits, licenses, trademarks and agreements acquired by the Company. Intangible assets that are acquired by the Company and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives, up to 20 years.

H) Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. Significant financial difficulties of a debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the statement of comprehensive income. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables.

Non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its long-lived assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU's, or otherwise they are allocated to the smallest group of CGU's for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in comprehensive income.

Where an impairment loss subsequently reverses for assets with a finite useful life, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior periods. A reversal of an impairment loss is recognized immediately in comprehensive income.

I) Share-based compensation

The Company operates an equity-settled compensation plan under which it receives services from employees, directors, officers, and consultants as consideration for equity instruments of the Company.

The Company uses the Black-Scholes pricing model to estimate the fair value of equity-settled awards at the grant date. The expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are satisfied. For awards with graded vesting, the fair value of each tranche is recognized over its respective vesting period.

No expense is recognized for awards that do not ultimately vest, except for equity-settled awards where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

J) Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of the provision to be reimbursed, the expense relating to any provision is presented in the statement of comprehensive income net of the reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost in the statement of comprehensive income.

Decommissioning provisions

The Company provides for the costs of decommissioning associated with long-lived assets, including the abandonment of crude oil and natural gas wells, related facilities, compressors, gas plants, removal of equipment from leased acreage and returning such land in a condition as it is contractually obligated. The best estimate of each asset decommissioning provisions is recorded in the period a well or related asset is drilled and evaluated, constructed or acquired. The decommissioning provisions is measured in the statement of financial position at the fair value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. A corresponding amount is capitalized as part of tangible non-financial assets. Any further adjustment arising from a reassessment of estimated cost of the decommissioning provisions also has a corresponding amount capitalized, whilst the charge arising from the accretion of the discount applied to the decommissioning provisions is treated as a component of finance costs in the statement of comprehensive income.

K) Taxes

Tax expense comprises current and deferred tax. Tax is recognized in the statement of comprehensive loss except to the extent it relates to items recognized in other comprehensive income or directly in equity.

Current Income tax

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

L) Taxes (Continued)

Deferred tax

Deferred taxes are the taxes expected to be payable or recoverable on differences between the carrying amounts of assets in the statement of financial position and their corresponding tax bases used in the computation of taxable profit, and are accounted for using the liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences between the carrying amounts of assets and their corresponding tax bases. Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets in a transaction, which affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities:

- are generally recognized for all taxable temporary differences;
- are recognized for taxable temporary differences arising on investments in subsidiaries except where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future; and
- are not recognized on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred tax assets:

- are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilized; and
- are reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are not recognized in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination.

M) Flow-through shares

The Company has historically financed a portion of its exploration activities in Canada through the issuance of flow-through shares. Under the terms of these shares, the tax attributes of the related expenditures are renounced to subscribers. The proceeds on issuance of the flow-through shares are allocated between the offering of the shares and the sale of the tax benefit when the shares are issued. The premium paid by the investor in excess of the quoted price of existing common shares fair value of non-flow-through shares is recognized as a liability at the time the shares are issued and the fair value of non-flow-through shares is recorded as share capital. Upon renouncing the income tax deductions, the premium liability is reversed and a deferred tax liability is recognized.

N) Finance expenses

Finance expenses comprise interest expense on borrowings and accretion of decommissioning liability provisions.

Borrowing costs incurred for the construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the assets for their intended use or sale. All other borrowing costs are recognized in the statement of comprehensive loss using the effective interest method. Interest has been capitalized at the rate of interest applicable to the specific borrowings financing the asset, or where financed through general borrowings, at a capitalization rate representing the average interest rate on such borrowings.

O) Earnings per share ("EPS")

Basic EPS is calculated by dividing profit or loss attributable to owners of the Company (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the period. The denominator (number of units) is calculated by adjusting the shares in issue at the beginning of the period by the number of shares bought back or issued during the period, multiplied by a time-weighting factor.

Diluted EPS is calculated by adjusting the earnings and number of shares for the effects of dilutive options and other dilutive potential units. The effects of anti-dilutive potential units are ignored in calculating diluted EPS. All options are considered anti-dilutive when the Company is in a loss position.

5. Critical judgments and accounting estimates

The preparation of the condensed interim financial statements in conformity with IAS34 and IFRS1 requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the condensed interim financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual outcomes can differ from these estimates.

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the condensed interim financial statements are:

Useful lives of property, plant and equipment

The Company estimates the useful lives of property, plant and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the relevant assets. In addition, the estimation of the useful lives of property, plant and equipment are based on internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in the estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the property, plant and equipment would increase the recorded expenses and decrease the non-current assets.

Share-based payment transaction

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant and forfeit. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model including the expected life, volatility and dividend yield of the share option.

Decommissioning liabilities

Decommissioning liabilities consist of asset retirement obligations that are based, in part, on estimates of future costs to settle the obligation, in addition to estimates of the useful life of the underlying assets, the rate of inflation and the risk-free interest rate.

Fair value of financial instruments

The estimated fair value of financial assets and liabilities, by their very nature, are subject to measurement uncertainty.

5. Critical judgments and accounting estimates (continued)

Assessment of commercial reserves

Management is required to assess the level of the Company's commercial reserves together with the future expenditures to access those reserves, which are utilized in determining the depletion charge for the period, assessing whether any impairment charge is required against producing and developed, and the determination of the deferred tax liability. By their nature, these estimates of discovered proved and probable crude oil and natural gas reserves, including the estimates of future prices, costs, related future cash flows and the selection of a pre-tax risked discount rate relevant to the asset in question are subject to measurement uncertainty. The Company employs an independent reserves specialist who periodically assesses the Company's level of commercial reserves by reference to data sets including geological, geophysical and engineering data together with reports, presentation and financial information pertaining to the contractual and fiscal terms applicable to the Company's assets. Significant judgment is involved when determining whether there have been any significant changes in the Company's crude oil and natural gas reserves.

Taxes

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

6. Recent accounting pronouncements

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for accounting periods beginning after January 1, 2010 or later periods. The standards impacted that are applicable to the Company are as follows:

a) IFRS 9, 'Financial Instruments' was issued in November 2009 as the first step in the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets that must be applied starting January 1, 2013, with early adoption permitted. The IASB intends to expand IFRS 9 during the intervening period to add new requirements for classifying and measuring financial liabilities, de-recognition of financial instruments, impairment and hedge accounting. The Company is currently assessing the impact of this standard.
b) IFRS 10, 'Consolidated Financial Statements' was issued in May 2011 and will supersede the consolidation requirements in SIC-12 'Consolidation – Special Purpose Entities' and IAS 27 'Consolidated and Separate Financial Statements' effective for annual periods beginning on or after January 1, 2013, with early application permitted. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard also provides additional guidance to assist in the determination of control where this is difficult to assess. The Company is currently assessing the impact of this standard.

6. Recent accounting pronouncements (continued)

c) IFRS 11, 'Joint Arrangements' was issued in May 2011 and will supersede existing IAS 31, 'Joint Ventures' effective for annual period beginning on or after January 1, 2013, with early application permitted. IFRS 11 provides for the accounting of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard also eliminates the option to account for jointly controlled entities using the proportionate consolidation method. The Company is currently assessing the impact of this standard.

d) IFRS 12, 'Disclosure of Interests in Other Entities' was issued in May 2011 and is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Company is currently assessing the impact of this standard.

e) IFRS 13, 'Fair Value Measurement' was issued in May 2011 and sets out in a single IFRS a framework for measuring fair value. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This definition of fair value emphasizes that fair value is a market-based measurement, not an entity-specific measurement. In addition, IFRS 13 also requires specific disclosures about fair value measurement. IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Company is currently assessing the impact of this standard.

7. Trade and other receivables

	June 30, 2011	December 31, 2010	January 1, 2010
Trade receivables	2,357,755	1,688,085	957,743
Other receivables	-	9,000	66,344
	2,357,755	1,697,085	1,024,087
Less: impairment	(613,116)	(613,116)	(145,151)
	1,744,639	1,083,969	878,936

Current trade and other receivables are unsecured and non-interest bearing. Normal settlement terms for the Company are 30 days. As at June 30, 2011, trade receivables at initial value of $613,116 were impaired and fully provided for.

The following table shows the movement in the provision for impairment of trade receivables:

	Individually impaired $	**Total $**
As at January 1, 2010	145,151	145,151
Charge for the year	467,965	467,965
As at December 31, 2010 and June 30, 2011	613,116	613,116

The aging analysis of trade receivable is as follows:

			Past due but not impaired			
	Total $	**Neither past due nor impaired $**	**31-60 days $**	**61-90 days $**	**91-120 days $**	**> 121 days $**
June 30, 2011	1,744,639	704,206	178,156	175,285	26,770	660,222
December 31, 2010	1,083,969	522,067	27,105	986	9,863	523,948
January 1, 2010	878,936	473,965	190,986	58,996	51,663	103,326

In determining the recoverable of a trade or other receivable, the Company performs a risk analysis considering the type and age of the outstanding receivable and the credit worthiness of the counterparties.

8. Intangible assets

	$
Cost	
At January 1, 2010, December 31, 2010 and June 30, 2011	**319,177**
Amortization	
At January 1, 2010	(309,176)
Charge for the year	(10,001)
At December 31, 2010 and June 30, 2011	(319,177)
Net book value	
January 1, 2010	10,001
December 31, 2010	-
June 30, 2011	**-**

9. Exploration and evaluation assets

	$
Cost	
At January 1, 2010	678,000
Additions	2,401,706
At December 31, 2010	3,079,706
Additions	748,017
At June 30, 2011	3,827,723

10. Property, plant and equipment

	Petroleum and natural gas properties $	Processing facilities and furniture and fixtures $	Total $
Cost			
At January 1, 2010	23,071,319	3,108,945	26,180,264
Additions	2,479,026	22,748	2,501,774
Decommissioning provisions	67,099	6,852	73,951
At December 31, 2010	25,617,444	3,138,545	28,755,989
Additions	4,388,346	162,251	4,550,597
Decommissioning provisions	61,457	6,977	68,434
At June 30, 2011	30,067,247	3,307,773	33,375,020
Accumulated Depreciation			
At January 1, 2010	-	1,714,096	1,714,096
Charge for the year	1,396,159	110,170	1,506,329
At December 31, 2010	1,396,159	1,824,266	3,220,425
Charge for the period	$567,543	131,146	698,689
At June 30, 2011	1,963,702	1,955,412	3,919,114
Net book value			
January 1, 2010	23,749,319	1,394,849	24,466,168
December 31, 2010	24,221,285	1,314,279	25,535,564
June 30, 2011	28,103,545	1,352,361	29,455,906

Future development costs on proved reserves totaling approximately $nil (2010 - $nil) are included in the depletion calculation. During the period ended June 30, 2011, no general and administrative costs were capitalized (2010 – nil). No impairment write-down was required as at June 30, 2011.

11. Trade and other payables

	June 30, 2011	December 31, 2010	January 1, 2010
Current			
Trade payables	2,436,955	1,070,079	2,259,440
Other payables	215,985	191,952	709,183
	2,652,940	1,262,031	2,968,623

Trade payables are non-interest bearing and are normally settled on 30 day terms.

12. Bank indebtedness

	June 30, 2011	December 31, 2010	January 1, 2010
Bank Loans	2,450,000	1,299,841	3,277,664
Bank overdraft	676,290	-	-
	3,126,290	1,299,841	3,277,664
Less current portion	(3,126,290)	(1,299,841)	(3,277,664)
Long-term portion	-	-	-

At January 1, 2010, the Company had a non-revolving loan facility with an interest rate of prime plus 2% for an effective rate of 4.25% with a Canadian chartered bank. During the year ended December 31, 2010, the Company moved its banking facility to another Canadian chartered bank. At June 30, 2011, the Company had available a $8,500,000 (December 31, 2010 - $4,600,000) revolving demand loan facility. The revolving loan bears interest at prime plus 0.75% in 2011 (2010 - prime plus 2%), with an effective rate at June 30, 2011 of 3.75% (December 31, 2010 – 3.75%). Bank facilities are secured by a general assignment of book debts and a $10,000,000 first floating charge debenture over all assets of the Company.

13. Debentures

	June 30, 2011	December 31, 2010	January 1, 2010
Debentures	-	487,455	483,924
Less current portion	-	487,455	-
Long-term portion	-	-	483,924

The Company's unsecured subordinated redeemable debentures were issued with an effective date of July 31, 2009 and mature on July 31, 2011. They bear interest at a rate of 5% per annum compounded annually, calculated and paid semi-annually on June 30 and December 31. The debentures are redeemable for cash, in whole or in part, at the option of the Company, at any time during the term on 30 days written notice to the holder. These debentures mature on July 31, 2011 and were previously reflected as a long term liability as at January 1, 2010.

14. Decommissioning provisions

	$
At January 1, 2010	3,573,803
Changes to estimate	73,951
Accretion expense	116,280
At December 31, 2010	3,764,035
Changes to estimate	68,434
Accretion expense	59,265
At June 30, 2011	3,891,733

The Company's decommissioning provisions result from net ownership interests in oil and gas assets including well sites, gathering systems and processing facilities. The economic life and the timing of the decommissioning liability are dependent on Government legislation, commodity prices and the future oil and gas production profiles. In addition, the estimated cash outflows are subject to inflationary and/or deflationary pressures in the cost of third party services.

15. Share capital and reserves

A) Authorised

The authorized share capital consists of an unlimited number of Class A common shares without par value and an unlimited number of preferred shares issuable in series, rights and privileges to be determined upon issue.

B) Issued common shares and warrants

		Class A Shares	Warrants	$
At January 1, 2010		94,488,032	1,066,666	19,363,152
Private placement of Class A shares issued as the second investment under an investment agreement with an international investor	(a)	150,000,000		12,000,000
Class A Share warrants issued to brokers for private placement	(a)		1,599,999	153,600
Class A shares issued in settlement with Company's officer	(b)	600,000		60,000
Share issuance cost, net of tax				(490,940)
As at December 31, 2010		245,088,032	2,666,665	31,085,812
Class A shares issued in exercising of warrants	(c)	400,000	(400,000)	60,000
Class A shares issued in exercising of warrants	(d)	263,000	(263,000)	39,450
Class A shares issued in exercising of warrants	(e)	133,667	(133,667)	20,050
Class A shares issued in exercising of warrants	(f)	136,667	(136,667)	20,500
As at June 30, 2011		246,021,366	1,733,331	31,225,812

(a) On January 15, 2010, pursuant to an investment agreement with an international investor, the Company closed the final tranche of the investment, whereby the investor acquired 150,000,000 Class A Shares at a price of $0.08 per Class A Share for gross proceeds of $12,000,000. In conjunction with the closing, the Company paid finder's fees to two agents in an aggregate amount of $480,000 and issued an aggregate of 1,599,999 warrants, each warrant entitling the holder to purchase one Class A Share at a price of $0.15 per share exercisable for two years from the date of the closing. Following the closing of the final instalment of this investment, the investor held 77.7% of the outstanding Class A Shares

(b) On July 13, 2010, as part of an arrangement to change executive management and retain the services of certain officers, the Company agreed to issue 600,000 Class A Shares, at a price of $0.10 per share, to two officers of the Company.

(c) On January 27, 2011, the Company issued Class A Shares of 400,000 at $0.15 per share on the exercise of warrants.

(d) On March 28, 2011, the Company issued Class A Shares of 263,000 at $0.15 per share on the exercise of warrants.

(e) On April 1, 2011, the Company issued Class A Shares of 133,667 at $0.15 per share on the exercise of warrants.

(f) On May 26, 2011, the Company issued Class A Shares of 136,667 at $0.15 per share on the exercise of warrants.

C) Warrants

On January 15, 2010, the Company issued an aggregate of 1,599,999 warrants as finder's fees to two agents, each warrant entitling the holder to purchase one Class A Share at a price of $0.15 per share exercisable for two years from the closing date. The estimated value of the warrants amounted to $153,600 was recorded as share issuance costs. The value was estimated using the Black-Scholes option pricing model with a current share price of $0.20 on January 15, 2010; a strike price of $0.15 per warrant; a risk free interest rate of 1.72%; expected volatility of 70%; and a two year average life.

As at June 30, 2011, the 1,733,331 Class A share purchase warrants were outstanding:

Expiry Date	Weighted Average Exercise Price $	Weighted Average Years to Expiry
January 14, 2012	$0.15	1

15. Share capital and reserves (continued)

D) Contributed surplus

The contributed surplus reserve is used to recognise the fair value of share options granted to employees, including key management personnel, as part of their remuneration. When options are subsequently exercised, the fair value of such options in contributed surplus is credited to share capital. Refer to Note 16 for further details of these plans.

	Contributed surplus $
At January 1, 2010	1,092,825
Share-based payment expense	390,323
At December 31, 2010	1,483,148
Share-based payment expense	762,016
At June 30, 2011	2,245,164

16. Share-based payments

On July 13, 2010, the Company granted 18,500,000 stock options to directors, officers and employees to purchase Class A Shares at an exercise price of $0.10. Of the total options granted, one third vested immediately, with the balance vesting equally on the first and second anniversary of the grant date. Included in these options were 750,000 options granted to consultants providing investor relations services to the Company.

On March 26, 2011, the Company granted 5,350,000 stock options to directors, officers and employees to purchase Class A Shares at an exercise price of $0.255. Of the total options granted, the 3,500,000 options vested immediately and of the remaining 1,850,000 options, one third vested immediately, with the balance vesting equally on the first and second anniversary of the grant date. Included in these options were 750,000 options granted to consultants providing investor relations services to the Company.

A summary of the status of the Company's stock option plan as June 30, 2011 and December 31, 2010 and changes during the period ending on those dates is presented below.

	Number of options	**Weighted average exercise price $**
Outstanding at January 1, 2010	-	-
Granted	18,500,000	0.10
Forfeited/expired	(3,500,000)	0.10
Outstanding at December 31, 2010	15,000,000	0.10
Granted	5,350,000	0.255
Outstanding at June 30, 2011	20,350,000	

16. Share-based payments (continued)

The following table summarizes stock options outstanding and exercisable:

Options Outstanding					
Range of exercise prices	**Number outstanding at June 30, 2011**	**Expiry date**	**Weighted average exercise price**	**Number exercisable at June 30, 2011**	**Weighted average remaining contractual life**
$0.10	15,000,000	July 13, 2015	$0.10	5,000,000	4.2 years
$0.255	5,350,000	March 26, 2016	$0.255	4,116,667	4.7 years
$0.10 - $0.255	20,350,000		$0.17	9,116,667	4.5 years

The estimated weighted average fair value of share options granted during the period was $0.158 (2010 - $0.046) per option. The fair value of each share option grant was estimated on the date of the grant, as determined by using the Black-Scholes option-pricing model with the following assumptions:

	2011	2010
Expected free interest rate (%)	2%	2%
Expected volatility (%)	75%	75%
Expected life (in years)	5	5
Expected dividends ($)	Nil	Nil
Forfeiture estimate (%)	Nil	19%

17. Capital management

The Company manages its capital to maintain its ability to continue as a going concern and to provide returns to shareholders and benefits to other stakeholders. The Company's objectives in managing the capital structure are to maintain a flexible financial structure to preserve the Company's access to capital markets, and to finance the Company's growth and continue to meet its financial obligations. The capital structure of the Company consists of bank credit facilities (Note 12), working capital and Shareholder's equity comprised of issued share capital, contributed surplus and deficit. The Company's ability to meet these objectives for managing the Company's capital has been severely challenged by the current economic conditions and the availability of new sources of capital has diminished. The capital structure is as follows:

At,	June 30, 2011	December 31, 2010	January 1, 2010
Current assets	2,306,508	2,542,254	1,184,231
Trade and other payables	(2,652,940)	(1,262,031)	(2,968,623)
Bank indebtedness – current	(3,126,290)	(1,299,841)	(3,227,664)
Net working capital deficiency	(3,472,722)	(19,681)	(5,012,056)
Shareholder's equity	25,355,869	23,537,931	14,131,795
Bank facility			
Undrawn portion of revolving demand loan facility	5,373,710	4,500,159	1,972,336

17. Capital management (continued)

In a normal economic environment, the Company is able to manage its capital structure and makes adjustments to it in light of market and economic conditions as well as the risk characteristics of the Company's underlying assets. The Company monitors capital and its financing requirements through the annual budget process and monthly updates to the budget forecast and working capital projections. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share issues, the use of bank credit facilities, adjusting capital spending, or by undertaking other strategies as deemed appropriate under the specific circumstances.

Under its Credit Facility Agreement, the Company is required to maintain a working capital ratio, after adding the unused portion of the revolving demand loan and after excluding outstanding bank debt under the facility, of not less than 1:1. The Company was in compliance with this covenant at June 30, 2011 and December 31, 2010 and June 30, 2010.

Management reviews its capital management approach on an ongoing basis. There were no material changes to this approach during the period ended June 30, 2011. The Company is not subject to externally imposed capital requirements.

18. Financial instruments and risk management

Set out below is a comparison, by category, of the carrying amounts and fair values of all of the Company financial instruments that are carried in the condensed interim financial statements and how the fair value of financial instruments measured.

Fair values

Fair value represents the price at which a financial instrument could be exchanged in an orderly market, in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act. The Company 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.

The following table provides an analysis of the financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in the active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (derived from prices)
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

		June 30, 2011		December 31, 2010	
Financial Instrument Classification	**Note**	**Carrying Value $**	**Fair value $**	Carrying Value $	Fair Value $
FVTPL:					
Cash	(a)	-	-	43,293	43,293
Loans and receivables:					
Trade and other receivables	(b)	1,744,639	1,744,639	1,083,969	1,083,969
Other financial liabilities:					
Trade and other payables	(b)	2,652,940	2,652,940	1,262,031	1,262,031
Bank indebtedness	(b)	3,126,290	3,126,290	1,299,841	1,299,841
Debentures	(b)	-	-	487,455	487,455

18. Financial instruments and risk management (continued)

(a) Fair values are determined from transaction values which reflect quoted active market prices. Fair values of these financial instruments are based on Level 1 measurements.
(b) Carrying value is measured at amortized cost using the effective interest rate method. The carrying values approximate fair values due to the short term nature of the instrument. Fair values of these financial instruments are based on Level 3 measurements.

Financial risks

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (currency fluctuations, interest rates and commodity prices). The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

Credit Risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company.

Substantially all the Company's trade receivable are with customers and joint venture partners in the oil and gas industry and are subject to normal industry credit risks. Approximately 85% of the Company's monthly revenue is receivable from the marketing arm of a major energy company. The Company also attempts to mitigate the risk from joint venture receivables by obtaining partner approval of significant capital expenditures prior to expenditure or through cash calling a partner in advance of completion of work. Additionally the Company has the ability to withhold production or net payables from joint venture partners in the event of non-payment.

The maximum exposure to credit risk as at:

	June 30, 2011 $	December 31, 2010 $
Trade and other receivables	1,744,639	1,083,969
Cash	-	43,293
	1,744,639	**1,127,262**

Liquidity risk

Liquidity risk represents the risk that the Company will not be able to meet its financial obligations as they become due. The Company's processes for managing liquidity is to ensure, to the extent possible, that it will have sufficient liquidity to meet its liabilities when they become due without incurring unacceptable losses or risking harm to the Company's reputation. The Company monitors its financial obligations and its ability to meet those obligations through an annual budget process and monthly updates to the budget forecast and working capital projections. In addition, the Company requires authorizations for expenditures on its capital projects and defers timing of capital expenditures as necessary

The table below summarizes the maturity profile of the Company's financial liabilities at June 30, 2011 and December 31, 2010 based on contractual undiscounted payments.

	Less than 1 year	1 to 2 years	2 to 5 years	> 5 years	Total
As at June 30, 2011					
Trade and other payables	2,652,940				2,652,940
Bank and other indebtedness	3,126,290	-			3,126,290
	5,779,230	-	-	-	5,779,230
As at December 31, 2010					
Trade and other payables	1,262,031	-	-	-	1,262,031
Bank and other indebtedness	1,787,296	-	-	-	1,787,296
	3,049,327	-	-	-	3,049,327

18. Financial instruments and risk management (continued)

Market risk

Market risk is the risk that changes in foreign exchange rates, commodity prices, and interest rates will affect the Company's net earnings or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

Commodity price risk

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. The Company is subject to commodity price risk for the delivery of natural gas and crude oil, the price of which is subject to world economic events that dictate the levels of supply and demand. The Company had no financial derivative contracts in place as at or during the period ended June 30, 2011 and December 31, 2010 and January 1, 2010 and has not entered into any forward physical delivery contracts.

As at June 30, 2011, had the crude oil price been $10 per barrel lower and the natural gas prices $1 per mcf lower the impact to earnings before income taxes would have been a decrease of $415,442. Had the crude oil price been $10 per barrel higher and the natural gas prices $1 per mcf higher, the impact to earnings before income taxes would have been an increase of $415,442.

Interest rate risk

Interest rate risk is the risk that fair values or future cash flows will fluctuate as a result of changes in market interest rates. The Company's borrowings are subject to floating rates. The floating rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate as a result of changes in market rates.

As at June 30, 2011, the increase or decrease in net earnings before taxes for each 1% change in interest rates on floating rate debt amounts to approximately $3,000 (December 31, 2010 - $3,000 and January 1, 2010 – $3,200). The related disclosures regarding the debt instruments are included in Notes 13 of these financial statements. The Company had no interest rate swap or financial contracts in place as at or during the period ended June 30, 2011 and December 31, 2010 and January 1, 2010.

Foreign exchange risk

Foreign currency exchange risk is the risk that the fair value or future cash flows of financial instruments will fluctuate as a result of changes in foreign exchange rates. Although all of the Company's petroleum and natural gas sales are denominated in Canadian dollars, the underlying market prices in Canada for petroleum and natural gas are impacted by changes in the exchange rate between the Canadian and United States dollar. The Company had no financial instruments denominated in foreign currencies and no forward exchange contracts in place at or during the period ended June 30, 2011 and December 31, 2010 and January 1, 2010.

19. Related party transaction

Transactions with related parties

Except as disclosed elsewhere, the Company had the following related party transactions:

> During the period ended June 30, 2011, a legal firm, of which a director is a partner, charged the Company $35,090 (2010 - $21,257) for legal fees and services. There is accounts payable of $10,705 at June 30, 2011 (December 31, 2010 - $nil and January 1, 2010 - $nil).

All related party transactions are in the normal course of operations and have been measured at the agreed to exchange amounts, which is the amount of consideration established and agreed to by the related parties and which is similar to those negotiated with third parties.

19. Related party transaction (continued)

Compensation of key management personnel

The remuneration of directors and other members of key management personnel during the period were as follows:

	June 30, 2011	June 30, 2010
	$	$
Short-term employee benefits	197,333	168,000
Share-based payment expense	206,880	15,491
	404,213	183,491

20. Earnings (loss) per share

Basic and diluted loss per share

The calculation of basic earnings per share at June 30, 2011 was based on net income of $306,642 (2010: $386,485 net loss), and a weighted average number of common shares outstanding of 245,381,243 (2010: 244,488,000).

	Income (loss) for the period	Weighted average number of shares (thousands)	Per share amount $
At June 30, 2011			
Net income – Basic and diluted	915,922	245,662	0,004
At June 30, 2010			
Net income (loss) – Basic and diluted	(732,452)	244,488	(0,003)

21. Commitments and contingencies

The Company is involved in various claims arising in the normal course of business. While the outcome of these matters is uncertain and there can be no assurance that such matters will be resolved in the Company's favour, the Company does not currently believe that the outcome of adverse decisions in any proceedings related to these matters or any amount which it may be required to pay would have a material adverse impact on its financial position, results of operations or liquidity.

The Company is subject to various regulatory and statutory requirements relating to the protection of the environment. As disclosed in note 14, the Company has recognized a provision at June 30, 2011 of $3,891,733 (December 31, 2010 - $3,764,035) related to the retirement of its long-lived petroleum assets based on current legislation and estimated costs. Any changes in these estimates will affect future earnings. Costs attributable to these commitments and contingencies are expected to be incurred over an extended period of time and are to be funded mainly from the Company's cash provided by operating activities.

The operations of the Company are complex, and regulations and legislation affecting the Company are continually changing. Although the ultimate impact of these matters on net earnings cannot be determined at this time, it could be material for any one quarter or year.

The Company entered into a lease arrangement for office space and related services for five years commencing January 1, 2008. As at June 30, 2011, the remaining minimum lease payments total $279,360 will be expended equally over the remaining 18 months ending December 31, 2012.

22. Comparative figures

Certain comparative figures have been reclassified to conform to current period presentation under IFRS.

23. Subsequent events

On July 28, 2011, the Company issued 133,333 Class A Shares at $0.10 per share and 133,333 Class A Shares on a Flow through basis at $0.10 per share on the exercise of 133,333 brokers' warrants.
On July 19, 2011, the Company issued 150,000 Class A Shares at $0.10 per share on the exercise of stock options.

24. Explanation of transition to IFRS

The condensed interim financial statements for the period ended June 30, 2011 are the Company's first financial statements prepared under IFRS. For all accounting periods prior to this, the Company prepared its financial statements under Canadian GAAP. In accordance with IFRS 1 'First time adoption of IFRS', certain disclosures relating to the transition to IFRS are given in this note. These disclosures are prepared under IFRS as set out in the basis of preparation in Note 3.

IFRS 1 allows first time adopters to IFRS to take advantage of a number of voluntary exemptions from the general principal of retrospective restatement. The Company has taken the following exemptions:

IFRS 3 Business Combinations ("IFRS 3")

The Company has elected to apply the exemption for retrospective application of IFRS 3 to business combinations that took place before the transition date.

IFRS 6 - Exploration for and Evaluation of Mineral Resources ("IFRS 6")

The Company has elected to apply the exemption from full retrospective application of IFRS 6. As such the Company has at January 1, 2010, measured the exploration and evaluation assets at the amount determined under Canadian GAAP and measured the development and production assets by allocating the amount determined under Canadian GAAP to the underlying assets on a pro rata basis using reserve values at that date. As a result of using the IFRS 1 optional exemption, the exploration and evaluation assets and the development and production assets have been subjected to an impairment test.

IAS 23 – Borrowing Costs ("IAS 23")

IAS 23 has not been applied retrospectively. As at the transition date, the Company did not have any qualifying assets.

IAS 37 - Provisions, Contingent Liabilities and Contingent Assets ("IAS 37")

The Company has elected to apply the exemption from full retrospective application of decommissioning liabilities as allowed under IFRS 1. As such, the Company has re-measured the provisions as at January 1, 2010 under IAS 37 and recognized the difference between the amount determined under IAS 37 and the carrying amount of the provisions at January 1, 2010, directly in retained earnings.

IFRIC 4 - Determining whether an Arrangement contains a Lease ("IFRIC 4")

This IFRIC has not been applied retrospectively. The Company made an assessment as to whether an arrangement, existing at the Transition Date, contains a lease on the basis of the facts and circumstances existing at that date. The assessment was made in accordance with the requirements IFRIC 4. The Company did not identify any arrangements containing a lease on the transition date.

A) Reconciliation of equity at January 1, 2010

		Effect of transition to IFRS			
	Canadian GAAP	Property, plant, and equipment (Note 1)	Decommissioning provisions (Note 2)	Flow-through shares (Note 3)	IFRS
ASSETS					
Current assets					
Cash	25,839				25,839
Trade and other receivables	878,936				878,936
Prepaid expenses and deposits	279,456				279,456
	1,184,231	-	-	-	1,184,231
Non-current assets					
Intangible assets	10,001				10,001
Evaluation and exploration assets		678,000			678,000
Property, plant and equipment	25,144,168	(678,000)			24,466,168
	25,154,169	-	-	-	25,154,169
Total Assets	26,338,400		-	-	26,338,400
LIABILITIES					
Current liabilities					
Trade and other payables	2,968,623				2,968,623
Bank indebtedness	3,277,664				3,277,664
Flow-through shares premium	-			80,002	80,002
	6,246,278	-	-	80,002	6,326,289
Non-current assets liabilities					
Deferred tax liability	1,822,589				1,822,589
Decommissioning provisions	2,110,747		1,463,056		3,573,803
Debenture	483,924				483,924
	4,417,260	-	1,463,056	-	5,880,316
SHAREHOLDERS' EQUITY					
Share capital	18,785,041			578,111	19,363,152
Contributed surplus	1,092,825				1,092,825
Accumulated deficit	(4,203,013)		(1,463,056)	(658,113)	(6,324,182)
	15,674,853	-	(1,463,056)	(80,002)	14,131,795
Total Liabilities and Shareholders' Equity	26,338,400	-	-	-	26,338,400

A) Reconciliation of equity at January 1, 2010 (continued)

The following explains the material adjustments to the statement of financial position as at January 1, 2010:

Note 1 – Property, plant, and equipment

Under Canadian GAAP, the Company followed the full cost method of accounting for petroleum and natural gas properties whereby all costs relating to the acquisition, exploration and development of petroleum and natural gas reserves are capitalized in one Canadian cost centre.

Under IFRS, pre-exploration, exploration and evaluation and development and production expenditures are accounted for separately. The Company utilized the IFRS 1 deemed cost exemption that allowed the Company to measure its exploration and evaluation and development and production assets at the amount determined under Canadian GAAP.

Note 2 - Decommissioning provision

Under Canadian GAAP, future cash flows related to funding the Company's asset retirement obligation in relation to petroleum and natural gas properties is discounted using a risk-adjusted rate.

Under IFRS, the future cashed flows are discounted using a to a pre-tax risk free rate that reflects current market assessments of the time value of money and the risks specific to the obligation. This has resulted in an increase in the decommissioning provision which can be recognized through retained earnings under the IFRS 1 exemption.

Note 3 - Flow-through Shares

Under Canadian GAAP, the Company would increase share capital with the full proceeds received on the issuance of flow-through shares. On renouncement of the related resource expenditures a future income tax liability would be recognized and the stated value of the share capital is reduced accordingly.

Under IFRS, the Company allocated the proceeds from issuance between share capital and a liability representing the sale of tax benefits. The liability is reversed when tax benefits are renounced and a deferred tax liability is recognized at that time. The reversal of the liability and the recognition of deferred tax are recognized in the income statement.

B) Reconciliations as at June 30, 2010

Reconciliation of equity at June 30, 2010

		Effect of transition to IFRS					
	Canadian GAAP	Property, plant, and equipment (Note 1)	Decommissioning provision (Note 2)	Depletion (Note 3)	Flow-through shares (Note 4)"	Deferred Tax (Note 5)	IFRS
ASSETS							
Current assets							
Cash	-						-
Trade and other receivables	1,377,394						1,377,394
Prepaid expenses and deposits	1,411,966						1,411,966
	2,789,360	-	-	-	-	-	2,789,360
Non-current assets							
Intangible assets	10,001						10,001
Evaluation and exploration assets	-	3,079,706					3,079,706
Property, plant and equipment	29,378,853	(3,079,706)	60,352	257,218			26,616,717
	29,388,854	-	60,352	257,218	-	-	29,706,424
Total Assets	32,178,214	-	60,352	257,218	-	-	32,495,784
LIABILITIES							
Current liabilities							
Trade and other payables	1,187,651						1,187,651
Bank loan	870,737						870,737
	2,058,388	-	-	-	-	-	2,058,388
Non-current assets liabilities							
Deferred tax liability	1,264,907					(64,305)	1,462,279
Decommissioning provision	2,202,294		1,491,394	-			3,693,688
Debentures	481,103						481,103
	3,948,304	-	1,491,394	-	-	(64,305)	5,375,393
SHAREHOLDERS' EQUITY							
Share capital	30,377,032				648,780		31,025,812
Contributed surplus	1,092,825						1,092,825
Retained deficit	(5,298,335)		(1,431,042)	257,218	(648,780)	64,305	(7,056,634)
	26,171,522	-	(1,431,042)	257,218	-	64,305	25,062,003
Total Liabilities and Shareholders' Equity	32,178,214	-	60,352	257,218	-	-	32,495,784

B) Reconciliations as at June 30, 2010 (continued)

Reconciliation of the statement of net income (loss) for the three months ended June 30, 2010:

		Effect of transition to IFRS				
	Canadian GAAP $	Decommissioning liability (Note 2)	Depletion (Note 3)	"Flow-through shares (Note 4)"	Deferred Tax (Note 5)	IFRS $
Continuing operations						
Revenues	1,235,652					1,235,652
Royalties	(61,008)					(61,008)
Total revenue	1,174,644					1,174,644
Operating expense	(722,413)					(722,413)
Transportation expense	(37,184)					(37,184)
Depletion, depreciation and amortization	(551,652)		146,073			(405,579)
General and administrative	(538,472)					(538,472)
Loss from operations	(675,077)		146,073			(529,004)
Interest expense	(65,954)	14,820				(51,134)
Loss before income tax	(741,031)	14,820	146,073			(580,138)
Income tax recovery (expense)	(197,652)			-	(36,519)	(234,171)
Total comprehensive loss	(543,379)	14,820	146,073	-	36,519	(345,967)

Reconciliation of the statement of net income (loss) for the six months ended June 30, 2010:

		Effect of transition to IFRS				
	Canadian GAAP $	Decommissioning liability (Note 2)	Depletion (Note 3)	"Flow-through shares (Note 4)"	Deferred Tax (Note 5)	IFRS $
Continuing operations						
Revenues	2,547,716					2,547,716
Royalties	(127,893)					(127,893)
Total revenue	2,419,823					2,419,823
Operating expense	(1,616,319)					(1,616,319)
Transportation expense	(79,644)					(79,644)
Depletion, depreciation and amortization	(1,058,113)		257,218			(800,895)
General and administrative	(1,064,103)					(1,064,103)
Loss from operations	(1,398,356)		257,218			(1,141,138)
Interest expense	(126,758)	32,014				(94,744)
Loss before income tax	(1,525,114)	32,014	257,218			(1,235,882)
Income tax recovery (expense)	(429,792)			(9,333)	(64,305)	(503,430)
Total comprehensive loss	(1,095,322)	32,014	257,218	9,333	64,305	(732,452)

B) Reconciliations as at June 30, 2010 (continued)

The following explains the material adjustments:

Note 1 – Property, plant, and equipment
Under Canadian GAAP, the Company followed the full cost method of accounting for petroleum and natural gas properties whereby all costs relating to the acquisition, exploration and development of petroleum and natural gas reserves are capitalized in one Canadian cost centre.

Under IFRS, pre-exploration, exploration and evaluation and development and production expenditures are accounted for separately. The Company utilized the IFRS 1 deemed cost exemption that allowed the Company to measure its exploration and evaluation and development and production assets at the amount determined under Canadian GAAP at the date of transition top IFRS.

For the period ended June 30, 2011, the Company capitalised costs of $3,079,706, which, under IFRS have been reclassified from development and production assets to exploration and evaluation assets.

Note 2 - Asset retirement obligation
Under Canadian GAAP, future cash flows related to funding the Company's asset retirement obligation in relation to petroleum and natural gas properties is discounted using a risk-adjusted rate.

Under IFRS, the future cashed flows are discounted using a to a pre-tax risk free rate that reflects current market assessments of the time value of money and the risks specific to the obligation. This has resulted in an increase in the asset retirement obligation at the date of transition to IFRS, which can be recognized through retained earnings under the IFRS 1 exemption, and for the period ended June 30, 2010, which is recognised through the Statement of Comprehensive Loss for that year. Unlike Canadian GAAP, the accretion expense is classified as interest expense under IFRS

Note 3 - Depletion
The Company depletes its development and production assets using unit of production under both IFRS and Canadian GAAP. However, due to the adjustments described above, the carrying value of the development and production assets has decreased under IFRS, which has resulted in a reduction in the depletion for the period ended June 30, 2010.

Note 4 - Flow-through Shares
Under Canadian GAAP, the Company would increase share capital with the full proceeds received on the issuance of flow-through shares. On renouncement of the related resource expenditures a future income tax liability would be recognized and the stated value of the share capital is reduced accordingly

Under IFRS, the Company allocated the proceeds from issuance between share capital and a liability representing the sale of tax benefits. The liability is reversed when tax benefits are renounced and a deferred tax liability is recognized at that time. The reversal of the liability and the recognition of deferred tax are recognized in the income statement.

Note 5 - Deferred tax
Deferred tax affects of the IFRS depletion adjustment discussed above.

C) Reconciliations as at December 31, 2010

Reconciliation of equity as at December 31, 2010

		Effect of transition to IFRS						
	Canadian GAAP	Oil and gas properties (Note 1)	Decommissioning liability (Note 2)	Depletion (Note 3)	Flow-through shares (Note 4)"	Share-based payments (Note 5)	Deferred Tax (Note 6)	IFRS
ASSETS								
Current assets								
Cash	43,293							43,293
Trade and other receivables	1,083,969							1,083,969
Prepaid expenses and deposits	1,414,992							1,414,992
	2,542,254	-	-	-	-	-	-	2,542,254
Non-current assets								
Evaluation and exploration assets	-	3,079,706						3,079,706
Property, plant and equipment	27,944,712	(3,079,706)	73,951	596,607				25,535,564
	27,944,712	-	73,951	596,607	-	-	-	28,615,270
Total Assets	30,486,966	-	73,951	596,607	-	-	-	31,157,524
					-			
LIABILITIES								
Current liabilities								
Trade and other payables	1,262,031							1,262,031
Bank indebtedness	1,299,841							1,299,841
Debentures	487,455				-			487,455
	3,049,327	-	-	-	-		-	3,049,327
Non-current assets liabilities								
Deferred tax liability	955,383						(149,152)	806,231
Decommissioning liability	2,392,701		1,371,334					3,764,035
	3,348,084	-	1,371,334	-	-		(149,152)	4,570,266
SHAREHOLDERS' EQUITY								
Share capital	30,437,032				648,780			31,085,812
Contributed surplus	1,408,079					75,069		1,483,148
Retained deficit	(7,755,556)		(1,297,383)	596,607	(648,780)	(75,069)	149,152	(9,031,029)
	24,089,555	-	(1,297,383)	596,607	-	-	149,152	23,537,931
Total Liabilities and Shareholders' Equity	30,486,966	-	73,951	596,607	-	-	-	31,157,524

C) Reconciliations as at December 31, 2010 (continued)

Reconciliation of the statement of comprehensive income for the year ended December 31, 2010:

		Effect of transition to IFRS					
	Canadian GAAP $	Decommissioning liability (Note 2)	Depletion (Note 3)	Flow-through shares (Note 4)"	Share-based payments (Note 5)	Deferred Tax (Note 6)	IFRS $
Continuing operations							
Revenues	5,681,083						5,681,083
Royalties	(358,826)						(358,826)
Total revenue	5,322,257	-	-	-	-	-	5,322,257
Operating	(4,157,186)	86,266					(4,070,920)
Share-based payment expense	(315,254)				(75,069)		(390,323)
Depletion, depreciation and amortization	(2,112,937)		596,607				(1,516,330)
General and administrative	(2,775,342)						(2,775,342)
Loss from operations	(4,038,462)	86,266	596,607	-	(75,069)	-	(3,430,658)
Interest expense	(274,950)	79,407					(195,543)
Loss before income tax	(4,313,412)	165,673	596,607	-	(75,069)	-	(3,626,201)
Income tax recovery (expense)	760,869			(9,333)		(149,152)	(919,354)
Total comprehensive loss	(3,552,543)	165,673	596,607	9,333	(75,069)	149,152	(2,706,847)

C) Reconciliations as at December 31, 2010 (continued)

The following explains the material adjustments:

Note 1 - Petroleum and natural gas properties
Under Canadian GAAP, the Company followed the full cost method of accounting for petroleum and natural gas properties whereby all costs relating to the acquisition, exploration and development of petroleum and natural gas reserves are capitalized in one Canadian cost centre.

Under IFRS, pre-exploration, exploration and evaluation and development and production expenditures are accounted for separately. The Company utilized the IFRS 1 deemed cost exemption that allowed the Company to measure its exploration and evaluation and development and production assets at the amount determined under Canadian GAAP at the date of transition top IFRS.

For the year ended December 31, 2011, the Company capitalised costs of $3,079,706, which, under IFRS have been reclassified from development and production assets to exploration and evaluation assets.

Note 2 - Asset retirement obligation
Under Canadian GAAP, future cash flows related to funding the Company's asset retirement obligation in relation to petroleum and natural gas properties are discounted using a risk-adjusted rate.

Under IFRS, the future cashed flows are discounted using a to a pre-tax risk free rate that reflects current market assessments of the time value of money and the risks specific to the obligation. This has resulted in an increase in the asset retirement obligation at the date of transition to IFRS, which can be recognized through retained earnings under the IFRS 1 exemption, and for the year ended December 31, 2010, which is recognised through the Statement of Comprehensive Loss for that year. Unlike Canadian GAAP, the accretion expense is classified as interest expense under IFRS

Note 3 - Depletion
The Company depletes its development and production assets using unit of production under both IFRS and Canadian GAAP. However, due to the adjustments described above, the carrying value of the development and production assets has decreased under IFRS, which has resulted in a reduction in the depletion for the period ended June 30, 2010.

Note 4 - Flow-through Shares
Under Canadian GAAP, the Company would increase share capital with the full proceeds received on the issuance of flow-through shares. On renouncement of the related resource expenditures a future income tax liability would be recognized and the stated value of the share capital is reduced accordingly

Under IFRS, the Company allocated the proceeds from issuance between share capital and a liability representing the sale of tax benefits. The liability is reversed when tax benefits are renounced and a deferred tax liability is recognized at that time. The reversal of the liability and the recognition of deferred tax are recognized in the income statement.

C) Reconciliations as at December 31, 2010 (continued)

Note 5 - Share-based payments
Under Canadian GAAP, the fair value of grants of share-based awards with graded vesting is recognized on a straight-line basis over the employment period necessary to vest the award.

Under IFRS, each tranche in an award with graded vesting is considered a separate grant with a different vesting date and fair value. Each grant is accounted for on that basis. As a result, the Company adjusted its expense for share-based awards to reflect this difference in recognition.

Note 6 - Deferred tax
Deferred tax affects of the IFRS depletion adjustment discussed above.

CORPORATE INFORMATION

Directors

Gary Chang; Vancouver BC Canada (1) (2)

James H. Coleman; Calgary AB Canada (1) (3)

Ross O. Drysdale; Calgary AB Canada (1) (3)

Gang Fang; Calgary AB Canada (3)

Hong Lei; Beijing P.R. China

Owen C. Pinnell; Calgary AB Canada (2)

Zhen Xiang Huo; Beijing P.R. China

Notes: (1) Member of the Audit and Reserves Committee
(2) Member of the Environment and Safety Committee
(3) Member of the Compensation and Governance Committee.

Officers

Owen C. Pinnell – Chairman and Chief Financial Officer

Gang Fang – President and Chief Executive Officer

Bob D. McCuaig – Executive Vice President and General Manager

Qiping Men – Financial Controller

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