EAST WEST PETROLEUM CORP.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED
JUNE 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	June 30, 2011 $	December 31, 2010 $
ASSETS			
Current assets			
Cash and cash equivalents		9,299,086	26,912,843
Short-term investments	4	17,098,261	-
Amounts receivable	5	110,556	141,340
Prepaid expenses		57,132	13,402
Deposit	8	3,375,050	-
Total current assets		29,940,085	27,067,585
Non-current assets			
Exploration and evaluation assets	6	-	31,121
Property, plant and equipment	7	1,181,687	1,229,389
Deposit and other costs	8	-	4,254,349
Total non-current assets		1,181,687	5,514,859
TOTAL ASSETS		31,121,772	32,582,444
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	12	104,282	456,489
Non-current liabilities			
Provision for site restoration	9	183,890	168,546
TOTAL LIABILITIES		288,172	625,035
SHAREHOLDERS' EQUITY			
Share capital	10	38,387,206	37,581,656
Share-based payments reserve		3,688,438	1,292,742
Deficit		(11,242,044)	(6,916,989)
TOTAL SHAREHOLDERS' EQUITY		30,833,600	31,957,409
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		31,121,772	32,582,444

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

*/s/ **Greg Renwick***
Greg Renwick
Director

*/s/ **Nick DeMare***
Nick DeMare
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 June 30, 2011 $	Three Months Ended June 30, 2010 $	Six Months Ended June 30, 2011 $	Six Months Ended June 30, 2010 $
Revenue					
Petroleum and natural gas sales		80,393	-	127,732	-
Royalties		(8,197)	-	(10,801)	-
		72,196	-	116,931	-
Expenses					
Operating		14,415	-	29,636	-
Depletion and depreciation	7	40,734	4,758	85,819	4,758
Accretion of provision for site restoration	9	385	-	403	-
General and administrative		488,259	340,547	1,292,504	572,110
Share-based compensation	10	1,151,785	179,903	2,444,496	269,262
		1,695,578	525,208	3,852,858	846,130
Loss before other items		(1,623,382)	(525,208)	(3,735,927)	(846,130)
Other items					
Interest and other income		95,057	-	131,400	-
Write-off of other costs	8	(727,399)	-	(727,399)	-
Gain on disposal of exploration and evaluation assets	6(a)	218,879	-	218,879	-
Impairment of exploration and evaluation assets	6(b)	-	(158,178)	-	(158,178)
Foreign exchange		(35,684)	-	(212,008)	-
		(449,147)	(158,178)	(589,128)	(158,178)
Net loss and comprehensive loss for the period		(2,072,529)	(683,386)	(4,325,055)	(1,004,308)
Basic and diluted loss per common share		$(0.02)	$(0.02)	$(0.05)	$(0.03)
Weighted average number of common shares outstanding		83,599,426	25,620,114	82,890,759	24,761,556

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)

	Six Months Ended June 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 - exercise of warrants	6,175,000	765,000	-	-	765,000
Share subscriptions received	-	68,250	-	-	68,250
Share-based compensation			269,262	-	269,262
Net loss for the period	-	-	-	(1,004,308)	(1,004,308)
Balance at June 30, 2010	29,627,806	5,166,301	269,262	(4,978,281)	457,282

	Six Months Ended June 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	(6,916,989)	31,957,409
Common shares issued for:					
Cash - exercise of share options	45,000	10,250	-	-	10,250
Cash - exercise of warrants	1,975,000	671,500	-	-	671,500
Cash - exercise of compensation options	300,000	75,000		-	75,000
Share-based compensation	-	-	2,444,496	-	2,444,496
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	-	-	-	(4,325,055)	(4,325,055)
Balance at June 30, 2011	83,633,648	38,387,206	3,688,438	(11,242,044)	30,833,600

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)

	Note	Six Months Ended June 30, 2011 $	Six Months Ended June 30, 2010 $
Operating activities			
Net loss for the period		(4,325,055)	(1,004,308)
Adjustments for:			
Depletion and depreciation		85,819	4,758
Accretion of provision for site restoration		403	-
Share-based compensation		2,444,496	269,262
Gain on disposal of exploration and evaluation assets		(218,879)	-
Impairment of exploration and evaluation assets		-	77,725
Write-off of other costs		727,399	-
Foreign exchange		151,900	-
		(1,133,917)	(652,563)
Changes in non-cash working capital items:			
Decrease (increase) in amounts receivable		30,784	(10,104)
Increase in prepaid expenses		(43,730)	-
Decrease in accounts payable and accrued liabilities		(352,207)	(115,270)
		(365,153)	(125,374)
Net cash used in operating activities		(1,499,070)	(777,937)
Investing activities			
Short-term investments		(17,098,261)	-
Expenditures on exploration and evaluation assets		-	(157,860)
Expenditures on property, plant and equipment		(23,176)	(1,834)
Proceeds on sale of exploration and evaluation assets		250,000	25,000
Net cash used in investing activities		(16,871,437)	(134,694)
Financing activities			
Share subscriptions received		-	32,000
Issuance of share capital		756,750	801,250
Repayment of advances from related parties		-	(197,493)
Net cash provided by financing activities		756,750	635,757
Net change in cash and cash equivalents		(17,613,757)	(276,874)
Cash and cash equivalents at beginning of period		26,912,843	714,192
Cash and cash equivalents at end of period		9,299,086	437,318

Supplemental Cash Flow Information (Note 15)

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 #1305 - 1090 West Georgia Street, Vancouver, British Columbia V6E 3V7 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. With the equity financings conducted in fiscal 2010, management considers that the Company has adequate resources to maintain its core operations and planned exploration programs for the 2011 fiscal year. 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 17.

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 17.

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.

(Unaudited - Expressed in Canadian Dollars)

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) 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 is 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 June 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 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

(Unaudited - Expressed in Canadian Dollars)

4. SHORT-TERM INVESTMENTS

	June 30, 2011 $	December 31, 2010 $
Redeemable GICs		
Due January 16, 2012 at cost plus accrued interest at Prime Rate less 1.80% per annum	7,037,973	-
Due January 18, 2012 at cost plus accrued interest at 1.35% per annum	10,060,288	-
	17,098,261	-

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

5. AMOUNTS RECEIVABLE

	June 30, 2011 $	December 31, 2010 $
Trade receivables	36,401	31,457
Canadian harmonized sales tax	72,639	98,285
Mining exploration tax credit	-	11,500
Other	1,516	98
	110,556	141,340

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 June 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.

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 commercial production on all four blocks.

(Unaudited - Expressed in Canadian Dollars)

6. EXPLORATION AND EVALUATION ASSETS (continued)

(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) 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 June 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 $**	**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	104,383	-	104,383
Balance at December 31, 2010	1,293,502	-	1,293,502
Additions	-	23,176	23,176
Revision of estimate for site restoration	14,941	-	14,941
Balance at June 30, 2011	1,308,443	23,176	1,331,619

Accumulated Depletion and Depreciation:	**Petroleum and Natural Gas Properties $**	**Office Furniture and Equipment $**	**Total $**
Balance at January 1, 2010	-	-	-
Depletion and depreciation for the year	(64,113)	-	(64,113)
Balance at December 31, 2010	(64,113)	-	(64,113)
Depletion and depreciation for the period	(83,819)	(2,000)	(85,819)
Balance at June 30, 2011	(147,932)	(2,000)	(149,932)

Carrying Value:	**Petroleum and Natural Gas Properties $**	**Office Furniture and Equipment $**	**Total $**
Balance at January 1, 2010	-	-	-
Balance at December 31, 2010	1,229,389	-	1,229,389
Balance at June 30, 2011	1,160,511	21,176	1,181,687

(Unaudited - Expressed in Canadian Dollars)

7. PROPERTY, PLANT AND EQUIPMENT (continued)

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.

8. DEPOSIT AND OTHER COSTS

	June 30, 2011 $	December 31, 2010 $
Refundable deposit	3,375,050	3,526,950
Capitalized interest and financing costs	-	727,399
	3,375,050	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 capitalized the $727,399 interest and financing costs.

Certain directors of the Company provided US $1,000,000 of the bridge loans.

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

See also Note 16(i).

9. PROVISION FOR SITE RESTORATION

	Six Months Ended June 30, 2011 $	Year Ended December 31, 2010 $
Balance, beginning of period	168,546	-
Initial estimated liability	-	64,119
Accretion	403	44
Revision of estimates	14,941	104,383
Balance, end of period	183,890	168,546

(Unaudited - Expressed in Canadian Dollars)

9. PROVISION FOR SITE RESTORATION (continued)

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 3.58% (December 31, 2010 - 3.50%) and inflation rate of 3.10% (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.

10. CAPITAL

(a) *Authorized Share Capital*

At June 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	1,975,000	671,500
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 June 30, 2011	83,633,648	38,387,206

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.

(Unaudited - Expressed in Canadian Dollars)

10. CAPITAL (continued)

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.

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 six months ended June 30, 2011.

(c) *Warrants*

A summary of the number of common shares reserved pursuant to the Company's outstanding warrants at June 30, 2011 and 2010 and the changes for the six 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	-	-
Exercised	(1,975,000)	0.34	(6,175,000)	0.12
Expired	-	-	(3,525,000)	0.20
Balance, end of period	26,345,595	1.11	10,300,000	0.10

(Unaudited - Expressed in Canadian Dollars)

10. CAPITAL (continued)

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

Number	Exercise Price $	Expiry Date
14,420,595	1.75	December 22,2012
11,925,000	0.34	September 29, 2013
26,345,595		

See also Note 16(ii).

(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 six months ended June 30, 2011 the Company granted 3,126,000 (2010 - 3,762,000) share options to its directors, employees and consultants and recorded compensation expense of $2,444,496 (2010 - $269,262) on the granting and vesting of share options.

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

	2011	2010
Risk-free interest rate	1.71% - 2.82%	2.05% - 2.82%
Estimated volatility	79% - 169%	92% - 100%
Expected life	1 year - 5 years	3 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 six months ended June 30, 2011 to the Company's directors, employees and consultants was $0.65 (2010 - $0.28) 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.

(Unaudited - Expressed in Canadian Dollars)

10. CAPITAL (continued)

A summary of the Company's share options at June 30, 2011 and 2010 and the changes for the six 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	3,126,000	1.03	3,762,000	0.21
Exercised	(45,000)	0.23	-	-
Balance, end of period	7,808,530	0.56	3,762,000	0.21

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

Number Outstanding	Number Exercisable	Exercise Price $	Expiry Date
36,000	6,000	0.87	April 6, 2014
1,160,000	386,666	0.83	May 31, 2014
300,000	200,000	0.26	January 7, 2015
1,700,000	1,133,333	0.16	June 11, 2015
720,000	300,000	0.20	July 19, 2015
1,252,530	445,863	0.25	October 1, 2015
710,000	310,000	0.50	October 1, 2015
1,850,000	616,666	1.16	February 2, 2016
80,000	80,000	0.90	March 14, 2016
7,808,530	3,478,528		

(e) *Compensation Options*

A summary of the Company's compensation options at June 30, 2011 and 2010 and the changes for the six 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	-	-
Exercised	(300,000)	0.25	-	-
Balance, end of period	731,000	0.25	-	-

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

(Unaudited - Expressed in Canadian Dollars)

11. TAXATION

(a) Provision for Current Tax

No provision has been made for current income taxes as the Company has no taxable income.

(b) Provision for Deferred Tax

As at June 30, 2011 the Company has non-capital losses of approximately $4,725,500 (December 31, 2010 - $3,128,300) and cumulative resource and other tax pools of approximately $3,041,500 (December 31, 2010 - $3,018,300) carried forward for Canadian income tax purposes and are available to reduce Canadian taxable income in future years. The non-capital losses expire commencing 2011 through 2031. The cumulative resource and certain other tax pools can be carried forward indefinitely.

The Company also has non-capital losses of approximately $378,500 (December 31, 2010 - $181,500) for United States income tax purposes, which are available for application against future taxable income in the United States. These non-capital losses expire commencing 2030 through 2031.

12. RELATED PARTY TRANSACTIONS AND BALANCES

(a) *Transactions with Key Management Personnel*

The following amounts were incurred with respect to the current and former Presidents of the Company:

	Six Months Ended June 30,	
	2011	**2010**
	$	**$**
Salaries	97,681	143,323
Health benefits	1,894	-
Share-based compensation	550,632	-
	650,207	143,323

(b) *Transactions with Other Related Parties*

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.

During the six months ended June 30, 2011 the Company incurred a total of $329,735 (2010 - $93,855) for accounting, administration, management, professional, rent and legal services provided by current and former directors and officers of the Company and their related parties. As at June 30, 2011, $22,000 (2010 - $nil) remained unpaid and has been included as part of accounts payable and accrued liabilities.

During the six months ended June 30, 2011 the Company has recognized share-based compensation totalling $1,491,856 (2010 - $257,502) which is attributed to share options which have been granted to other related parties.

(Unaudited - Expressed in Canadian Dollars)

13. 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**	**June 30, 2011 $**	**December 31, 2010 $**
Cash and cash equivalents	FVTPL	9,299,086	26,912,843
Short-term investments	FVTPL	17,098,261	-
Amounts receivable	Loans and receivables	110,556	141,340
Deposit	Loans and receivables	3,375,050	3,526,950
Accounts payable and accrued liabilities	Other liabilities	(88,210)	(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.

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 and short-term investments 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, amounts receivable and deposit. Management believes that the credit risk concentration with respect to financial instruments included in cash and cash equivalents and short-term deposits is remote. The deposit was received subsequent to June 30, 2011.

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.

(Unaudited - Expressed in Canadian Dollars)

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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 June 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 June 30, 2011				
	Less than 3 Months $	3 - 12 Months $	1 - 5 Years $	Over 5 Years $	Total $
Cash and cash equivalents	9,299,086	-	-	-	9,299,086
Short-term investments	17,098,261	-	-	-	17,098,261
Amounts receivable	110,556	-	-	-	110,556
Deposit	3,375,050	-	-	-	3,375,050
Accounts payable and accrued liabilities	(104,282)	-	-	-	(104,282)

	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.

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(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 June 30, 2011, 1 Canadian Dollar was equal to 1.04 US Dollar.

Balances are as follows:

	US Dollar	**Canadian Dollar Equivalent**
Cash	1,232,567	1,185,161
Deposit	3,500,000	3,375,050
Accounts payable and accrued liabilities	(23,255)	(22,361)
	4,709,312	4,537,850

Based on the net exposures as of June 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 $420,000 higher (or lower).

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.

14. COMMITMENT

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.

15. SUPPLEMENTAL CASH FLOW INFORMATION

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

	2011 $	**2010 $**
Investing activity		
Expenditures on property, plant and equipment	(14,941)	-
Operating activity		
Provision for site restoration	14,941	-

16. SUBSEQUENT EVENTS

Subsequent to June 30, 2011 the Company:

(i) received US $3,500,000 deposit refund from Kuwait Energy; and

(ii) issued 50,000 common shares for proceeds of $17,000 on the exercise of warrants.

17. 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.

IFRS Exemption options

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.

IFRS Mandatory exceptions

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)

17. 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	17(a)	4,014	-	4,014
Mineral property interests	17(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)

17. TRANSITION TO IFRS (continued)

Reconciliation of Assets, Liabilities and Equity (continued)

	Note	As at June 30, 2010		
		Canadian GAAP $	Effect of Transition to IFRS $	IFRS $
ASSETS				
Current assets				
Cash and cash equivalents		437,318	-	437,318
Amounts receivable		28,868	-	28,868
Total current assets		466,186	-	466,186
Non-current assets				
Exploration and evaluation assets	17(a)	-	80,135	80,135
Property, plant and equipment	17(a)	81,225	(80,135)	1,090
Total non-current assets		81,225	-	81,225
TOTAL ASSETS		547,411	-	547,411
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities		69,271	-	69,271
Due to related parties		20,858	-	20,858
TOTAL CURRENT LIABILITIES		90,129	-	90,129
SHAREHOLDERS' EQUITY				
Share capital		5,134,301	32,000	5,166,301
Warrant subscriptions received		32,000	(32,000)	-
Share-based payments reserve	17(b)	12,000	257,262	269,262
Deficit	17(b)	(4,721,019)	(257,262)	(4,978,281)
TOTAL SHAREHOLDERS' EQUITY		457,282	-	457,282
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		547,411	-	547,411

(Unaudited - Expressed in Canadian Dollars)

17. 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	17(a)	-	31,121	31,121
Property, plant and equipment	17(a), 17(c)	1,163,990	65,399	1,229,389
Deposit and other costs		4,254,349	-	4,254,349
Total non-current assets		5,418,339	96,520	5,514,859
TOTAL ASSETS		32,485,924	96,520	32,582,444
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities		456,489	-	456,489
Non-current liabilities				
Provision for site restoration	17(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	17(b)	1,405,090	(112,348)	1,292,742
Deficit	17(b)	(7,024,786)	107,797	(6,916,989)
TOTAL SHAREHOLDERS' EQUITY		31,961,960	(4,551)	31,957,409
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		32,485,924	96,520	32,582,444

(Unaudited - Expressed in Canadian Dollars)

17. TRANSITION TO IFRS (continued)

Reconciliation of Comprehensive Loss

	Note	Three Months Ended June 30, 2010			Six Months Ended June 30, 2010		
		Canadian GAAP $	Effect of Transition to IFRS $	IFRS $	Canadian GAAP $	Effect of Transition to IFRS $	IFRS $
Expenses							
Depletion, depreciation and amortization		4,758	-	4,758	4,758	-	4,758
General and administrative		340,547	-	340,547	572,110	-	572,110
Share-based compensation	17(b)	12,000	167,903	179,903	12,000	257,262	269,262
		357,305	167,903	525,208	588,868	257,262	846,130
Loss before other items		(357,305)	(167,903)	(525,208)	(588,868)	(257,262)	(846,130)
Other items							
Abandonment of acquisition	17(a)	(158,178)	158,178	-	(158,178)	158,178	-
Impairment of exploration and evaluation assets	17(a)	-	(158,178)	(158,178)	-	(158,178)	(158,178)
		(158,178)	-	(158,178)	(158,178)	-	(158,178)
Comprehensive loss for the period		(515,483)	(167,903)	(683,386)	(747,046)	(257,262)	(1,004,308)

	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	7,863	64,113
Accretion of provision for site restoration		3,356	(3,312)	44
General and administrative		1,888,589	-	1,888,589
Share-based compensation	17(b)	964,714	(112,348)	852,366
		2,929,599	(107,797)	2,821,802
(Loss) income before other items		(2,856,697)	107,797	(2,748,900)
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	17(a)	(158,178)	158,178	-
Impairment of exploration and evaluation assets	17(a)	-	(158,178)	(158,178)
		(194,116)	-	(194,116)
Comprehensive (loss) income for the year		(3,050,813)	107,797	(2,943,016)

17. 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 June 30, 2010 were deemed to be $80,135 representing the unproved properties balance under Canadian GAAP. This resulted in a reclassification of $80,135 from property, plant and equipment to exploration and evaluation assets on the Company's balance sheet as at June 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 six months ended June 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 six months ended June 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.