Western Plains Petroleum Ltd.

Unaudited Interim Financial Statements
For the Three and Nine Months
Ended September 30, 2011

NOTICE OF NO AUDITOR REVIEW

Pursuant to National Instrument 51-102 Part 4, subsection 4.3(3) (a), the accompanying unaudited interim financial statements have been prepared by management and the Company's independent auditors have not performed a review of these financial statements.

Western Plains Petroleum Ltd.
Statement of Financial Position

As at September 30, 2011 with comparative figures for December 31, 2010
Unaudited

	Notes	September 30, 2011	December 31, 2010
		$	$
Assets			
Current assets			
Cash		-	390,473
Trade and other receivables	13(b)	1,596,397	1,394,777
Subscriptions receivable		-	176,400
Deposits and prepaid expenses		31,369	26,907
Total current assets		1,627,766	1,988,557
Non-current assets			
Property and equipment	6	8,062,072	5,070,587
Exploration & evaluation assets	7	-	245,774
Total non-current assets		8,062,072	5,316,361
Total assets		9,689,838	7,304,918
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	13(c)	3,246,417	1,784,756
Bank debt	8	225,000	-
Total current liabilities		3,471,417	1,784,756
Non-current liabilities			
Decommissioning provisions	9	1,203,400	651,000
Total liabilities		4,6742,817	2,435,756
Equity			
Share capital	10(a)	7,334,127	7,334,127
Warrants	10(d)	54,000	54,000
Contributed surplus		615,845	615,845
Deficit		(2,988,951)	(3,134,810)
Total equity		5,015,021	4,869,162
Total liabilities and equity		9,689,838	7,304,918

Basis of presentation – Note 1

Commitments – Note 11

Related Parties Transactions – Note 12

Subsequent events – Notes 8, 10(b), 14

See accompanying notes to the interim financial statements

Western Plains Petroleum Ltd.
Statement of Comprehensive Income

For the three and nine months ended September 30, 2011
With comparative figures for 2010
Unaudited

	Notes	3 Months Ended		9 Months Ended	
	15	**Sept. 30, 2011**	**Sept. 30, 2010**	**Sept. 30, 2011**	**Sept. 30, 2010**
Revenue					
Petroleum revenue		1,001,152	222,289	2,435,671	878,514
Expenses					
Royalties		178,485	30,932	432,413	133,479
Production and transportation		447,897	103,608	1,024,459	446,237
General and administrative		127,338	136,361	499,377	386,812
Transaction expenses		4,865	105,189	75,376	164,882
Depletion	7	267,000	32,000	614,000	106,000
Stock-based compensation		-	-	-	144,200
		1,025,585	408,090	2,645,616	1,381,610
Operating loss		(24,433)	(185,801)	(209,956)	(503,096)
Gain (loss) on sale of property & equipment	8(a)	334,000	(39,603)	334,000	(39,603)
Net finance expense	4	36,163	(31,000)	(39,185)	(73,800)
Income (loss) before income taxes		345,730	(256,404)	84,859	(616,499)
Income tax recovery - deferred		-	-	61,000	78,000
Total comprehensive income (loss) attributable to equity holders	15	345,730	(256,404)	145,859	(538,499)
Earnings (loss) per share					
Basic and diluted income (loss) per share	10(c)	0.006	(0.006)	0.003	(0.015)
Weighted average common shares outstanding - basic	10(c)	55,101,153	43,544,025	55,101,153	36,352,095
Effective of dilutive securities		654,275	-	438,574	-
Weighted average common shares outstanding - diluted		55,755,428	43,544,025	55,539,727	36,352,095

See accompanying notes to the interim financial statements.

Western Plains Petroleum Ltd.
Statement of Changes in Equity
Unaudited

	Notes	Common Shares (Note 10) #	Common Shares (Note 10) $	Warrants (Note 10) $	Contributed Surplus $	Deficit $	Total Equity $
Balance, January 1, 2010		30,259,774	3,502,207	30,000	207,745	(2,245,531)	1,494,421
Issue of common shares – private placement		2,144,167	190,200	-	-	-	190,200
Issue of common shares – acquisition	6(a)	13,328,363	1,999,254	-	-	-	1,999,254
Share issue costs		-	(11,219)	-	-	-	(11,219)
Issue of common share options	10(b)	-	-	-	144,200	-	144,200
Total comprehensive loss		-	-	-	-	(538,499)	(538,499)
Balance, September 30, 2010		45,732,304	5,680,442	30,000	351,945	(2,784,030)	3,278,357
Balance, December 31, 2010		55,101,153	7,334,127	54,000	615,845	(3,134,810)	4,869,162
Total comprehensive income		-	-	-	-	145,859	145,859
Balance, September 30, 2011		55,101,153	7,334,128	54,000	615,845	(2,988,951)	5,015,021

See accompanying notes to the interim financial statements.

Western Plains Petroleum Ltd.
Statement of Cash Flows

For the nine months ended September 30, 2011 with comparative figures for 2010
Unaudited

	Notes	9 Months Ended	
		Sept. 30, 2011	**Sept. 30, 2010**
Cash inflow (outflow):			
Operating activities			
Net income (loss)		145,859	(538,499)
Adjustments for:			
Depletion		614,000	106,000
Loss (gain) on sale of property		(334,000)	39,604
Stock based compensation		-	144,200
Abandonment costs expenses		37,192	-
Net finance expense		39,186	73,800
Income tax recovery – deferred		-	(78,000)
Change in non-cash working capital	5	517,652	(76,654)
Abandonment costs		(55,792)	
Cash inflow (outflow), operating activities		964,097	(329,549)
Investing activities			
Additions to property and equipment		(3,178,910)	(1,453,834)
Disposition of property and equipment		697,799	1,655,851
Change in non-cash working capital	5	773,181	297,152
Cash (outflow) inflow, investing activities		(1,707,930)	499,169
Financing activities			
Issue of share capital		-	190,200
Share issue costs		-	(11,218)
Increase (decrease) in bank debt		225,000	-
Net finance expense		(12,786)	-
Change in non-cash working capital	5	141,146	(26,500)
Cash inflow (outflow), financing activities		353,360	152,482
(Decrease) increase in cash for the period		(390,473)	322,102
Cash and cash equivalents, beginning of period		390,473	95,962
Cash and cash equivalents, end of period		-	418,064

See accompanying notes to the interim financial statements.

1. General business description

Western Plains Petroleum Ltd. (the "Company" or "Western Plains") was incorporated under the Business Corporations Act (Alberta) on November 19, 2004 and is classified as a Tier 2 "oil and gas exploration and production" issuer on the TSX Venture Exchange ("TSXV"), trading under the symbol "WPP".

The Company's head office and mailing address is 202, 5004 – 18 Street, Lloydminster, Alberta T9V 1V4, Canada, and engages in the exploration for and the development, production and acquisition of petroleum and natural gas reserves in Western Canada.

These financial statements have been prepared on a going concern basis which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due.

The Company's ability to continue as a going concern is dependent upon its ability to attain profitable operations and generate sufficient cash from operating and financing activities to meet the Company's needs. As at September 30, 2011 the Company had a deficit of $3.0 million (December 31, 2010 - $3.1 million) and had net debt of $1.8 million (December 31, 2010 – working capital - $0.2 million). The Company had breached the working capital covenant (Note 8) prescribed in its agreement with the bank which further raises doubt about its ability to continue as a going concern. These financial statements do not reflect the adjustments or reclassification of assets and liabilities which would be necessary if the Company were unable to continue as a going concern and therefore be required to realize its assets and liabilities in other than the normal course of business and potentially at amounts significantly different from those recorded in these financial statements.

2. Basis of preparation

(a) Statement of compliance

The interim financial statements for the period ended September 30, 2011 have been prepared in accordance with International Financial Reporting Standards ("IFRS"), including IAS 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB").

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 accounting principles generally accepted in Canada ("Canadian GAAP") to comply with IFRS.

The reconciliations to IFRS from the previous Canadian GAAP financial statements are summarized in Note 15. 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 15.

(b) Reporting entity

The financial statements of the Company as at and for the period ended September 30, 2011 comprise the Company only as it has no subsidiaries or other interests to be consolidated.

(c) Basis of measurement

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

The methods used to measure fair values are discussed in Note 3 to the Company's unaudited interim consolidated financial statements for the period ended March 31, 2011, as the accounting policies applied by the Company in these interim Financial Statements are the same as those disclosed therein..

(d) Functional and presentation currency

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

(e) Use of estimates and judgments

The preparation of financial statements requires management to make estimates and use judgment regarding the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the date of the interim financial statements and the reported amounts of revenues and expenses during the period. By their nature, estimates are subject to measurement uncertainty and changes in such estimates in future periods could require a material change in the financial statements. Accordingly, actual results may differ from the estimated amounts as future confirming events occur. Significant estimates and judgments made by management in the preparation of these interim financial statements are as follows:

Amounts recorded for depletion and depreciation and amounts used for impairment calculations are based on estimates of petroleum and natural gas reserves. By their

nature, the estimates of reserves, including the estimates of future prices, costs, discount rates and the related future cash flows, are subject to measurement uncertainty. Accordingly, the impact to the financial statements in future periods could be material.

Amounts recorded for decommissioning provisions and the related accretion expense requires the use of estimates with respect to the amount and timing of decommissioning expenditures. Other provisions are recognized in the period when it becomes probable that there will be a future cash outflow.

The estimated fair values of derivative financial instruments resulting in financial assets and liabilities, by their very nature, are subject to measurement uncertainty.

Compensation costs recognized for share based compensation plans are subject to the estimation of what the ultimate payout will be using pricing models such as Black-Scholes model which is based on significant assumptions such as volatility, dividend yield and expected term.

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company operates are subject to change. As such, income taxes are subject to measurement uncertainty.

3. Significant accounting policies

The accompanying Interim Financial Statements should be read in conjunction with Note 3 to the Company's unaudited interim consolidated financial statements for the period ended March 31, 2011, as the accounting policies applied by the Company in these Interim Financial Statements are the same as those disclosed therein.

4. Finance expenses

	3 Months Ended		9 Months Ended	
	Sept. 30, 2011	Sept. 30, 2010	Sept. 30, 2011	Sept. 30, 2010
Net finance expense				
Bank interest	(5,949)	-	(8,186)	-
Other financing costs	(4,388)	-	(4,599)	-
Accretion	46,500	(31,000)	(26,400)	(73,800)
Total	36,163	(31,000)	(39,186)	(73,800)

5. Supplemental cash flow information

Changes in non-cash working capital are comprised of:

	9 Months Ended	
	Sept. 30, 2011	Sept. 30, 2010
Cash inflows from (outflows to):		
Accounts receivable	(201,621)	(194,162)
Subscriptions receivable	176,400	-
Prepaid expenses	(4,462)	(314,446)
Accounts payable & accrued liabilities	1,461,662	702,606
	1,431,979	193,998
Related to:		
Operating activities	517,652	(76,654)
Financing activities	141,146	(26,500)
Investing activities	773,181	297,152
Changes in non-cash working capital	1,431,979	193,998

In 2010 property and equipment acquired through the issuance of common shares amounting to $1,999,254 has been excluded from the statement of cash flows as a non-cash transaction.

6. Property and equipment

	Oil & Natural Gas Assets $	Office Assets $	Total $
Cost			
Balance, January 1, 2010	2,179,215	-	2,179,215
Additions	4,634,456	-	4,634,456
Decommissioning provision	553,470	-	553,470
Decommissioning settlement	(319,100)	-	(319,100)
Dispositions	(1,695,454)	-	(1,695,454)
Balance, December 31, 2010	5,352,587	-	5,352,587
Additions	3,423,683	46,846	3,198,233
Decommissioning provision	782,600	-	782,600
Disposition		-	
Decommissioning settlement	(376,890)	-	(376,890)
Balance, September 30, 2011	8,909,684	46,846	8,956,530
Accumulated depletion			
Balance, January 1, 2010	-	-	-
Depletion and depreciation	(282,000)	-	(282,000)
Balance, December 31, 2010	(282,000)	-	(282,000)
Depletion	(611,000)	(4,000)	(615,000)
Balance September 30, 2011	(893,000))	(4,000)	(897,000)
Net book value			
Balance, January 1, 2010	2,179,215	-	2,179,215
Balance, December 31, 2010	5,070,587	-	5,070,587
Balance, September 30, 2011	8,016,684	42,846	8,059,530

(a) Acquisitions and Dispositions

The Company has entered into an agreement for the sale of a 50% working interest in a producing property with part of the consideration a land swap for undeveloped property valued at $100,000. The disposition is comprised of the following which was recorded in the three months ended September 30, 2011:

Disposition	$
Property and equipment – purchase price	475,000
Purchase price adjustment – development costs	225,000
Purchase price adjustment – other	(2,000)
Asset retirement obligation	238,000
Total net assets	936,000
Cost of property and equipment	602,000
Gain on disposal	334,000

During the three months ended March 31, 2011, the Company acquired petroleum and natural gas assets, consisting of one producing well and several non-producing wells on a petroleum property, near Lloydminster, Alberta. The acquisition is comprised of the following which have been accounted for as a business combination using the purchase method of accounting:

	$
Net assets:	
Property and equipment	1,010,300
Asset retirement obligation	(410,300)
	600,000
Consideration:	
Cash	163,000
Vendor debt assumed	437,000
	600,000

In 2010, the Company acquired petroleum and natural gas assets, consisting of petroleum producing properties, near Lloydminster, Alberta. The acquisitions comprised the following which have been accounted for as business combinations using the purchase method of accounting:

Net assets:	Acquisition 1 $	Acquisition 2 $
Property and equipment	1,757,600	1,626,902
Asset retirement obligation	(257,600)	(147,000)
	1,500,000	1,479,902
Consideration:		
Cash	-	685,895
Common shares issued	1,500,000	499,254
Vendor debt assumed	-	294,753
	1,500,000	1,479,902

(b) Depletion and impairment charge

The depletion cost base includes future development costs of $200,000 ($1,800,000 at December 31, 2010) and has excluded salvage value of equipment of $1,125,000 ($700,000 at December 31, 2010). The depletion and impairment of property and equipment, and any eventual reversal thereof, are recognized as depletion in the statement of comprehensive income. No impairment was recognized during the periods ended September 30, 2011 ($Nil in the year ended December 31, 2010).

(c) Capitalized general and administrative and financing costs

The Company has not capitalized any general and administrative expenses or interest during the periods.

7. Exploration and evaluation assets

	$
Cost	
Balance, January 1, 2010	-
Additions	245,774
Balance, December 31, 2010	245,774
Additions	780,992
Decommissioning provision	410,300
Balance, March 31, 2011	1,437,066
Transfers to property and equipment	(1,437,066)
Balance, September 30, 2011	-

Exploration and evaluation assets at December 31, 2010 and March 31, 2011 consist of the Company's projects which are pending production or the determination of proved reserves. Subsequent to March 31, 2011, production commenced on these properties and therefore the amounts were transferred to property and equipment and are included in additions for that period.

(a) Acquisition

During the three months ended March 31, 2011, the Company acquired petroleum and natural gas assets, consisting of one producing well and several non-producing wells on a petroleum property, near Lloydminster, Alberta. The purchase price was allocated between property and equipment for the producing well and exploration and evaluation assets for the non-producing wells. The Company reactivated several of the non-producing wells during the periods ended September 30, 2011; the assets were reclassified as property and equipment and are included as additions and decommissioning provision in property and equipment (Note 8) for that period.

(b) Depletion and impairment charge

Intangible exploration and evaluation assets are not depleted or amortized. Intangible exploration and evaluation assets are aggregated into groups of cash-generating units for the purpose of assessing for impairment. Any impairment of intangible exploration and evaluation assets, and any eventual reversal thereof, is recognized as additional depletion expense in the statement of comprehensive income. No impairment was recognized during the periods presented in these financial statements.

(c) Recoverability of exploration and evaluation assets

The Company assesses the recoverability of intangible exploration and evaluation assets, before and at the moment of reclassification to property and equipment, using cash-generating units. The cash-generating unit includes both the exploration and evaluation cash-generating unit and the property and equipment cash-generating units related to petroleum and natural gas interests for that area that the exploration and evaluation assets are being transferred into.

(d) Capitalized general and administrative and financing costs

The Company has not capitalized any general and administrative expenses or interest in the period presented in these financial statements.

8. Bank debt

In October 2010 the Company entered into an agreement with a Canadian chartered bank for lines of credit, which are payable on demand and secured by a $25,000,000 debenture and general security agreement on all assets of the Company.

In September 2011 the revolving line of credit increased to $1,000,000 from $800,000 following the regularly scheduled annual review. Because several new 2011 wells were just commencing production and the Company was planning to engage an independent reserve evaluator to prepare a reserve report effective September 30, 2011, it was agreed that the bank would initiate an early interim review in November 2011. The reserve evaluation and bank interim review are both still in progress. The Company expects an increase in the facility limit as a result of increased production and operating cash inflows.

This revolving credit facility bears interest at prime plus 1.5%. As at September 30, 2011, the Company had drawn $225,000 ($nil at December 31, 2010) and was in compliance with all covenants except the requirement to maintain a working capital ratio as defined by the bank of at least 1:1. The actual ratio at September 30, 2011 was 0.74. Since September 30, 2011 the Company has deferred further capital expenditures except for certain activities to maintain or increase production. All cash from operating and investing activities (including proceeds of $400,000 from the disposition of the Company's working interest in one well, which was sold to the joint interest partner) has been applied to debt reduction.

The development line of credit is for an amount up to $300,000 and is subject to various standard covenants. This demand credit facility bears interest at prime plus 2.0%. The Company has not drawn on the available facility.

9. Decommissioning provisions

The future decommissioning obligations were determined by management and were based on the Company's net ownership interest, the estimated future costs to reclaim and abandon the wells, and the estimated timing of when the costs will be incurred. The following table presents the decommissioning liability:

	$
Balance, January 1, 2010	337,800
Liabilities incurred or acquired	512,600
Liabilities settled or disposed	(319,100)
Change of estimate	40,870
Accretion	78,830
Balance, December 31, 2010	651,000
Liabilities incurred or acquired	784,400
Accretion	26,400
Liabilities settled	(258,400)
Balance, September 30, 2011	1,203,400

The total undiscounted amount of estimated cash flows required to settle the obligation as at September 30, 2011 was $1.9 million (December 31, 2010 - $1.1 million) which has been discounted using a risk free rate of 2.68% at September 30, 2011. An inflation rate of two percent has been used throughout. All of these obligations are estimated to be incurred in 2021 to 2024 and will be funded from general Company resources at that time of retirement.

10. Common shares

(a) Authorized - Unlimited number of Common shares

Each shareholder is entitled to one vote and shall be entitled to receive non-cumulative dividends if, and when, declared by the Board of Directors.

(b) Stock option plan

The Company established a Stock Option Plan (“Plan”) for directors, officers, employees and service providers. The maximum number of common shares which may be reserved under the Plan may not exceed 10% of the outstanding common shares at that time. Options granted under the plan generally have a term of five years and vest on the date of grant. The exercise price of each option equals or exceeds the market price of the Company’s common shares on the date of grant.

Subsequent to the period end 1,000,000 additional stock options were issued to directors, officers and service providers (all personnel are on a contract consulting basis) with a strike price of $0.11, a five year term and immediate vesting.

A reconciliation of the option transactions for the periods presented in these financial statements follows:

	Nine months ended September 30, 2011		Year end December 31, 2010	
	Number of Options	Weighted Average Price $	Number of Options	Weighted Average Price $
Options, beginning of year	4,152,000	0.16	1,452,000	0.14
Granted	-	-	3,100,000	0.18
Expired	(42,000)	0.30	(400,000)	0.20
Options, end of year	4,110,000	0.15	4,152,000	0.16

Expiry	Weighted Average Remaining Life (Years)	Exercise Price	Outstanding and Exercisable
March 2013	1.45	$0.11	260,000
July 2013	1.81	$0.14	150,000
December 2013	2.21	$0.10	600,000
June 2015	3.68	$0.15	1,400,000
December 2015	4.21	$0.21	1,700,000
			4,110,000

No options were granted in the nine months ended September 30, 2011. In 2010, 3,100,000 options were granted and all options vested immediately. The fair value of options granted in 2010 was $408,100, determined using the following assumptions:

	2010 options
Risk free interest rate (%)	1.28%
Expected volatility (%)	88%
Expected life (in years)	5 years
Expected dividends	-
Forfeiture rate	0%

(c) Per share amounts

Dilutive securities were not included in computing fully diluted earnings per share for the periods ended September 30, 2010 as the Company experienced losses in those periods.

(d) Warrants

Changes to warrants are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price	$
Warrants, January 1, 2010	3,352,940	0.15	30,000
Exercised	(3,352,940)	0.15	(30,000)
Granted	867,500	0.25	54,000
Warrants, December 31, 2010 & September 30, 2011	867,500	0.25	54,000

The fair value of the warrants was estimated to be $54,000 in 2010 using the Black-Scholes option pricing model assuming a risk free interest rate of 1.25%, volatility of 88%) for the one year life and with no expected dividends. The warrants were issued as part of a unit which also included common shares, carry an exercise price of $0.25 per common share and expire in December 2011.

11. Commitments

(a) Office lease

Effective July 1, 2011, the Company leased office space in Lloydminster, Alberta. The lease expires in 2013 and requires minimum annual payments of $8,000 per year.

(b) Flow through share commitments

The Company is eligible to allocate Canadian Development Expense as Canadian Exploration Expense to meet its flow through commitments. The Company's remaining commitment to incur eligible expenditures in 2011 under the look back rule was met by June 30, 2011.

12. Related party transactions

The Company entered into the following related party transactions, all of which were in the normal course of operations and have been valued at the exchange amount that is the amount of consideration established and agreed to by the related parties:

- Certain oil and natural gas properties are held as joint arrangements (working interest partner) with a corporation with common management, directors and officers:
  - Capital costs of $274,362 ($nil in 2010) were incurred to the date of these financial statements and billed to the working interest partner. The costs related to drilling 2 (1.0 net) wells. The Company sold its 50% working interest in one of these wells to this related party in November 2011;
  - Net revenue of $29,062 ($nil in 2010) was earned to the date of these financial statements on behalf of the working interest partner from one of the two wells which commenced production in August 2011;
  - Cash calls totalling $400,000 ($nil in 2010) were paid by the working interest partner to the date of these financial statements of which $156,680 is in accounts payable and accrued liabilities at September 30, 2011 ($nil at December 31, 2010);
- Legal services are provided by a law firm that an officer and director is an associate:
  - $174,506 was incurred to the date of these financial statements (2010 - $232,876) of which $15,554 (2010 - $40,272) was in accounts payable and accrued liabilities at the period end:
  - Costs were recorded as general and administrative expense, share issue costs or as a transaction expense depending on the activity for which legal services were provided;
- Various oil field services and products provided by or sold to corporations in which an officer and director of the Company is an officer and a director:
  - $103,793 was incurred to the date of these financial statements (2010 - $190,633) of which $99,963 (2010 - $nil) was in accounts payable and accrued liabilities at the period end;
  - $7,652 ($nil in 2010) of goods and services were provided to the related entity by the Company of which $4,442 ($nil at December 31, 2010) was in accounts receivable at the period ended September 30, 2011;
  - Costs were recorded as either production expense or capital expenditures depending on the nature of the expenditure;
- Oil sold to a corporation in which an officer and director of the Company is an officer and a director:
  - $nil was earned in 2011 (2010 - $36,808) of which $nil (2010 - $nil) was in accounts receivable at the period end;
  - Proceeds were recorded as petroleum revenue.
- Executive services provided by a corporation in which an officer and a director of the Company is an officer and director:
  - $135,000 was incurred to the date of these financial statements (2010 - $140,000) of which $nil (2010 - $nil) was in accounts payable and accrued liabilities at the period end;
  - Costs were recorded as general and administrative expense.
- Consulting services related to prospective oil and natural gas prospects in Colombia provided by a corporation in which a director of the Company is an officer and director amounting to $4,000 (2010 - $nil) which was recorded as general and administrative expense and for which $nil (2010 -$nil) was in accounts payable and accrued liabilities;

- In 2010 $696,187 of oil and natural gas properties were acquired from a corporation in which an officer and director of the Company is an officer and a director. No oil properties were acquired from a related party in 2011.

13. 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 Company employs risk management strategies and polices to ensure that any exposure to risk are in compliance with the Company's business objectives and risk tolerance levels. While the Board of Directors has the overall responsibility for the establishment and oversight of the Company's risk management framework, management has the responsibility to administer and monitor these risks.

(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. Substantially all of the Company's accounts receivable are due from petroleum and natural gas marketers and are subject to normal credit risk.

The maximum exposure to credit risk follows:

	September 30, 2011 $	December 31, 2010 $
Cash	-	390,473
Accounts and other receivables	1,596,397	1,571,177
Maximum exposure to credit risk	1,596,397	1,961,650

Trade and other receivables

The majority of trade and other receivables relate to petroleum revenues and the Company subsequently collected this receivable.

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. Significant changes in industry conditions and risks that negatively impact customers' ability to generate cash flow will increase the risk of not collecting receivables. Management believes the risk is mitigated by the size and reputation of the companies to which they extend credit.

The Company markets its petroleum and natural gas to primarily one petroleum and natural gas marketer. Due to the small size of the Company, it is efficient to market all of its petroleum and natural gas to one marketer. Management monitors the credit rating with its marketer to ensure no collection issues arise. Receivables from petroleum and natural gas marketers are normally collected on the 25th day of the month following production.

The Company does not have an allowance for doubtful accounts as at September 30, 2011 and did not provide for any doubtful accounts. Only minor amounts of receivables were written off during the periods ended September 30, 2011. When determining whether past due accounts are collectible, the Company factors in the past credit history of the counterparties. The Company considers all amounts greater than 90 days as past due.

The Company's trade and other receivables were comprised of the following carrying amounts, of which $59,748 was over 90 days at September 30, 2011 but subsequently collected:

	September 30, 2011 $	December 31, 2010 $
Petroleum revenue	790,369	720,352
Joint venture partners	760,841	581,548
Refundable GST	36,228	92,877
Trade and other	8,959	-
Total and other receivables	1,596,397	1,394,777

Cash and cash equivalents

The Company manages the credit exposure related to cash by selecting financial institutions with high credit ratings. Given these credit ratings, management does not expect any counterparty to fail to meet its obligations.

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company’s approach to managing liquidity is to ensure it will have sufficient liquidity to meet its liabilities when due. The Company's ongoing liquidity is impacted by various external events and conditions, including commodity price fluctuations and the global economic downturn.

The Company’s financial liabilities consist of accounts payable and accrued liabilities. Accounts payable consists of invoices payable to trade suppliers for general, administrative, royalty, production and transportation expenditures and are paid within one year.

By nature, the petroleum and natural gas industry is very capital intensive. As a result, the Company prepares annual capital expenditure budgets and utilizes authorizations for expenditures to manage capital expenditures. The Company's accounts payable and accrued liabilities and bank debt are payable within one year.

The Company expects to satisfy its obligations under accounts payable and accrued liabilities within the next year. The terms of certain property acquisitions in 2010 and 2011 included the assumption of selected trade accounts payable held by vendors with liens on the acquired property or vendors which the Company does or intends to do business. Several of these trade creditors agreed to extended payment terms of up to 6 months and which comprise approximately $100,000 of the trade payables over 90 days.

(d) Market risk

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

Commodity price risk

The nature of the Company's operations results in exposure to fluctuations in commodity prices. Commodity prices for petroleum and natural gas are impacted by global economic and political events that dictate the levels of supply and demand. Management continuously monitors commodity prices and may consider instruments to manage exposure to these risks when it deems appropriate. The Company did not enter into any derivative financial contracts during the periods presented in these financial statements nor does it currently have any derivative financial contracts. The Company does not utilize derivative financial instruments for speculative purposes.

Once petroleum production levels increase, the Company may economically hedge some petroleum and natural gas sales through the use of various financial derivative forward sales contracts and physical sales contracts when deemed appropriate. The Company will not apply hedge accounting for these contracts. The Company's production is usually sold using "spot" or near term contracts, with prices fixed at the time of transfer of custody or on the basis of a monthly average market price. The Company, however, may give consideration in certain circumstances to the appropriateness of entering into long term, fixed price marketing contracts.

A 10% difference in oil prices for the nine months ended September 30, 2011 would have increased or decreased petroleum revenue by 10% depending on the direction of the difference. Royalties would also have increased or decreased accordingly for a net impact on earnings of approximately $189,000.

Foreign currency risk

Prices for petroleum are determined in global markets and generally denominated in United States dollars. The Company had no forward exchange rate contracts in place nor any working capital items denominated in foreign currencies as at or during the periods presented in these financial statements. An increase in the value of the Canadian dollar relative to the U.S. dollar will decrease the revenues received from the sale of petroleum and natural gas commodities. Correspondingly, a decrease in the value of the Canadian dollar relative to the U.S. dollar will increase the revenues received from the sale of petroleum and natural gas commodities. The impact of such exchange rate fluctuations cannot be accurately quantified.

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 Company has no interest bearing debt outstanding. Consequently the Company is not directly exposed to interest rate risk. However, inherently, changes in interest rates may affect the general economy. The Company had no interest rate swaps or financial contracts in place as at or during the periods presented in these financial statements. A 1% change in interest rate will have no material impact on net income.

(e) Capital management

The Company's capital is defined to be share holders' equity, credit facilities and other debt and cash. The Company's objective in managing capital is to ensure it has adequate working capital to meet day to day needs and access to sources of capital sufficient to finance its operations and to make planned capital expenditures or capital acquisitions as opportunities present themselves. The Company manages its capital structure and makes changes to it in light of changes in economic conditions, anticipated or planned capital expenditures, opportunities for acquisitions and the risk characteristics of the underlying investments.

The Company monitors its net debt or working capital closely, which is determined on the following basis:

Balance sheet component	**September 30, 2011**	**December 31, 2010**
	$	**$**
Cash	-	390,473
Accounts and subscriptions receivable	1,596,397	1,571,177
Prepaid expenses	31,368	26,907
Accounts payable and accrued liabilities	(3,246,417)	(1,784,756)
Bank debt	(225,000)	-
Working capital (net debt)	(1,843,652)	203,801

The Company is not subject to any externally imposed capital requirements. Subsequent to the period end the bank commenced its annual review of the facility limits for which the results have not yet been determined. The review will reflect the Company's higher production of 185 bbls per day for three months ended September 30, 2011.

14. Subsequent event

The Company sold working interests in a well for $400,000 to a related party, subject to normal industry adjustments. The sale closed in November 2011.

15. Transition from Canadian GAAP to IFRS

The effect of the Company's transition to IFRS, described in Note 1, is summarized in this note. In accordance with IFRS 1, "First-time adoption of IFRS", certain disclosures and exemptions relating to the transition are also described in this note.

Reconciliation - Statement of Financial Position - At September 30, 2010:

	Notes	Canadian GAAP	Adjustments	IFRS
Assets		$	$	$
Current Assets:				
Cash and cash equivalents		418,064	-	418,064
Accounts receivable		353,616	-	353,616
Prepaid expenses and deposits		332,500	-	332,500
		1,104,180	-	1,104,180
Non-current assets:				
Property and equipment	15(a), (b),(d)	3,922,186	(5,839)	3,916,347
		5,026,366	(5,839)	5,020,527
Liabilities and Equity				
Current Liabilities:				
Accounts payable & accrued liabilities	15(g)	1,184,069	61,000	1,245,069
Decommissioning provisions		289,000	208,100	497,100
		1,473,069	269,100	1,742,169
Equity:				
Share capital	15(h)	5,819,443	(139,000)	5,680,443
Contributed surplus		381,945	-	381,945
Deficit	15(i)	(2,648,091)	(135,939)	(2,784,030)
		3,553,297	(274,939)	3,278,358
		5,026,366	(5,839)	5,020,527

Reconciliation of statements of income - the 3 and 9 months ended September 30, 2010:

	Notes	Canadian GAAP	Adjustments	IFRS
For the 3 months ended September 30, 2010		$	$	$
Revenue:				
Petroleum revenue		222,289	-	222,289
Expenses:				
Royalties		30,932	-	30,932
Production and transportation		103,608	-	103,608
General and administrative		136,361	-	136,361
Transaction expenses	15(e)	-	105,189	105,189
Finance – accretion	15(b)	3,200	27,800	31,000
Depletion	15(d)	56,025	(24,025)	32,000
Loss on sale of property & equipment	15(f)	-	39,603	39,603
		330,126	148,567	478,693
Total comprehensive loss		(107,837)	(148,567)	(256,404)
For the 9 months ended September 30, 2010				
Revenue:				
Petroleum revenue		878,514	-	878,514
Expenses:				
Royalties		133,479	-	133,479
Production and transportation		446,237	-	446,237
General and administrative		386,812	-	386,812
Transaction expenses	15(e)	-	164,882	164,882
Finance or accretion	15(b)	11,000	62,800	73,800
Depletion	15(d)	304,793	(198,793)	106,000
Loss on sale of property & equipment	15(f)	-	39,603	39,603
Stock-based compensation		144,200	-	144,200
		1,426,521	68,492	1,495,013
Loss before income taxes		(548,007)	(68,492)	(616,499)
Income tax recovery – deferred		-	78,000	(78,000)
Total comprehensive loss		(548,007)	9,508	(538,499)

Notes to reconciliations

(a) Property and equipment - IFRS 1 election for full cost oil and gas entities

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

(i) The Company had no exploration and evaluation assets at January 01, 2010 (transition date) under Canadian GAAP and thus no part of the Property and Equipment at that date were reclassified from the full cost pool to exploration and evaluation assets; and

(ii) The entire full cost pool was allocated to the producing/development assets and components pro rata using reserve values.

In 2010 certain investments in oil and gas interests were recorded as exploration and evaluation assets under IFRS amounting to $245,774 which under Canadian GAAP were recorded as property and equipment. Under neither accounting policy were these assets depleted.

(b) Decommissioning provision and accretion expense:

Under Canadian GAAP asset retirement obligations were discounted at a credit adjusted risk fee rate of 8 percent. Under IFRS the estimated cash flow to abandon and remediate the wells and facilities has been discounted at a risk free rate of 4% percent at the IFRS transition date. This resulted in a $145,447 increase in the decommissioning obligations with a corresponding increase in the deficit. Also under IFRS the obligation is discounted at each period end at the current risk free discount rate.

For the nine months ended September 30, 2010 computing accretion under IFRS resulted in an increase to accretion expense of $62,800, with a corresponding change in the decommissioning liability, as compared to Canadian GAAP. The increase related to reductions in the risk free discount rate. In addition, under Canadian GAAP accretion of the obligation was included in depletion and accretion. Under IFRS it is included in finance expenses and for the Company, is the sole component to finance expense in 2010.

(c) Share-based payments:

Under Canadian GAAP, the Company recognized an expense related to their share-based payments on a straight-line basis through the date of full vesting and did not incorporate a forfeiture multiple. Under IFRS, the Company is required to recognize the expense over the individual vesting periods for the graded vesting awards and estimate a forfeiture rate. Because all of the Company's options vested immediately upon granting, this change in accounting policy had no impact on the statement of financial position at the transition date or on the 2010 financial statements.

(d) Depletion policy:

Upon transition to IFRS, the Company adopted a policy of depleting oil and natural gas interests on a unit of production basis over proved plus probable reserves. The depletion policy under Canadian GAAP was based on units of production over proved reserves. In addition depletion was done on the Canadian cost centre under Canadian GAAP. IFRS requires depletion and depreciation to be calculated based on individual areas (fields or combinations thereof). The Company has chosen two areas (which are also the cash generating units) being Alberta heavy oil assets and Saskatchewan heavy oil assets. Equipment is also depleted on the same basis as oil and natural gas interests as the useful

life of the equipment is dependent on the life of the related reserves. There was no impact of this difference on adoption of IFRS at January 1, 2010 as a result of the IFRS 1 election as discussed above.

For the nine months ended September 30, 2010 computing depletion on the larger proved plus probable reserves resulted in a decrease to depletion of $198,793 with a corresponding change to property and equipment.

(e) Transaction costs incurred for business combinations:

Under Canadian GAAP transaction costs were capitalized as a component of the cost of the acquisition. Under IFRS transaction costs are expensed. This resulted in transaction expenses of $105,189 and $164,882 being expensed in the three and nine months ended September 30, 2010 respectively, under IFRS which were capitalized and depleted under Canadian GAAP. There were corresponding changes to depletion expense and property and equipment.

(f) Disposition of property and equipment

Under Canadian GAAP the proceeds on the disposition of oil and natural gas interests and equipment were recorded as a reduction of the full cost pool unless the impact on depletion expense was greater than 20%. If the latter was the case than a gain or loss was recorded. The Company disposed of certain oil and natural gas interests in the three months ended September 30, 2010 for which no gain or loss was recorded under Canadian GAAP. Under IFRS a loss of $39,603 was recorded in that future period with corresponding changes to depletion expense and property and equipment.

(g) Flow through shares

Under Canadian GAAP the entire proceeds from issuing flow through shares is recorded as equity at the time of receipt. This form of investment allows the investor to claim income tax deductions for the flow through of certain resource deductions renounced to the investor by the Company. Under Canadian GAAP the cost of the forgone income tax deductions is recorded as a reduction of equity by the Company at the time it files the renouncement with the income tax authorities and the impact on deferred tax assets or liabilities is also recorded at that time as income tax recovery on the statement of income. Under IFRS, at the time of the issue, the proceeds are classified in part as equity based on the fair value of the share price at the date of issue of the flow through shares and in part as a liability based on the excess of the issue price over the fair value of the share price, if any, at the issue date. The resulting liability is reduced at the time the renouncement is filed with the income tax authorities and the impact on deferred tax assets or liabilities is also recorded at that time as income tax recovery on the statement of income. At the transition date to IFRS the Company was impacted by this change with an increase of $139,000 in accounts payable and accrued liabilities and a corresponding decrease to share capital in equity. The filing of renouncements in 2010 and 2011 on the flow through shares with outstanding commitments at the transition date resulted in an income tax recovery of $78,000 and $61,000 respectively and the corresponding impact on the loss for the period.

(h) Share Capital

The following is a summary of the transition adjustments to the Company's share capital from Canadian GAAP to IFRS:

Statement of financial position-Share Capital	September 30, 2010 $
Adjustment for flow-through share premium	(139,000)
Adjustment for income tax effect of flow-through shares	-
	(139,000)

(i) Deficit

The following is a summary of the transition adjustments to the Company's deficit from Canadian GAAP to IFRS:

Statement of financial position - Deficit	September 30, 2010 $
Decommissioning provision	208,100
Deferred tax	(78,000)
Transaction costs	164,882
Depletion and loss on disposition	(159,043)
	135,939

(j) Adjustments to the statement of cash flows

The transition from Canadian GAAP to IFRS had no significant impact on cash flows generated by the Company except that under IFRS, cash flows relating to interest are classified as operating, investing or financing in a consistent manner each period which has resulted in all cash flows for interest being classified as financing activity under IFRS. Under Canadian GAAP, cash flows relating to interest were classified as operating activities.