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To the Shareholders of Anterra Energy Inc.

We have audited the accompanying financial statements of Anterra Energy Inc., which comprise the statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, the statements of income (loss) and comprehensive income (loss), changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Anterra Energy Inc. as at December 31, 2011, December 31, 2010 and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants
April 23, 2012
Calgary, Canada

ANTERRA ENERGY INC

Statements of Financial Position

	Note	December 31, 2011	December 31, 2010 (Note 21)	January 1, 2010 (Note 21)
Assets				
Cash		$ -	$ 43,293	$ 25,839
Trade and other receivables		2,043,722	1,083,969	878,936
Deposits and prepaid expenses		445,308	1,414,992	279,456
Total current assets		2,489,030	2,542,254	1,184,231
Property, plant and equipment	11	30,763,208	25,755,400	24,466,168
Intangible exploration assets and other intangible assets	12	4,887,788	2,867,639	688,001
Total non-current assets		35,650,996	28,623,039	25,154,169
Total assets		$38,140,026	$31,165,293	$26,338,400
Liabilities				
Bank debt	15	$ 4,603,313	$ 1,299,841	$ 3,277,664
Trade and other payables		2,220,538	1,262,032	2,968,623
Debenture	7	-	487,455	-
Total current liabilities		6,823,851	3,049,328	6,246,287
Debenture	7	-	-	483,924
Decommissioning liabilities	17	4,672,013	3,850,300	3,573,803
Flow-through share premium		-	-	80,002
Deferred tax liability	10	1,341,061	794,498	1,434,879
Total non-current liabilities		6,013,074	4,644,798	5,572,608
Total liabilities		12,836,925	7,694,126	11,818,895
Equity				
Share capital	13	31,264,146	31,085,812	19,363,152
Contributed surplus		2,479,901	1,483,148	1,092,825
Deficit		(8,440,946)	(9,097,793)	(5,936,472)
Total equity		25,303,101	23,471,167	14,519,505
Total equity and liabilities		$38,140,026	$31,165,293	$26,338,400

Commitments (note 18)

Subsquent event (note 19)

The notes are an integral part of these financial statements.

Approved on behalf of the Board:

"Signed" Director
Owen Pinnell

"Signed" Director
Ross O. Drysdale

ANTERRA ENERGY INC

Statements of Income (Loss) and Comprehensive Income (Loss)

For the years ended December 31, 2011 and 2010

	Note	2011	2010
			(Note 21)
Revenue		$11,478,420	$ 5,681,083
Royalties		(1,757,136)	(358,826)
		9,721,284	5,322,257
Production and operating expenses		(3,263,183)	(4,157,186)
Depletion, depreciation and amortization		(1,909,205)	(1,405,158)
General and administrative expenses	6	(2,166,016)	(2,775,342)
Impairment expense		-	(103,403)
Share-based payments	16	(996,753)	(390,323)
Results from operating activities		1,386,127	(3,509,155)
Finance expense	8	(186,050)	(195,543)
Income / (Loss) before income tax		1,200,077	(3,704,698)
Income tax expense (reduction):			
Deferred	10	543,230	(543,377)
Income (Loss) and comprehensive income (loss) for the year		$ 656,847	$(3,161,321)
Earnings per share:			
Basic	14	$ 0.003	$ (0.013)
Diluted	14	$ 0.003	$ (0.013)

The notes are an integral part of these financial statements.

ANTERRA ENERGY INC

Statements of Changes in Equity

	Note	Number of common shares		Share capital		Contributed surplus		Accumulated deficit		Total equity
Balance at January 1, 2010		94,488,032	$	19,363,152	$	1,092,825	$	(5,936,472)	$	14,519,505
Issue of common shares	13	150,600,000		12,060,000		–		–		12,060,000
Share issue costs, net of tax		–		(490,940)		–		–		(490,940)
Share based payments	16	–		153,600		390,323		–		543,923
Profit (Loss) for the year		–		–		–		(3,161,321)		(3,161,321)
Balance at December 31, 2010		245,088,032		31,085,812		1,483,148		(9,097,793)		23,471,167
Issue of common shares	13	1,200,000		166,667		–		–		166,667
Flow through share premium		–		(3,333)		–		–		(3,333)
Share based payments	16	–		–		996,753		–		996,753
Options exercised	13	150,000		15,000		–		–		15,000
Profit for the year		–		–		–		656,847		656,847
Balance at December 31, 2011		246,438,032	$	31,264,146	$	2,479,901	$	(8,440,946)	$	25,303,101

The notes are an integral part of these financial statements.

ANTERRA ENERGY INC

Statements of Cash Flows

For the years ended December 31, 2011 and 2010

	Note	2011	2010
Cash flows from operating activities:			
Income (Loss) for the year		$ 656,847	$(3,161,321)
Adjustments for:			
Depletion, depreciation and amortization	11	1,909,205	1,405,158
Accretion of decommissioning obligations	8	36,531	116,281
Accretion of debenture		–	3,531
Impairment expense	11	–	103,403
Share based payments	16	996,753	390,323
Deferred income tax		543,230	(543,377)
Decommissioning expenditures	17	(111,900)	(56,420)
Change in non-cash working capital	9	932,810	(2,058,671)
Net cash from (used in) operating activities		4,963,476	(3,801,093)
Cash flows from investing activities:			
Property, plant and equipment expenditures	11	(5,093,525)	(2,571,156)
Additions to intangible exploration assets		(2,946,555)	(2,189,639)
Change in non-cash working capital	9	35,627	(988,489)
Net cash from (used in) investing activities		(8,004,453)	(5,749,284)
Cash flows from financing activities:			
Proceeds from issue of share capital	13	166,667	12,060,000
Repayment of loans and borrowings		–	(1,977,823)
Settlement of debenture	9	(487,455)	
Proceeds from loans and borrowings		3,303,472	–
Proceeds from exercise of share options	13	15,000	–
Share issuance costs	13	–	(514,346)
Net cash from (used in) financing activities		2,997,684	9,567,831
Change in cash and cash equivalents		(43,293)	17,454
Cash and cash equivalents beginning of year		43,293	25,839
Cash and cash equivalents end of year		$ –	$ 43,293

The notes are an integral part of these financial statements.

(tabular amounts are in Canadian dollars except share and per share information)

1. Reporting entity:

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. The Company is engaged in the exploration for and development and production of oil and natural gas and conducts many of its activities jointly with others; these financial statements reflect only the Company’s proportionate interest in such activities. The address of the registered office is #1420, 1122 4th Street SW, Calgary, Alberta.

The Company’s parent company, holding 77% of the Company’s common shares, is Alliance Success Group Holding Ltd (“Alliance”). Alliance is a Hong Kong based investment company.

The Company has two reportable operating segments and corporate segment. The Oil and Gas Production segment explores for, develops and produces oil and gas. The Midstream Processing segment provides processing and disposal services in the oil and gas industry.

Segmented Financial Information:

For the year ended December 31, 2011	Oil and Gas Production	Midstream Processing	Corporate Segment	Eliminations	Total
Revenue	$ 8,616,995	$ 2,989,890	-	$ (128,465)	$ 11,478,420
Royalties	(1,757,136)	-	-	-	(1,757,136)
	6,859,859	2,989,890	-	(128,465)	9,721,284
Production and operating expenses	2,628,928	762,720	-	(128,465)	3,263,183
Depletion, depreciation and amortization	1,736,090	153,783	19,332	-	1,909,205
General and administrative expenses	-	-	2,166,016	-	2,166,016
Share-based payments	-	-	996,753	-	996,753
Finance expense	26,645	9,885	149,520	-	186,050
Deferred income tax expense	542,870	360	-	-	543,230
Net income	$ 1,925,326	$ 2,063,142	(3,331,621)	-	$ 656,847
Capital expenditures:					
Exploration and evaluation assets	$ 2,946,555	$ -	-	$ -	$ 2,946,555
Property, plant and equipment	5,061,721	31,804	-	-	5,093,525
Total Assets	$34,441,420	$ 1,198,098	2,500,508	-	$ 38,140,026

ANTERRA ENERGY INC

For the year ended December 31, 2010	Oil and Gas Production	Midstream Processing	Corporate Segment	Eliminations	Total
Revenue	$ 4,024,800	$ 1,894,468	-	$ (238,185)	$ 5,681,083
Royalties	(358,826)	-	-		(358,826)
	3,665,974	1,894,468	-	(238,185)	5,322,257
Production and operating expenses	3,532,614	862,757	-	(238,185)	4,157,186
Depletion, depreciation	1,284,987	100,193	19,978	-	1,405,158
General and administrative expenses	-	-	2,775,342	-	2,775,342
Finance expense	106,191	10,090	79,262	-	195,543
Deferred income tax expense (recovery)	(547,866)	4,489	-	-	(543,377)
Impairment expenses	103,403	-		-	103,403
Share-based payments	-	-	390,323	-	390,323
Net income (loss)	$ (813,355)	$ 916,939	(3,264,905)	-	$ (3,161,321)
Capital expenditures:					
Exploration and evaluation assets	$ 2,189,639	$ -	$ -	$ -	$ 2,189,639
Property, plant and equipment	2,548,408	14,668	8,080	-	2,571,156
Total Assets	$27,308,760	$ 1,276,969	$ 2,579,564	$ -	$ 31,165,293

2. Basis of preparation:

(a) Statement of compliance:

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). There are the Company's first financial statements prepared in accordance with IFRS and IFRS 1 "First-time adoption of International Financial Reporting Standards" has been applied.

The financial statements were authorized for issue by the Board of Directors on April 25, 2012.

(b) Basis of measurement:

The financial statements have been prepared on the historical cost basis.

(c) Functional and presentation currency:

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

(d) Use of estimates and judgments:

The timely preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities and income and expenses. Accordingly, 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. Significant estimates and judgments made by management in the preparation of these financial statements are out-lined below.

2. Basis of preparation (continued):

(d) Use of estimates and judgments:

Critical judgments in applying accounting policies:
The following are the critical judgments. apart from those involving estimations (see below), that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in these financial statements.

i. Reserves
Estimation of reported recoverable quantities of proved and probable reserves include judgmental assumptions regarding production profile, commodity prices, exchange rates, remediation costs, timing and amount of future development costs, and production, transportation and marketing costs for future cash flows. It also requires interpretation of geological and geophysical models in anticipated recoveries.

The economical geological and technical factors used to estimate reserves may change from period to period. Changes in reported reserves can impact the carrying values of the Company's petroleum and natural gas properties and equipment, the calculation of depletion and depreciation, the provision for decommissioning obligations, and the recognition of deferred tax assets due to changes in expected future cash flows. The recoverable quantities of reserves and estimated cash flows from Anterra's petroleum and natural gas interests are independently evaluated by reserve engineers at least annually.

The Company's petroleum and natural gas reserves represent the estimated quantities of petroleum, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be economically recoverable in future years from known reservoirs and which are considered commercially producible. Such reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon (i) a reasonable assessment of the future economics of such production (ii) a reasonable expectation that there is a market for all or substantially all the expected petroleum and natural gas production; and (iii) evidence that the necessary production, transmission and transportation facilities are available or can be made available. Reserves may only be considered proven and probable if producibility is supported by either production or conclusive formation tests. Anterra's petroleum and gas reserves are determined pursuant to National Instrument 51-101, Standard of Disclosures for Oil and Gas Activities.

(ii) Identification of Cash-generating Units

Anterra's assets are aggregated into cash-generating units, for the purpose of calculating impairment, based on their ability to generate largely independent cash flows. By their nature, these estimates and assumptions are subject to measurement uncertainty and may impact the carrying value of the Company's assets in future periods.

2. Basis of preparation (continued):

(iii) *Share-based payments*

All equity-settled, share-based awards issued by the Company are recorded at fair value using the Black-Scholes option-pricing model. In assessing the fair value of equity-based compensation, estimates have to be made regarding the expected volatility in share price, option life, dividend yield, risk-free rate and estimated forfeitures at the initial grant date.

Key sources of estimation uncertainty:

The following are the key assumptions concerning the sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing adjustments to the carrying amounts of assets and liabilities.

(i) Decommissioning obligations

The Company estimates future remediation costs of production facilities, wells and pipelines at different stages of development and construction of assets or facilities. In most instances, removal of assets occurs many years into the future. This requires judgment regarding abandonment date, future environmental and regulatory legislation, the extent of reclamation activities, the engineering methodology for estimating cost, future removal technologies in determining the removal cost and liability-specific discount rates to determine the present value of these cash flows.

(ii) Impairment of petroleum and natural gas assets

For the purposes of determining whether impairment of petroleum and natural gas assets occurred, and the extent of any impairment or its reversal, the key assumptions the Company uses in estimating future cash flows are future petroleum and natural gas prices, expected production volumes and anticipated recoverable quantities of proved and probable reserves. These assumptions are subject to change as new information becomes available. Changes in economic conditions can also affect the rate used to discount future cash flow estimates. Changes in the aforementioned assumptions could affect the carrying amount of assets, and impairment charges and reversal will affect profit or loss.

(iii) Income Taxes

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in profit or loss both in the period of change, which would include any impact on cumulative provisions, and in future periods. Deferred tax assets (if any) are recognized only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse and a judgment as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as the amounts recognized in profit or loss in the period which the change occurs.

3. Significant accounting policies:

The accounting policies set out below have been applied consistently to all years presented in these financial statements, and have been applied consistently by the Company and its subsidiaries.

In addition to the quantitative adjustments from previous Canadian GAAP to IFRS, certain comparative amounts have been reclassified to conform to the current year's presentation as presented in note 21.

(a) Basis of consolidation:

Jointly controlled operations and jointly controlled assets:

Many of the Company's oil and natural gas activities involve jointly controlled assets. The financial statements include the Company's share of these jointly controlled assets and a proportionate share of the relevant revenue and related costs.

(b) Foreign currency:

Transactions in foreign currencies are translated to Canadian dollars at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the period end exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on translation are recognized in profit or loss.

(c) Financial instruments:

(i) Non-derivative financial instruments:

Non-derivative financial instruments comprise trade and other receivables, cash, bank debt, debentures and trade and other payables. These financial assets have been classified as loans and receivables. These financial liabilities have been classified as other financial liabilities. 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. Subsequent to initial recognition non-derivative financial instruments are measured at amortized cost using the effective interest rate method, less any impairment losses.

3. Significant accounting policies (continued):

(c) Financial instruments (continued):

(ii) Derivative financial instruments:

The Company may enter into certain financial derivative contracts in order to manage the exposure to market risks from fluctuations in commodity prices. These instruments will not be used for trading or speculative purposes. The Company will not designate its financial derivative contracts as effective accounting hedges, and therefore will not apply hedge accounting, even though the Company considers all commodity contracts to be economic hedges. As a result, all financial derivative contracts will be classified as fair value through profit or loss and will be recorded on the statements of financial position at fair value. Transaction costs are recognized in profit or loss when incurred.

(iii) Share capital:

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

(d) Property, plant and equipment and intangible exploration assets:

(i) Recognition and measurement:

Exploration and evaluation expenditures:

Pre-licence costs are recognized in the statement of operations as incurred.

Exploration and evaluation costs, including the costs of acquiring licences and directly attributable general and administrative costs, initially are capitalized as either tangible or intangible exploration or evaluation assets according to the nature of the assets acquired. The costs are accumulated in cost centers by well, field or exploration area pending determination of technical feasibility and commercial viability.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units. The cost of undeveloped land that expires or any impairment recognized during a period is charged as additional depletion and depreciation expense.

3. Significant accounting policies (continued):

(d) Property, plant and equipment and intangible exploration assets (continued):

The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proven and probable reserves are determined to exist. A review of each exploration license or field is carried out, at least annually, to ascertain whether proven and/or probable reserves have been discovered. Upon determination of proven and probable reserves, intangible exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from exploration and evaluation assets to a separate category within tangible assets referred to as oil and natural gas interests.

Development and production costs:

Items of property, plant and equipment, which include oil and gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Development and production assets are grouped into CGU's for impairment testing. The Company has grouped its development and production assets into the following four CGU's: Breton oil and gas properties, Breton midstream, Alberta oil and gas properties other than Breton, and Saskatchewan oil and gas properties.

When significant parts of an item of property, plant and equipment, including oil and natural gas interests, have different useful lives, they are accounted for as separate items (major components). The Company has determined that there is no major component in our assets.

Gains and losses on disposal of an item of property, plant and equipment, including oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized net within "other income" or "other expenses" in profit or loss.

(ii) Subsequent costs:

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property, plant and equipment are recognized as oil and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

3. Significant accounting policies (continued):

(d) Property, plant and equipment and intangible exploration assets (continued):

(iii) Depletion and depreciation:

The net carrying value of development or production assets is depleted using the unit of production method by reference to the ratio of production in the year to the related proven and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers at least annually.

Proven and probable reserves are estimated using independent reserve engineer reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. There should be a 50 percent statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as proven and probable and a 50 percent statistical probability that it will be less. The equivalent statistical probabilities for the proven component of proven and probable reserves are 90 percent and 10 percent, respectively.

Such reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon:

- a reasonable assessment of the future economics of such production;
- a reasonable expectation that there is a market for all or substantially all the expected oil and natural gas production; and
- evidence that the necessary production, transmission and transportation facilities are available or can be made available.

Reserves may only be considered proven and probable if the producibility is supported by either actual production or conclusive formation test. The area of reservoir considered proven includes (a) that portion delineated by drilling and defined by gas-oil and/or oil-water contacts, if any, or both, and (b) the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geophysical, geological and engineering data. In the absence of information on fluid contacts, the lowest known structural occurrence of oil and natural gas controls the lower proved limit of the reservoir.

3. Significant accounting policies (continued):

(d) Property, plant and equipment and intangible exploration assets (continued):

Reserves which can be produced economically through application of improved recovery techniques (such as fluid injection) are only included in the proven and probable classification when successful testing by a pilot project, the operation of an installed program in the reservoir, or other reasonable evidences (such as, experience of the same techniques on similar reservoirs or reservoir simulation studies) provide supports for the engineering analysis on which the project or program was based.

The estimated useful lives for certain production assets for the current and comparative years are as follows:

Midstream processing equipment	20 years

For other assets, depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for other assets for the current and comparative years are as follows:

Office equipment	5 years
Fixtures and fittings	5 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(e) Leased assets:

Leases where the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

3. Significant accounting policies (continued):

(e) Leased assets (continued):

Minimum lease payments made under finance leases are apportioned between the finance expenses and the reduction of the outstanding liability. The finance expenses are allocated to each year during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Other leases are operating leases, which are not recognized on the Company's balance sheet.

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

(f) Impairment:

(i) Financial assets:

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in profit or loss.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, exploration and evaluation assets are allocated to CGUs.

3. Significant accounting policies (continued):

(f) Impairment (continued):

(ii) Non-financial assets:

The carrying amounts of the Company's non-financial assets, other than E&E assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and other intangible assets that have indefinite lives or that are not yet available for use an impairment test is completed each year. E&E assets are assessed for impairment when they are reclassified to property, plant and equipment, as oil and natural gas interests, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

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. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proven and probable reserves.

Fair value less cost to sell is determined as the amount that would be obtained from the sale of a CGU in an arm's length transaction between knowledgeable and willing parties. The fair value less cost to sell of oil and natural gas assets is generally determined as the net present value of the estimated future cash flows expected to arise from the continued use of the CGU, including any expansion prospects, and its eventual disposal, using assumptions that an independent market participant may take into account. These cash flows are discounted by an appropriate discount rate which would be applied by such a market participant to arrive at a net present value of the CGU. Consideration is given to acquisition metrics of recent transactions completed on similar assets to those contained within the relevant CGU.

The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to the CGU's that are expected to benefit from the synergies of the combination. E&E assets are allocated to related CGU's when they are assessed for impairment, both at the time of any triggering facts and circumstances as well as upon their eventual reclassification to producing assets (oil and natural gas interests in property, plant and equipment).

3. Significant accounting policies (continued):

(f) Impairment (continued):

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGU's are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the assumptions used to determine the recoverable amount in the period that led to impairment. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized.

(g) Share based payments:

The Company uses the fair value method for valuing share based compensation. Under this method, the compensation cost attributed to stock options are measured at the fair value at the grant date and expensed over the vesting period with a corresponding increase in contributed surplus. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest. Upon the settlement of the stock options, the previously recognized value in contributed surplus is recorded as an increase to shareholders' capital.

(h) Provisions:

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

(i) Decommissioning obligations:

The Company's activities give rise to dismantling, decommissioning and site disturbance re-mediation activities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

3. Significant accounting policies (continued):

(h) Provisions (continued):

Decommissioning obligations are measured at the present value of management's best estimate of expenditure required to settle the present obligation at the balance sheet date using a risk free discount rate. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the asset retirement obligations are charged against the provision to the extent the provision established.

(ii) Onerous contracts:

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognizes any impairment loss on associated assets.

(i) Revenue:

Revenue from the sale of oil and natural gas is recorded when the significant risks and rewards of ownership of the product is transferred to the buyer which is usually when legal title passes to the external party.

Royalty income is recognized as it accrues in accordance with the terms of the overriding royalty agreements.

(j) Finance income and expenses:

Finance expense comprises interest expense on borrowings, accretion of the discount on provisions and impairment losses recognized on financial assets.

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 profit or loss using the effective interest method. The capitalization rate used to determine the amount of borrowing costs to be capitalized is the weighted average interest rate applicable to the Company's outstanding borrowings during the period.

Interest income is recognized as it accrues in profit or loss, using the effective interest rate method.

3. Significant accounting policies (continued):

(k) Income tax:

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

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

Deferred tax is recognized providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(l) Earnings per share:

Basic earnings per share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as options granted.

(m) Flow through shares

The resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with tax legislation. On issuance the premium received on the flow-through shares, being the difference in price over a common share with no tax attributes is recognized on the statement of financial position. As expenditures are incurred the deferred tax liability associated with the renounced tax deductions are recognized through profit and loss along with a pro-rata portion of the deferred premium.

3. Significant accounting policies (continued):

(n) New standards and interpretations not yet adopted:

In May 2011, the IASB issued four new standards and two amendments. Five of these items related to consolidation, while the remaining one addresses fair value measurement. All of the new standards are effective for annual periods beginning on or after January 1, 2013. Early adoption is permitted.

IFRS 10, “Consolidated Financial Statements” replaces IAS 27 “Consolidated Separate Financial Statements”. It introduces a new principle-based definition of control, applicable to all investees to determine the scope of consolidation. The standard provides the framework for financial statements and their preparation based on the principle of control.

IFRS 11 “Joint Arrangements” replaces IAS 31, “Interests in Joint Ventures”. IFRS 11 divides joint arrangements into two types, each having its own accounting model. A “joint operation” continues to be accounted for using proportionate consolidation, whereas a “joint venture” must be accounted for using equity accounting. This differs from IAS 31, where there was the choice to use proportionated consolidation or equity accounting for joint ventures. A “joint operation” is defined as the joint operators having right to the assets, and obligations for the liabilities, relating to the arrangement. In a “joint venture”, the joint ventures partners have rights to the net assets of the arrangement, typically through their investment in a separate joint venture entity.

IFRS 12 “Disclosure of Interests in Other Entities” is a new standard, which combines all of the disclosure requirements for subsidiaries, associates and joint arrangements, as well as unconsolidated structured entities.

IFRS 13 “Fair Value Measurement” is a new standard meant to clarify the definition of fair value, provide guidance on measuring fair value and improve disclosure requirements related to fair value measurement.

IAS 28 “Investments in Associates and Joint Ventures” has been amended as a result of the issuance of IFRS 11 and the withdrawal of IAS 31. The amended standard sets out the requirements for the application of the equity method when accounting for interest in joint ventures, in addition to interests in associates.

3. Significant accounting policies (continued):

IAS 27 “Separate Financial Statements: has been amended to focus solely on accounting and disclosure requirements when an entity presents separate financial statements, due to the issuance of the new IFRS 10 which is specific to financial statements.

In November 2009, the IASB published IFRS 9, “Financial Instruments,” which covers the classification and measurement of financial assets as part of its project to replace IAS 39, “Financial Instruments: Recognition and Measurement.” In October 2010, the requirements for classifying and measuring financial liabilities were added to IFRS 9. Under this guidance, entities have the option to recognize financial liabilities at fair value through earnings. If this option is elected, entities would be required to reverse the portion of the fair value change due to a company’s own credit risk out of earnings and recognize the change in other comprehensive income. IFRS 9 is effective for the Company on January 1, 2015. Early adoption is permitted and the standard is required to be applied retrospectively.

The Company is currently evaluating the impact of adopting all of the newly issued and amended standards.

4. Determination of fair values:

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Cash and cash equivalents, trade and other receivables, bank debt, debentures and trade and other payables

The fair value of cash and cash equivalents, trade and other receivables, bank debt and trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At December 31, 2011 and 2010, the fair value of these balances approximated their carrying value due to their short term to maturity.

(ii) Stock options:

The fair value of stock options is measured using a Black Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behavior), expected dividends, and the risk-free interest rate (based on government bonds).

(iii) Fair values:

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

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.

		December 31, 2011		December 31, 2010	
Financial Instrument Classification	**Note**	**Carrying Value $**	**Fair value $**	Carrying Value $	Fair Value $
Loans and receivables:					
Cash		-	-	43,293	43,293
Trade and other receivables		2,043,722	2,043,722	1,083,969	1,083,969
Other financial liabilities:					
Trade and other payables		2,220,538	2,220,538	1,262,032	1,262,032
Bank indebtedness		4,603,313	4,603,313	1,299,841	1,299,841
Debentures		-	-	487,455	487,455

5. Financial risk management:

(a) Overview:

The Company's activities expose it to a variety of financial risks that arise as a result of its exploration, development, production, and financing activities such as:

- credit risk;
- liquidity risk; and
- market risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors oversees managements' establishment and execution of the Company's risk management framework. Management has implemented and monitors compliance with risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

(b) Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from joint venture partners and oil and natural gas marketers. The maximum exposure to credit risk at year-end is as follows:

	Carrying amount	
	2011	2010
Cash and cash equivalents	$ -	$ 43,293
Trade and other receivables	2,043,722	1,083,969
	$ 2,043,722	$ 1,127,262

5. Financial risk management (continued):

(b) Credit risk (continued):

Trade and other receivables:

All of the Company's operations are conducted in Canada. The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

Receivables from oil and natural gas marketers are normally collected on the 25th day of the month following production. The Company's policy to mitigate credit risk associated with these balances is to establish marketing relationships with large purchasers. The Company historically has not experienced any collection issues with its oil and natural gas marketers. Receivables from joint interest partners are typically collected within one to three months of the joint interest bill being issued. The Company attempts to mitigate the risk from joint venture receivables by obtaining venture pre-approval of significant capital expenditures. However, the receivables are from participants in the oil and natural gas sector, and collection of the outstanding balances is dependent on industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. In addition, further risk exists with joint ventures; as disagreements occasionally arise that increase the potential for non-collection. The Company does not typically obtain collateral from oil and natural gas marketers or joint ventures; however, the Company does have the ability to withhold production from joint ventures in the event of non-payment.

The Company does not anticipate any default as it transacts with creditworthy customers and management does not expect any losses from non-performance by these customers. As such a provision for doubtful accounts has been recorded at December 31, 2011 with $756,648 (2010 – 613,116).

The maximum exposure to credit risk for loans and receivables at the reporting date by type of customer was:

	Carrying amount	
	2011	2010
Oil and natural gas marketing companies	$ 703,779	$ 452,095
Joint venture partners	1,339,943	631,874
Total trade and other receivables	$ 2,043,722	$ 1,083,969

The Company's most significant customer, a Canadian oil and natural gas marketer, accounts for $703,779 of the trade receivables at December 31, 2011 (2010: $452,095).

5. Financial risk management (continued):

(b) Credit risk (continued):

As at December 31, 2011 and 2010, the Company's trade and other receivables are aged as follows:

	2011	2010
Current (less than 90 days)	$ 1,495,351	$ 549,949
Past due (more than 90 days)	548,371	534,020
Total	$ 2,043,722	$ 1,083,969

(c) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Typically the Company ensures that it has sufficient cash on demand or bank debt available to be drawn to meet expected operational expenses for a period of 120 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. To achieve this objective, the Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditure. The Company also attempts to match its payment cycle with collection of oil and natural gas revenue on the 25th of each month. In addition, the Company maintains a $12 million credit facility to provide capital when needed, of which $7.4 million was available at the end of the year.

5. Financial risk management (continued):

(d) Market risk:

Market risk is the risk that changes in market prices, such as commodity prices, foreign exchange rates and interest rates will affect the Company's income or the value of the financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Company may use both financial derivatives and physical delivery sales contracts to manage market risks. All such transactions are conducted in within risk management tolerances that are reviewed by the Board of Directors. No financial derivative or physical delivery sales contracts were outstanding during 2011 and 2010.

Currency risk:

Prices for oil are determined in global markets and generally denominated in United States dollars. Natural gas prices obtained by the Company are influenced by both US and Canadian demand and the corresponding North American supply, and recently, by imports of liquefied natural gas. The exchange rate effect can not be quantified but generally an increase in the value of the $CDN as compared to the $US will reduce the prices received by the Company for its petroleum and natural gas sales.

Interest rate risk:

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The interest charged on the outstanding bank loan fluctuates with the interest rates posted by the lenders. The Company is exposed to interest rate risk and has not entered into any mitigating interest rate hedges or swaps.

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. Commodity prices for oil and natural gas are impacted by not only the relationship between the Canadian and United States dollar but also world economic events that dictate the levels of supply and demand.

5. Financial risk management (continued):

(e) Capital management:

The Company manages its capital 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 debt (Note 15), working capital and shareholder's equity. The Company's ability to meet these objectives for managing the capital structure is as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Current assets	$ 2,489,030	$ 2,542,254	$ 1,184,231
Trade and other payables	(2,220,538)	(1,262,032)	(2,968,623)
Debenture	-	(487,455)	-
Bank indebtedness – current	(4,603,313)	(1,299,841)	(3,227,664)
Net working capital deficiency	$ (4,334,821)	$ (507,074)	$ (5,012,056)
Shareholder's equity	$ 25,303,101	$23,471,167	$ 14,519,505
Bank facility			
Undrawn portion of revolving demand loan facility	$ 7,396,685	$ 4,500,159	$ 1,972,336

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 December 31, 2011 and December 31, 2010.

Management reviews its capital management approach on an ongoing basis. There were no material changes to this approach during the year ended December 31, 2011. The Company is not subject to externally imposed capital requirements.

6. Personnel expenses:

The aggregate payroll expense of employees and executive management was as follows:

	2011	2010
Wages and salaries	$ 411,687	$ 512,145
Benefits and other personnel costs	8,350	5,864
Total employee remuneration included in general and administrative expenses	$ 420,037	$ 518,009

Personnel expenses directly attributed to capital activities will be, if any, capitalized and included in property, plant and equipment and intangible exploration assets.

In addition to their salaries, the Company also provides non-cash benefits to directors and executive officers. Key management personnel compensation is comprise of the following:

	2011	2010
Salaries and wages	$ 296,667	$ 379,333
Short-term employee benefits	3,373	3,160
Termination benefits	-	328,000
Share-based payments (i)	757,551	377,313
	$ 1,057,591	$ 1,087,806

(i) Represents the amortization of stock based compensation associated with options granted to executive officers as recorded in the financial statements.

7. Debentures:

	December 31, 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 matured on July 31, 2011 as set in the original agreements. The interest rate was 5% per annum compounded annually, calculated and paid semi-annually on September 30 and December 31. The debentures were 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 matured on July 31, 2011 and were redeemed for cash.

8. Finance income and expenses:

	2011	2010
Finance income:		
Interest income on bank deposits	$ 7,444	$ 7,285
	$ 7,444	$ 7,285
Financial expenses:		
Interest on loans and borrowings	156,963	86,547
Accretion of decommissioning liabilities	36,531	116,281
	$ 193,494	$ 202,828
Net finance expenses	$ 186,050	$ 195,543

9. Supplemented cash flow information:

Changes in non-cash working capital is comprised of:

	2011	2010
Source/(use) of cash:		
Trade and other receivables	$ (959,753)	$ (205,033)
Deposit and prepaid expenses	969,684	(1,135,536)
Trade and other payables	958,506	(1,706,591)
	$ 968,437	$(3,047,160)
Related to operating activities	$ 932,810	$(2,058,671)
Related to investing activities	$ 35,627	$ (988,489)

Interest paid	$ 156,940	$ 86,547

10. Income tax expense:

Reconciliation of effective tax rate:

	2011	2010
Profit before tax	$ 1,200,077	$(3,704,698)
Expected tax rate	26.5%	28.5%
Expected income tax	318,020	(1,055,839)
Change in statutory tax rates	$ (33,028)	$ (45,017)
Share based compensation	264,140	111,242
Flow through shares	3,333	66,669
Other	(5,902)	459,570
Sub-total	546,563	(463,375)
Flow through share premium	(3,333)	(80,002)
Total income tax expense (recovery)	$ 543,230	$ (543,377)

The tax losses expire up to 2030. The deductible temporary differences do not expire under current tax legislation.

Recognized deferred tax assets and liabilities:

Deferred tax assets and liabilities are attributable to the following:

	2011	2010
Deferred tax liabilities:		
Property, plant and equipment (including E&E assets)	$ 4,754,656	$ 4,152,717
Less deferred tax assets:		
Non-capital losses	(2,092,703)	(2,106,533)
Share issue costs	(152,888)	(289,112)
Provisions	(1,168,004)	(962,574)
Net deferred tax liability	$ 1,341,061	$ 794,498

Movement in temporary differences during the year:

	Balance January 1, 2010	Recognized in profit or loss	Recognized in equity	December 31, 2010	Recognized in profit or loss	December 31, 2011
Property, plant and equipment (including E&E assets)	$ 3,767,222	$ 385,495	$ -	$ 4,152,717	$ 601,939	$ 4,754,656
Share issue costs	(292,644)	180,538	(177,006)	(289,112)	136,224	(152,888)
Non-capital tax losses	(1,092,641)	(1,013,892)	-	(2,106,533)	13,830	(2,092,703)
Provisions	(947,058)	(15,516)	-	(962,574)	(205,430)	(1,168,004)
Net deferred tax liability	$1,434,879	$ (463,375)	$ (177,006)	$ 794,498	$ 546,563	$ 1,341,061

11. 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	2,548,408	22,748	2,571,156
Impairment loss	(103,403)	-	(103,403)
Decommissioning provisions	209,784	6,852	216,636
At December 31, 2010	25,726,108	3,138,545	28,864,653
Additions	5,061,721	31,805	5,093,526
Transfer from E&E assets	926,406	-	926,406
Decommissioning provisions	860,474	36,607	897,081
At December 31, 2011	32,574,709	3,206,957	35,781,666
Accumulated Depreciation			
At January 1, 2010	-	1,714,096	1,714,096
Charge for the year	1,284,987	110,170	1,395,157
At December 31, 2010	1,284,987	1,824,266	3,109,253
Charge for the period	1,736,090	173,115	1,909,205
At December 31, 2011	3,021,077	1,997,381	5,018,458
Net book value			
January 1, 2010	23,071,319	1,394,849	24,466,168
December 31, 2010	24,441,121	1,314,279	25,755,400
December 31, 2011	29,553,632	1,209,576	30,763,208

Future development costs on proved plus probable reserves totaling approximately $21,415,300 (2010 - $23,426,800) are included in the depletion calculation. During the year ended December 31, 2011, personnel expenses of $213,642 (2010 - $155,442) directly attributed to capital activities were capitalized in property, plant and equipment.

In the fourth quarter of 2010, due to change in reserve estimates, the Company recognized an impairment of $103,403. The impairment was recorded as additional depletion and depreciation in profit or loss and was incurred on the Company's Saskatchewan CGU.

At December 31, 2011, due to changes in reserve estimates, the Company performed an impairment test on its CGUs using recoverable amounts based on the expected future cash flows of the proved and probable reserves using forecasted prices and costs as determined by the independent reserve evaluators. The future cash flows were discounted using a pre-tax rate of 10% (2010 – 10%). No impairment was indicated.

The recoverable amount of the CGUs was estimated based on fair value less costs to sell. The estimate of fair value less costs to sell was determined using a discount rate of 10 percent (2010: 10 percent) and forecasted cash flows of proved and probable reserves, with escalating prices and future development costs, as obtained from the reserve report. The prices used to estimate the fair value less cost to sell are those used by independent reserve engineers.

12. Intangible exploration assets and other intangible assets:

	E&E assets	License and permits	Total
Cost:			
Balance at January 1, 2010	$ 678,000	$ 10,001	$ 688,001
Additions	2,189,639	–	2,189,639
Balance at December 31, 2010	2,867,639	10,001	2,877,640
Acquisitions	–	–	–
Additions	2,946,555	–	2,946,555
Transfers to property, plant and equipment	(926,406)	–	(926,406)
Balance at December 31, 2011	$ 4,887,788	$ 10,001	$ 4,897,789
Amortization and impairment losses:			
Balance at January 1, 2010	$ –	$ –	$ –
Impairment loss	–	(10,001)	(10,001)
Balance at December 31, 2010 and 2011	$ –	$ (10,001)	$ (10,001)
Carrying amounts:			
At January 1, 2010	$ 678,000	$ 10,001	$ 688,001
At December 31, 2010	$ 2,867,639	$ –	$ 2,867,639
At December 31, 2011	$ 4,887,788	$ –	$ 4,887,788

Exploration and evaluation (E&E) assets consist of the Company's exploration projects which are pending the determination of proven or probable reserves. Additions represent the Company's share of costs incurred on E&E assets during the period. As at December 31, 2011 an amount of $4,887,788 (2010 - $2,867,639) remains in intangible exploration assets in respect of the Bakken and Breton project after $926,406 was transferred to property, plant, and equipment following the successful conclusion of the appraisal program in Breton and Buck Lake areas.

13. Share capital:

At December 31, 2011 and 2010, the Company was authorized to issue 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.

		Class A Shares	Warrants	$
At January 1, 2010		94,488,032	1,066,667	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 of $177,006		-	-	(490,940)
As at December 31, 2010		245,088,032	2,666,666	31,085,812
Class A shares issued in exercising of warrants	(c)	933,334	(933,334)	140,000
Class A shares issued in exercising of options	(d)	150,000	-	15,000
Class A shares issued in exercising of warrants	(e)	266,666	(133,333)	26,667
Flow through share premium	(e)	-	-	(3,333)
As at December 31, 2011		246,438,032	1,599,999	31,264,146

(a) On January 15, 2010, pursuant to an investment agreement with an international investor, the Company issued 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 this investment, the investor held 77.7% of the outstanding Class A Shares.

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.

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

(c) Between January 27 to May 26, 2011, the Company issued Class A Shares of 933,334 at $0.15 per share on the exercise of warrants.

(d) On July 19, 2011, the Company issued Class A Shares of 150,000 at $0.10 per share on the exercise of options.

(e) On July 28, 2011, the Company issued Class A Shares of 266,666, including 133,333 flow through shares, at $0.10 per share on the exercise of warrants.

13. Share capital (continued):

As at December 31, 2011, the 1,599,999 Class A share purchase warrants were outstanding:

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

14. Earnings per share:

Basic earnings per share was calculated as follows:

	2011	2010
Income / (Loss) for the year	$ 656,847	$(3,161,321)
Weighted average number of common shares (basis)		
Issued common shares at January 1	245,088,032	94,488,032
Share options exercised	68,033	-
Effects of shares issued	866,491	144,529,315
Weighted average number of common shares - basic	246,022,556	239,017,347

Excluded from diluted earnings per share is the effect of 20,200,000 options (2010 – 15,000,000 options) as their effect is anti-dilutive.

15. Loans and borrowings:

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 December 31, 2011, the Company had a $12,000,000 (December 31, 2010 - $4,600,000) revolving demand loan facility, of which $4,603,313 was drawn at December 31, 2011. The revolving loan bears interest at prime plus 0.75% in 2011 (2010 - prime plus 2%), with an effective rate at December 31, 2011 of 3.75% (December 31, 2010 – 3.75%). Bank facilities are secured by a single first floating charge debenture in the amount of $35 million over all assets of the Company.

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 December 31, 2011 and December 31, 2010.

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 450,000 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, 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 engineering services to the Company.

A summary of the status of the Company’s stock option plan as December 31, 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	(3,500,000)	0.10
Outstanding at December 31, 2010	15,000,000	0.10
Granted	5,350,000	0.255
Exercised	(150,000)	0.10
Outstanding at December 31, 2011	20,200,000	0.14

16. Share based payments (continued):

The following table summarizes stock options outstanding and exercisable:

Options Outstanding					
Range of exercise prices	**Number outstanding at December 31, 2011**	**Expiry date**	**Weighted average exercise price**	**Number exercisable at December 31, 2011**	**Weighted average remaining contractual life**
$0.10	14,850,000	July 13, 2015	$0.10	5,000,000	3.5 years
$0.255	5,350,000	March 26, 2016	$0.255	4,116,667	4.2 years
$0.10 - $0.255	20,200,000		$0.14	9,116,667	4.5 years

The estimated weighted average fair value of share options granted during the period was $0.109 (2010 - $0.078) 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	Nil

A forfeiture rate of 0% (2010 - 0%) is used when recording stock based compensation. This estimate is adjusted to the actual forfeiture rate. Stock based compensation cost of $ 996,753 (2010 - $ 390,323) was expensed during 2011.

17. Decommissioning provisions:

	$
At January 1, 2010	3,573,803
Changes to estimate	73,951
Provision made during the year	142,685
Decommissioning expenditure	(56,420)
Accretion expense	116,281
At December 31, 2010	3,850,300
Changes to estimate	855,698
Provision made during the year	41,384
Decommissioning expenditure	(111,900)
Accretion expense	36,531
At December 31, 2011	4,672,013

Decommissioning obligations:

The Company's decommissioning obligations result from its ownership interest in oil and natural gas assets including well sites and gathering systems. The total decommissioning obligation is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years. The Company has estimated the net present value of the decommissioning obligations to be $4,672,013 as at December 31, 2011 (2010: $3,850,300) based on an undiscounted total future liability of $5,001,409 (2010 - $4,914,225). These payments are expected to be made over the next 25 years with the majority of costs to be incurred between 2015 and 2025. The discount factor, being the risk free rate related to the liability, is 2.5% (2010: 3.75%).

18. Commitments:

The Company entered into a lease arrangement for office space and related services for five years commencing January 1, 2008. As at December 31, 2011, the remaining minimum lease payments total $186,240 will be expended equally over the remaining 12 months ending December 31, 2012. The expense paid for office lease was recorded in general and administrative expenses when paid.

19. Subsequent events:

At January 14, 2012, the 1,599,999 Class A share purchase warrants outstanding expired.

20. Related party transactions:

The Company had the following related party transactions:

(a) During the year ended December 31, 2011, an accounting firm, of which an officer is a shareholder, charged the Company $74,620 (2010 - $20,422) for accounting services. There is no accounts payable at December 31, 2011 and 2010.

(b) At December 31, 2011, the Company has a receivable for $21,399 due from Alliance Success Holding Group Limited ("Alliance"), which owns 77% of the Company's shares at December 31, 2011, for services paid for by the Company on behalf of Alliance, relating to Alliance's investment in the Company. This payment was received in March 2012.

(c) During the year ended December 31, 2011, a consulting company, of which an officer is a shareholder, charged the Company $101,440 (2010 - $55,000) for consulting services. There is accounts payable of $6,430 at December 31, 2011 (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.

21. Reconciliation of statement of financial position from Canadian GAAP to IFRS:

The financial statements for the year ended December 31, 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 previous 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 2.

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:

Business Combinations

The Company has elected to apply the exemption for retrospective application of IFRS 3 to business combinations that took place before the transition date of January 1, 2010.

Full Cost Accounting

IFRS 1 allows an entity that used full cost accounting under its previous Canadian GAAP to elect, at the time of adoption to IFRS, to measure its exploration and evaluation assets at the amount determined under previous Canadian GAAP and measure development and production assets by allocating the amount determined under previous 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 on transition.

Decommissioning Obligation

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 provision 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. The decommissioning obligation was measured using the risk free interest rate.

A) Reconciliation of equity at January 1, 2010

	Canadian GAAP	Effect of transition to IFRS: Property, plant, and equipment (Note 1)	Decommissioning obligation (Note 2) (Note 4)	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 debt	3,277,664				3,277,664
	6,246,278	-	-		6,246,287
Non-current assets liabilities					
Deferred tax liability	1,822,589		(387,710)	-	1,434,879
Decommissioning provisions	2,110,747		1,463,056		3,573,803
Flow-through share premium	-			80,002	80,002
Debenture	483,924				483,924
	4,417,260	-	1,075,346	80.002	5,572,608
SHAREHOLDERS' EQUITY					
Share capital	18,785,041			578,111	19,363,152
Contributed surplus	1,092,825				1,092,825
Deficit	(4,203,013)		(1,075,346)	(658,113)	(5,936,472)
	15,674,853	-	(1,075,346)	(80,002)	14,519,505

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 previous 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 previous Canadian GAAP.

Note 2 - Decommissioning obligation

Under previous 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 cash flows are discounted using a risk free rate as the estimated cash flows to abandon and remediate the wells and facilities have been risk adjusted. This has resulted in an increase in the decommissioning obligation which was recognized through deficit due to the full cost exemption taken as discussed above.

The deferred tax liability is reduced for the increase of decommissioning obligation by the amount of $387,710. This has resulted in a decrease in the deficit.

Note 3 - Flow-through shares

Under previous 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 the flow through share issuance between share capital and a flow through share premium liability representing the sale of tax benefits. The liability is reversed when qualifying expenditures are made and a deferred tax liability is recognized at that time. The reversal of the liability and the recognition of deferred tax are recognized in profit or loss.

Note 4 - Other

The IFRS opening balance sheet at January 1, 2010 was adjusted to correct for $387,710 to recognize the deferred income tax effect of the IFRS adjustment relating to decommissioning obligations. This correction and the revised IFRS ending balances at January 1, 2010 are presented below:

Account	Previously reported	Adjustment	As adjusted
Deferred tax liability	$ 1,822,589	$ (387,710)	$ 1,434,879
Deficit	$ 6,324,182	$ 387,710	$ (5,936,472)

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 obligation (Note 2)	Depletion & impairment loss (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	-	2,867,639						2,867,639
Property, plant and equipment	27,944,712	(2,867,639)	73,951	604,376				25,755,400
	27,944,712	-	73,951	604,376	-	-	-	28,623,039
Total Assets	30,486,966	-	73,951	604,376	-	-	-	31,165,293
					-			
LIABILITIES								
Current liabilities								
Trade and other payables	1,262,032							1,262,032
Bank indebtedness	1,299,841							1,299,841
Debentures	487,455				-			487,455
	3,049,328	-	-	-	-		-	3,049,328
Non-current assets liabilities								
Deferred tax liability	955,383						(160,885)	794,498
Decommissioning liability	2,392,700		1,457,600					3,850,300
	3,348,083	-	1,457,600	-	-		(160,885)	4,644,798
SHAREHOLDERS' EQUITY								
Share capital	30,437,032				648,780			31,085,812
Contributed surplus	1,408,079					75,069		1,483,148
Deficit	(7,755,556)		(1,383,649)	604,376	(648,780)	(75,069)	160,885	(9,097,793)
	24,089,555	-	(1,383,649)	604,376	-	-	160,885	23,471,167
Total Liabilities and Shareholders' Equity	30,486,966	-	73,951	604,376	-	-	-	31,165,293

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

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

		Effect of transition to IFRS					
	Canadian GAAP $	**Decommissioning obligation (Note 2)**	**Depletion & impairment loss (Note 3)**	**Flow-through shares (Note 4)**	**Share-based payments (Note 5)**	**Deferred Tax (Note 6)**	**IFRS $**
Revenues	5,681,083						5,681,083
Royalties	(358,826)						(358,826)
Total revenue	5,322,257	-	-	-	-	-	5,322,257
Operating	(4,157,186)	-	-	-	-	-	(4,157,186)
Share-based payment expense	(315,254)				(75,069)	-	(390,323)
Depletion, depreciation and amortization	(2,112,937)	-	707,779	-	-	-	(1,405,158)
Impairment expense	-	-	(103,403)	-	-	-	(103,403)
General and administrative	(2,775,342)						(2,775,342)
Loss from operations	(4,038,462)	-	604,376	-	(75,069)	-	(3,509,155)
Finance expense	(274,950)	79,407					(195,543)
Loss before income tax	(4,313,412)	79,407	604,376	-	(75,069)	-	(3,704,698)
Income tax recovery (expense)	(760,869)			(9,333)		226,825	(543,377)
Total comprehensive loss	(3,552,543)	79,407	604,376	9,333	(75,069)	(226,825)	(3,161,321)

The adjustments related decommissioning obligation, depletion, impairment loss, and deferred tax were made at year end at December 31, 2010 after previous filling on the IFRS transition.

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

The following explains the material adjustments:

Note 1 - Petroleum and natural gas properties

Under previous 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 full 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.

At December 31, 2010, costs of $2,867,639 have been reclassified from development and production assets to exploration and evaluation assets.

Note 2 - Decommissioning obligation

Under previous 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 cash flows are discounted using a risk free rate as the estimated cash flow to abandon and remediate the wells and facilities have been risk adjusted. This has resulted in an increase in the asset retirement obligation at the date of transition to IFRS, which must be recognized through deficit under the full cost exemption, and as at December 31, 2010, which is recognised through the Statement of Comprehensive Loss for that year. Unlike previous Canadian GAAP, the accretion expense is classified as finance expense under IFRS.

Note 3 - Depletion

The Company depletes its development and production assets using unit of production under both IFRS and previous 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 December 31, 2010. In addition, the Company depletes its development and production assets using proved and probable reserves under IFRS. Under previous Canadian GAAP, proved reserves were used.

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 flow through share premium liability representing the sale of tax benefits. The liability is reversed when qualifying expenditures are made and a deferred tax liability is recognized at that time. The reversal of the liability and the recognition of deferred tax are recognized in profit or loss.

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 effects come from the IFRS depletion adjustment discussed above.

Note 7 - Other
The Statement of Financial Position at December 31, 2010 and the Statement of Income (Loss) and Comprehensive Income (Loss) were adjusted to correct for amounts relating to mechanical errors made relating to depletion, depreciation and amortization, operating expenses, and the deferred income tax provision. An impairment of property, plant and equipment was recognized as a result of the previously mentioned mechanical errors being corrected. The correction and the revised IFRS ending balances as at and for the year ended December 31, 2010 are presented below:

Account	Previously reported	Adjustment	As adjusted
Evaluation and exploration assets	$ 3,079,706	$ (212,067)	$ 2,867,639
Property, plant and equipment	25,535,564	219,836	25,755,400
Deferred tax liability	806,231	(11,733)	794,498
Decommissioning liability	3,764,035	86,265	3,850,300
Deficit	(9,031,029)	(66,764)	(9,097,793)

Account	Previously reported	Adjustment	As adjusted
Operating expenses	$ 4,070,920	$ 86,266	$ 4,157,186
Depletion, depreciation and amortization	$ 1,516,330	$ (111,172)	$ 1,405,158
Impairment expense	-	103,403	103,403
Income tax recovery	(919,354)	375,977	(543,377)
Total comprehensive loss	(2,706,847)	454,474	(3,161,321)

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

Gang Fang – President and Chief Executive Officer

Bob D. McCuaig – Executive Vice President and General Manager

Qiping Men – Chief Financial Officer

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TSXV Venture Exchange
Trading Symbol: AE.A

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KPMG LLP

Bankers
Canadian Western Bank

Legal Counsel
Norton Rose Canada LLP