United Hunter Oil & Gas Corp.

Condensed Interim Consolidated Financial Statements
March 31, 2011
(unaudited)

Management's Comments on Unaudited Condensed Interim Consolidated Financial Statements

These unaudited condensed interim consolidated financial statements of United Hunter Oil & Gas Corp. (the "Company") have been prepared by management and approved by the Board of Directors of the Company.

These unaudited condensed interim consolidated financial statements have not been reviewed by the Company's external auditors.

United Hunter Oil & Gas Corp.
Consolidated Statements of Financial Position

(expressed in US dollars)

	Note	As at March 31, 2011 $ (unaudited)	As at December 31, 2010 $ (unaudited) (note 2)	As at January 1, 2010 $ (unaudited) (note 2)
Assets				
Current				
Cash and cash equivalents		2,418,952	3,641,755	2,252
Accounts receivable		162,406	84,952	-
Due from joint venture partner		153,804	128,901	-
Prepaid expenses		84,082	68,617	-
		2,819,245	3,924,225	2,252
Exploration and evaluation	5	5,813,268	6,177,783	1,854,203
Property, plant and equipment	6	783,006	-	-
		9,415,519	10,102,008	1,856,455
Liabilities				
Current				
Accounts payable and accrued liabilities		596,618	875,656	75,000
Consideration payable	7	800,000	800,000	-
Warrants liability	8	683,026	453,828	-
		2,079,644	2,129,484	75,000
Future income tax liability		499,633	530,131	628,348
		2,579,277	2,659,615	703,348
Shareholders' equity				
Share capital	8	7,519,574	7,519,574	2,252
Contributed surplus		1,735,089	1,594,094	1,200,000
Deficit		(2,418,422)	(1,671,275)	(49,145)
		6,836,241	7,442,393	1,153,107
		9,415,518	10,102,008	1,856,455
Going-concern	2			
Commitments	10			

Approved by the Board:

Bradley Griffiths	Arthur Halleran
Director	**Director**

See accompanying notes to consolidated financial statements

United Hunter Oil & Gas Corp.
Consolidated Statements of Loss and Comprehensive Loss
(expressed in US dollars)

	Note	3 months ended March 31, 2011 $ (unaudited)	2010 $ (unaudited) (note 2)
Revenues			
Oil sales		41,692	-
Expenses			
Operating and transportation		38,917	-
Depletion	6	22,511	
Professional fees		25,928	-
Management fees		24,375	-
Salaries and wages		159,620	-
Consulting fees		118,815	-
Stock-based compensation		140,995	-
Premises		21,882	-
General and administrative		13,827	-
Public company costs		8,876	-
Investor relations		71,074	-
Travel		15,427	-
Interest income		(6,871)	-
Loss on revaluation of warrant liablility	8	229,198	-
Foreign exchange gain		(65,237)	-
		819,338	-
Loss and comprehensive loss before income taxes		(777,645)	-
Future income tax reduction		30,498	-
Net loss and comprehensive loss		(747,148)	-
Deficit, beginning of period		(1,671,274)	-
Deficit, end of period		(2,418,422)	-
Basic and diluted loss per share		(0.01)	-
Weighted average number of shares outstanding - basic and diluted		120,302,722	22,500,000

See accompanying notes to consolidated financial statements

United Hunter Oil & Gas Corp.
Consolidated Statements of Changes in Equity
(expressed in US dollars)

	Share capital (unaudited)	Contributed surplus (unaudited)	Deficit (unaudited)	Total (unaudited)
Balance, December 31, 2010	7,519,574	1,594,094	(1,671,273)	7,442,394
Stock-based compensation	-	140,995	-	140,995
Loss	-	-	(747,148)	(747,148)
Balance, March 31, 2011	7,519,574	1,735,089	(2,418,421)	6,836,242
Balance, December 31, 2009	2,252	1,200,000	(49,145)	1,153,107
Loss	-	-	-	-
Balance, March 31, 2010	2,252	1,200,000	(49,145)	1,153,107

See accompanying notes to consolidated financial statements

United Hunter Oil & Gas Corp.
Consolidated Statements of Cash Flows

(expressed in US dollars)

	3 months ended March 31, 2011 $ (unaudited)	2010 $ (unaudited) (note 2)
Cash flow from operating activities		
Loss	(747,148)	-
Items not affecting cash		
Depletion	22,511	-
Stock-based compensation	140,995	-
Gain on revaluation of warrant liablility	229,198	-
Unrealized foreign exchange gain		-
Future income tax reduction	(30,498)	
Changes in non-cash working capital	(396,861)	-
	(781,801)	-
Cash flow from investing activities		
Exploration and evaluation	(441,002)	-
Unrealized foreign exchange gain on cash held in foreign operations		-
Net change in cash and cash equivalents	(1,222,803)	-
Cash and cash equivalents, beginning of period	3,641,755	-
Cash and cash equivalents, end of period	2,418,952	-
Supplementary information		
Interest paid	-	-
Income taxes paid	-	-

See accompanying notes to consolidated financial statements

1. Nature of operations

United Hunter Oil & Gas Corp. (the "Company") is engaged in the exploration and development of oil and gas properties. The Company owns a 65% indirect Membership Interest in Excelaron, LLC ("Excelaron"), an exploration stage company based in San Luis Obispo, California. The Company also owns interests in oil and gas properties in Alberta.

The Company was incorporated under the Business Corporations Act of Ontario on February 22, 2008 and its registered office is located at 47 Colborne Street, Suite 201, Toronto, Ontario, M5E 1P8.

2. Going concern

As at March 31, 2011, the Company had working capital of $739,601, cash flow used in operating activities of $781,801, loss of $737,645, and accumulated deficit of $2,418,422. While the Company has sufficient funds to meet its current commitments, the Company will require additional funding to fund its operations and for the exploration of its oil and gas properties. Without additional funding, there is substantial doubt as to the Company's ability to continue as a going concern. Within the next 12 months, the Company will be seeking to raise the necessary capital to meet its funding requirements. Although the Company has been successful in raising funds to date, there can be no assurance that additional funding will be available. These funds will be required to finance capital and operating expenditures in Huasna if the permits are approved.

These financial statements have been prepared on a going concern basis, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption inappropriate, and these adjustments could be material.

3. Basis of presentation and adoption of International Financial Reporting Standards ("IFRS")

Statement of compliance

The financial statements are the first interim financial statements prepared in accordance with IAS 34, *Interim Financial Reporting*, using accounting policies consistent with IFRS, including the application of IFRS 1, *First-time Adoption of IFRS*.

The policies applied in these interim financial statements are based on IFRS issued and outstanding as of June 29, 2011, the date on which the Board of Directors approved these interim financial statements. Any subsequent changes to IFRS that are reflected in the annual financial statements for the year ended December 31, 2011 could result in the restatement of these interim financial statements, including the transition adjustments recognized on the changeover to IFRS.

These interim financial statements do not include certain information and disclosures normally included in annual financial statements prepared in accordance with IFRS and should be read in conjunction with the Company's annual financial statements for the year ended December 31, 2010 that were prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP").

Basis of measurement

These interim financial statements have been prepared on the historical cost basis, except for the warrant liability, which is measured at fair value.

Functional and presentation currency

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

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

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

- the recoverable amounts of cash-generating units used in impairment testing of long-lived assets including estimates of reserves and resources, future commodity prices, production costs, foreign exchange rates, discount rates, inflation and income tax rates;
- the determination of units of production for depletion of property, plant and equipment;
- the fair value of warrant liability and stock-based compensation determined using the Black-Scholes option pricing model using estimates for expected forfeitures, expected life and stock volatility;
- the provision for deferred income taxes based on estimated tax bases using substantively enacted tax rates expected to apply to taxable income during the years in which the differences are expected to be recovered or settled.

First-time Adoption of IFRS
In prior periods, the Company's financial statements were prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP"). The Company has adopted IFRS on January 1, 2011 with a transition date of January 1, 2010. Under IFRS 1, IFRS standards are applied retrospectively at the transition date subject to certain exceptions and exemptions. The impact of the transition from Canadian GAAP to IFRS is set out in note 12.

4. Significant accounting policies and future accounting changes

The accounting policies set out below have been applied consistently to all periods presented in these interim financial statements.

Basis of consolidation
These consolidated financial statements include the accounts of the Company's wholly-owned subsidiary, United Hydrocarbon Corporation, and the Company's 65% proportionate interest in Excelaron LLC, a jointly controlled operation.

All intercompany transactions and balances are eliminated on consolidation.

Foreign currencies
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and the translation of foreign currency monetary assets and liabilities at exchange rates prevailing on the balance sheet date are recognized in the statement of income.

Financial instruments
(i) Non-derivative financial assets
The Company initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

Financial assets at fair value through profit or loss
A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

The Company has not classified any financial asset as fair value through profit or loss.

Held-to-maturity financial assets
If the Company has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available for sale, and prevent the Company from classifying investment securities as held to maturity for the current and the following two financial years.

The Company has not classified any financial asset as held-to-maturity.

Loans and receivables
Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

The Company has classified cash and cash equivalents, receivables due from joint venture partner as loans and receivables.

Available-for-sale financial assets
Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the above categories of financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3(k)(i)) and foreign currency differences on available-for-sale debt instruments (see note 3(b)(i)), are recognized in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss.

The Company has not classified any financial asset as available-for-sale.

(ii) Non-derivative financial liabilities
The Company initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument.
The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

The Company has classified accounts payable and accrued liabilities and consideration payable as other financial liabilities.

Cash and cash equivalents
Cash and cash equivalents consist of cash in the bank and short-term deposits with a maturity of less than three months.

Exploration and evaluation

Recognition and measurement
Pre-license costs are expensed when incurred.

Exploration and evaluation, including the costs of acquiring licenses and directly attributable general and administrative costs, initially are capitalized as exploration and evaluation. The costs are accumulated in cost centres by well, field or exploration area pending determination of technical feasibility and commercial viability.

Impairment
Exploration and evaluation are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, exploration and evaluation are allocated to cash-generating units ("CGU's").

The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proved and/or probable reserves are determined to exist. A review of each exploration license or field is carried out, at least annually, to ascertain whether proved and/or probable reserves have been discovered. Upon determination of proved and/or probable reserves, exploration and evaluation attributable to those reserves are first tested for impairment and then reclassified from exploration and evaluation to property, plant and equipment or expensed to the statement of income to the extent of any impairment.

Property, plant and equipment

Recognition and measurement
Property, plant and equipment, including costs incurred to develop oil reserves and maintain or enhance production and directly attributable general and administration costs, are measured at cost less accumulated depletion and accumulated impairment losses.

The gain or loss on disposal of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of the property, plant and equipment, and is recognized in profit or loss.

Subsequent costs
Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property, plant and equipment are recognized as oil and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in earnings as incurred. Capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing on or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis.

Depletion and Depreciation
The net carrying value of development or production assets is depleted on a field by field basis using the unit of production method by reference to the ratio of production in the year to the related proven and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers at least annually.

Impairment
The carrying amounts of property, plant and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the estimated recoverable amount is calculated. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proved and probable reserves.
E&E assets are allocated to the related CGU's to assess for impairment, both at the time of any triggering facts and circumstances as well as upon their eventual reclassification to producing assets (oil and natural gas interests in property, plant and equipment).

An impairment loss is recognized in earnings if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount.

Impairment losses previously recognized are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of accumulated depletion and depreciation, if no impairment loss had been recognized.

Share capital
Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

Share-based payments
The Company offers a stock option plan for its directors, officers, employees and consultants. The fair value of stock options for each vesting period is determined using the Black-Scholes option pricing model and is recorded over the vesting period as an increase to stock-based compensation and contributed surplus. Upon the exercise of stock options, the proceeds received by the Company and the related contributed surplus are recorded as an increase to share capital.

Provisions
A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

Income tax
Income tax expense comprises current and deferred tax. Current tax and deferred tax is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Loss per share
The Company presents basic and diluted loss per share data for its common shares. Basic earnings per share is calculated by dividing the loss attributable to ordinary shareholders of the Company by the weighted average number of common shares outstanding during the period, adjusted for own shares held. Diluted earnings per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise share options granted.

New standards and interpretations not adopted
A number of new standards, amendments to standards and interpretations are effective for periods beginning on or after January 1, 2013. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

IFRS 9, Financial Instruments ("IFRS 9")
IFRS 9 addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent not clearly representing a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, *Financial Instruments - Recognition and Measurement*, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income.

IFRS 10, Consolidation ("IFRS 10")
IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 Consolidation—Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements.

IFRS 11, Joint Arrangements ("IFRS 11")
IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities—Non-monetary Contributions by Venturers.

IFRS 12, Disclosure of Interests in Other Entities ("IFRS 12")
IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

IFRS 13, Fair Value Measurement ("IFRS 13")
IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement.

Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

Amendments to other standards
In addition, there have been amendments to existing standards, including IAS 27, Separate Financial Statements (IAS 27), and IAS 28, Investments in Associates and Joint Ventures (IAS 28). IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10-13.

5. Exploration and evaluation

	December 31, 2010 $	Additions $	Transfer to property, plant and equipment $	March 31, 2011 $
Huasna	5,319,341	29,440	–	5,348,781
Atlee Buffalo	476,300	329,216	(805,516)	–
Leduc Woodbend	332,142	75,484	–	407,626
Porter Ranch	50,000	6,861	–	56,861
	6,177,783	441,001	(805,516)	5,813,268

Exploration and evaluation consists of the Company's exploration projects which are pending the determination of proved or probable reserves. Additions represent the Company's share of costs incurred on exploration and evaluation during the period.

On March 4, 2011, production commenced at Atlee Buffalo and the related costs were transferred to property, plant and equipment.

6. Property, plant and equipment

	December 31, 2010 $	Additions $	Depletion $	March 31, 2011 $
Atlee Buffalo	–	805,516	(22,511)	783,006

7. Consideration payable

The Company is committed to pay $800,000 at such time as Excelaron secures its conditional use permits for its planned operations on its oil and gas properties. In the event that Excelaron does not secure such permits or the Company does not pay the $800,000, the 65% Membership Interest that the Company acquired will be reduced to a 40% Membership Interest in Excelaron.

8. Share capital

Authorized
An unlimited number of common shares
Unlimited number of preference shares, issuable in series.

Outstanding

	Common shares	
	Number of shares	Amount $
Balance, December 31, 2010 and March 31, 2011	120,302,722	7,519,574

Warrants

	3 months ended March 31, 2011		3 months ended March 31, 2010	
	Number of warrants	$	Number of warrants	$
Balance, beginning of period	26,100,000	453,828	–	–
Change in fair value	–	229,198	–	–
Balance, end of period	26,100,000	683,026	–	–

A summary of the Company's outstanding warrants at March 31, 2011 is presented below:

Exercise price	Expiry date	Warrants outstanding	Warrants exercisable
C$0.40	April 23, 2012	22,500,000	22,500,000
C$0.20	April 23, 2012	3,600,000	3,600,000
		26,100,000	26,100,000

In the event that the Company's common shares trade at or above C$0.80 for more than 20 consecutive days, the 22,500,000 warrants must be exercised after written notice is provided by the Company or they will expire.

Under IAS 32, *Financial Instruments Presentation*, warrants having a strike price in a currency other than the functional currency of the Company, are a derivative liability, which are measured at fair value at each balance sheet date with change in fair value recognized in the statement of loss and comprehensive loss.

At March 31, 2011, the fair value of the outstanding warrants of $683,026 was calculated using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	1.36%
Expected volatility	100%
Expected life of warrants	1.1 years
Expected dividend yield	Nil

The increase in fair value of the warrants of $229,198 was recognized as a loss in the statement of loss and comprehensive loss.

Stock options

Under its stock option plan, the Company may grant options to its directors, officers, employees and consultants to acquire up to 10% of the issued and outstanding common shares at the time of the grant. As at March 31, 2011, there were 11,994,353 common shares available for issuance under the stock option plan.

A summary of the Company's outstanding stock options at March 31, 2011 is presented below:

Exercise price	Expiry date	Options outstanding	Options exercisable
C$0.15	May 12, 2015	8,350,000	–
C$0.15	July 20, 2015	1,000,000	1,000,000
C$0.15	August 31, 2015	425,000	–
		9,775,000	1,000,000

9. Financial instruments

Currency risk

The Company's expenditures are denominated in both US and Canadian dollars. As at March 31, 2011, the Company had the following monetary assets and liabilities denominated in Canadian dollars:

	C$
Assets	
Cash and cash equivalents	2,298,953
Accounts receivable	156,700
Due from joint venture partner	149,122
	2,604,7752
Liabilities	
Accounts payable and accrued liabilities	458,463
	2,146,312

As at March 31, 2011, a 5% change in the exchange rate between the US dollar and Canadian dollar would have resulted in an impact on operations of $107,315.

10. Commitments

In 2011, the Company is committed to pay $50,000 to a company that is performing media and related services.

11. Related party transactions

	Years ended December 31, 2010	2009
Rent		
Paid to a company controlled by a director for office premises	10,648	–
Paid to a company controlled by an officer for office premises	3,550	–
Office		
Paid to a person related to a director for administration services	2,535	–
Paid to a company controlled by an officer for office services	2,525	–

12. First-time adoption of IFRS

As disclosed in Note 2, these are the Company's first condensed interim consolidated financial statements for the period covered by the first annual consolidated financial statements to be prepared in accordance with IFRS. The accounting policies set out in note 3 have been applied in preparing the condensed interim consolidated financial statements for the period ended March 31, 2011, January 1, 2010 transitional consolidated statement of financial position and the comparative financial statements for the periods ended March 31,2010 and December 31,2010. IFRS *1 First-time Adoption of IFRS* and IAS 34 *Interim Financial Reporting* has been applied to these condensed interim consolidated financial statements.

As a result of applying IFRS 1, the Company is required to present comparative information with the application of IFRS accounting policies as at the January 1, 2010 transition date and comparative information for the three months ended March 31, 2010 and for the year ended December 31, 2010. IFRS 1 provides for certain mandatory and optional exemptions for first-time adopters to alleviate the retrospective application of all the accounting standards under IFRS.
An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables.

First-time adoption exemptions applied

IFRS 1 allows first-time adopters certain exemptions from retrospective application of certain IFRS. The Company has applied the following optional exemptions to full retrospective application of IFRS and has made the following adjustments to transition from Canadian GAAP to IFRS:

Historical cost as deemed cost
The Company elected an IFRS 1 exemption whereby the Canadian GAAP full cost pool was measured upon transition to IFRS at the amount determined under Canadian GAAP as at January 1, 2010. Cost included in the full cost pool on January 1, 2010 were allocated on a pro-rata basis to the underlying assets on the basis of proved and probable reserves values as at January 1, 2010. The exploration and evaluation assets were reclassified from the full cost pool to exploration and evaluation assets at the amount that was recorded under Canadian GAAP.
Business Combinations
IFRS 1 allows for IFRS 3, *Business Combinations*, to be applied retrospectively or prospectively. The Company elected to adopt IFRS 3 prospectively to business combinations prior to the date of transition. Accordingly, all business combinations after January 1, 2010 will be accounted for in accordance with IFRS 3.

Share-based payment transactions
IFRS 1 allows that full retrospective application may not apply to certain share-based instruments depending on the grant date and vesting terms. The Company has elected to not apply IFRS 2 to share-based payments granted after November 7, 2002 that vested before the date of transition to IFRS. Accordingly, the Company has applied IFRS 2 only to unvested stock options outstanding as at January 1, 2010.

Reconciliation of equity at the date of IFRS transition – January 1, 2010

	Canadian GAAP $	**Effect of transition to IFRS $**	**IFRS $**
Assets			
Current			
Cash and cash equivalents	2,252	–	2,252
Exploration and evaluation	1,854,203	–	1,854,203
	1,856,455	–	1,856,455
Liabilities			
Current			
Accounts payable and accrued liabilities	75,000	–	75,000
Future income tax liability	628,348	–	628,348
	703,348	–	703,348
Shareholders' equity			
Share capital	2,252	–	2,252
Contributed surplus	1,200,000	–	1,200,000
Deficit	(49,145)	–	(49,145)
	1,153,107	–	1,153,107
	1,856,455	–	1,856,455

Reconciliation of equity at the date of comparative financial statements – March 31, 2010

	Canadian GAAP $	Effect of transition to IFRS $	IFRS $
Assets			
Current			
Cash and cash equivalents	2,252	–	2,252
Exploration and evaluation	1,854,203	–	1,854,203
	1,856,455	–	1,856,455
Liabilities			
Current			
Accounts payable and accrued liabilities	75,000	–	75,000
Future income tax liability	628,348	–	628,348
	703,348	–	703,348
Shareholders' equity			
Share capital	2,252	–	2,252
Contributed surplus	1,200,000	–	1,200,000
Deficit	(49,145)	–	(49,145)
	1,153,107	–	1,153,107
	1,856,455	–	1,856,455

Reconciliation of equity at the end of the last reporting year under Canadian GAAP – December 31, 2010

	Note	Canadian GAAP $	Effect of transition to IFRS $	IFRS $
Assets				
Current				
Cash and cash equivalents		3,641,755	–	3,641,755
Accounts receivable		84,952	–	84,952
Due from joint venture partner		128,901	–	128,901
Prepaid expenses		68,617	–	68,617
		3,924,225	–	3,924,225
Exploration and evaluation	12(a)	5,377,783	800,000	6,177,783
		9,302,008	800,000	10,102,008
Liabilities				
Current				
Accounts payable and accrued liabilities		875,656	–	875,656
Consideration payable	12(a)	–	800,000	800,000
Warrant liability	12(b)	–	453,828	453,828
		875,656	800,000	1,675,656
Future income tax liability		530,131	–	530,131
		1,405,787	1,253,828	2,659,615
Shareholders' equity				
Share capital		7,519,574	–	7,519,574
Warrants	12(b)	2,042,256	(2,046,256)	–
Contributed surplus	12(c)	1,453,370	140,724	1,594,094
Deficit	12(b), 12(c)	(3,118,979)	1,447,704	(1,671,275)
		7,896,221	(457,828)	7,442,393
		9,302,008	800,000	10,102,008

Reconciliation of comprehensive loss for the last reporting year under Canadian GAAP – March 31, 2010

The adoption of IFRS resulted in no changes to the amounts reported in the statement of loss and comprehensive loss for the 3 months ended March 31, 2010 previously presented under Canadian GAAP compared to the financial statements prepared under IFRS.

Reconciliation of comprehensive loss for the last reporting year under Canadian GAAP – December 31, 2010

	Note	Canadian GAAP $	Effect of transition to IFRS $	IFRS $
Expenses				
Professional fees		101,737	–	101,737
Management fees		70,000	–	70,000
Salaries and wages		276,600	–	276,600
Consulting fees		565,879	–	565,879
Stock-based compensation	12(c)	253,370	140,724	394,094
Premises		51,000	–	51,000
General and administrative		31,617	–	31,617
Public company costs		24,879	–	24,879
Investor relations		141,006	–	141,006
Travel		77,386	–	77,386
Permitting		25,630	–	25,630
Transaction costs		1,226,384	–	1,226,384
Interest income		(19,366)	–	(19,366)
Gain on revaluation of warrant liability	12(b)	–	(1,592,428)	(1,592,428)
Foreign exchange gain		68,751	–	68,751
		2,894,874	140,724	1,443,169
Loss and comprehensive loss before income taxes	12(c)	(2,894,874)	(140,724)	(1,443,169)
Future income tax reduction		98,217	–	98,217
Net loss and comprehensive loss		(2,796,657)	(140,724)	(1,344,952)
Basic and diluted loss per share		(0.03)	–	(0.01)

Reconciliation notes

a) Contingent liability

The Company is committed to pay $800,000 at such time as Excelaron secures its conditional use permits for its planned operations on its oil and gas properties.

Under IFRS, a contingent liability, a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity, is recognized as of the acquisition date if it is a present obligation that arises from past events and its fair value can be measured reliably.

Under Canadian GAAP, when the outcome of a contingency cannot be determined without reasonable doubt, a contingent liability is not recognized until the contingency is resolved and the consideration is issued.

The following table summarizes the adjustments resulting from the recognition of the contingent liability:

	January 1, 2010 $	March 31, 2010 $	December 31, 2010 $
Consolidated statements of financial position			
Exploration and evaluation	–	–	800,000
Consideration payable	–	–	800,000

b) Warrants
The Company has outstanding common share purchase warrants denominated in Canadian dollars.

Under IFRS, an obligation to issue shares for a price that is not in the Company's functional currency, and that does not qualify as a rights offering to all shareholders of that class, must be classified as a derivative liability and measured at fair value at each balance sheet date with changes recognized in the statement of comprehensive income.

Under Canadian GAAP, warrants were classified as a equity and changes in fair value were not recognized.

The following table summarizes the adjustments resulting from the reclassification and revaluation the warrants:

	January 1, 2010 $	**March 31, 2010 $**	**December 31, 2010 $**
Consolidated statements of financial position			
Warrant liability	–	–	453,828
Warrant	–	–	(2,046,256)
Deficit	–	–	1,592,428

	March 31, 2010 $	**December 31, 2010 $**
Consolidated statements of loss and comprehensive loss		
Gain on revaluation of warrant liability	–	1,592,428

c) Share based payments

Under IFRS, the Company is required to recognize the expense over the individual vesting periods for the graded vesting awards and estimate a forfeiture rate.

Under Canadian GAAP, the Company recognized stock-based compensation related to issue of stock options on a straight-line basis through the date of full vesting and did not incorporate a forfeiture multiple.

The following table summarizes the adjustments resulting from the recognition of the stock-based compensation in accordance with IFRS:

	January 1, 2010 $	**March 31, 2010 $**	**December 31, 2010 $**
Consolidated statements of financial position			
Contributed surplus	–	–	140,724
Deficit	–	–	(140,724)

	March 31, 2010 $	**December 31, 2010 $**
Consolidated statements of loss and comprehensive loss		
Stock-based compensation	–	140,724