Western Plains Petroleum Ltd.

Unaudited Interim Financial Statements

Three Months ended March 31, 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 March 31, 2011 with comparative figures for 2010

	Notes	March 31, 2011	December 31, 2010	January 1, 2010
		(Unaudited) *(Note 17)* $	*(Unaudited)* *(Note 17)* $	*(Unaudited)* *(Note 17)* $
Assets				
Current assets				
Cash and cash equivalents		-	390,473	95,962
Trade and other receivables	5(b)	938,423	1,394,777	159,454
Subscriptions receivable		-	176,400	-
Deposits and prepaid expenses		51,727	26,907	18,054
Total current assets		990,149	1,988,557	273,470
Non-current assets				
Property and equipment	8	5,093,847	5,070,587	2,179,216
Exploration & evaluation assets	9	1,437,066	245,774	-
Total non-current assets		6,530,913	5,316,361	2,179,216
Total assets		7,521,062	7,304,918	2,452,686
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	5(c)	1,357,743	1,784,756	620,465
Bank debt	11	225,000	-	-
Total current liabilities		1,582,743	1,784,756	620,465
Non-current liabilities				
Decommissioning provisions	13	1,068,200	651,000	337,800
Total liabilities		2,650,943	2,435,756	958,265
Equity				
Share capital	12(a)	7,334,127	7,334,127	3,502,207
Warrants	12(d)	54,000	54,000	30,000
Contributed surplus	12(b)	615,845	615,845	207,745
Deficit		(3,133,853)	(3,134,810)	(2,245,531)
Total equity		4,870,119	4,869,162	1,494,421
Total liabilities and equity		7,521,062	7,304,918	2,452,686

Basis of presentation – Note 1

Commitments – Note 15

See accompanying notes to the interim financial statements

Western Plains Petroleum Ltd.
Statement of Comprehensive Income
For the three months ended March 31, 2011 with comparative figures for 2010

	Notes	2011 *(Unaudited)* $	2010 *(Unaudited)* $
Revenue			
Petroleum revenue		647,728	393,933
Expenses			
Royalties		106,330	72,974
Production and transportation		285,221	193,418
General and administrative	8(d)	104,656	101,057
Transaction		51,208	-
Depletion	8(b)	151,000	38,000
		698,415	405,449
Operating loss		(50,687)	(11,516)
Net finance expense	6	(9,356)	(7,200)
Loss before income taxes		(60,043)	(18,716)
Income tax recovery - deferred	14	61,000	78,000
Total comprehensive income attributable to equity holders		957	59,284
Earnings per share			
Basic	12(c)	$0.00	$0.00
Fully diluted	12(c)	$0.00	$0.00

See accompanying notes to the interim financial statements.

Western Plains Petroleum Ltd.
Statement of Changes in Equity

For the three months ended March 31, 2011 with comparative figures for 2010
Unaudited

	Notes	Common Shares (Note 12 (a))#	Common Shares (Note 12 (a)) $	Warrants $	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		1,877,500	150,200				150,200
Share issue costs			(3,675)				(3,675)
Total comprehensive income						59,284	59,284
Balance, March 31, 2010		32,137,274	3,648,732	30,000	207,745	(2,186,247)	1,700,230
Issue of common shares – acquisition	8(a)	10,000,000	1,500,000				1,500,000
Share issue costs			(7,544)				(7,544)
Issue of common share options	12(b)				144,200		144,200
Total comprehensive loss						(341,379)	(341,379)
Balance, June 30, 2010		42,137,274	5,141,188	30,000	351,945	(2,527,626)	2,995,507
Issue of common shares – private placement		266,667	40,000				40,000
Issue of common shares - acquisition	8(a)	3,328,363	499,254				499,254
Total comprehensive loss						(256,404)	(256,404)
Balance, September 30, 2010		45,732,304	5,680,442	30,000	351,945	(2,784,030)	3,278,357
Issue of common shares – flow through	15 (b)	4,280,909	941,800				941,800
Issue of units - common shares and warrants	12(d)	1,735,000	258,300	54,000			312,300
Issue of common shares - exercise of warrants	12(d)	3,352,940	532,941	(30,000)			502,941
Share issue costs			(79,356)				(79,356)
Issue of common share options	12(b)				263,900		263,900
Total comprehensive loss						(350,780)	(350,780)
Balance, December 31, 2010		55,101,153	7,334,127	54,000	615,845	(3,134,810)	4,869,162
Total comprehensive income		-	-	-	-	957	957
Balance, March 31, 2011		**55,101,153**	**7,334,127**	**54,000**	**615,845**	**(3,133,853)**	**4,870,119**

See accompanying notes to the interim financial statements.

Western Plains Petroleum Ltd.
Statement of Cash Flows
For the three months ended March 31, 2011 with comparative figures for 2010

	Notes	2011	2010
		(Unaudited) $	*(Unaudited)* $
Cash provided by (used in):			
Operating activities			
Income and comprehensive income for the period		957	59,284
Adjustments for:			
Depletion	8	151,000	38,000
Income tax recovery - deferred	14	(61,000)	(78,000)
Net finance expense		9,356	7,200
Changes in non-cash working capital	7	374,760	(17,391)
Cash from operating activities		475,073	9,093
Investing activities			
Additions to property and equipment		(168,850)	(68,509)
Additions to exploration and evaluation assets		(786,402)	-
Changes in non-cash working capital	7	(273,984)	(128,908)
Cash used in investing activities		(1,229,236)	(197,417)
Financing activities			
Proceeds from issue of common shares		-	150,200
Share issue costs		-	(3,675)
Increase in bank loan		225,000	-
Interest paid		(2,456)	-
Changes in non-cash working capital	7	141,146	(1,500)
Cash from financing activities		363,690	145,025
Change in cash		(390,473)	(43,299)
Cash & cash equivalents, beginning of period		390,473	95,962
Cash & cash equivalents, end of period		-	52,663

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 was classified as a Tier 2 "oil and gas exploration and production" Corporation. The Company trades under the symbol "WPP" on the TSX Venture Exchange ("TSXV").

The Company's 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 March 31, 2011 the Company has a deficit of $3.1 million (December 31, 2010 - $3.1 million) and has net debt of $0.6 million (December 31, 2010 – working capital - $0.2 million). 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 March 31, 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").

These interim financial statements are the Company's first financial statements prepared under IFRS. 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 17. 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 17.

(b) Reporting entity

The financial statements of the Company as at and for the period ended March 31,2011comprise 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 4.

(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 in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting estimates will, by definition, seldom equal the actual results. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected.

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

- Note 4 - valuation of financial instruments
- Note 8- valuation of property and equipment
- Note 9- valuation of intangible exploration and evaluation assets
- Note 13–valuation of decommissioning liabilities

The following discussion sets forth management's most critical estimates and assumptions in determining the value of assets, liabilities, and equity:

Depletion and valuation of property and equipment

The amounts recorded for depletion of property and equipment and the valuation of cash-generating units of property and equipment are based on estimates. These estimates include proved and probable reserves, production rates, future petroleum prices, future development costs, remaining lives and periods of future benefits of the related assets and other relevant assumptions.

The Company's reserve estimates are evaluated annually consistent with *National Instrument 51-101 - Standards of Disclosure for Oil and Gas Activities*.

Decommissioning provisions

The value of decommissioning liabilities depends on estimates of current risk-free interest rates, future restoration and reclamation expenditures and the estimated timing of those expenditures.

Valuation of accounts receivable

The valuation of accounts receivable is based on management's best estimate of the provision for doubtful accounts.

3. Significant accounting policies

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

(a) Jointly controlled assets

The Company's petroleum 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) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

(i) *Financial assets*

Financial assets include trade and other receivables, subscriptions receivable and cash and cash equivalents. Purchases and sales of financial assets are recognized on the settlement date, which is the date on which the asset is delivered to or by the Company. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or were transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets are classified in the following categories at the time of initial recognition based on the purpose for which the financial assets were acquired.

Financial assets at fair value through profit or loss

Classification

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term or if so designated by management and its performance is evaluated on a fair value basis, in accordance with the Income Company's documented risk management or investment strategy. The Company has designated cash and cash equivalents to be measured at fair value through profit or loss.

Recognition and measurement

Financial assets carried at fair value through profit or loss are initially recognized, and subsequently carried, at fair value, with changes recognized in the statement of comprehensive income. Transaction costs are expensed when incurred.

Loans and receivables

Classification

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Assets in this category include trade and other receivables and subscriptions receivable and are classified as current assets in the statement of financial position.

Recognition and measurement

Loans and receivables are initially recognized at fair value plus transaction costs and subsequently carried at amortized cost using the effective interest method, less any impairment losses. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Reclassification of financial assets

Reclassification is only permitted in rare circumstances and where the asset is no longer held for the purpose of selling in the short-term. In all cases, reclassifications of financial assets are limited to debt instruments. Reclassifications are accounted for at the fair value of the financial asset at the date of reclassification.

(ii) *Financial liabilities*

Financial liabilities primarily consist of accounts payables and accrued liabilities, and bank debt. Financial liabilities are initially measured at fair value and subsequently measured at amortized cost for liabilities that are not hedged and fair value for liabilities that are hedged. Non-performance risk, including the Company's own credit risk for financial liabilities, is considered when determining the fair value of financial assets or liabilities, including derivative liabilities.

(iii) *Equity instruments*

Common shares are classified as equity. Incremental costs directly attributable to the issue of shares are recognized as a deduction from equity.

(iv) *Impairment*

The Company assesses, at each balance sheet date, whether there is objective evidence that a financial asset, other than those at fair value through profit or loss, or a group of financial assets is impaired. When impairment has occurred, the cumulative loss is recognized in the statement of comprehensive income.

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. Receivables that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of accounts receivable, where the carrying amount is reduced through the use of an allowance account. When an accounts receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the statement of comprehensive income.

(c) Property and equipment

(i) Recognition and measurement

Exploration and evaluation expenditures

Pre-license seismic and other costs are expensed as incurred.

Exploration and evaluation costs, including the costs of acquiring licenses and exploratory drilling are capitalized as either tangible or intangible exploration and evaluation assets according to the nature of the assets acquired. The costs are accumulated in cost centres by well, field or exploration area pending determination of technical feasibility and commercial viability.

Exploration and evaluation assets are not subject to depletion as these assets are generally not yet producing.

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 technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proved reserves are determined to exist. A review of each exploration license or field is carried out, at least annually, to ascertain whether proved reserves have been discovered. Upon determination of proved reserves, 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 property and equipment referred to as petroleum and natural gas interests.

For exchanges (swaps or farm-ins) or parts of exchanges that involve only capitalized exploration and evaluation costs, the exchange is accounted for at cost.

Development and production costs

Items of property and equipment referred to as petroleum and natural gas interests, which include petroleum and natural 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 cash-generating units for impairment testing. When significant parts of an item of property and equipment, including petroleum and natural gas interests, have different useful lives, they are accounted for as separate items (major components).

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

Exchanges of development and production assets (swaps or farm-ins) are measured at fair value unless the exchange transaction lacks commercial substance or the fair value of neither the asset received nor the asset given up is reliably measurable. The cost of the acquired asset is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. Where fair value is not used, the cost of the acquired asset is measured at the carrying amount of the asset given up. Any gain or loss on derecognition of the asset given up is recognized in the statement of comprehensive income.

(ii) Subsequent costs

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property and equipment are recognized as petroleum 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 expensed to the statement of comprehensive income as incurred. Such capitalized petroleum 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 and equipment are expensed as incurred.

(iii) Depletion

The net carrying value of development or production assets is depleted using the share of production method by reference to the ratio of production in the year to the related proved 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.

Reserves are estimated using reserve engineer reports and represent the estimated quantities of crude petroleum, 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 90 percent statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as proved reserves and a 10 percent statistical probability that it will be less. The equivalent statistical probabilities for the probable component of proved and probable reserves are 50 percent and 50 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 petroleum and natural gas production; and
- evidence that the necessary production, transmission and transportation facilities are available or can be made available.

(d) Impairment

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than exploration and evaluation 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. Exploration and evaluation assets are assessed for impairment when they are reclassified to property and equipment, as petroleum 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 proved and probable reserves.

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. Exploration and evaluation 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 (petroleum and natural gas interests in property and equipment).

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 the statement of comprehensive income. 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 share (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other non-financial 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 estimates used to determine the recoverable amount. 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.

(e) Decommissioning provisions

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration, development or ongoing production of petroleum and natural gas properties.

A decommissioning provision is recognized as a liability for obligations associated with the abandonment of petroleum and natural gas wells, removal of equipment from leased acreage and returning such land to its original condition as set by standards of environmental regulations.

The Company records the fair value of each decommissioning obligation in the period a well or related asset is drilled, constructed or acquired. Decommissioning obligations are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. Provisions are determined by discounting the expected future cash flows at a pre-tax risk-free rate. The expected future cash flows reflect current market assessments and the risks specific to the liability.

The obligation is reviewed regularly by the Company's management based on current regulations, costs, technologies and industry standards. The discounted obligation is initially capitalized as part of the carrying amount of the related property and equipment or exploration and evaluation assets, and a corresponding liability is recognized. The increase in petroleum and natural gas interests is depleted on the same basis as the related petroleum and natural gas component, while the liability is accreted to income until it is settled or sold. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time, changes in the estimated future cash flows underlying the obligation and changes in the pre-tax risk-free rate. The increase in the provision due to the passage of time or the increases/decreases due to changes in the risk free rate are 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 decommissioning provisions are charged against the provision to the extent the provision was established.

(f) Revenue

Revenue from the sale of petroleum and natural gas is recognized based on volumes delivered to customers at contractual delivery points and rates.

The costs associated with the delivery, including operating and maintenance costs, transportation and production-based royalty expenses are recognized in the same period in which the related revenue is earned and recorded.

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

(g) Finance income and expenses

Finance income, consisting of interest income, is recognized as it accrues in profit or loss, using the effective interest method.

Finance expense comprises interest expense and fees incurred on borrowings, accretion of the discount on decommissioning 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.

Where funds are borrowed specifically to finance a project, the amount capitalized represents the actual borrowing costs incurred. Where the funds used to finance a project form part of general borrowings, the amount capitalized is calculated using a weighted average of rates applicable to relevant general borrowings of the Company during the period.

All other borrowing costs are recognized in the statement of comprehensive income using the effective interest method.

(h) Income taxes

Income tax expense represents the sum of current tax expense and deferred tax expense. Current tax expense is based on the taxable profits for the year. Income tax is recognized in the statement of comprehensive income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

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

Deferred tax assets and liabilities are recognized based on differences in the financial statement carrying amount for assets and liabilities and the associated tax balance.

Deferred tax liabilities are generally recognized for all taxable temporary differences.

Deferred tax assets are generally recognized for all deductible temporary differences, unused tax credits carried forward and unused tax losses to the extent that it is probable that there will be taxable profits against which deductible temporary differences can be utilized.

Deferred taxes are measured based on enacted or substantially enacted tax rates for the period in which the temporary differences are expected to be realized or settled, and are presented as non-current.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, when they relate to income taxes levied by the same taxation authority and when the Company intends to settle its current tax assets and liabilities on a net basis.

(i) Recent accounting pronouncements

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee (“IFRIC”). The standards impacted that are applicable to the Company are as follows:

a) IFRS 9, ‘Financial Instruments’ was issued in November 2009 as the first step in its project to replace IAS 39 ‘Financial Instruments: Recognition and Measurement’. IFRS 9 introduces new requirements for classifying and measuring financial assets that must be applied starting January 1, 2013, with early adoption permitted. The IASB intends to expand IFRS 9 during the intervening period to add new requirements for classifying and measuring financial liabilities, de-recognition of financial instruments, impairment and hedge accounting. The Company is currently assessing the impact of this standard.

b) IFRS 10, 'Consolidated Financial Statements' was issued in May 2011 and will supersede the consolidation requirements in SIC-12 'Consolidation – Special Purpose Entities' and IAS 27 'Consolidated and Separate Financial Statements' effective for annual periods beginning on or after January 1, 2013, with early application permitted. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard also provides additional guidance to assist in the determination of control where this is difficult to assess. The Company is currently assessing the impact of this standard.

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

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

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) Property and equipment and intangible exploration and evaluation assets

The fair value of property and equipment recognized in a business combination is based on market values. The market value of property and equipment is the estimated amount for which property and equipment could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of petroleum and natural gas interests (included in property and equipment) and intangible exploration and evaluation assets is estimated with reference to the discounted cash flows expected to be derived from petroleum and natural gas production based on external and Company reserve reports.

The market value of other items of property and equipment is based on the quoted market prices for similar items.

(ii) Cash and cash equivalents, accounts receivable, subscriptions receivable, accounts payable and accrued liabilities, bank debt.

The fair value of cash, accounts receivable, subscriptions receivable, accounts payable and accrued liabilities and bank debt approximates their carrying value due to their short term to maturity.

(iii) Share-based payment transactions

The fair value of share options is measured using a Black-Scholes model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility, 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). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

The significance of inputs used in making fair value measurements are examined and classified according to a fair value hierarchy. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly and are based on valuation models and techniques where the inputs are derived from quoted indices. Level 3 valuations are based on inputs that are unobservable in quoted public listings but can be significant to the overall fair value measurement.

Cash and cash equivalents are measured at fair value based on a Level 1 designation.

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 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 at March 31,2011 is the following amounts:

	March 31, 2011 $	December 31, 2010 $
Cash	-	390,473
Accounts and other receivables	938,423	1,571,177
Maximum exposure to credit risk	938,423	1,961,650

Trade and other receivables

As at March 31,2011, the majority of trade and other receivables relates 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 March 31, 2011 and did not provide for any doubtful accounts nor was it required to write-off any receivables during the period ended March 31, 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, all of which were current and less than 90 days:

	March 31, 2011	December 31, 2010
	$	$
Petroleum revenue	488,784	720,352
Joint venture partners	316,664	581,548
Refundable GST	130,294	92,877
Trade and other	2,681	-
Total and other receivables	938,423	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. Refer to note 5(e) for further disclosure on the management of capital.

The Company's accounts payable and accrued liabilities are aged as follows:

	March 31, 2011 $	December 31, 2010 $
0 - 30 days	789,802	648,827
31 to 60 days	419,687	950,092
61 to 90 days	42,909	33,662
Greater than 90 days	105,345	116,175
Total accounts payable and accrued liabilities	1,357,743	1,784,756

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 a significant portion 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 period ended March 31,2011 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 period ended March 31, 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 the loss before income taxes and total comprehensive income of approximately $55,000.

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 period ended March 31,2011. 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 period ended March 31,2011. 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 working capital closely, which is determined on the following basis as at March 31,2011:

Balance sheet component	March 31, 2011 $	December 31, 2010 $
Cash	-	390,473
Accounts and subscriptions receivable	938,423	1,571,177
Prepaid expenses	51,727	26,907
Accounts payable and accrued liabilities	(1,357,743)	(1,784,756)
Bank debt	(225,000)	-
Working capital (net debt)	(592,594)	203,801

The Company is not subject to any externally imposed capital requirements.

6. Finance expenses

	Three months ended March 31, 2011 $	Three months ended March 31, 2010 $
Finance expenses		
Fees incurred to arrange bank facilities	2,000	-
Interest expense	456	-
Accretion of decommissioning provisions	6,900	7,200
Net finance expense recognized in loss	9,356	7,200

7. Supplemental cash flow information

Changes in non-cash working capital are comprised of:

	Three months ended March 31, 2011	Three months ended March 31, 2010
	$	$
Cash provided by (used in):		
Accounts receivable	456,354	39,484
Subscriptions receivable	176,400	-
Prepaid expenses	(24,820)	7,454
Accounts payable and accrued liabilities	(366,013)	(193,237)
	241,921	(146,299)
Related to: Operating activities	374,760	(17,391)
Related to: Investing activities	(273,984)	-
Related to: Financing activities	141,146	(128,908)
Changes in non-cash working capital	241,921	(146,299)

The following non-cash transaction has been excluded from the statement of cash flows:

- Property and equipment acquired through the issuance of common shares amounting to $1,999,254 in 2010. There were no share based acquisitions in the three months ended March 31, 2011.

8. Property and equipment

	Equipment $	**Other** $	**Total** $
Cost			
Balance, January 1, 2010	445,308	1,733,908	2,179,216
Additions	1,243,589	3,390,867	4,634,456
Decommissioning provision	-	553,470	553,470
Decommissioning settlement	-	(319,100)	(319,100)
Dispositions	(339,091)	(1,356,363)	(1,695,454)
Balance, December 31, 2010	1,349,806	4,002,782	5,352,588
Additions	33,647	140,612	174,259
Balance, March 31, 2011	1,383,453	4,143,394	5,526,847
Accumulated depletion			
Balance, January 1, 2010	-	-	-
Depletion	(75,271)	(206,729)	(282,000)
Balance, December 31, 2010	(75,271)	(206,729)	(282,000)
Depletion	(37,663)	(113,337)	(151,000)
Balance March 31,2011	(112,934)	(320,066)	(433,000)
Net book value			
Balance, January 1, 2010	445,308	1,733,907	2,179,216
Balance, December 31, 2010	1,274,534	3,796,053	5,070,587
Balance, March 31, 2011	1,270,519	3,823,328	5,093,847

(a) Acquisitions

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 and impairment of property and equipment, and any eventual reversal thereof, are recognized as depletion in the statement of comprehensive income (see also note 9).No impairment was recognized during the period ended March 31, 2011 (2010 - $Nil).

(c) Contingencies

Although the Company believes that it has title to its petroleum and natural gas interests, it cannot control or completely protect itself against the risk of title disputes or challenges.

(d) Capitalized general and administrative and financing costs

During the period ended March 31,2011, the Company had not capitalized any general and administrative expenses. No interest has been capitalized.

9. 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

Intangible exploration and evaluation assets consist of the Company's projects which are pending production or the determination of proved reserves.

(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 plans to reactivate the non-producing wells but that development work had not been completed at the period end.

The acquisition of the exploration and evaluation assets is comprised of the following which have been accounted for as a business combination using the purchase method of accounting:

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

(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 period ended March 31,2011 (2010 - $Nil).

(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) Contingencies

Although the Company believes that it has title to its petroleum and natural gas interests, it cannot control or completely protect itself against the risk of title disputes or challenges.

(e) Capitalized general and administrative and financing costs

During the period ended March 31,2011 (2010 - $Nil), the Company had not capitalized any general and administrative expenses. No interest has been capitalized.

10. Impairment

Petroleum and natural gas cash-generating units.

At March 31,2011, the Company tested its cash-generating units for impairment.

The recoverable amount of the cash-generating unit was estimated based on the higher of the value in use and the fair value less costs to sell. The estimate of fair value less costs to sell was determined using a discount rate of 10 percent and forecasted cash flows, with escalating prices and future development costs, as obtained from an externally prepared reserve estimate. The forecast prices used to estimate the fair value less cost to sell are those used by independent industry reserve engineers. No petroleum and natural gas property cash-generating units were considered impaired as at or during the period ended March 31,2011.

The future prices used in the impairment test of the Company cash-generating units at March 31, 2011, were:

Period	Petroleum Heavy oil - BowRiver at Hardisty ($CDN/bbl)
9 months, 2011	64.80
2012	68.80
2013	71.95
2014	73.85
2015	79.20
2016	85.70

Increases after 2016 approximate 2% per year. Adjustments were made to the benchmark prices, for purposes of the impairment test, to reflect varied delivery points and quality differentials in the products delivered.

11. 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.

The revolving line of credit is for an amount up to $800,000 and is subject to various standard covenants. This demand credit facility bears interest at prime plus 1.5%. As at March 31, 2011, the Company had drawn $225,000 (2010 - $nil) and was in compliance with all covenants, the most significant financial covenant being the requirement to maintain a working capital ratio as defined by the bank of at least 1:1.

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 and the Company was in compliance with all covenants.

12. 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.

A reconciliation of the option transactions for the three months ended March 31, 2011 and for the year ended December 31, 2010 follows:

	Three months ended March 31, 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	-	-	(400,000)	0.20
Options, end of year	4,152,000	0.16	4,152,000	0.16

Expiry	Weighted Average Remaining Life (Years)	Exercise Price	Outstanding and Exercisable
August 2011	0.36	$0.30	42,000
March 2013	1.95	$0.11	260,000
July 2013	2.31	$0.14	150,000
December 2013	2.71	$0.10	600,000
June 2015	4.18	$0.15	1,400,000
December 2015	4.71	$0.21	1,700,000
			4,152,000

No options were granted in the three months ended March 31, 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

The weighted average number of common shares used in calculating the basic earnings per share for the three months ended March 31, 2011 was 55,101,153 (2010–31,928,663). The weighted average number of common shares used in calculating the fully diluted earnings per share for the three months ended March 31, 2011 was 57,213,560 (2010–32,602,647).

(d) Warrants

Changes to warrants are summarized as follows:

	2011	2010
	$	$
Warrants, beginning of the year	54,000	30,000
Warrants exercised	-	(30,000)
Warrants issued	-	54,000
Warrants, end of the year	54,000	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.

The Company had the following warrants outstanding:

	Three months ended March 31, 2011		Year ended December 31, 2010	
	Number of Warrants	Weighted Average Exercise Price $	Number of Warrants	Weighted Average Exercise Price $
Warrants, beginning of period	867,500	0.25	3,352,940	0.15
Exercised	-	-	(3,352,940)	0.15
Granted	-	-	867,500	0.25
Warrants, end of period	867,500	0.25	867,500	0.25

13. 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 reconciliation of the beginning and ending aggregate carrying amount of the decommissioning liability associated with the retirement of petroleum and natural gas properties for the period ended March 31,2011:

	$
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	410,300
Accretion	6,900
Balance, March 31, 2011	1,068,200

The total undiscounted amount of estimated cash flows required to settle the obligation as at March 31,2011 was $1.7 million (December 31, 2010 - $1.1 million)which has been discounted using a risk free rate of 4% at March 31,2011.An inflation rate of two percent has been used throughout. All of these obligations are estimated to be incurred in 2021to 2024 and will be funded from general Company resources at that time of retirement.

14. Income tax

The recovery of income taxes in 2011 and 2010 relate to the income tax effect of renouncing the Company's income tax expenditures to investors as a condition of issuing flow through shares. The income tax recovery in 2011 and 2010 varies from the amounts that would be computed by applying the effective Canadian federal and provincial income tax rates to the income before income taxes as follows:

	2011 $	2010 $
Loss before income taxes	(60,043)	(18,716)
Expected income tax rate	27%	28%
Expected income tax recovery	(16,200)	(5,000)
Differences resulting from:		
Non-deductible items	1,200	1,000
Deferred tax asset not recognized	(46,000)	(74,000)
Deferred tax recovery	(61,000)	(78,000)

The major components of the unrecognized deferred income tax asset (liabilities)follow:

Temporary differences related to:	2011 $	2010 $
Property and equipment	(249,000)	(90,000)
Decommissioning provisions	267,000	93,000
Share issue costs	21,000	23,000
Non-capital loss carry forward	312,000	300,000
	351,000	326,000
Deferred tax asset not recognized	(351,000)	(326,000)
Deferred income tax asset (liability)	-	-

The non-capital losses for income tax purposes carried forward from the current and prior years expire as follows:

Year	Loss Carry Forward $
2025	302,000
2026	110,000
2027	1,000
2028	80,000
2029	-
2030	707,000
2031	48,000
Total	1,248,000

15. Commitments

(a) Office lease

In June 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 under the look back rule amounts to $586,000.

16. 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:

- Legal services provide by a law firm in which an officer and director is a partner:
  - $62,901 was incurred in 2011 (2010 - $232,876) of which $48,823 (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 capital expenditure depending on the activity for which legal services were provided;
- Various oil field services and products provided by corporations in which an officer and director of the Company is an officer and a director:
  - $nil was incurred in 2011 (2010 - $190,633) of which $nil (2010 - $nil) was in accounts payable and accrued liabilities at the period end;
  - 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:
  - $43,740 was incurred in 2010 (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.
- 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.

17. 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 relating to the transition are also provided in this note.

IFRS 1 allows first time adopters of IFRS to elect a number of optional exemptions from the general principle of retrospective application of IFRS. The Company has taken the following optional exemptions:

Oil and Gas Exemption

IFRS 1 "Additional exemptions for First-time Adopters" provides an exemption for first-time adopters that accounted under their previous GAAP for exploration and development costs for oil and gas properties in the development or production phases in cost centres that include all properties in a large geographical area (defined as full cost method under Canadian GAAP). Under the exemptions, a first-time adopter may elect to measure oil and gas assets at the date of transaction to IFRS on a deemed cost basis, but does not permit continued application of the previous GAAP accounting policy. The Company followed a full cost approach under Canadian GAAP and has elected to measure oil and gas exploration and production assets at the date of transition to IFRS on a deemed cost basis.

Shared base payments

IFRS 2 "Share-base Payment" has not been applied to any equity instruments as all stock options were fully vested before January 1, 2010, the date of transition to IFRS.

Decommissioning liabilities

An entity that uses the deemed cost oil and gas exemption under IFRS 1 may also use an additional exemption with respect to decommissioning liabilities on oil and gas properties encompassed by the full cost method under Canadian GAAP. As the Company has elected to apply the deemed cost oil and gas exemption, the Company has also elected to apply this exemption and as such, the Company has re-measured the decommissioning liability as at January 1, 2010 under IAS 37 provisions, and has recognized directly into deficit any differences between that amount and the carrying amount of the liabilities at January 1, 2010 as deemed by Canadian GAAP.

17. Transition from Canadian GAAP to IFRS (continued):

At the date of IFRS transition – January 1, 2010:

	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
Assets		$	$	$
Current Assets:				
Cash and cash equivalents		95,962	-	95,962
Trade and other receivables		159,454	-	159,454
Deposits and prepaid expenses		18,054	-	18,054
		273,470	-	273,470
Non-current assets:				
Property and equipment	17(a)	2,179,216	-	2,179,216
Exploration and evaluation assets	17(a)	-	-	-
		2,179,216	-	2,179,216
		2,452,6865		2,452,686
Liabilities and Equity				
Current Liabilities:				
Accounts payable & accrued liabilities	17(g)	481,465	139,000	620,465
Non-current liabilities:				
Decommissioning provision	17(b)	192,353	145,447	337,800
		673,818	284,447	958,265
Equity:				
Share capital	17(g)	3,641,207	(139,000)	3,502,207
Warrants		30,000	-	30,000
Contributed surplus		207,745	-	207,745
Deficit		(2,100,084)	(145,447)	(2,245,531)
		1,778,868	284,447	1,494,421
		2,452,686	-	2,452,686

17. Transition from Canadian GAAP to IFRS (continued):

At December 31, 2010:

	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
Assets		$	$	$
Current Assets:				
Cash and cash equivalents		390,473	-	390,473
Trade and other receivables		1,571,177	-	1,571,177
Deposits and prepaid expenses		26,907	-	26,907
		1,988,557	-	1,988,557
Non-current assets:				
Property and equipment	17(d)	5,081,330	(10,743)	5,070,587
Exploration and evaluation assets	17(a)	-	245,774	245,774
		5,081,330	235,031	5,317,361
		7,069,887	235,031	7,304,918
Liabilities and Equity				
Current Liabilities:				
Accounts payable & accrued liabilities	17(g)	1,723,756	61,000	1,784,756
Non-current liabilities:				
Decommissioning provision	17(b)	371,000	280,000	651,000
		2,094,756	341,000	2,435,756
Equity:				
Share capital	17(g)	7,322,127	2,000	7,334,127
Warrants		54,000	-	54,000
Contributed surplus		615,845	-	615,845
Deficit		(3,026,841)	(107,969)	(3,134,810)
		4,975,131	(105,969)	4,869,162
		7,069,887	235,031	7,304,918

17. Transition from Canadian GAAP to IFRS (continued):

At March 31, 2010:

	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
Assets		$	$	$
Current Assets:				
Cash and cash equivalents		52,663	-	52,663
Trade and other receivables		119,970	-	119,970
Deposits and prepaid expenses		10,600	-	10,600
		183,233	-	183,233
Non-current assets:				
Property and equipment	17(d)	2,140,040	69,68:	2,209,722
Exploration and evaluation assets	17(a)	-	-	-
		2,140,040	69,682	2,209,772
		2,323,273	69,682	2,392,955
Liabilities and Equity				
Current Liabilities:				
Accounts payable & accrued liabilities	17(g)	286,725	61,000	347,725
Non-current liabilities:				
Decommissioning provision	17(b)	196,350	148,650	345,000
		483,075	209,650	692,725
Equity:				
Share capital	17(g)	3,787,732	(139,0(	3,648,732
Warrants		30,000	-	30,000
Contributed surplus		207,745	-	207,745
Deficit		(2,185,279)	(968)	(2,186,247)
		1,840,198	(139,968)	1,700,230
		2,323,273	69,682	2,392,955

17. Transition from Canadian GAAP to IFRS (continued):

Reconciliation of statements of income for the year ended December 31, 2010 and for the three months ended March 31, 2010:

	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
For the year ended December 31, 2010		$	$	$
Revenue:				
Oil and natural gas revenue		1,634,372	-	1,634,372
Expenses:				
Royalties		279,827	-	279,827
Production and transportation		742,364	-	42,364
General and administrative		606,045	-	606,045
Transaction	17(e)	-	174,881	164,881
Stock based compensation		408,100	-	408,100
Depletion	17(d)	650,489	(368,489)	282,000
Finance	17(b)	15,305	63,525	78,830
Loss on sale of property and equipment	17(e)	-	39,604	39,604
Loss before income tax		(1,067,758)	100,479	(967,278)
Income tax (recovery)	17(g)	(141,000)	63,000	(78,000)
Loss and comprehensive loss for the year		(926,758)	37,479	(889,278)
For the three months ended March 31, 2010				
Revenue:		$	$	$
Oil and natural gas revenue		393,933	-	393,933
Expenses:				
Royalties		72,974	-	72,974
Production and transportation		193,418	-	193,417
General and administrative		101,057	-	101,057
Depletion	17(d)	107,684	(69,684)	38,000
Finance	17(b)	3,997	3,203	7,200
Loss before income tax		(85,197)	66,481	(18,716)
Income tax (recovery)	17(g)	-	(78,000)	(78,000)
Income (loss) and comprehensive income (loss)		(85,197)	144,481	59,284

17. Transition from Canadian GAAP to IFRS (continued):

Notes to reconciliations

(a) 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 the 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 intangible exploration 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:

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. Upon transition to IFRS 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.

As a result of these two changes, the decommissioning obligation accretion expense on the decommissioning obligation increased by $63,525 during the year ended December 31, 2010 under IFRS 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. In 2011 bank interest was incurred and is also a component of finance expense.

Under Canadian GAAP expenditures on remediation and abandonment are not included in changes in non-cash working capital as is the case under IFRS. The Company did not incur any remediation or abandonment expenditures in 2010 or 2011.

(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.

17. Transition from Canadian GAAP to IFRS (continued):

(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 year ended December 31, 2010 computing depletion on the larger proved plus probable reserves resulted in a decrease to depletion of $368,485 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 $164,881 being expensed in the year ended December 31, 2010 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 2010 for which no gain or loss was recorded under Canadian GAAP. Under IFRS a loss of $39,604 was recorded 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.

17. Transition from Canadian GAAP to IFRS (continued):

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 $139,000 increase 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 $63,000 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	As at December 31, 2010 $	As at March 31, 2010 $	As at January 01. 2010 $
Adjustment for flow-through share premium	(139,000)	(139,000)	(139,000)
Adjustment for income tax affect of flow-through shares	141,000	-	-
	2,000	(139,000)	(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	As at December 31, 2010 $	As at March 31, 2010 $	As at January 01. 2010 $
Decommissioning provision	(208,969)	(148,652)	(145,447)
Deferred tax	(63,000)	78,000	-
Transaction costs	(164,881)	-	-
Adjustment to depletion	368,485	69,684	-
Loss on disposition	(39,604)	-	-
	(107,969)	(968)	(145,447)

17. Transition from Canadian GAAP to IFRS (continued):

(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.