EAST WEST PETROLEUM CORP.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED
SEPTEMBER 30, 2011

(Unaudited - Expressed in Canadian Dollars)

NOTICE OF NO AUDITOR REVIEW OF
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of these condensed consolidated interim financial statements they must be accompanied by a notice indicating that the condensed consolidated interim financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

EAST WEST PETROLEUM CORP.
CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
(Unaudited - Expressed in Canadian Dollars)

	Note	September 30, 2011 $	December 31, 2010 $
ASSETS			
Current assets			
Cash and cash equivalents		8,446,317	26,912,843
Short-term investments	4	17,673,107	-
Amounts receivable	5	65,082	141,340
Prepaid expenses		31,440	13,402
Total current assets		26,215,946	27,067,585
Non-current assets			
Restricted cash	6(c)	3,636,150	-
Exploration and evaluation assets	6	-	31,121
Property, plant and equipment	7	1,160,480	1,227,520
Deposit and other costs	8	-	4,254,349
Total non-current assets		4,796,630	5,512,990
TOTAL ASSETS		31,012,576	32,580,575
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	12	105,751	456,489
Non-current liabilities			
Provision for site restoration	9	195,000	168,546
TOTAL LIABILITIES		300,751	625,035
SHAREHOLDERS' EQUITY			
Share capital	10	38,421,206	37,581,656
Share-based payments reserve		3,440,430	1,292,742
Deficit		(11,149,811)	(6,918,858)
TOTAL SHAREHOLDERS' EQUITY		30,711,825	31,955,540
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		31,012,576	32,580,575

These condensed consolidated interim financial statements were approved for issue by the Board of Directors on November 29, 2011 and are signed on its behalf by:

/s/ ***Greg Renwick***	/s/ ***Nick DeMare***
Greg Renwick	Nick DeMare
Director	Director

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

EAST WEST PETROLEUM CORP.
CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE LOSS
(Unaudited - Expressed in Canadian Dollars)

	Note	Three Months Ended September 30, 2011 $	Three Months Ended September 30, 2010 $	Nine Months Ended September 30, 2011 $	Nine Months Ended September 30, 2010 $
Revenue					
Petroleum and natural gas sales		51,786	19,221	179,518	19,221
Royalties		(225)	(263)	(11,026)	(263)
		51,561	18,958	168,492	18,958
Expenses					
Operating		12,127	3,881	41,763	3,881
Depletion and depreciation	7	58,876	17,817	144,695	17,817
Accretion of provision for site restoration	9	524	216	927	216
General and administrative		548,695	505,381	1,841,199	1,082,249
Share-based compensation	10	(248,008)	325,832	2,196,488	595,094
		372,214	853,127	4,225,072	1,699,257
Loss before other items		(320,653)	(834,169)	(4,056,580)	(1,680,299)
Other items					
Interest and other income		70,122	806	201,522	806
Loss on disposal of property, plant and equipment		-	(4,014)	-	(4,014)
Write-off of other costs	8	-	-	(727,399)	-
Gain on disposal of exploration and evaluation assets	6(a)	-	-	218,879	-
Impairment of exploration and evaluation assets	6(b)	-	-	-	(158,178)
Foreign exchange		344,633	(1,322)	132,625	(1,322)
		414,755	(4,530)	(174,373)	(162,708)
Net income (loss) and comprehensive income (loss) for the period		94,102	(838,699)	(4,230,953)	(1,843,007)
Basic and diluted income (loss) per common share		$0.00	$(0.03)	$(0.05)	$(0.07)
Weighted average number of common shares outstanding		83,688,092	31,749,306	83,173,722	27,136,547

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

EAST WEST PETROLEUM CORP.
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
(Unaudited - Expressed in Canadian Dollars)

	Nine Months Ended September 30, 2011				
	Share Capital				
	Number of Shares	Amount $	Share-Based Payments Reserve $	Deficit $	Total Equity $
Balance on January 1, 2011	81,313,648	37,581,656	1,292,742	(6,918,858)	31,955,540
Common shares issued for:					
Cash - exercise of share options	45,000	10,250	-	-	10,250
Cash - exercise of warrants	2,075,000	705,500	-	-	705,500
Cash - exercise of compensation options	300,000	75,000		-	75,000
Share-based compensation	-	-	2,196,488	-	2,196,488
Transfer on exercise of share options	-	9,800	(9,800)	-	-
Transfer on exercise of compensation options	-	39,000	(39,000)	-	-
Net loss for the period	-	-	-	(4,230,953)	(4,230,953)
Balance at September 30, 2011	83,733,648	38,421,206	3,440,430	(11,149,811)	30,711,825

	Nine Months Ended September 30, 2010				
	Share Capital				
	Number of Shares	Amount $	Share-Based Payments Reserve $	Deficit $	Total Equity $
Balance on January 1, 2010	23,452,806	4,333,051	-	(3,973,973)	359,078
Common shares issued for:					
Cash - private placements	13,600,000	3,400,000	-	-	3,400,000
Cash - exercise of warrants	12,152,500	1,362,750	-	-	1,362,750
Share subscriptions received	-	36,250	-	-	36,250
Share issue costs	-	(534,031)	-	-	(534,031)
Share-based compensation	-	-	801,294	-	801,294
Net loss for the period	-	-	-	(1,843,007)	(1,843,007)
Balance at September 30, 2010	29,627,806	8,598,020	801,294	(5,816,980)	3,582,334

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

EAST WEST PETROLEUM CORP.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
(Unaudited - Expressed in Canadian Dollars)

	Nine Months Ended September 30, 2011 $	Nine Months Ended September 30, 2010 $
Operating activities		
Net loss for the period	(4,230,953)	(1,843,007)
Adjustments for:		
Depletion and depreciation	144,695	17,817
Accretion of provision for site restoration	927	216
Loss on disposal of property, plant and equipment	-	4,014
Share-based compensation	2,196,488	595,094
Gain on disposal of exploration and evaluation assets	(218,879)	-
Impairment of exploration and evaluation assets	-	-
Write-off of other costs	727,399	-
Foreign exchange	151,900	-
	(1,228,423)	(1,225,866)
Changes in non-cash working capital items:		
Decrease (increase) in amounts receivable	76,258	(58,197)
Increase in prepaid expenses	(18,038)	(2,997)
Decrease in accounts payable and accrued liabilities	(350,738)	(20,202)
	(292,518)	(81,396)
Net cash used in operating activities	(1,520,941)	(1,307,262)
Investing activities		
Restricted cash	(3,636,150)	-
Short-term investments	(17,673,107)	-
Expenditures on exploration and evaluation assets	-	(1,156,121)
Expenditures on property, plant and equipment	(52,128)	-
Proceeds on sale of exploration and evaluation assets	250,000	25,000
Deposit received	3,375,050	-
Net cash used in investing activities	(17,736,335)	(1,131,121)
Financing activities		
Share subscriptions received	-	36,250
Issuance of share capital	790,750	4,762,750
Share issue costs	-	(327,831)
Repayment of advances from related parties	-	(218,351)
Net cash provided by financing activities	790,750	4,252,818
Net change in cash and cash equivalents	(18,466,526)	1,814,435
Cash and cash equivalents at beginning of period	26,912,843	714,192
Cash and cash equivalents at end of period	8,446,317	2,528,627

Supplemental Cash Flow Information (Note 14)

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

1. NATURE OF OPERATIONS

East West Petroleum Corp. (the "Company") was incorporated on October 23, 1987 under the provisions of the Company Act (British Columbia). The Company is listed and trades on the TSX Venture Exchange ("TSXV") under the symbol "EW". The Company's principal office is located at #1210 - 1095 West Pender Street, Vancouver, British Columbia V6E 2M6 Canada.

Since 2002 the Company has been deemed inactive and its common shares were trading on the NEX Board ("NEX") of the TSXV. In fiscal 2010 the Company negotiated the acquisition of interests in petroleum and natural gas properties, as described in Notes 6 and 7, and conducted a number of private placement financings. As a result, effective October 1, 2010, the Company's listing of its common shares was transferred from the NEX to the TSXV as a Tier 2 oil and gas issuer.

With the acquisition of the petroleum and natural gas interests, the Company now carries on business in one operating segment, being the acquisition of, exploration for and production from petroleum and natural gas properties.

The Company does not have significant operating cash flows generated from its existing producing petroleum and natural gas properties. Management considers that the Company has adequate resources to maintain its core operations and planned exploration programs for the next twelve months. However, the Company recognizes that exploration expenditures may change with ongoing results and, as a result, it may be required to obtain additional financing. While the Company has been successful in securing financings in the past, there can be no assurance that it will be able to do so in the future.

2. BASIS OF PREPARATION

Statement of Compliance to International Financial Reporting Standards

These condensed consolidated interim financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS"), and in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB").

The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2010, and the Company's unaudited condensed consolidated interim financial statements for the three months ended March 31, 2011, which were the Company's first financial statements prepared in accordance with IFRS.

The Company's consolidated financial statements were prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP") until December 31, 2010. Canadian GAAP differs from IFRS in some areas and, accordingly, the significant accounting policies applied in the preparation of these condensed consolidated interim financial statements are set out below and have been consistently applied to all periods presented except in instances where IFRS 1 either requires or permits an exemption. An explanation of how the transition from Canadian GAAP to IFRS has affected the reported consolidated financial statements of the Company is provided in Note 16.

Basis of Presentation

The Company's condensed consolidated interim financial statements have been prepared on the historical cost basis except for the revaluation of certain financial assets and financial liabilities to fair value. The comparative figures presented in these condensed consolidated interim financial statements are in accordance with IFRS and any changes from figures previously reported under Canadian GAAP have been disclosed in Note 16.

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

2. BASIS OF PREPARATION

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods.

Accounting Standards and Interpretations Issued but Not Yet Adopted

The following accounting standards, amendments and interpretations have been issued but are not effective until annual periods beginning after January 1, 2011, unless otherwise indicated, earlier application is permitted. As at the date of these financial statements, the following standards, amendments and interpretations have not been applied in these financial statements.

(i) IFRS 1 *First-time Adoption of International Financial Reporting Standards, Amendments Regarding Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*; effective for annual periods beginning on or after July 1, 2011.

(ii) IFRS 7 *Financial Instruments: Disclosures, Amendments Regarding Disclosures - Transfers of Financial Assets*; effective for annual periods beginning on or after July 1, 2011.

(iii IFRS 9 *Financial Instruments* (New; to replace IAS 39); effective for annual periods beginning on or after January 1, 2013.

(iv) IFRS 10 *Consolidated Financial Statements*; effective for annual periods beginning on or after January 1, 2013. Early application is permitted. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 supersedes IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidated - Special Purpose Entities*.

(v) IFRS 11 *Joint Arrangements*; effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. IFRS 11 establishes principles for financial reporting by parties to a joint arrangement. IFRS supersedes the current IAS 31 *Interest in Joint Ventures* and SIC-13 *Jointly Controlled Entities - Non-Monetary Contributions by Ventures*.

(vi) IFRS 12 *Disclosure of Interest in Other Entities*; effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. IFRS 12 applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity.

(vii) IFRS 13 *Fair Value Measurements*; to be applied for annual periods beginning on or after January 1, 2013. Earlier application is permitted. IFRS 13 defines fair value, sets out in a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies to IFRSs that require or permit fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements).

(viii) IAS 12 *Income Taxes, Amendments Regarding Deferred Tax: Recovery of Underlying Assets*; effective for annual periods beginning on or after January 1, 2012.

Management is currently assessing the impact of these new standards on the Company’s accounting policies and financial statement presentation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Details of the Group

In addition to the Company, the condensed consolidated interim financial statements include all subsidiaries. Subsidiaries are all corporations over which the Company is able, directly or indirectly, to control financial and operating policies, which is the authority usually connected with holding majority voting rights. Subsidiaries are fully consolidated from the date on which control is acquired by the Company. Inter-company transactions and balances are eliminated upon consolidation. They are de-consolidated from the date that control by the Company ceases. The subsidiaries of the Company are as follows:

(i)	Avere Energy Corp (USA)	- 100%
(ii)	EW Petroleum BEA Inc. (BVI)	- 100%
(iii)	EW Petroleum Holdings Ltd. (BVI)	- 100%
(iv)	East West Petroleum India Inc. (BVI)	- 100%
(iii)	East West Petroleum North Africa Inc. (BVI)	- 100%

Cash and Cash Equivalents

Cash and cash equivalents consists of cash and money market instruments with terms to maturity not exceeding 90 days at date of acquisition. The Company is not exposed to significant credit or interest rate risk although cash and cash equivalents are held in excess of federally insured limits with major financial institutions.

Accounts Receivable

Receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. Receivables are classified as loans and receivable. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

Accounts Payable and Accrued Liabilities

Payables are obligations to pay for materials or services that have been acquired in the ordinary course of business from suppliers. Payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Payables are classified as other financial liabilities initially at fair value and subsequently measured at amortized cost using the effective interest method.

Exploration and Evaluation Expenditures

Pre-license costs are recognized in the statement of comprehensive loss as incurred. Exploration and evaluation expenditures directly attributable to the exploration for petroleum and natural gas reserves are capitalized as exploration and evaluation assets on a field-by-field basis. These costs include, but are not limited to: lease acquisition either directly or by business combination, lease rentals on undeveloped properties, acquisition of rights to explore, geological, and geophysical costs, exploratory drilling of both productive and unproductive wells and overhead charges. No depletion or amortization is charged during the exploration and evaluation phase.

Exploration and evaluation expenditures are capitalized until reserves are evaluated and determined to be commercially viable and technically feasible. If reserves are not identified, these costs are expensed. The balance of exploration and evaluation expenditures is carried forward as an exploration and evaluation asset in the balance sheet where the mineral rights are current and it is considered probable that costs will be recovered through the future development or sale of the property.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

If it is determined that a commercial discovery of reserves will not be achieved, the capitalized exploration and evaluation assets are written down to their recoverable amounts. Where commercial discovery of reserves has been made, the exploration and evaluation assets are tested for impairment and transferred to property, plant and equipment as petroleum and natural gas properties.

Petroleum and Natural Gas Properties

Petroleum and natural gas properties are stated at historical cost, less any accumulated depletion and accumulated impairment losses. The initial cost of an asset comprises its purchase price (the acquisition of petroleum and natural gas assets directly, or by means of a business combination) or construction cost which includes: costs directly attributable to bringing the asset into operation and the initial estimate of the decommissioning obligation. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Where commercial production in an area has commenced, petroleum and natural gas properties are depreciated on a unit-of-production basis over the proved reserves of the field concerned, except in the case of assets whose useful life is shorter than the lifetime of the field, in which case the straight-line method is applied. The unit-of-production rate for the amortization of field development costs takes into account expenditures incurred to date, plus future development expenditures to develop the proved and probable reserves. Changes in factors such as estimates of proved reserves that affect unit-of-production calculations do not give rise to prior year financial period adjustments and are accounted for on a prospective basis.

Computers and Equipment

Computers and equipment are carried at cost less accumulated depreciation. Depreciation is charged to the statement of comprehensive loss on a straight-line basis, over the assets estimated useful life of three years. The estimated useful lives of computers and equipment and their respective residual values are reviewed on an annual basis, and if necessary, any changes are accounted for on a prospective basis.

Joint Operations

Substantially all of the Company's operations are conducted jointly with others and, accordingly, these consolidated financial statements reflect only the Company's proportionate interest in such activities.

Impairment of Assets

Non-Financial Assets

The Company reviews the carrying amounts of its non-financial assets, other than exploration and evaluation assets and deferred tax assets, at each reporting date to determine whether there is any indication of impairment. If such indication exists, then the asset's recoverable amount is estimated. For goodwill and other intangible assets that have indefinite lives or that are not yet available for use, an impairment test is completed annually. Exploration and evaluation assets are tested for impairment when reclassified to property, plant and equipment as petroleum and natural gas properties, and also if facts and circumstances suggest that the carrying value exceeds the recoverable amount.

For the purpose of impairment testing, assets are grouped together into the lowest level at which there is identifiable cash flows that are largely independent of the cash flows of other groups of assets, known as a cash-generating unit ("CGU"). Exploration and evaluation assets are grouped on an area basis for impairment assessment purposes. The goodwill acquired in a business combination, for the purposes of impairment testing, is allocated to the CGU's that are expected to benefit from the synergies of the combination.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

An impairment loss is recognized if the asset or CGU's carrying amount exceeds its recoverable amount determined as the higher of: its fair value less costs to sell, and its value in use. In assessing value in use, the estimated future after-tax cash flows are adjusted for the risks specific to the asset group and are discounted to present value using a discount rate that reflects current market assessments of the time value of money. Fair value less costs to sell is based on discounted cash flow forecasts using market assumptions, including market assessment of reserves, future prices and a risk-adjusted discount rate appropriate to the asset by reference to general market conditions, market expectations of current and future development, and the costs of future development. Impairment losses are recognized in the statement of operations and comprehensive loss.

For other assets, impairment losses recognized in prior years are assessed at each reporting date for indications that previously recognized impairment losses may no longer exist or may have decreased. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. The impairment loss is reversed only to the extent that the asset's or CGU's carrying amount does not exceed the carrying amount that would have been determined, net of depletion, had no impairment loss been recognized in prior years. An impairment loss in respect of goodwill is not reversed.

Financial Assets

Financial assets are assessed for impairment at each reporting date to determine whether there is any objective evidence that they are impaired. Objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of the asset and will not be realized. For loans and receivables, the amount of impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate.

If there is impairment, the carrying amount of the financial asset is reduced by the impairment loss, except for trade receivables where the carrying amount is reduced through the use of an allowance account, and the loss is recognized in the statement of operations and comprehensive loss. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the statement of operations and comprehensive loss

Decommissioning Liabilities

Liabilities for decommissioning costs are recognized when the Company has an obligation to dismantle or remove a facility and to restore the site on which it is located, and when a reliable estimate of that liability can be made. Cost is estimated upon current regulation and technology. Normally an obligation arises for a new facility or well during the construction or installation phase. Obligations may also be created through a change in legislation. The amount recognized is the fair value of the estimated future cost determined in accordance with local conditions and requirements.

Fair value is determined using the present value of the estimated future cash outflows to abandon the asset and restore the site, discounted using a risk-free rate. Costs and the discount rate are updated at each reporting date to reflect current market assessments of the time value of money. The provision is reviewed regularly by the Company's management based on current regulations, costs, technologies and industry standards.

The corresponding amount is capitalized to petroleum and natural gas assets and is amortized on a unit-of-production basis as part of depletion and depreciation. Any adjustments arising from the reassessment of estimated costs or the current estimate of the discount rate used are reflected as an adjustment to the cost of petroleum and natural gas assets. The unwinding of the discount is recognized as a finance cost in income. Actual restoration expenditures are charged as reductions to the accumulated provision when incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

Provisions are recognized when the Company has a present obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The provisions are measured at Management's best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect of time is material.

Financial Instruments

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held to maturity, available for sale, loans and receivables or at fair value through profit or loss.

Financial assets classified as fair value through profit or loss are measured at fair value with unrealized gains and losses recognized through comprehensive loss. Cash and cash equivalents, short-term investments and restricted cash are classified as fair value through profit or loss.

Financial assets classified as loans and receivables and held to maturity are measured at amortized cost. Amounts receivable are classified as loans and receivables.

Financial assets classified as available for sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary.

Transaction costs associated with fair value through profit or loss are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

All financial liabilities are initially recorded at fair value and designated upon inception as fair value through profit or loss or other financial liabilities.

Financial liabilities classified as other financial liabilities are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities.

Financial liabilities classified as fair value through profit or loss are measured at fair value with unrealized gains and losses recognized through comprehensive loss. At September 30, 2011 the Company has not classified any financial liabilities as fair value through profit or loss.

Share Capital

Common shares issued by the Company are classified as equity. Costs directly attributable to the issue of common shares, share purchase warrants and share options are recognized as a deduction from equity, net of any related income tax effects.

Share-Based Payment Transactions

The share option plan allows Company employees and consultants to acquire shares of the Company. The fair value of share options granted is recognized as a share-based compensation expense with a corresponding increase in the equity settled share-based payments reserve in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

For employees the fair value is measured at grant date and each tranche is recognized separately on a straight line basis over the period during which the share options vest. The fair value of the share options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the share options were granted. At the end of each reporting period, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Equity-settled share-based payment transactions with non-employees are measured at the fair value of the goods or services received. However, if the fair value cannot be estimated reliably, the share-based payment transaction is measured at the fair value of the equity instruments granted at the date the Company receives the goods or the services.

Current and Deferred Income Taxes

The tax expense comprises current and deferred tax. Tax is recognized in the statement of comprehensive loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

(a) Current tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position loss date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred tax

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Loss Per Share

Basic loss per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the period. The computation of diluted loss per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on loss per share. The dilutive effect of convertible securities is reflected in diluted earnings per share by application of the "if converted" method. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted earnings per share by application of the treasury stock method.

Revenue Recognition

Revenue is recognized when it is probable that the economic benefits will flow to the Company and delivery has occurred, the sale price is fixed or determinable, and collectability is reasonably assured. These criteria are generally met at the time the product is shipped and delivered to the customer and, depending on the delivery conditions, title and risk have passed to the customer and acceptance of the product, when contractually required, has been obtained. Revenue is measured based on the sales contract.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign Currency Translation

Functional and Presentation Currency

The financial statements of each of the Company's subsidiaries are prepared in the local currency of their home jurisdictions. Consolidation of each subsidiary includes re-measurement from the local currency to the subsidiary's functional currency. Each subsidiary's functional currency, being the currency of the primary economic environment in which the subsidiary operates, is the Canadian dollar. The condensed consolidated interim financial statements are presented in Canadian dollars.

Exchange rates published by the Bank of Canada were used to translate subsidiary financial statements into the consolidated financial statements. Income and expenses for each statement of comprehensive loss presented are translated using the rates prevailing on the transaction dates. All resulting foreign exchange differences are recognized in comprehensive loss.

Foreign Currency Transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in comprehensive loss.

4. SHORT-TERM INVESTMENTS

	September 30, 2011 $	December 31, 2010 $
Redeemable GICs		
Due January 16, 2012 at cost plus accrued interest at Prime Rate less 1.80% per annum	7,059,145	-
Due January 18, 2012 at cost plus accrued interest at Prime Rate less 1.35% per annum	10,094,315	-
Due July 19, 2012 at cost plus accrued interest at 0.20% per annum (US $500,196)	519,647	-
	17,673,107	-

All of the GICs are redeemable after 30 days from the date of purchase.

5. AMOUNTS RECEIVABLE

	September 30, 2011 $	December 31, 2010 $
Trade receivables	31,429	31,457
Canadian harmonized sales tax	31,711	98,285
Other	1,942	11,598
	65,082	141,340

(Unaudited - Expressed in Canadian Dollars)

6. EXPLORATION AND EVALUATION ASSETS

	Cost $
Balance at January 1, 2010	-
Acquisitions	189,299
Impairment	(158,178)
Balance at December 31, 2010	31,121
Disposal	(31,121)
Balance at September 30, 2011	-

(a) During fiscal 2010 the Company was informed by the government of Romania that it had been awarded four exploration blocks, for a total area of approximately 1,000,000 acres, located in the Pannonian Basin, in western Romania. In May 2011 the Company signed agreements with government agencies in Romania which regulate the oil and gas industry.

On May 20, 2011 the Company and Naftna Industrija Srbije j.s.c. Novi Sad ("NIS"), a private corporation, signed a memorandum of understanding ("MOU") to jointly explore the four exploration blocks in Romania. Under the terms of the MOU, NIS paid the Company $250,000 and will pay a further $275,000 upon final concession approvals by the government of Romania. NIS will also fully fund all environmental work, 2D and 3D seismic acquisition and processing, and the drilling of 12 wells to earn an 85% participation interest. The Company will retain a 15% carried interest to declaration of commerciality on all four blocks.

(b) On January 27, 2010, as amended February 23, 2010, the Company entered into a farm-in letter agreement (the "Letter Agreement") with American Exploration Corp. ("American Exploration") to acquire a 20% interest in the Haynesville shale gas prospect located in Mississippi. The Company was required to pay 20% of the costs of drilling and completion of an initial deep gas well, and pay payments aggregating US $850,000, including a non-refundable deposit of $77,725 (US $75,000). The Company was subsequently unable to complete a financing to fund the Letter Agreement and the arrangement was terminated with an additional $80,453 (US $75,000) paid to American Exploration.

(c) Effective September 30, 2011 the Company and the Office National des Hydrocarbures et des Mines ("ONHYM"), an agency of the Moroccan government, entered into agreements whereby, upon final government approvals, the Company has been granted an exploration permit (the "Exploration Permit") to earn a 75% participation interest in a prospective exploration block (the "Doukkala Block") covering approximately 500,000 acres situated along the Atlantic coast approximately 125 kilometres southwest from Casablanca, Morocco. The Exploration Permit has an overall duration of eight years, comprising :

(i) Phase 1 program under which the Company is committed to carry out a specified exploration work program, estimated at approximately US $5,500,000, over three years;

(ii) on completion of the Phase 1 program, the Company can elect to enter into an extension for a Phase 2 program under which, amongst other things, the Company will be committed to drill two wells, estimated at approximately US $14,000,000 over a two year duration; and

(iii) on completion of the Phase 2 program the Company can elect to enter into an extension for a Phase 3 program under which, amongst other things, the Company will be committed to acquire 3D seismic and drilling of one well, estimated at approximately US $14,000,000 over a three year duration.

The Company has provided a US $3,500,000 bank guarantee in favour of ONHYM. The amount is deposited in a savings account with a major Canadian bank. As the Company implements its work programs the bank guarantee will be reduced

(Unaudited - Expressed in Canadian Dollars)

6. EXPLORATION AND EVALUATION ASSETS

(d) Exploration and evaluation assets are tested for impairment when classified to property, plant and equipment within petroleum and natural gas interests, and also if facts and circumstances suggest that the carrying value exceeds the recoverable amount. As at September 30, 2011, the Company had $nil capitalized to exploration and evaluation assets.

7. PROPERTY, PLANT AND EQUIPMENT

Cost:	**Petroleum and Natural Gas Properties $**	**Office Furniture and Equipment $**	**Leasehold Improvements $**	**Total $**
Balance at January 1, 2010	-	-	-	-
Additions	1,125,000	-	-	1,125,000
Provision for site restoration	64,119	-	-	64,119
Revision of estimate for site restoration	103,563	-	-	103,563
Balance at December 31, 2010	1,292,682	-	-	1,292,682
Additions	-	28,460	23,668	52,128
Revision of estimate for site restoration	25,527	-	-	25,527
Balance at September 30, 2011	1,318,209	28,460	23,668	1,370,337

Accumulated Depletion and Depreciation:	**Petroleum and Natural Gas Properties $**	**Office Furniture and Equipment $**	**Leasehold Improvements $**	**Total $**
Balance at January 1, 2010	-	-	-	-
Depletion and depreciation for the year	(65,162)	-	-	(65,162)
Balance at December 31, 2010	(65,162)	-	-	(65,162)
Depletion and depreciation for the period	(140,192)	(3,714)	(789)	(144,695)
Balance at September 30, 2011	(205,354)	(3,714)	(789)	(209,857)

Carrying Value:	**Petroleum and Natural Gas Properties $**	**Office Furniture and Equipment $**	**Leasehold Improvements $**	**Total $**
Balance at January 1, 2010	-	-	-	-
Balance at December 31, 2010	1,227,520	-	-	1,227,520
Balance at September 30, 2011	1,112,855	24,746	22,879	1,160,480

Effective September 1, 2010 the Company executed a purchase and sale agreement with Sphere Energy Corp. (“Sphere”), a private company, whereby the Company paid $1,125,000 to acquire Sphere’s working interests, ranging from 4.8% to 20%, in four producing oil wells and thirteen gas wells (the “Carbon Property”) located approximately 50 miles northeast of Calgary, Alberta.

(Unaudited - Expressed in Canadian Dollars)

8. DEPOSIT AND OTHER COSTS

	September 30, 2011 $	December 31, 2010 $
Refundable deposit	-	3,526,950
Capitalized interest and financing costs	-	727,399
	-	4,254,349

On December 6, 2010 the Company entered into a sale and purchase agreement whereby the Company agreed to acquire a 20% participation interest in the Burg El Arab field (the "BEA Field") in Egypt from Kuwait Energy Egypt Limited ("Kuwait Energy"), a private corporation, for US $17,500,000. Under the terms of the agreement, the Company made a refundable deposit of US $3,500,000. The closing of the agreement was subject to a number of conditions precedent and regulatory approvals.

In fiscal 2010 the Company arranged bridge loan financings totalling US $3,500,000 to provide funding of the deposit. In December 2010 the Company repaid the bridge loans plus interest of $20,399. In addition the Company issued 669,508 common shares of the Company, at a fair value of $707,000, as a bonus to the lenders. As the bridge loans were incurred to provide funding for the participation in the BEA Field, the Company had capitalized the $727,399 interest and financing costs.

During the nine months ended September 30, 2011 the Company and Kuwait Energy mutually agreed to terminate the sale and purchase agreement on the BEA Field and Kuwait Energy refunded the US $3,500,000 deposit. Accordingly the Company has written off the $727,399 capitalized interest and financing costs.

9. PROVISION FOR SITE RESTORATION

	Nine Months Ended September 30, 2011 $	Year Ended December 31, 2010 $
Balance, beginning of period	168,546	-
Initial estimated liability	-	64,119
Accretion	927	864
Revision of estimates	25,527	103,563
Balance, end of period	195,000	168,546

The total undiscounted amount of estimated cash flows required to settle the Company's estimated obligation is $195,000 which has been discounted using a risk free rate of 3.06% (December 31, 2010 - 3.50%) and inflation rate of 3.17% (December 31, 2010 - 2.35%). The reclamation obligation relates to the oil and gas property in Canada. The present value of the reclamation liability may be subject to change based on management's current estimates, changes in remediation technology or changes to the applicable laws and regulations. Such changes will be recorded in the accounts of the Company as they occur. The estimated date of retirement will be in 2023.

The total future asset retirement obligations were estimated based on the Company's net ownership interest in all wells and facilities, the estimated costs to abandon and reclaim the wells and facilities and the estimated timing of the costs to be incurred in future years.

(Unaudited - Expressed in Canadian Dollars)

10. CAPITAL

(a) *Authorized Share Capital*

At September 30, 2011 the Company's authorized share capital consisted of an unlimited number of common shares without par value. All issued common shares are fully paid.

(b) *Reconciliation of Changes in Share Capital*

Common shares issued:	**Number of Shares**	**Amount $**
Balance at January 1, 2010	23,452,806	4,333,051
Shares issued for cash		
Private placements	40,873,000	33,400,300
Exercise of share options	223,334	46,067
Exercise of warrants	16,095,000	1,757,000
Subscriptions receivable	-	36,250
Transfer from reserves on exercise of share options	-	50,133
Bonus shares issued (Note 8)	669,508	707,000
Share issue costs	-	(2,748,145)
Balance at December 31, 2010	81,313,648	37,581,656
Shares issued for cash		
Exercise of share options	45,000	10,250
Exercise of warrants	2,075,000	705,500
Exercise of compensation options	300,000	75,000
Transfer from reserves on exercise of share options	-	9,800
Transfer from reserves on exercise of compensation options	-	39,000
Balance at September 30, 2011	83,733,648	38,421,206

During fiscal 2010 the Company completed private placements of:

(i) 13,600,000 units at a price of $0.25 per unit for gross proceeds of $3,400,000. Each unit consisted of one common share of the Company and one non-transferable share purchase warrant. Each warrant entitles the holder to purchase an additional common share at a price of $0.34 per share on or before September 29, 2013.

The Company paid finders' fees totalling $257,750 cash and granted 1,031,000 compensation options (the "Compensation Options") with each Compensation Option entitling the holder to purchase one unit for $0.25 per unit. Each unit will comprise of one common share and one warrant to purchase an additional common share at a price of $0.34 per share on or before September 29, 2013. The fair value of $247,440 assigned to the Compensation Options have been estimated using the Black-Scholes option pricing model. The assumptions used were: expected dividend yield - 0%; expected forfeiture rate - 0%; expected volatility - 79%; a risk-free interest rate of 1.81%; and an expected life of three years. The Company also incurred $70,081 in filing and legal fees associated with the private placement.

Certain directors, officers and family members of directors and officers have purchased 490,000 units of this private placement; and

(ii) 27,273,000 units at a price of $1.10 per unit, for gross proceeds of $30,000,300. Each unit consisted of one common share of the Company and one-half non-transferable share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share at a price of $1.75 per share on or before December 22, 2012.

(Unaudited - Expressed in Canadian Dollars)

10. CAPITAL (continued)

The Company paid agents fees totalling $1,725,009 cash and granted broker warrants exercisable to acquire 784,095 common shares at a price of $1.75 per share on or before December 22, 2012. The fair value of $243,069 assigned to the broker warrants have been estimated using the Black-Scholes option pricing model. The assumptions used were: expected dividend yield - 0%; expected forfeiture rate - 0%; expected volatility - 76%; a risk-free interest rate of 1.38%; and an expected life of two years. The Company also incurred $200,762 in filing and legal fees associated with the private placement.

A director purchased 21,000 units of this private placement.

No financings were conducted by the Company during the nine months ended September 30, 2011.

(c) *Warrants*

A summary of the number of common shares reserved pursuant to the Company's outstanding warrants at September 30, 2011 and 2010 and the changes for the nine months ended on those dates is as follows:

	2011		2010	
	Number	Weighted Average Exercise Price $	Number	Weighted Average Exercise Price $
Balance, beginning of period	28,020,595	1.07	20,000,000	0.13
Issued	300,000	0.34	13,600,000	0.34
Exercised	(2,075,000)	0.34	(12,152,500)	0.11
Expired	-	-	(3,525,000)	0.20
Balance, end of period	26,245,595	1.11	17,922,500	0.29

The following table summarizes information about the number of common shares reserved pursuant to the Company's warrants outstanding and exercisable at September 30, 2011:

Number	Exercise Price $	Expiry Date
14,420,595	1.75	December 22,2012
11,825,000	0.34	September 29, 2013
26,245,595		

(d) *Share Option Plan*

The Company has established a rolling share option plan (the "Plan"), in which the maximum number of common shares which can be reserved for issuance under the Plan is 10% of the issued and outstanding shares of the Company. The minimum exercise price of the share options is set at the Company's closing share price on the day before the grant date, less allowable discounts in accordance with the policies of the TSX Venture Exchange.

Options granted may be subject to vesting provisions as determined by the Board of Directors and have a maximum term of ten years from the date of grant.

During the nine months ended September 30, 2011 the Company granted 3,351,000 (2010 - 5,879,530) share options to its directors, employees and consultants and recorded compensation expense of $2,196,488 (2010 - $419,458) on the granting and vesting of share options.

(Unaudited - Expressed in Canadian Dollars)

10. CAPITAL (continued)

The fair value of share options granted and vested during the nine months ended September 30, 2011 and 2010 is estimated using the Black-Scholes option pricing model using the following assumptions:

	2011	2010
Risk-free interest rate	1.18% - 2.82%	2.41% - 2.81%
Estimated volatility	79% - 169%	79% - 100%
Expected life	1 year - 5 years	5 years
Expected dividend yield	0%	0%
Expected forfeiture rate	0%	0%

The weighted average grant date fair value of all share options granted during the nine months ended September 30, 2011 to the Company's directors, employees and consultants was $0.89 (2010 - $0.26) per share option.

Option-pricing models require the use of estimates and assumptions including the expected volatility. Changes in the underlying assumptions can materially affect the fair value estimates and, therefore, existing models do not necessarily provide reliable measure of the fair value of the Company's share options.

A summary of the Company's share options at September 30, 2011 and 2010 and the changes for the nine months ended on those dates, is as follows:

	2011		2010	
	Number of Options Outstanding	Weighted Average Exercise Price $	Number of Options Outstanding	Weighted Average Exercise Price $
Balance, beginning of period	4,727,530	0.25	-	-
Granted	3,351,000	1.03	5,879,530	0.22
Exercised	(45,000)	0.23	-	-
Expired	-	-	(1,572,000)	0.26
Balance, end of period	8,033,530	0.56	4,307,530	0.20

The following table summarizes information about the share options outstanding and exercisable at September 30, 2011:

Number Outstanding	Number Exercisable	Exercise Price $	Expiry Date
36,000	15,000	0.87	April 6, 2014
1,160,000	386,666	0.83	May 31, 2014
225,000	75,000	0.45	September 11, 2014
300,000	200,000	0.26	January 7, 2015
1,700,000	1,133,333	0.16	June 11, 2015
720,000	520,000	0.20	July 19, 2015
1,252,530	849,197	0.25	October 1, 2015
710,000	250,000	0.50	October 1, 2015
1,850,000	616,666	1.16	February 2, 2016
80,000	80,000	0.90	March 14, 2016
8,033,530	4,125,862		

(Unaudited - Expressed in Canadian Dollars)

10. CAPITAL (continued)

(e) *Compensation Options*

A summary of the Company's compensation options at September 30, 2011 and 2010 and the changes for the nine months ended on those dates, is as follows:

	2011		2010	
	Number	Weighted Average Exercise Price $	Number	Weighted Average Exercise Price $
Balance, beginning of period	1,031,000	0.25	-	-
Granted	-	-	1,031,000	0.25
Exercised	(300,000)	0.25	-	-
Balance, end of period	731,000	0.25	1,031,000	0.25

As at September 30, 2011, 731,000 compensation options were outstanding and exercisable at an exercise price of $0.25 expiring September 29, 2013.

(f) *Escrow Shares*

As at September 30, 2011 there are 3,994,049 common shares held in escrow.

11. RELATED PARTY TRANSACTIONS AND BALANCES

A number of key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. Certain of these entities transacted with the Company during the reporting period. The terms of conditions of the transactions with key management personnel and those entities were no more favourable than those available, or which might reasonably be expected to be available, for similar transactions with non-related entities on an arm's length basis.

(a) *Transactions with Key Management Personnel*

The following amounts were incurred with respect to current and former key management personnel:

	Nine Months Ended September 30,	
	2011 $	2010 $
Rent	-	3,790
Professional fees	431,325	67,065
Salaries	146,700	206,299
Health benefits	3,034	1,836
Share-based compensation	1,722,024	399,853
	2,303,083	678,843

(Unaudited - Expressed in Canadian Dollars)

11. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(b) *Transactions with Other Related Parties*

The following amounts were incurred with respect to other current and former officers and directors:

	Nine Months Ended September 30, 2011 $	2010 $
Legal	21,740	99,814
Rent	6,750	-
Professional fees	50,650	343
Share-based compensation	23,040	73,198
	102,180	173,355

As at September 30, 2011, $44,000 (2010 - $73,468) remained unpaid and has been included in accounts payable and accrued liabilities.

See also Notes 10 and 13.

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Categories of Financial Assets and Financial Liabilities

Financial instruments are classified into one of the following four categories: fair value through profit or loss ("FVTPL"); held-to-maturity investments; loans and receivables; and available-for-sale. The carrying values of the Company's financial instruments are classified into the following categories:

Financial Instrument	Category	September 30, 2011 $	December 31, 2010 $
Cash and cash equivalents	FVTPL	12,082,467	26,912,843
Short-term investments	FVTPL	17,673,107	-
Amounts receivable	Loans and receivables	65,082	141,340
Deposit	Loans and receivables	-	3,526,950
Restricted cash	FVTPL	3,636,150	-
Accounts payable and accrued liabilities	Other liabilities	(105,751)	(456,489)

The Company's financial instruments recorded at fair value require disclosure about how the fair value was determined based on significant levels of inputs described in the following hierarchy:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and value to provide pricing information on an ongoing basis.

Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the market place.

Level 3 - Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

(Unaudited - Expressed in Canadian Dollars)

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

The recorded amounts for cash and cash equivalents, short term investments, amount receivable and accounts payable and accrued liabilities approximate their fair value due to their short-term nature. The recorded amount for the deposit approximates its fair value. The Company's carrying value and fair value of cash and cash equivalents, short-term investments and restricted cash under the fair value hierarchy is measured using Level 1 inputs.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit Risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and cash equivalents, short-term deposits and amounts receivable. Management believes that the credit risk concentration with respect to financial instruments included in cash and cash equivalents, short-term investments and restricted cash is remote.

The Company is not the operator of certain petroleum and natural gas properties in which it has an ownership interest. The Company is dependent on such operators for the timing of activities related to such properties and will largely be unable to direct or control the activities of the operators. In addition, the Company's activities may be impacted by the ability, expertise, judgement and financial capability of the operators.

Commodity Price Risk

Commodity prices for petroleum and natural gas are impacted by global economic events that dictate the levels of supply and demand, as well as the relationship between the Canadian dollar and the US dollar. Significant changes in commodity prices may materially impact the Company's ability to raise capital. The Company does not have any financial risk management contracts in place at September 30, 2011 to manage these risks.

Liquidity Risk

Liquidity risk is the risk that the Company will not have the resources to meet its obligations as they fall due. The Company manages this risk by closely monitoring cash forecasts and managing resources to ensure that it will have sufficient liquidity to meet its obligations. All of the Company's financial liabilities are classified as current and are anticipated to mature within the next fiscal period. The following table is based on the contractual maturity dates of financial assets and the earliest date on which the Company can be required to settle financial liabilities.

	Contractual Maturity Analysis at September 30, 2011				
	Less than 3 Months $	**3 - 12 Months $**	**1 - 5 Years $**	**Over 5 Years $**	**Total $**
Cash and cash equivalents	12,082,467	-	-	-	12,082,467
Short-term investments	17,673,107	-	-	-	17,673,107
Amounts receivable	65,082	-	-	-	65,082
Restricted cash	-	-	-	3,636,150	3,636,150
Accounts payable and accrued liabilities	(105,751)	-	-	-	(105,751)

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

	Contractual Maturity Analysis at December 31, 2010				
	Less than 3 Months $	3 - 12 Months $	1 - 5 Years $	Over 5 Years $	Total $
Cash and cash equivalents	26,912,843	-	-	-	26,912,843
Amounts receivable	141,340	-	-	-	141,340
Deposit	-	-	3,526,950	-	3,526,950
Accounts payable and accrued liabilities	(456,489)	-	-	-	(456,489)

Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. These fluctuations may be significant.

(a) Interest Rate Risk

The Company is exposed to interest rate risk to the extent that the cash and cash equivalents bear floating rates of interest. The interest rate risk on cash and cash equivalents and on the Company's obligations are not considered significant.

(b) Foreign Currency Risk

The Company maintains cash deposits in US Dollars with its Canadian bank and conducts activities denominated in US dollars. As such, the fluctuation of the Canadian Dollar in relation to the US Dollar will have an impact upon the operations of the Company and may also affect the value of the Company's assets and the amount of shareholders' equity. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks. At September 30, 2011, 1 Canadian Dollar was equal to 0.96 US Dollar.

Balances are as follows:

	US Dollar	Canadian Dollar Equivalent
Cash	594,868	619,654
Short-term investment	499,999	520,832
Accounts receivable	755	787
Restricted cash	3,500,000	3,636,150
Accounts payable and accrued liabilities	(16,723)	(17,419)
	4,578,899	4,760,004

Based on the net exposures as of September 30, 2011 and assuming that all other variables remain constant, a 10% fluctuation on the Canadian Dollar against the US Dollar would result in the Company's net loss being approximately $424,000 higher (or lower).

(Unaudited - Expressed in Canadian Dollars)

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Capital Management

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition and exploration of petroleum and natural gas properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain development of the business. The Company defines capital that it manages as share capital, cash and cash equivalents and short-term investments. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

13. COMMITMENTS

Effective August 1, 2011, the Company entered into an operating lease, expiring July 31, 2016, for the rental of an office in Vancouver, BC with a gross monthly lease payment of $5,511. The Company has entered into a sub-lease with a public company, which is related through common directors and officers, whereby the Company will be reimbursed $2,755 per month. During the nine months ended September 30, 2011 the Company received $5,510 from the public company for shared premises.

The Company is required to incur US $5,500,000 exploration expenditures under Phase 1 of the Doukkala Block Exploration Permit. See Note 6(c).

14. SUPPLEMENTAL CASH FLOW INFORMATION

During the nine months ended September 30, 2011 and 2010 non-cash activities were conducted by the Company as follows:

	2011 $	2010 $
Investing activity		
Expenditures on property, plant and equipment	(25,527)	(161,304)
Operating activity		
Provision for site restoration	25,527	161,304
Financing activities		
Contributed surplus	-	206,200
Share issue costs	-	(206,200)
	-	-

15. SUBSEQUENT EVENTS

(a) On October 11, 2011 the Company announced that it would make a normal course issuer bid for up to 7,995,189 common shares of the Company commencing on October 14, 2011 to October 13, 2012 or the date by which the Company has acquired the maximum number of common shares under the bid. As at November 29, 2011 the Company has purchased 110,000 common shares.

(b) Subsequent to September 30, 2011 the Company issued 100,000 common shares on the exercise of warrants for proceeds of $34,000.00

16. TRANSITION TO IFRS

The Company's financial statements for the year ending December 31, 2011 will be the first annual financial statements that comply with IFRS and these condensed consolidated interim financial statements were prepared as described in note 2, including the application of IFRS 1. IFRS 1 requires an entity to adopt IFRS in its first annual financial statements prepared under IFRS by making an explicit and unreserved statement, in those financial statements, of compliance with IFRS. The Company will make this statement when it issues its 2011 annual consolidated financial statements.

IFRS 1 also requires that comparative financial information be provided. As a result, the first date at which the Company has applied IFRS was January 1, 2010 (the "transition date"). IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date, which for the Company will be December 31, 2011. However, it also provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adoption.

Initial elections upon IFRS adoption

Set forth below are the IFRS 1 applicable exemptions and exceptions applied in the conversion from Canadian GAAP to IFRS.

<u>IFRS Exemption options</u>

1. Share-based payments - IFRS 2 *Share-Based Payments* encourages application of its provisions to equity instruments granted on or before November 7, 2002, but permits the application only to equity instruments granted after November 7, 2002 that had not vested by the transition date. The Company has chosen to apply the exemption under IFRS 1 and applied IFRS 2 for all equity instruments granted after November 7, 2002 that had not vested by the transition date.

<u>IFRS Mandatory exceptions</u>

Hindsight is not used to create or revise estimates. The estimates previously made by the Company under Canadian GAAP were not revised for application of IFRS except where necessary to reflect any differences in accounting policies.

Reconciliations of Canadian GAAP to IFRS

IFRS 1 requires an entity to reconcile equity, comprehensive income and cash flows for prior periods. The Company's first time adoption of IFRS did not have an effect on the total operating, investing and financing cash flows. The following represents the reconciliations from Canadian GAAP to IFRS for the respective periods noted for equity and comprehensive income.

(Unaudited - Expressed in Canadian Dollars)

16. TRANSITION TO IFRS (continued)

Reconciliation of Assets, Liabilities and Equity

	Note	As at January 1, 2010		
		Canadian GAAP $	Effect of Transition to IFRS $	IFRS $
ASSETS				
Current assets				
Cash and cash equivalents		714,192	-	714,192
Amounts receivable		18,764	-	18,764
Total current assets		732,956	-	732,956
Non-current assets				
Exploration and evaluation assets		-	25,000	25,000
Property, plant and equipment	16(a)	4,014	-	4,014
Mineral property interests	16(a)	25,000	(25,000)	-
Total non-current assets		29,014	-	29,014
TOTAL ASSETS		761,970	-	761,970
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities		184,541	-	184,541
Due to related parties		218,351	-	218,351
TOTAL CURRENT LIABILITIES		402,892	-	402,892
SHAREHOLDERS' EQUITY				
Share capital		4,333,051	-	4,333,051
Deficit		(3,973,973)	-	(3,973,973)
TOTAL SHAREHOLDERS' EQUITY		359,078	-	359,078
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		761,970	-	761,970

(Unaudited - Expressed in Canadian Dollars)

16. TRANSITION TO IFRS (continued)

Reconciliation of Assets, Liabilities and Equity (continued)

	Note	As at September 30, 2010		
		Canadian GAAP $	Effect of Transition to IFRS $	IFRS $
ASSETS				
Current assets				
Cash and cash equivalents		2,528,627	-	2,528,627
Amounts receivable		76,961	-	76,961
Prepaid expenses		2,997	-	2,997
Total current assets		2,608,585	-	2,608,585
Non-current assets				
Exploration and evaluation assets	16(a)	-	31,121	31,121
Property, plant and equipment	16(a)	1,204,786	63,701	1,268,487
Total non-current assets		1,204,786	94,822	1,299,608
TOTAL ASSETS		3,813,371	94,822	3,908,193
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities		164,339	-	164,339
Non-current liabilities				
Provision for site restoration		64,524	96,996	161,520
TOTAL LIABILITIES		228,863	96,996	325,859
SHAREHOLDERS' EQUITY				
Share capital		8,598,020	-	8,598,020
Share-based payments reserve	16(b)	625,658	175,636	801,294
Deficit	16(b)	(5,639,170)	(177,810)	(5,816,980)
TOTAL SHAREHOLDERS' EQUITY		3,584,508	(2,174)	3,582,334
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		3,813,371	94,822	3,908,193

(Unaudited - Expressed in Canadian Dollars)

16. TRANSITION TO IFRS (continued)

Reconciliation of Assets, Liabilities and Equity (continued)

	Note	As at December 31, 2010		
		Canadian GAAP $	Effect of Transition to IFRS $	IFRS $
ASSETS				
Current assets				
Cash and cash equivalents		26,912,843	-	26,912,843
Amounts receivable		141,340	-	141,340
Prepaid expenses		13,402	-	13,402
Total current assets		27,067,585	-	27,067,585
Non-current assets				
Exploration and evaluation assets	16(a)	-	31,121	31,121
Property, plant and equipment	16(a), 16(c)	1,163,990	65,530	1,227,520
Deposit and other costs		4,254,349	-	4,254,349
Total non-current assets		5,418,339	94,651	5,512,990
TOTAL ASSETS		32,485,924	94,651	32,580,575
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities		456,489	-	456,489
Non-current liabilities				
Provision for site restoration	16(c)	67,475	101,071	168,546
TOTAL LIABILITIES		523,964	101,071	625,035
SHAREHOLDERS' EQUITY				
Share capital		37,581,656	-	37,581,656
Share-based payments reserve	16(b)	1,405,090	(112,348)	1,292,742
Deficit	16(b)	(7,024,786)	105,928	(6,918,858)
TOTAL SHAREHOLDERS' EQUITY		31,961,960	(6,420)	31,955,540
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		32,485,924	94,651	32,580,575

(Unaudited - Expressed in Canadian Dollars)

16. TRANSITION TO IFRS (continued)

Reconciliation of Comprehensive Loss

	Note	Three Months Ended September 30, 2010			Nine Months Ended September 30, 2010		
		Canadian GAAP $	Effect of Transition to IFRS $	IFRS $	Canadian GAAP $	Effect of Transition to IFRS $	IFRS $
Revenue							
Petroleum and natural gas sales		19,221	-	19,221	19,221	-	19,221
Royalties		(263)	-	(263)	(263)	-	(263)
		18,958	-	18,958	18,958	-	18,958
Expenses							
Exploration		217,931	(217,931)	-	217,931	(217,931)	-
Operating		3,881	-	3,881	3,881	-	3,881
Depletion and depreciation		15,454	2,363	17,817	15,454	2,363	17,817
Accretion of provision for site restoration		405	(189)	216	405	(189)	216
General and administrative		287,450	217,931	505,381	864,318	217,931	1,082,249
Share-based compensation	16(b)	407,458	(81,626)	325,832	419,458	175,636	595,094
		932,579	(79,452)	853,127	1,521,447	177,810	1,699,257
Loss (income) before other items		(913,621)	79,452	(834,169)	(1,502,489)	(177,810)	(1,680,299)
Other items							
Loss on disposal of equipment		(4,014)	-	(4,014)	(4,014)	-	(4,014)
Interest and other income		806	-	806	806	-	806
Foreign exchange		(1,322)	-	(1,322)	(1,322)	-	(1,322)
Abandonment of acquisition	16(a)	-	-	-	(158,178)	158,178	-
Impairment of exploration and evaluation assets	16(a)	-	-	-	-	(158,178)	(158,178)
		(4,530)	-	(4,530)	(162,708)	-	(162,708)
Comprehensive (loss) income for the period		(918,151)	79,452	(838,699)	(1,665,197)	(177,810)	(1,843,007)

(Unaudited - Expressed in Canadian Dollars)

16. TRANSITION TO IFRS (continued)

Reconciliation of Comprehensive Loss

	Note	Year Ended December 31, 2010		
		Canadian GAAP $	Effect of Transition to IFRS $	IFRS $
Revenue				
Petroleum and natural gas sales		76,878	-	76,878
Royalties		(3,976)	-	(3,976)
		72,902	-	72,902
Expenses				
Operating		16,690	-	16,690
Depletion and depreciation		56,250	8,912	65,162
Accretion of provision for site restoration		3,356	(2,492)	864
General and administrative		1,888,589	-	1,888,589
Share-based compensation	16(b)	964,714	(112,348)	852,366
		2,929,599	(105,928)	2,823,671
(Loss) income before other items		(2,856,697)	105,928	(2,750,769)
Other items				
Loss on disposal of equipment		(4,014)	-	(4,014)
Interest and other income		7,937	-	7,937
Foreign exchange		(39,861)	-	(39,861)
Abandonment of acquisition	16(a)	(158,178)	158,178	-
Impairment of exploration and evaluation assets	16(a)	-	(158,178)	(158,178)
		(194,116)	-	(194,116)
Comprehensive (loss) income for the year		(3,050,813)	105,928	(2,944,885)

16. TRANSITION TO IFRS (continued)

IFRS Adjustments

(a) Exploration and Evaluation Assets

Exploration and evaluation assets at January 1, 2010 were deemed to be $25,000 representing mineral property interests balance under Canadian GAAP. This resulted in a reclassification of $25,000 from mineral property interests to exploration and evaluation assets on the Company's balance sheet as at January 1, 2010.

Exploration and evaluation assets at September 30, 2010 were deemed to be $31,121 representing the unproved properties balance under Canadian GAAP. This resulted in a reclassification of $31,121 from property, plant and equipment to exploration and evaluation assets on the Company's balance sheet as at September 30, 2010.

As at December 31, 2010 the Company's exploration and evaluation assets were $31,121. In addition, the Company has reclassified $158,178 from abandonment of acquisition to impairment of exploration and evaluation assets on the Company's statement of comprehensive loss for the nine months ended September 30, 2010 and year ended December 31, 2010.

(b) Share Based Options

Previously, under Canadian GAAP, the Company used the straight-line method of calculating vested options and the share-based compensation arising therefrom. Under this method, the fair value of share-based awards with graded vesting was calculated as one grant and the resulting fair value was recognised on a straight line basis over the vesting period.

However, IFRS requires that each tranche of an award with different vesting dates be considered a separate grant for the calculation of fair value, and the resulting fair value is recognised over the vesting period of the respective tranche using the graded vesting method.

As all options outstanding at January 1, 2010 were vested, no adjustment was required at this date. However, adjustments were required for the options granted and the share-based compensation recognized during the nine months ended September 30, 2010 and the year ended December 31, 2010.

(c) Provision for Site Restoration

Under Canadian GAAP the Company's provision for site restoration at December 31, 2010 was $67,475. Under IFRS, the Company is required to evaluate the risk free interest rate and inflation rate for each period. At December 31, 2010 a revision of estimates for site restoration required an adjustment of $101,071.