EAST WEST PETROLEUM CORP.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED
MARCH 31, 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	March 31, 2011 $	December 31, 2010 $	January 1, 2010 $
ASSETS				
Current assets				
Cash and cash equivalents		9,385,744	26,912,843	714,192
Short-term investments	5	17,043,660	-	-
Amounts receivable	6	79,677	141,340	18,764
Prepaid expenses		28,061	13,402	-
Total current assets		26,537,142	27,067,585	732,956
Non-current assets				
Exploration and evaluation assets	7	31,121	31,121	25,000
Property, plant and equipment	8	1,225,119	1,229,389	4,014
Deposit and other costs	9	4,128,699	4,254,349	-
Total non-current assets		5,384,939	5,514,859	29,014
TOTAL ASSETS		31,922,081	32,582,444	761,970
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	13	114,134	456,489	184,541
Due to related parties		-	-	218,351
Total current liabilities		114,134	456,489	402,892
Non-current liabilities				
Provision for site restoration	10	186,203	168,546	-
TOTAL LIABILITIES		300,337	625,035	402,892
SHAREHOLDERS' EQUITY				
Common shares	11	38,254,606	37,581,656	4,333,051
Reserves		2,536,653	1,292,742	-
Deficit		(9,169,515)	(6,916,989)	(3,973,973)
TOTAL SHAREHOLDERS' EQUITY		31,621,744	31,957,409	359,078
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		31,922,081	32,582,444	761,970

These condensed consolidated interim financial statements were approved for issue by the Board of Directors on June 22, 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 March 31, 2011 $	Three Months Ended March 31, 2010 $
Revenue			
Petroleum and natural gas sales		47,339	-
Royalties		(2,604)	-
		44,735	-
Expenses			
Operating		15,221	-
Depletion and depreciation	8	45,085	-
Accretion of provision for site restoration	10	18	-
General and administrative		804,245	231,563
Share-based compensation	11	1,292,711	89,359
		2,157,280	320,922
Loss before other items		(2,112,545)	(320,922)
Other items			
Interest and other income		36,343	-
Foreign exchange		(176,324)	-
		(139,981)	-
Net loss and comprehensive loss for the period		(2,252,526)	(320,922)
Basic and diluted loss per common share		$(0.03)	$(0.01)
Basic and diluted weighted average number of common shares outstanding		82,160,648	26,119,453

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)

	Three Months Ended March 31, 2010				
	Common Shares				
	Number of Shares	Amount $	Reserves $	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	1,475,000	295,000	-	-	295,000
Share subscriptions received	-	36,250	-	-	36,250
Share-based compensation			89,359	-	89,359
Net loss and comprehensive loss	-	-	-	(320,922)	(320,922)
Balance at March 31, 2010	24,927,806	4,664,301	89,359	(4,294,895)	458,765

	Three Months Ended March 31, 2011				
	Common Shares				
	Number of Shares	Amount $	Reserves $	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	1,585,000	538,900	-	-	538,900
Cash - exercise of compensation options	300,000	75,000		-	75,000
Share-based compensation	-	-	1,292,711	-	1,292,711
Transfer on exercise of share options	-	9,800	(9,800)	-	-
Transfer on exercise of compensation options	-	39,000	(39,000)	-	-
Net loss and comprehensive loss	-	-	-	(2,252,526)	(2,252,526)
Balance at March 31, 2011	83,243,648	38,254,606	2,536,653	(9,169,515)	31,621,744

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)

	Three Months Ended March 31,	
	2011 $	2010 $
Operating activities		
Comprehensive loss for the period	(2,252,526)	(320,922)
Adjustments for:		
Depletion and depreciation	45,085	-
Accretion of provision for site restoration	18	-
Share-based compensation	1,292,711	89,359
Foreign exchange	125,650	-
	(789,062)	(231,563)
Changes in non-cash working capital items:		
Decrease in amounts receivable	61,663	8,462
Increase in prepaid expenses	(14,659)	(5,250)
Decrease in accounts payable and accrued liabilities	(342,355)	(141,852)
Increase in due to related parties	-	27,787
	(295,351)	(110,853)
Net cash used in operating activities	(1,084,413)	(342,416)
Investing activities		
Short-term investments	(17,043,660)	-
Expenditures on exploration and evaluation assets	-	(157,860)
Expenditures on property, plant and equipment	(23,176)	(1,889)
Proceeds on sale of exploration and evaluation assets	-	25,000
Net cash used in investing activities	(17,066,836)	(134,749)
Financing activities		
Issuance of common shares	624,150	295,000
Repayment of advances from related parties	-	(202,946)
Net cash generated by financing activities	624,150	92,054
Net change in cash and cash equivalents	(17,527,099)	(385,111)
Cash and cash equivalents at beginning of period	26,912,843	714,192
Cash and cash equivalents at end of period	9,385,744	329,081

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 traded 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 7 and 8, 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. However, 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 AND ADOPTION OF IFRS

Statement of Compliance and Conversion to International Financial Reporting Standards

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board. These condensed consolidated interim financial statements represent the Company's initial presentation of its results and financial position under IFRS. These condensed consolidated interim financial statements for the three months ended March 31, 2011 have been prepared in accordance with IAS 34 *Interim Financial Reporting* and IFRS 1 *First-time Adoption of IFRS* along with the accounting policies the Company expects to adopt in its December 31, 2011 financial statements. Those accounting policies are based on the IFRS standards and International Financial Reporting Interpretations Committee ("IFRIC") interpretations that the Company expects to be applicable at that time. The policies set out below were consistently applied to all the periods presented unless otherwise noted below.

As these are the Company's first condensed consolidated interim financial statements prepared in accordance with IFRS, the Company's disclosures exceed the minimum requirements under IAS 34. The Company has elected to exceed the minimum requirements in order to present the Company's accounting policies in accordance with IFRS and the additional disclosures required under IFRS, which also highlight the changes from the Company's 2010 annual consolidated financial statements prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). In 2012 and beyond, the Company may not provide the same amount of disclosure in the Company's condensed consolidated interim financial statements under IFRS as the reader will be able to refer to the annual consolidated financial statements which will be prepared in accordance with IFRS.

The Company's consolidated financial statements were previously prepared in accordance with Canadian GAAP. Canadian GAAP differs in some respects from IFRS. In preparing these condensed consolidated interim financial statements, management has amended certain accounting and valuation methods previously applied in the Canadian GAAP financial statements to comply with IFRS. The comparative figures for 2010 were restated to reflect these adjustments. Note 16 presents reconciliations and descriptions of the effects of the transition from Canadian GAAP and IFRS on the statement of financial position and statement of comprehensive loss as at January 1, 2010 and as at, and for the year ended December 31, 2010 and as at, and for the three months ended March 31, 2010.

These condensed consolidated interim financial statements are prepared on a going concern basis.

2. BASIS OF PREPARATION AND ADOPTION OF IFRS (continued)

The preparation of financial statements in accordance with IAS 34 requires the use of estimates and the exercise of judgment in applying the Company's accounting policies.

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.

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. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements requires management to make certain judgments, accounting estimates and assumptions concerning the future. The nature of estimation means that actual outcomes could differ from those estimates. Management reviews estimates and assumptions on a continual basis and makes changes to such estimates based on historical experience, and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accordingly, the impact of these estimates, assumptions and judgments are subject to management uncertainty, and the effect on the financial statements in future periods could be material. The estimates, assumptions and judgments that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

Estimation of Petroleum and Natural Gas Reserves

Proved petroleum and natural gas reserves are the estimated quantities of petroleum and natural gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may ultimately result in the reserves being revised. Estimates of petroleum and natural gas reserves are inherently imprecise, require the application of judgment and are subject to future revision. Proved reserves are used in the unit-of-production calculation for depletion as well as the determination of the timing of decommissioning costs, and impairment analysis and therefore the measures are subject to change.

Capitalized Exploration and Evaluation Expenditures

In making decisions regarding whether to continue to capitalize exploration and evaluation expenditures, it is necessary to make judgments about the probable commercial reserves and the level of activities that constitute on-going evaluation determination. If there is a change in any judgment in a subsequent period, then the related capitalized exploration and evaluation expenditures would be charged as an expense in that period.

Recoverability of Asset Carrying Values

The Company assesses its property, plant and equipment, including intangible exploration and evaluation assets, for possible impairment if there are events or changes in circumstances that indicate that carrying values of the assets may not be recoverable, at each reporting date. Such indicators include changes in the Company's business plans, changes in commodity prices, evidence of physical damage and, for petroleum and natural gas properties, significant downward revisions of estimated recoverable volumes, price forecasts or increases in estimated future development expenditure. If there are low oil prices or natural gas prices during an extended period the Company may need to recognize significant impairment charges. Determination as to whether and how much an asset is impaired involves management estimates and assumptions on uncertain matters such as future commodity prices, the effects of inflation on operating expenses, discount rates, production profiles and the outlook for regional market supply-and-demand conditions for crude oil, natural gas and refined products.

Decommissioning Provision

Provisions for environmental clean-up and remediation costs associated with the Company's drilling operations are based on current legal and constructive requirements, technology, price levels and expected plans for remediation. Actual costs and cash outflows can differ from estimates due to changes in laws and regulations, public expectations, prices, discovery and analysis of site conditions and changes in clean-up technology. The carrying amount of provisions are regularly reviewed and adjusted to take account of such changes.

Income Taxes

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made. Recognition of deferred tax assets is based on estimates made in determining whether sufficient future taxable profit will be available to utilize the deferred tax assets.

Other Significant Areas of Judgment

The estimates, assumptions and judgments made in relation to the fair value of share-based payments and warrants and the associated expense recognition is subject to measurement uncertainty. The estimated fair value of financial assets and liabilities, by their very nature, are subject to measurement uncertainty.

4. 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%

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.

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. At March 31, 2011 the Company has not classified any financial assets as available for sale.

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. Trade payables and current provisions 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 March 31, 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 income statement, 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Current tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and associates 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 balance sheet 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 and associates, 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 Company's functional currency. The Company's functional currency, being the currency of the primary economic environment in which the Company operates, is the Canadian dollar. The condensed consolidated interim financial statements are presented in Canadian dollars.

(Unaudited - Expressed in Canadian Dollars)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

5. SHORT-TERM INVESTMENTS

	March 31, 2011 $	December 31, 2010 $
Redeemable GICs		
Due January 16, 2012 at cost plus accrued interest at Prime Rate less 1.80% per annum	7,017,030	-
Due January 18, 2012 at cost plus accrued interest at 1.35% per annum	10,026,630	-
	17,043,660	-

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

6. AMOUNTS RECEIVABLE

	March 31, 2011 $	December 31, 2010 $
Trade receivables	14,848	31,457
Canadian harmonized sales tax	42,946	98,285
Mining exploration tax credit	11,500	11,500
Other	10,383	98
	79,677	141,340

7. EXPLORATION AND EVALUATION ASSETS

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

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. The Company will be entering into direct negotiations to finalize concession agreements.

(Unaudited - Expressed in Canadian Dollars)

7. EXPLORATION AND EVALUATION ASSETS (continued)

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.

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 March 31, 2011 there were no indicators of impairment noted, however the area is not yet determined to be technically feasible or commercially viable.

8. 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	17,639	-	17,639
Balance at March 31, 2011	1,311,141	23,176	1,334,317

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	(44,799)	(286)	(45,085)
Balance at March 31, 2011	(108,912)	(286)	(109,198)

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 March 31, 2011	1,202,229	22,890	1,225,119

(Unaudited - Expressed in Canadian Dollars)

8. 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.

9. DEPOSIT AND OTHER COSTS

	March 31, 2011 $	December 31, 2010 $
Refundable deposit	3,401,300	3,526,950
Capitalized interest and financing costs	727,399	727,399
	4,128,699	4,254,349

On December 6, 2010 the Company entered into a sale and purchase agreement whereby the Company has agreed to acquire a 20% participation interest in the Burg El Arab field in Egypt from Kuwait Energy Egypt Limited, a private corporation, for US $17,500,000. Under the terms of the agreement, the Company has made a refundable deposit of US $3,500,000. The closing of the agreement is 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.

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

10. PROVISION FOR SITE RESTORATION

	Three Months Ended March 31, 2011 $	Year Ended December 31, 2010 $
Balance, beginning of period	168,546	-
Initial estimated liability	-	64,119
Accretion	18	44
Revision of estimates	17,639	104,383
Balance, end of period	186,203	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 3.66% (December 31, 2010 - 3.50%) and inflation rate of 3.29% (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. 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)

11. CAPITAL

(a) *Authorized Share Capital*

At March 31, 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 9)	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	1,585,000	538,900
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 March 31, 2011	83,243,648	38,254,606

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)

11. 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.

(c) *Warrants*

A summary of the number of common shares reserved pursuant to the Company's outstanding warrants at March 31, 2011 and 2010 and the changes for the three 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	(1,585,000)	0.34	(1,475,000)	0.20
Expired	-	-	(3,525,000)	0.20
Balance, end of period	26,735,595	1.10	15,000,000	0.10

The following table summarizes information about the number of common shares reserved pursuant to the Company's warrants outstanding and exercisable at March 31, 2011:

Number	**Exercise Price $**	**Expiry Date**
14,420,595	1.75	December 22,2012
12,315,000	0.34	September 29, 2013
26,735,595		

(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 three months ended March 31, 2011 the Company granted 1,930,000 (2010 - 1,962,000) share options to its directors, employees and consultants and recorded compensation expense of $1,292,711 (2010 - $89,359) on the granting and vesting of share options.

The fair value of share options granted and vested during the three months ended March 31, 2011 and 2010 is estimated using the Black-Scholes option pricing model using the following assumptions:

(Unaudited - Expressed in Canadian Dollars)

11. CAPITAL (continued)

	2011	2010
Risk-free interest rate	2.44%	2.05% - 2.82%
Estimated volatility	161% - 169%	100%
Expected life	3 years - 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 three months ended March 31, 2011 to the Company's directors, employees and consultants was $0.67 (2010 - $0.89) per 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 March 31, 2011 and 2010 and the changes for the three 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	1,930,000	1.15	1,962,000	0.26
Exercised	(45,000)	0.23	-	-
Balance, end of period	6,612,530	0.51	1,962,000	0.26

The following table summarizes information about the share options outstanding and exercisable at March 31, 2011:

Number Outstanding	Number Exercisable	Exercise Price $	Expiry Date
300,000	100,000	0.26	January 7, 2015
1,700,000	566,666	0.16	June 11, 2015
720,000	320,000	0.20	July 19, 2015
1,252,530	412,530	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
6,612,530	2,405,862		

See also Note 16.

(Unaudited - Expressed in Canadian Dollars)

11. CAPITAL (continued)

(e) *Compensation Options*

A summary of the Company's compensation options at March 31, 2011 and 2010 and the changes for the three 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 March 31, 2011, 731,000 compensation options were outstanding and exercisable at an exercise price of $0.25 expiring September 29, 2013.

12. 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 March 31, 2011 the Company has non-capital losses of approximately $3,946,100 (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 $277,400 (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.

13. RELATED PARTY TRANSACTIONS AND BALANCES

(a) *Transactions with Key Management Personnel*

The following amounts were incurred with respect to the President of the Company:

	Three Months Ended March 31,	
	2011 $	2010 $
Salaries	49,300	30,000
Health benefits	765	-
Share-based compensation	20,192	-
	70,257	30,000

(Unaudited - Expressed in Canadian Dollars)

13. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(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 three months ended March 31, 2011 the Company incurred a total of $181,161 (2010 - $24,640) for accounting, administration, management, professional and legal services provided by directors and officers of the Company and their related parties. As at March 31, 2011, $38,500 (2010 - $149,020) remained unpaid and has been included as part of accounts payable and accrued liabilities.

During the three months ended March 31, 2011 the Company has recognized share-based compensation totalling $922,086 (2010 - $78,513) which is attributed to share options which have been granted to other related parties.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Categories of Financial Assets and Financial Liabilities

Financial instruments are classified into one of the following five categories: held for trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets and other financial liabilities. The carrying values of the Company's financial instruments are classified into the following categories:

Financial Instrument	**Category**	**March 31, 2011 $**	**December 31, 2010 $**
Cash and cash equivalents	Held-for-trading	9,385,744	26,912,843
Short-term investments	Held-for-trading	17,043,660	-
Amounts receivable	Loans and receivables	79,677	141,340
Deposit	Loans and receivables	3,401,300	3,526,950
Accounts payable and accrued liabilities	Other liabilities	(114,134)	(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 under the fair value hierarchy is measured using Level 1 inputs.

(Unaudited - Expressed in Canadian Dollars)

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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 and short-term deposits 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 March 31, 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 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 March 31, 2011				
	Less than 3 Months $	**3 - 12 Months $**	**1 - 5 Years $**	**Over 5 Years $**	**Total $**
Cash and cash equivalents	9,385,744	-	-	-	9,385,744
Short-term investments	17,043,660	-	-	-	17,043,660
Amounts receivable	79,677	-	-	-	79,677
Deposit	-	-	3,401,300	-	3,401,300
Accounts payable and accrued liabilities	(114,134)	-	-	-	(114,134)

	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)

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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 March 31, 2011, 1 Canadian Dollar was equal to 1.03 US Dollar.

Balances are as follows:

	US Dollar	Canadian Dollar Equivalent
Cash	1,342,532	1,303,429
Deposit	3,500,000	3,401,300
Accounts payable and accrued liabilities	(13,038)	(12,658)
	4,829,494	4,692,071

Based on the net exposures as of March 31, 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 $418,000 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 future development of the business. The Company defines capital that it manages as share capital, 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.

(Unaudited - Expressed in Canadian Dollars)

15. SUPPLEMENTAL CASH FLOW INFORMATION

During the three months ended March 31, 2011 and 2010 non-cash activities were conducted by the Company as follows:

	2011 $	2010 $
Investing activity		
Expenditures on property, plant and equipment	(17,639)	-
Operating activity		
Provision for site restoration	17,639	-

16. SUBSEQUENT EVENTS

Subsequent to March 31, 2011 the Company the Company:

(i) granted stock options to a director to purchase 1,160,000 common shares of the Company at a price of $0.83 per share, expiring May 31, 2014, and to its consultants to purchase 36,000 common shares of the Company at a price of $0.87 per share expiring April 6, 2014; and

(ii) issued 390,000 common shares on the exercise of warrants for proceeds of $132,600.

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.

(Unaudited - Expressed in Canadian Dollars)

17. TRANSITION TO IFRS (continued)

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.

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				
Common shares		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 March 31, 2010		
		Canadian GAAP $	Effect of Transition to IFRS $	IFRS $
ASSETS				
Current assets				
Cash and cash equivalents		329,082	-	329,082
Amounts receivable		18,764	-	18,764
Prepaid expenses		5,250	-	5,250
Total current assets		353,096	-	353,096
Non-current assets				
Exploration and evaluation assets	16(a)	-	157,860	157,860
Property, plant and equipment	16(a)	163,763	(157,860)	5,903
Total non-current assets		163,763	-	163,763
TOTAL ASSETS		516,859	-	516,859
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities		42,689	-	42,689
Due to related parties		15,405	-	15,405
TOTAL CURRENT LIABILITIES		58,094	-	58,094
SHAREHOLDERS' EQUITY				
Common shares		4,664,301	-	4,664,301
Reserves	16(b)	-	89,359	89,359
Deficit	16(b)	(4,205,536)	(89,359)	(4,294,895)
TOTAL SHAREHOLDERS' EQUITY		458,765	-	458,765
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		516,859	-	516,859

(Unaudited - Expressed in Canadian Dollars)

17. TRANSITION TO IFRS (continued)

Reconciliation of Assets, Liabilities and Equity (continued)

	Notes	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	65,399	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	16(c)	67,475	101,071	168,546
TOTAL LIABILITIES		523,964	101,071	625,035
SHAREHOLDERS' EQUITY				
Common shares		37,581,656	-	37,581,656
Reserves	16(b)	1,405,090	(112,348)	1,292,742
Deficit	16(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 March 31, 2010		
		Canadian GAAP $	Effect of Transition to IFRS $	IFRS $
Expenses				
General and administrative		231,563	-	231,563
Share-based compensation	16(b)	-	89,359	89,359
		231,563	89,359	320,922
Comprehensive loss for the period		(231,563)	(89,359)	(320,922)

	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	16(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	16(a)	(158,178)	158,178	-
Impairment of evaluation and exploration assets	16(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 March 31, 2010 were deemed to be $157,860 representing the unproved properties balance under Canadian GAAP. This resulted in a reclassification of $157,860 from property, plant and equipment to exploration and evaluation assets on the Company's balance sheet as at March 31, 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 evaluation and exploration assets on the Company's statement of comprehensive loss for the 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 three months ended March 31, 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.