Novus Energy Inc.
Financial Statements
December 31, 2011

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MANAGEMENT'S REPORT

To the Shareholders of Novus Energy Inc.

The accompanying financial statements of Novus Energy Inc. were prepared by and are the responsibility of management. They have been prepared in conformity with International Financial Reporting Standards.

Management maintains systems of internal accounting controls designed to provide reasonable assurance that all transactions are properly recorded in the Company's book of accounts, that procedures and policies are adhered to and that assets are safeguarded from unauthorized use.

Collins Barrow Calgary LLP, the external auditors of the Company, conducts an independent examination of the financial statements in accordance with Canadian generally accepted auditing standards in order to express their opinion on the financial statements. Their examination includes such tests and procedures considered necessary to provide reasonable assurance that the financial statements are presented fairly.

The Audit Committee of Novus Energy Inc., comprised of independent directors, has met with representatives of Collins Barrow Calgary LLP and management in order to determine if management has fulfilled its responsibilities in the preparation of the financial statements. On the recommendation of the Audit Committee, the financial statements have been approved by the Board of Directors.

(signed) *"Hugh G. Ross"*

Hugh G. Ross
President and Chief Executive Officer

(signed) *"Ketan Panchmatia"*

Ketan Panchmatia
VP Finance and Chief Financial Officer

Calgary, Alberta
April 11, 2012

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Novus Energy Inc.

We have audited the accompanying financial statements of Novus Energy Inc., which comprise the statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010 and the statements of loss and comprehensive loss, statements of changes in shareholders' equity and statements of cash flows for the years ended December 31, 2011 and December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Novus Energy Inc. as at December 31, 2011, December 31, 2010 and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

(signed) "*Collins Barrow Calgary LLP*"

Chartered Accountants

Calgary, Canada
April 11, 2012

($CAD, thousands)	Notes		**Dec 31, 2011**		Dec 31, 2010 (Note 19)		Jan 1, 2010 (Note 19)
ASSETS							
Current assets							
Cash and cash equivalents		**$**	**-**	$	5,063	$	22,143
Accounts receivable	15		**8,859**		5,134		2,512
Deposits and prepaid expenses			**410**		553		457
			9,269		10,750		25,112
Exploration and evaluation	7		**10,212**		11,779		4,900
Property and equipment	8		**137,415**		86,196		40,487
Deferred income taxes	13		**23,930**		16,663		4,223
		$	**180,826**	$	125,388	$	74,722
LIABILITIES AND SHAREHOLDERS' EQUITY							
Current liabilities							
Accounts payable and accrued liabilities	15	**$**	**7,942**	$	12,590	$	5,674
Bank debt	9		**49,584**		-		-
			57,526		12,590		5,674
Decommissioning liabilities	10		**11,655**		8,174		3,619
			69,181		20,764		9,293
Shareholders' Equity							
Equity instruments	11		**116,089**		112,642		158,947
Contributed surplus			**13,645**		8,813		3,600
Deficit	11(h)		**(18,089)**		(16,831)		(97,118)
			111,645		104,624		65,429
		$	**180,826**	$	125,388	$	74,722

Commitments – note 17
Subsequent events – note 11

See accompanying notes.

Approved on behalf of the Board:

(signed) *"Hugh G. Ross"*

Hugh G. Ross - Director

(signed) *"Larry C. Mah"*

Larry C. Mah - Director

($CAD, thousands, except per share amounts)	Notes		**Year ended Dec 31, 2011**		Year ended Dec 31, 2010
REVENUE					
Production revenue		**$**	**53,137**	$	20,209
Royalties			**(6,704)**		(3,518)
			46,433		16,691
EXPENSES					
Field operations			**10,573**		6,468
Transportation and marketing			**1,940**		650
General and administrative			**5,977**		5,228
Exploration and evaluation			**129**		1,643
Transaction costs	6		**-**		237
Stock-based compensation	11(g)		**4,872**		3,082
Depletion, depreciation and impairment	7,8		**28,251**		18,514
			51,742		35,822
Loss from operations			**(5,309)**		(19,131)
Other income (loss)					
Finance costs	12		**(1,303)**		(371)
Gain on sale of property			**983**		-
			(320)		(371)
Loss before income taxes			**(5,629)**		(19,502)
Income taxes					
Current	13		**754**		230
Deferred (recovery)	13		**(5,575)**		(12,498)
			(4,821)		(12,268)
Net loss and comprehensive loss for the period		**$**	**(808)**	$	(7,234)
Net loss and comprehensive loss per share					
Basic and diluted	11(j)	**$**	**-**	$	(0.05)

See accompanying notes.

($CAD, thousands)	Notes		**Year ended Dec 31, 2011**		Year ended Dec 31, 2010
Equity instruments	11				
Common Shares					
Balance – beginning of period		**$**	**108,122**	$	152,046
Issued for cash			**-**		25,003
Issued on exercise of stock options			**112**		-
Issued on exercise of warrants			**3,425**		1,341
Issued on business combination			**-**		16,986
Issued for farm-in agreement			**-**		286
Issued for asset purchases			**-**		1,683
Normal course issuer bids	11(i)		**(1,143)**		(79)
Issue costs			**-**		(1,590)
Recognition of tax effect on share issue costs			**1,692**		-
Reduction of stated capital	11(h)		**-**		(87,554)
Balance – end of period		**$**	**112,208**	$	108,122
Warrants	11(d)				
Balance – beginning of period		**$**	**4,520**	$	6,901
Exercised			**(639)**		(250)
Expired			**-**		(2,131)
Balance – end of period		**$**	**3,881**	$	4,520
Total equity instruments		**$**	**116,089**	$	112,642
Contributed surplus					
Stock-based compensation	11(g)				
Balance – beginning of period		**$**	**5,123**	$	2,041
Stock-based compensation expense			**4,872**		3,082
Exercise of stock options			**(40)**		-
Balance – end of period		**$**	**9,955**	$	5,123
Warrants					
Balance – beginning of period		**$**	**3,690**	$	1,559
Expiry of warrants			**-**		2,131
Balance – end of period		**$**	**3,690**	$	3,690
Total contributed surplus		**$**	**13,645**	$	8,813
Deficit					
Balance – beginning of period		**$**	**(16,831)**	$	(97,118)
Net loss for the period			**(808)**		(7,234)
Excess cost over stated value on normal course issuer bid purchases	11(i)		**(450)**		(33)
Reduction of stated capital	11(h)		**-**		87,554
Balance – end of period		**$**	**(18,089)**	$	(16,831)
Total shareholders' equity		**$**	**111,645**	$	104,624

See accompanying notes.

($CAD, thousands)	Notes	**Year ended Dec 31, 2011**	Year ended Dec 31, 2010
CASH PROVIDED BY (USED IN)			
OPERATING ACTIVITIES			
Net loss for the period		**$ (808)**	$ (7,234)
Non-cash and other items:			
Stock-based compensation		**4,872**	3,082
Depletion, depreciation and impairment		**28,251**	18,514
Gain on sale of property		**(983)**	-
Finance costs		**347**	248
Deferred income taxes recovery		**(5,575)**	(12,498)
Exploration expense		**-**	1,581
Decommissioning expenditures		**(676)**	(32)
Change in non-cash working capital	14	**(6,406)**	(756)
		19,022	2,905
FINANCING ACTIVITIES			
Proceeds from bank debt, net		**49,584**	-
Proceeds from issuance of equity instruments, net of issuance costs		**2,858**	24,504
Redemption of share capital		**(1,593)**	(112)
Change in non-cash working capital	14	**-**	(293)
		50,849	24,099
INVESTING ACTIVITIES			
Capital expenditures		**(76,360)**	(55,139)
Proceeds from sale of property		**3,250**	-
Cash paid on business combinations	6	**-**	(1,952)
Cash acquired on business combination	6	**-**	8,276
Change in non-cash working capital	14	**(1,824)**	4,731
		(74,934)	(44,084)
Decrease in cash and cash equivalents		**(5,063)**	(17,080)
Cash and cash equivalents, beginning of period		**5,063**	22,143
Cash and cash equivalents, end of period		**$ -**	$ 5,063

Non-cash transactions – notes 6, 11(b) and 11(c).
Supplemental cash flows disclosure – note 14.

See accompanying notes.

1. Description of business

Novus Energy Inc. ("Novus" or the "Company") is engaged in the acquisition, exploration, development and production of petroleum and natural gas reserves in Western Canada.

The principal and head office of the Company is located at Suite 5200, 150 - 6th Avenue S.W., Calgary, Alberta T2P 3Y7. The registered office of the Company is located at 3500, 855 – 2nd Street S.W., Calgary, Alberta T2P 4J8.

Novus' common shares are listed and posted for trading on the TSX Venture Exchange under the symbol NVS.

These financial statements were approved and authorized for issuance by the Board of Directors on April 11, 2012.

2. Basis of preparation

a) Statement of compliance

These financial statements present the Company's initial financial results and financial position as at and for the year ended December 31, 2011, including 2010 comparative periods under International Financial Reporting Standards ("IFRS"). As a result, they have been prepared in accordance with IFRS 1 "First-time Adoption of International Financial Reporting Standards" ("IFRS 1").

The preparation of these financial statements resulted in selected changes to the Company's accounting policies as compared to those disclosed in the Company's annual audited consolidated financial statements for the period ended December 31, 2010 issued under previous Canadian Generally Accepted Accounting Principles ("Previous GAAP"). A summary of significant changes to the Company's accounting policies is disclosed in note 19 along with reconciliations presenting the impact of the transition to IFRS for the comparative periods as at January 1, 2010, and as at and for the year ended December 31, 2010.

A summary of the Company's significant accounting policies under IFRS is presented in note 3. These policies have been retrospectively and consistently applied except where specific exemptions permitted an alternative treatment upon transition to IFRS in accordance with IFRS 1 as disclosed in note 19.

b) Basis of measurement

These financial statements have been prepared on the historical cost basis except for certain financial assets and financial liabilities, which are measured at fair value.

c) Functional and presentation currency

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

d) Function versus nature

Field operations in the statement of loss and comprehensive loss are presented as a combination of function and nature in conformity with industry practice. Depletion and depreciation are presented on a functional basis. Significant expenses, such as benefits and share-based compensation, are presented by their nature in note 18 to these financial statements.

e) Use of estimates and judgments

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

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

The following discussion sets forth management's most critical estimates and assumptions made in the preparation of these financial statements:

Depletion and valuation of property and equipment and exploration and evaluation assets

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

The Company's reserve estimates are evaluated annually pursuant to the parameters and guidelines stipulated under National Instrument 51-101 - Standards of Disclosure for Oil and Gas Activities. Changes in reserve estimates impact the financial results of the Company as reserves and estimated future development costs are used to calculate depletion and are also used in impairment calculations.

The valuation of exploration and evaluation ("E&E") assets is dependent upon the discovery of economically recoverable reserves which in turn is dependent on future petroleum and natural gas prices, future capital expenditures and environmental and regulatory restrictions.

The decision to transfer assets from E&E to property and equipment is based on the estimated proved and probable reserves which are in part used to determine a project's technical feasibility and commercial viability.

For impairment testing, property and equipment and E&E assets are aggregated into Cash Generating Units ("CGUs"), based on management's judgment in defining the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash flows from other assets or groups of assets. CGUs are determined by similar geological structure, shared infrastructure, geographical proximity, commodity type, similar exposure to market risks and materiality.

The discount rate used to calculate the net present value of cash flows for impairment testing is based on estimates of market conditions, recent asset sales and an approximate Company and industry peer group weighted average cost of capital. Changes in the general economic environment could result in significant changes to this estimate.

Decommissioning liabilities

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

Valuation of accounts receivable

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

Income taxes

The amounts recorded for deferred income taxes are based on estimates as to the timing of the reversal of temporary differences and tax rates currently substantively enacted. They are also based on estimates of the probability of the Company utilizing certain tax pools and assets which, in turn, is dependent on estimates of proved and probable reserves, production rates, future petroleum and natural gas prices and changes in legislation, tax rates and interpretations by taxation authorities. The availability of tax pools is subject to audit and interpretation by taxation authorities. To the extent assumptions regarding future probability change, there can be a change in the amounts recognized in respect of deferred tax assets as well as the amounts recognized in profit or loss in the period in which the change occurs.

Stock-based compensation

The amounts recorded relating to the fair value of stock options and performance warrants are based on estimates of the future volatility of the Company’s share price, expected forfeiture rates, expected lives of the underlying securities, expected dividends and other relevant assumptions. Performance warrants are also performance based and are management’s judgment as to whether or not the performance criteria will be met.

3. Significant accounting policies

a) Principles of consolidation

For the period January 1, 2010 through November 30, 2010, the financial statements include the accounts of the Company and its subsidiaries. Intercompany balances and transactions are eliminated on consolidation. On December 1, 2010, the Company amalgamated with its subsidiaries.

b) Business combinations

Business combinations are accounted for using the acquisition method. The acquired identifiable net assets are measured at their fair value at the date of acquisition. Any excess of the purchase price over the fair value of the net assets acquired is recognized as goodwill. Following initial recognition, goodwill is recognized at cost less any accumulated impairment losses. Any deficiency of the purchase price below the fair value of the net assets acquired is recorded as a gain in net earnings. Associated transaction costs are expensed when incurred.

c) Jointly controlled operations and jointly controlled assets

Some of the Company’s petroleum and natural gas activities involve jointly controlled assets and are conducted under joint operating agreements. The financial statements include the Company’s share of these jointly controlled assets, the relevant revenue and related costs.

d) Cash and cash equivalents

Cash and cash equivalents consist of amounts on deposit with banks, term deposits and other similar short-term highly liquid investments with maturities of 90 days or less at the date of issue.

e) Exploration and evaluation and property and equipment

(i) *Exploration and evaluation*

Pre-license expenditures incurred before the Company has obtained legal rights to explore an area are expensed.

E&E costs include the costs of acquiring licenses, exploratory drilling, geological and geophysical activities, acquisition of mineral and surface rights, decommissioning liabilities and technical studies. E&E costs are capitalized as E&E assets when the technical feasibility and commercial viability of extracting petroleum and natural gas reserves have yet to be determined. E&E assets are measured at cost and are not depleted or depreciated. E&E assets, net of any impairment loss, are transferred to property and equipment when proved and/or probable reserves are determined to exist.

The cost of undeveloped land that expires during the period is charged as additional depletion and depreciation expense.

E&E assets are assessed for impairment when facts and circumstances suggest that the carrying amount exceeds the recoverable amount. E&E assets are also assessed for impairment upon their reclassification to property and equipment. For the purposes of impairment testing, E&E assets are allocated to the appropriate CGUs.

Exchanges or swaps that involve only E&E assets are accounted for at cost. Any gains or losses from the divestiture of E&E assets are recognized in income.

(ii) *Property and equipment*

All costs directly associated with the development and production of petroleum and natural gas interests, including directly attributable overhead, administrative expenses and remuneration of production and supervisory personnel, and are capitalized on an area-by-area basis as property and equipment and are measured at cost less accumulated depletion and depreciation and net of impairment losses. These costs include expenditures for areas where technical feasibility and commercial viability has been determined. These costs include property acquisitions with proved and/or probable reserves, development drilling, completion, gathering and infrastructure, decommissioning liabilities and transfers of exploration and evaluation assets.

Costs of replacing parts of property and equipment are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in income as incurred. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in income as incurred.

Exchanges or swaps of property and equipment are measured at fair value unless the transaction lacks commercial substance or neither the fair value of the asset received nor the asset given up can be reliably estimated. The cost of the acquired asset is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. When fair value is not used, the cost of the acquired asset is measured at the carrying amount of the asset given up. Any gains or losses from the divestiture of property and equipment are recognized in income.

(iii) *Depletion and depreciation*

Petroleum and natural gas interests are depleted on an area-by-area basis using the unit-of-production method by reference to the ratio of production in the period to the related proved and probable reserves, taking into account estimated future development costs. Production and reserves of natural gas are converted to equivalent barrels of crude oil on the basis of six thousand cubic feet of gas to one barrel of oil. Changes in estimates used in prior periods, such as proved and probable reserves, that affect the unit-of-production calculations do not give rise to prior period adjustments and are dealt with on a prospective basis.

Processing facilities and well equipment are depreciated using the unit-of-production method along with the related reserves when the assets are designed to have a life similar to the reserves of the related wells with little to no residual value. Where facilities and equipment, including major components, have differing useful lives, they are depreciated separately on a straight-line basis over the estimated useful life of the facilities and equipment and other related components.

Other assets, referred to as other corporate assets, are depreciated on a straight line basis at rates approximating their estimated useful lives ranging from two to five years.

f) Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets, other than E&E assets and deferred income tax assets, are reviewed for indicators of impairment at each reporting date. If indicators of impairment exist, the recoverable amount of the asset is estimated. E&E assets are assessed for impairment when they are reclassified to property and equipment and if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For the purposes of assessing impairment, property and equipment are grouped into CGUs. Goodwill is allocated to the CGUs that are expected to benefit from the synergies of the business combination creating the goodwill. E&E assets are grouped and tested within the physical boundaries of a CGU for which the activity can be attributed, or separately where a CGU does not exist for the E&E activity.

The recoverable amount of a CGU is the greater of its fair value less costs to sell and its value in use. Fair value is determined to be the amount for which the asset could be sold in an arm's length transaction between knowledgeable and willing parties. Fair value less costs to sell may be determined using discounted future net cash flows of proved and probable reserves using forecast prices and costs and including future development costs. These cash flows are discounted at an appropriate discount rate which would be applied by a market participant. Value in use is determined by estimating the present value of the future net cash flows to be derived from the continued used of the cash-generating unit in its present form. These cash flows are discounted at a rate based on the time value of money and risks specific to the CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount. An impairment loss recognized in respect of a CGU is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis. Impairment losses are recognized in income.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized. A goodwill impairment loss is not reversed.

g) Provisions and contingent liabilities

Provisions are recognized by the Company when it has a legal or constructive obligation as a result of past events, it is probable that an outflow of economic resources will be required to settle the obligation and a reliable estimate can be made of the amount of that obligation. Provisions are stated at the present value of the expenditure expected to settle the obligation. The obligation is not recorded and is disclosed as a contingent liability if it is not probable that an outflow will be required, if the amount cannot be estimated reliably or if the existence of the outflow can only be confirmed by the occurrence of a future event.

(i) *Decommissioning liabilities*

Decommissioning liabilities are recognized for decommissioning and restoration obligations associated with the Company's E&E assets and property and equipment. The best estimate of the expenditure required to settle the present obligation at the balance sheet date is recorded on a discounted basis using the pre-tax risk-free interest rate. The future cash flow estimates are adjusted to reflect the risks specific to the liability. The value of the obligation is added to the carrying amount of the associated E&E or property and equipment asset and is depleted or amortized over the useful life of the asset. The provision is accreted over time through charges to Finance costs with actual expenditures charged against the accumulated obligation. Changes in the future cash flow estimates resulting from revisions to the estimated timing or amount of undiscounted cash flows or the discount rate are recognized as changes in the decommissioning provision and related asset. Actual decommissioning expenditures up to the recorded liability at the time are charged against the provision as the costs are incurred. Any differences between the recorded provision and the actual costs incurred is recorded as a gain or loss on asset derecognition.

The Company recognizes the deferred tax asset regarding the temporary difference on the decommissioning liability and the corresponding deferred tax liability regarding the temporary difference on a decommissioning asset.

h) Flow-through shares

From time to time, the Company finances a portion of its exploration and development activities through the issuance of flow-through shares. Under the terms of the flow-through share agreements, the tax attributes of the related expenditures are renounced to subscribers. The stated capital recorded on flow-through share issuances is equal to the estimated fair value of the common shares, exclusive of the flow-through component, on the date of issue. The difference between the gross proceeds received and the stated capital recorded is a liability ("flow-through share premium") until qualifying expenditures are incurred. When the expenditures are incurred the resulting deferred tax liability is recorded through income tax expense less the reversal of the flow-through share premium previously reported.

i) Income taxes

Income tax expense is comprised of current and deferred income taxes. Income tax expense is recognized in the statement of income except to the extent that it relates to items recognized directly in equity or other comprehensive income.

Current income tax is the expected tax payable on the taxable income for the year and any adjustment to tax payable in respect of previous years.

Deferred income tax is recognized by providing for temporary differences between the carrying amounts of assets and liabilities and the amounts used for taxation purposes. Deferred income tax liabilities are generally recognized for all taxable temporary differences. Deferred income tax assets

are generally recognized for all deductible temporary differences and carry-forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profits will be available against which those deductible temporary differences and carry-forward of unused tax losses and unused tax credits can be utilized.

Deferred income tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination, when, at the time of the transaction, the initial recognition affects neither the accounting nor taxable profit or loss. In addition, deferred income tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

Deferred income 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 income tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same taxation 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.

j) Leases

Leases that transfer substantially all of the benefits and risks of ownership to the Company are accounted for at the commencement of the lease term as finance leases and recorded as property and equipment at the fair value of the leased asset, or, if lower, at the present value of the minimum lease payments, together with an offsetting liability. Finance charges are allocated to each period so as to achieve a constant rate of interest on the remaining balance of the liability and are charged directly against income. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term. All other leases are accounted for as operating leases and the lease costs are expensed as incurred.

k) Revenue

Revenue from the production of petroleum and natural gas is recognized when title passes from the Company to the customer. Revenue represents the Company's share, and is shown separately from the royalty obligations to governments and other mineral interest owners. Transportation and marketing costs are reported as a separate expense and are not netted against revenue.

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

l) Finance income and costs

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

Finance costs comprise interest expense on borrowings, costs relating to the Company’s credit facilities, accretion of the discount on decommissioning liabilities and impairment losses recognized on financial assets.

Borrowing costs incurred for the acquisition or construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the assets for their intended use or sale. A qualifying asset is one that takes a substantial period of time to get ready for use or sale.

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

All other borrowing costs are recognized in the statement of income in the period in which they are incurred using the effective interest method.

m) Stock-based compensation

The Company has stock options and performance warrants as described in notes 11(e) and 11(f). Stock options granted to directors, officers, employees and consultants of the Company are accounted for using the fair value method under which stock-based compensation expense is recorded based on the estimated fair value of the options at the grant date using the Black-Scholes option pricing model.

Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Stock-based compensation costs are expensed over the vesting period with a corresponding increase in contributed surplus. When stock options are exercised, the cash proceeds along with the amount previously recorded as contributed surplus are recorded as share capital. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest.

Stock-based compensation expense for performance warrants is calculated using the Black-Scholes option pricing model and recorded based on the probable outcome of the vesting requirements, with an expense being recognized over the vesting terms of the performance warrants if those terms are probable to be realized. The estimate of this expense is adjusted for subsequent changes in the expected or actual outcome of the vesting requirements and any changes to this expense are recorded in the period of change. When performance warrants are exercised, the cash proceeds along with the amount previously recorded as contributed surplus are recorded as share capital.

n) Net income (loss) per share

Net income (loss) per share is calculated by dividing net and comprehensive income or loss by the weighted average number of common shares outstanding during the period. The Company computes the dilutive impact of common shares assuming the proceeds received from the pro forma exercise of in-the-money warrants, stock options and performance warrants plus the unamortized portion of stock-based compensation costs are used to purchase common shares at average market prices.

o) Financial instruments

(i) *Classification and measurement*

Financial instruments are measured at fair value on initial recognition of the instrument. Measurement in subsequent periods depends on whether the financial instrument has been classified as “fair value through profit or loss”, “loans and receivables”, “available-for-sale”, “held-to-maturity”, or “financial liabilities measured at amortized cost” as defined by IAS 39, “Financial Instruments: Recognition and Measurement” (“IAS 39”).

Financial assets and financial liabilities at “fair value through profit or loss” are either classified as “held for trading” or “designated at fair value through profit or loss” and are measured at fair value with changes in fair value recognized in the income statement. Transaction costs are expensed when incurred. The Company has designated cash and cash equivalents as “held for trading”.

Financial assets and financial liabilities classified as “loans and receivables”, “held-to-maturity”, or “financial liabilities measured at amortized cost” are measured at amortized cost using the effective interest method of amortization. “Loans and receivables” are non-derivative financial assets with fixed or determinable payments that are not quoted in an

active market. "Held-to-maturity" financial assets are non-derivative investments that an entity has the positive intention and ability to hold to maturity. "Financial liabilities measured at amortized cost" are those financial liabilities that are not designated as "fair value through the statement of income" and that are not derivatives. The Company has designated accounts receivable and deposits as "loans and receivables" and bank debt and accounts payable and accrued liabilities as "financial liabilities measured at amortized cost". Financial assets classified as "available-for-sale" are measured at fair value, with changes in fair value recognized in other comprehensive income. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

(ii) *Derivative financial instruments*

The Company may enter into certain financial derivative contracts in order to manage the exposure to market risks from fluctuations in commodity prices. The Company's policy is not to utilize derivative financial instruments for speculative purposes. All financial derivative contracts are classified as "fair value through profit or loss".

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through the statement of income. Changes in the fair value of separable embedded derivatives are recognized immediately in the statement of income. The Company has not identified any embedded derivatives.

(iii) *Equity instruments*

The Company's common shares and warrants are classified as equity instruments. Incremental costs directly attributable to the issue of common shares, warrants, stock options and performance warrants are recognized as a deduction from equity, net of any tax effects.

(iv) *Impairment*

The Company assesses at each balance sheet date whether there is objective evidence that financial assets, other than those designated as "fair value through profit or loss" are impaired. When impairment has occurred, the cumulative loss is recognized in the statement of income. For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to the statement of income in the period. Impairment losses may be reversed in subsequent periods.

4. New accounting policies

Current year accounting change

December 31, 2011 is the Company's first year reporting its financial statements under IFRS. Accounting standards issued to date effective for periods beginning on or after January 1, 2011 have been adopted as part of the transition to IFRS.

Future accounting changes

a) Financial Instruments

The International Accounting Standards Board ("IASB") intends to replace IAS 39 with IFRS 9, "Financial Instruments" ("IFRS 9"). IFRS 9 will be published in three phases, of which the first phase has been published.

For financial assets, IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, and replaces the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used. For financial liabilities, the approach to the fair value option may require different accounting for changes to the fair value of a financial liability as a result of changes to an entity's own credit risk.

IFRS 9 is currently effective for annual periods beginning on or after January 1, 2015.

b) Fair Value Measurements

In May 2011, the IASB issued IFRS 13, "Fair Value Measurement" which provides a consistent and less complex definition of fair value, establishes a single source of guidance for determining fair value and introduces consistent requirements for disclosures related to fair value measurement. Prospective application of this standard is effective for fiscal periods beginning on or after January 1, 2013, with early adoption permitted.

c) Reporting Entity

In May 2011, The IASB issued IFRS 10, "Consolidated Financial Statements" ("IFRS 10"), IFRS 11, "Joint Arrangements" ("IFRS 11"), IFRS 12, "Disclosures of Interest in Other Entities" ("IFRS 12") and amendments to both IAS 27, "Consolidated and Separate Financial Statements" and IAS 28 "Investments in Associates".

IFRS 10 creates a single consolidation model by revising the definition of control in order to apply the same control criteria to all types of entities, including joint arrangements, associates and special purpose vehicles. IFRS 11 establishes a principle-based approach to the accounting for joint arrangement by focusing on the rights and obligations of the arrangement and limits the application of proportionate consolidation to arrangements that meet the definition of a joint operation. IFRS 12 is a comprehensive disclosure standard for all forms of interests in other entities, including joint arrangements, associates and special purpose vehicles.

Retrospective application of these standards with relief for certain transactions is effective for fiscal years beginning on or after January 1, 2013, with earlier adoption permitted if all of the standards are collectively adopted.

The Company is currently assessing the impact of these standards.

5. Determination of Fair Values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

a) Property and equipment and E&E assets

The fair value of property and equipment recognized in an acquisition is based on market values. The market value of property and equipment is the estimated amount for which such property and equipment could be exchanged for on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of oil and natural gas interests (included in property and equipment) and E&E assets is estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on externally prepared reserve reports. The risk-adjusted discount rate is specific to the asset with reference to general market conditions.

b) Financial instruments

The fair value of cash and cash equivalents, accounts receivable, bank debt and accounts payable are estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At December 31, 2011, December 31, 2010,and January 1, 2010, the fair value of these balances, excluding bank debt, approximated their carrying value due to their short term to maturity. The fair value of bank debt approximated carrying value due to it bearing a floating rate of interest.

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

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

c) Stock options and performance warrants

The fair value of stock options and performance warrants are measured using a Black-Scholes option pricing model. Measurement inputs include share price, exercise price, expected volatility (based on historic volatility), weighted average expected life (based on historical experience and general option/performance warrant holder behavior), expected dividends, and the risk-free interest rate (based on government bonds).

6. Business combinations

PrivateCo.

On March 1, 2010, the Company, through its newly formed wholly-owned subsidiary Novus Energy (Acquisition) Inc., acquired all of the issued and outstanding common shares of a private oil & gas company ("PrivateCo"), which had approximately 214 barrels of oil equivalent per day of production, 25.5 net sections of undeveloped lands and estimated working capital of approximately $8 million at the time of acquisition. As consideration, the Company issued 18,666,211 common shares at an ascribed value of $0.91 per common share. The ascribed value was equal to the closing price of the Company's shares on the TSX Venture Exchange on March 1, 2010. The acquisition was accounted for using the acquisition method of accounting whereby the assets acquired and the liabilities assumed are recorded at fair values. The purchase price allocation is as follows:

Consideration:		
Common shares issued	$	16,986
Fair value of assets and liabilities acquired:		
Property and equipment	$	8,134
Exploration and evaluation		1,336
Cash		8,276
Working capital deficiency		(294)
Deferred income tax asset		700
Decommissioning liabilities		(1,166)
	$	16,986

The attributed value of the common shares has been excluded from the statement of cash flows as a non-cash transaction.

The accounts of the Company include the results of PrivateCo from March 1, 2010 through December 1, 2010, at which time it was amalgamated with the Company.

As a result of the acquisition, the Company evaluated PrivateCo's estimated future cash flows based on proved producing reserves and determined that the Company was probable to recognize deferred income tax assets on certain tax pools of PrivateCo.

Transaction costs of $70 thousand were primarily comprised of legal fees and are recorded on the statement of loss and comprehensive loss as Transaction costs.

PrivateCo incurred $1 million in legal, advisory and severance costs with respect to the sale of the company, all of which were paid by PrivateCo at closing, except for $228 thousand which is included in the working capital deficiency acquired.

The fair value of accounts receivable acquired was $159 thousand and represented the contractual amounts receivable and are considered to be collectible. Accounts receivable were comprised of the following:

Sales revenue receivable	$	36
Joint interest receivables		28
Accrued and other receivables		95
	$	159

PrivateCo's revenue and net loss since the closing date, March 1, 2010, and pro forma consolidated revenue and net loss giving effect to the acquisition of PrivateCo as if it had occurred on January 1, 2010, are not practicable to determine. The operations of PrivateCo are not managed as a separate business unit or division of Novus and general business overhead and other costs of Novus are not allocated or identified on a specific entity basis. Any such allocation would be arbitrary and would require significant assumptions and estimates about what management's intent would have been during those periods.

Coyote Resources Ltd.

On March 4, 2010, the Company, through its wholly-owned subsidiary Novus Energy (Acquisition) Inc., acquired all of the issued and outstanding common shares of Coyote Resources Ltd. ("Coyote"), which owned two sections of prospective land in the Dodsland area of Saskatchewan. As consideration, the Company paid $702 thousand and assumed $222 thousand of debt. The acquisition was accounted for using the acquisition method of accounting whereby the assets acquired and the liabilities assumed are recorded at fair values. The purchase price allocation is as follows:

Consideration:		
Cash	$	702
Fair value of assets and liabilities acquired:		
Property and equipment	$	1,410
Working capital deficiency		(222)
Deferred income tax liability		(312)
Decommissioning liabilities		(174)
	$	702

The accounts of the Company include the results of Coyote from March 4, 2010 through December 1, 2010, at which time it was amalgamated with the Company.

As a result of the acquisition, the Company determined that it was probable to recognize deferred income tax assets on certain tax pools of the Company to offset the deferred income tax liability associated with the acquisition. As a result, $312 thousand has been recorded as a deferred income tax recovery during the year ended December 31, 2010.

Transaction costs of $64 thousand were primarily comprised of legal fees and are recorded on the statement of loss and comprehensive loss as Transaction costs.

The fair value of accounts receivable acquired are $34 thousand which represents the contractual amounts receivable and are considered to be collectible. Accounts receivable were comprised of the following:

Sales revenue receivable	$	33
Accrued and other receivables		1
	$	34

Coyote's revenue and net loss since the closing date, March 4, 2010, and pro forma consolidated revenue and net loss giving effect to the acquisition of Coyote as if it had occurred on January 1, 2010, are not practicable to determine. The operations of Coyote are not managed as a separate business unit or division of Novus and general business overhead and other costs of Novus are not allocated or identified on a specific entity basis. Any such allocation would be arbitrary and would require significant assumptions and estimates about what management's intent would have been during those periods.

Titan Oilfield Services Inc.

On April 7, 2010, the Company, through its wholly-owned subsidiary Novus Energy (Acquisition) Inc., acquired all of the issued and outstanding common shares of Titan Oilfield Services Inc. ("Titan"), which owned 2.3 sections of prospective land in the Dodsland area of Saskatchewan. As consideration, the Company paid $1.25 million. The acquisition was accounted for using the acquisition method of accounting whereby the assets acquired and the liabilities assumed are recorded at fair values. The purchase price allocation is as follows:

Consideration:		
Cash	$	1,250
Fair value of assets and liabilities acquired:		
Property and equipment	$	1,906
Deferred income tax liability		(446)
Decommissioning liabilities		(210)
	$	1,250

The accounts of the Company include the results of Titan from April 7, 2010 through December 1, 2010, at which time it was amalgamated with the Company.

As a result of the acquisition, the Company determined that it was probable to recognize deferred income tax assets on certain tax pools of the Company to offset the deferred income tax liability associated with the acquisition. As a result, $446 thousand has been recorded as a deferred income tax recovery during the year ended December 31, 2010.

Transaction costs of $103 thousand were primarily comprised of legal and consulting fees and are recorded on the statement of loss and comprehensive loss as Transaction costs.

The fair value of accounts receivable acquired was nil.

Titan's revenue and net loss since the closing date, April 7, 2010, and pro forma consolidated revenue and net loss giving effect to the acquisition of Titan as if it had occurred on January 1, 2010, are not practicable to determine. The operations of Titan are not managed as a separate business unit or division of Novus and general business overhead and other costs of Novus are not allocated or identified on a specific entity basis. Any such allocation would be arbitrary and would require significant assumptions and estimates about what management's intent would have been during those periods.

7. Exploration and evaluation

Cost		**Dec 31, 2011**		Dec 31, 2010
Balance, beginning of period	**$**	**11,779**	$	4,900
Business combinations		**-**		1,336
Additions		**2,991**		9,123
Dispositions		**(57)**		-
Transfers to property and equipment		**(2,777)**		(1,999)
Surrendered and expired leases		**(1,724)**		-
Transfers to exploration expense		**-**		(1,581)
Balance, end of period	**$**	**10,212**	$	11,779

E&E assets consist of the Company's unproved properties and capitalized exploratory drilling and completion costs which are pending the determination of commercial viability. The Company assesses the recoverability of these assets both before and at the time of transfer to property and equipment within the Company's CGUs.

8. Property and equipment

Petroleum and natural gas properties		**Dec 31, 2011**		Dec 31, 2010
Balance, beginning of period	**$**	**127,870**	$	63,828
Additions		**77,189**		50,593
Dispositions		**(2,413)**		-
Transfers from exploration and evaluation		**2,777**		1,999
Business combinations (note 6)		**-**		11,450
Balance, end of period	**$**	**205,423**	$	127,870

Other corporate assets		**Dec 31, 2011**		Dec 31, 2010
Balance, beginning of period	**$**	**552**	$	371
Additions		**193**		181
Balance, end of period	**$**	**745**	$	552

Accumulated depletion, depreciation and impairment		**Dec 31, 2011**		Dec 31, 2010
Balance, beginning of period	**$**	**42,226**	$	23,712
Depletion, depreciation and impairment expense		**26,527**		18,514
Balance, end of period	**$**	**68,753**	$	42,226

Carrying amounts		**Dec 31, 2011**		Dec 31, 2010
Petroleum and natural gas properties	**$**	**137,149**	$	85,963
Other corporate assets		**266**		233
	$	**137,415**	$	86,196

The depletion, depreciation and impairment of property and equipment, and any reversal thereof, are recognized in depletion, depreciation and impairment expense in the statement of loss and comprehensive loss.

Future development costs of $183.8 million (December 31, 2010 – $135.4 million) were included in depletable costs as these costs are necessary to bring the proved and probable reserves into production.

General and administrative expenditures of $457 thousand for the year ended December 31, 2011 (2010 - $430 thousand) were capitalized as they were directly attributable to drilling, completion and facility construction activities.

Petroleum and natural gas properties have been reduced by Alberta drilling royalty credits in the amount of $nil (2010 - $587 thousand).

During the year ended December 31, 2011, the Company recognized impairments of $9.9 million (2010 - $7.6 million). The total impairments recognized were recorded as additional depletion, depreciation and impairment expense. The impairments were recognized due to a combination of lower natural gas prices during the periods and a revision of estimated reserves on certain properties, which resulted in the fair value less costs to sell of the applicable CGUs being less than their carrying amounts. The fair values of the CGUs were calculated using before tax future net cash flows based on proved and probable reserves and discounted at a rate of 10%. In determining the discount rate, the Company considered acquisition metrics of recent transactions completed on assets similar to those in the specific CGU.

Cash Generating Unit	Year Ended Dec 31, 2011	Year ended Dec 31,2010
Central Alberta	$ 112	$ 1,691
North Central Alberta	281	2,267
Northwest Alberta	8,107	3,398
Southeast Saskatchewan	1,425	253
	$ 9,925	$ 7,609

The following table outlines the benchmark reference prices used in the December 31, 2011 impairment calculations:

	Edmonton Light Crude $Cdn/BBL	Hardisty Bow River Crude $Cdn/BBL	AECO Natural Gas $Cdn/MMBTU
2012	96.87	82.34	3.16
2013	93.75	79.69	3.78
2014	90.89	77.25	4.13
2015	96.23	81.80	5.53
2016	98.16	83.44	5.65
2017	100.12	85.10	5.77
2018	102.12	86.81	5.89
2019	104.17	88.54	6.01
2020	106.25	90.31	6.14
2021	108.38	92.12	6.27
Thereafter		Escalation rate of 2.0% per year	

The following table outlines the benchmark reference prices used in the December 31, 2010 impairment calculations:

	Edmonton Light Crude $Cdn/BBL	Hardisty Bow River Crude $Cdn/BBL	AECO Natural Gas $Cdn/MMBTU
2011	93.08	81.91	4.04
2012	93.85	82.59	4.66
2013	93.43	81.28	4.99
2014	93.54	80.44	6.58
2015	94.95	81.66	6.69
2016	96.38	82.99	6.80
2017	97.84	84.14	6.91
2018	99.32	85.41	7.02
2019	100.81	86.70	7.14
2020	102.34	88.01	7.26
Thereafter		Escalation rate of 1.5% per year	

Adjustments were made to the benchmark prices, for the purposes of the impairment calculations, to reflect varied delivery points and quality differentials in the products delivered.

9. Bank debt

As at December 31, 2011, the Company had drawn $49.6 million against its $60 million revolving operating demand line. The loan is available to the Company by way of prime rate based loans, bankers' acceptances and letters of credit/guarantee with interest paid monthly. Interest on the revolving operating demand loan is charged at prime plus 0.75%. The credit facility is secured by a general assignment of book debts and a $75 million debenture with a floating charge over all assets of the Company with a negative

pledge and undertaking to provide fixed charges upon request. The credit facility is subject to a financial covenant that requires the Company to maintain a working capital ratio of at least 1:1, but for the purposes of the covenant, outstanding bank debt and the fair value of any commodity contracts are excluded and the unused portion of the revolving operating demand loan may be added to current assets. As at December 31, 2011, this ratio was 2.5:1.

The effective interest rate for the credit facilities, when drawn, was approximately 3.8% for the year ended December 31, 2011 (2010 – 4.0%).

The credit facility is subject to periodic review by the bank, with the next review scheduled on or before May 1, 2012.

10. Decommissioning liabilities

The Company's decommissioning liabilities are based on the Company's net ownership in wells and facilities along with management's estimate of the timing and expected future costs associated with the plugging and abandonment of wells, facilities dismantlement and site reclamation.

The following table reconciles the changes in the Company's decommissioning liabilities:

		Dec 31, 2011		Dec 31, 2010
Decommissioning liabilities, beginning of period	**$**	**8,174**	$	3,619
Liabilities incurred		**2,610**		2,505
Liabilities acquired on property acquisitions		**463**		284
Liabilities acquired on business combinations (note 6)		**-**		1,550
Liabilities settled		**(676)**		(32)
Liabilities extinguished on property dispositions		**(203)**		-
Effect of change in rate and estimates		**940**		-
Accretion expense		**347**		248
Decommissioning liabilities, end of period	**$**	**11,655**	$	8,174

The inflated, undiscounted amount of the future cash flows required to settle the obligations is estimated to be $15.9 million (December 31, 2010 - $13.1 million). The obligations were calculated using a risk-free interest rate of 2.5% (2010 – 4%) and an inflation rate of 2% (2010 – 2%). It is expected that the obligations will be funded from general Company resources at the time the costs are incurred with the majority of costs expected to occur between 2015 and 2031.

11. Equity instruments

Authorized

Unlimited number of common shares

Unlimited number of non-voting preferred shares, issuable in series. The Board of Directors may fix from time to time the number of shares that comprise a series and the rights, privileges, restrictions and conditions for the series. Preferred shares of any series may be convertible into or exchangeable for common shares.

Issued

Common Shares	Shares		Stated Value
Balance - December 31, 2009	122,104	$	152,046
Issued for cash (note 11(a))	22,730		25,003
Issued on business combination (note 6)	18,666		16,986
Issued for farm-in agreement (note 11(b))	325		286
Issued for asset purchase agreements (note 11(c))	1,807		1,683
Issued on exercise of warrants	1,454		1,341
Normal course issuer bid (note 11(i))	(125)		(79)
Reduction of stated capital (note 11(h))	-		(87,554)
Issue costs	-		(1,590)
Balance – December 31, 2010	166,961	$	108,122
Issued on exercise of stock options	73		112
Issued on exercise of warrants	3,714		3,425
Normal course issuer bid (note 11(i))	(1,758)		(1,143)
Recognition of tax effect on share issue costs (note 13)	-		1,692
Balance – December 31, 2011	**168,990**	**$**	**112,208**

Warrants	Number of Warrants and Underlying Shares		Stated Value
Balance - December 31, 2009	30,071	$	6,901
Exercised	(1,454)		(250)
Expired	(2,341)		(2,131)
Balance – December 31, 2010	26,276		4,520
Exercised	(3,714)		(639)
Balance – December 31, 2011	**22,562**	**$**	**3,881**
Total Equity Instruments		**$**	**116,089**

From January 1, 2012 to March 31, 2012, 22,176,730 common shares were issued for proceeds of $16.6 million on the exercise of 22,176,730 share purchase warrants (note 11(d)).

a) Financing

On May 18, 2010, the Company completed an equity offering whereby the Company issued 22,730,000 common shares at a price of $1.10 per share for aggregate gross proceeds of $25 million ($23.5 million net of share issuance costs).

b) Farm-in agreement

On February 9, 2010, the Company issued 325,000 common shares at an ascribed value of $0.88 per common share in exchange for the right to farm-in on certain lands in the greater Dodsland area of Saskatchewan. The ascribed value was equal to the closing price of the Company's common shares on the TSX Venture Exchange on February 9, 2010. The value of common shares of $286 thousand issued as consideration for the farm-in agreement has been excluded from the statement of cash flows as a non-cash transaction.

c) Asset purchase agreements

On December 30, 2010, the Company made a cash payment of $50 thousand and issued 500,000 common shares at an ascribed value of $1.12 per common share in exchange for certain E&E assets in the greater Dodsland area of Saskatchewan. The ascribed value was equal to the closing price of the Company's common shares on the TSX Venture Exchange on December 30, 2010. The value of

common shares of $560 thousand issued as partial consideration for the assets has been excluded from the statement of cash flows as a non-cash transaction.

On December 30, 2010, the Company issued 122,730 common shares at an ascribed value of $1.12 per common share in exchange for certain E&E assets in the greater Dodsland area of Saskatchewan. The ascribed value was equal to the closing price of the Company's common shares on the TSX Venture Exchange on December 30, 2010. The value of common shares of $137 thousand issued as consideration for the assets has been excluded from the statement of cash flows as a non-cash transaction.

On July 8, 2010, the Company issued 794,119 common shares at an ascribed value of $0.80 per common share in exchange for certain E&E assets in the greater Dodsland area of Saskatchewan. The ascribed value was equal to the closing price of the Company's common shares on the TSX Venture Exchange on July 8, 2010. The value of common shares of $635 thousand issued as consideration for the assets has been excluded from the statement of cash flows as a non-cash transaction.

On May 27, 2010, the Company made a cash payment of $1.3 million and issued 390,000 common shares at an ascribed value of $0.90 per share in exchange for interests in certain E&E assets in the greater Dodsland area of Saskatchewan. The ascribed value was equal to the closing price of the Company's common shares on the TSX Venture Exchange on May 27, 2010. The value of common shares of $351 thousand issued as partial consideration for the assets has been excluded from the statement of cash flows as a non-cash transaction.

d) Warrants

The following table summarizes the warrants outstanding on December 31, 2011:

Date of Expiry	Exercise Price	Number of warrants
Mar 31, 2012	$ 0.75	22,562

Subsequent to December 31, 2011, 22,176,730 warrants were exercised, and 384,870 warrants expired unexercised.

e) Stock options

The Company has a floating stock option plan by which the Company may grant options to directors, officers, employees and consultants for up to 10% of common shares outstanding. Each option permits the holder to purchase one common share of the Company at the stated exercise price. Options vest ¼ every six months, beginning six months from the date of grant.

The following tables summarize the status of the Company's stock option plan and the activity during the years ended December 31, 2011 and December 31, 2010:

	Dec 31, 2011		Dec 31, 2010	
	Number of Options	**Weighted Average Exercise Price**	**Number of Options**	**Weighted Average Exercise Price**
Balance – beginning of period	15,375	$ 0.84	3,415	$ 0.78
Granted	1,160	0.84	12,210	0.87
Exercised	(73)	0.99	-	-
Expired/forfeited	(179)	0.95	(250)	1.50
Balance – end of period	16,283	$ 0.84	15,375	$ 0.84
Exercisable – end of period	10,293	$ 0.83	2,886	$ 0.86

Date of Grant	Number Outstanding at Dec 31, 2011	Exercise Price	Weighted Average Remaining Contractual Life (Years)	Date of Expiry	Number Exercisable at Dec 31, 2011
Feb 12, 2007	**30**	$ 3.00	0.12	Feb 12, 2012	**30**
Jul 16, 2008	**247**	2.00	1.54	Jul 16, 2013	**247**
Sep 4, 2009	**3,000**	0.60	2.68	Sep 4, 2014	**3,000**
Feb 9, 2010	**3,831**	0.88	3.11	Feb 9, 2015	**2,888**
Jun 17, 2010	**330**	1.10	3.46	Jun 17, 2015	**256**
Oct 1, 2010	**550**	0.90	3.75	Oct 1,2015	**275**
Nov 1, 2010	**6,910**	0.85	3.84	Nov 1, 2015	**3,470**
Nov 23, 2010	**225**	0.90	3.90	Nov 23, 2015	**112**
Feb 10, 2011	**60**	1.23	4.12	Feb 10, 2016	**15**
Dec 8, 2011	**1,100**	0.82	4.94	Dec 8, 2016	**-**
	16,283	**$ 0.84**	**3.48**		**10,293**

f) Performance warrants

The following tables summarize the status of the Company's performance warrants and the activity during the years ended December 31, 2011 and December 31, 2010:

	Dec 31, 2011		Dec 31, 2010	
	Number of Performance Warrants	**Exercise Price**	**Number of Performance Warrants**	**Exercise Price**
Balance – beginning of period	4,200	$ 0.56	4,200	$ 0.56
Granted	-	-	-	-
Exercised	-	-	-	-
Balance – end of period	4,200	$ 0.56	4,200	$ 0.56
Exercisable – end of period	4,200	$ 0.56	-	$ -

Performance warrants were granted to certain officers and employees on September 4, 2009 for a term of three years, with each performance warrant being exercisable into one common share at a price of $0.56 per performance warrant upon the Company achieving certain targets for growth in net asset value per fully diluted share ("NAV per share") as defined in the performance warrant certificates. With reference to the initial NAV per share calculated as $1.10, ⅓ of the performance warrants shall vest upon an increase in NAV per share of 25%, ⅔ of the performance warrants shall vest upon an increase of NAV per share of 33 ⅓%, and all of the performance warrants shall vest upon an increase in NAV per share of 50%. The performance warrants also vest upon a change in control of the Company. As at December 31, 2011, the NAV growth targets had been met and all of the performance warrants vested. No further performance warrants will be issued.

The performance warrants were valued at $0.33 per warrant using the Black-Scholes option pricing model at the date of grant.

g) Stock-based compensation expense

The fair value of stock options granted during years ended December 31, 2011 and December 31, 2010 were estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	Year ended Dec 31, 2011	Year ended Dec 31, 2010
Risk-free interest rate	**1.4%**	2.0%
Expected volatility	**83%**	84%
Expected life	**4.0 years**	4.4 years
Expected dividend yield	**0%**	0%
Estimated forfeiture rate	**2.4%**	2.4%
Fair value per option	**$0.51**	$0.55

Stock-based compensation costs of $4.9 million for the year ended December 31, 2011 (2010 - $3.1 million) have been expensed and have resulted in corresponding increases in contributed surplus in the respective periods. Stock-based compensation consists of $3.5 million for stock option (2010 - $3.1 million) and $1.4 million for the performance warrants (2010 - $nil).

h) Reduction of stated capital

On June 3, 2010, the shareholders of the Company approved an $87.6 million reduction to the Company's stated capital account. This reduction was offset by a corresponding elimination of the Company's December 31, 2009 deficit balance.

i) Normal course issuer bids

The Company instituted a normal course issuer bid for the period September 15, 2011 to September 14, 2012, pursuant to which a maximum of 5,000,000 common shares may be acquired during the period. The Company also had a normal course issuer bid for the period September 13, 2010 to September 12, 2011, pursuant to which a maximum of 5,000,000 commons shares could be acquired during the period.

For the year ended December 31, 2011, the Company acquired and cancelled 1,757,500 (2010 – 125,000) common shares at an average cost of $0.91 (2010 - $0.90) per share. The excess cost over stated value of $450 thousand (2010 - $33 thousand) was charged to the deficit account.

At December 31, 2011, a maximum of 4,570,000 common shares may be acquired by the Company under the present normal course issuer bid.

j) Per share amounts

Net loss per share is calculated using the weighted average number of common shares outstanding of 169,238,483 for the fiscal year ended December 31, 2011 (2010 – 153,846,883). All outstanding options, performance warrants and warrants were excluded from the dilution calculation as they were anti-dilutive for all periods.

12. Finance costs

		Year ended Dec 31, 2011		Year ended Dec 31, 2010
Interest and borrowing costs	**$**	**956**	$	123
Accretion of decommissioning liabilities		**347**		248
	$	**1,303**	$	371

13. Income taxes

a) Current income tax and deferred income tax recovery

The provision for income taxes in the financial statements differs from the result which would have been obtained by applying the combined federal and provincial corporate income tax rate to the loss before income taxes. The difference results from the following items:

		Year ended Dec 31, 2011		Year ended Dec 31, 2010
Loss before income taxes	**$**	**(5,629)**	$	(19,502)
Statutory tax rate		**27.50%**		28.13%
Expected tax recovery	**$**	**(1,548)**	$	(5,486)
Change in enacted tax rates		**383**		167
Non-deductible stock-based compensation expense		**1,340**		867
Non-deductible expenses		**13**		144
Capital taxes deducted from income tax		**(207)**		(66)
Change in valuation allowance		**(5,556)**		(8,124)
Deferred income tax (recovery)		**(5,575)**		(12,498)
Current income tax expense		**754**		230
Income tax expense (recovery)	**$**	**(4,821)**	$	(12,268)

The decrease in the statutory rate from 2010 to 2011 was due to a reduction in the 2011 federal corporate tax rate as part of a series of corporate rate reductions previously enacted by the Canadian federal government. The Alberta provincial tax rate was unchanged between 2010 and 2011 at 10%. The Saskatchewan provincial tax rate was unchanged between 2010 and 2011 at 12%.

The current income tax expense of $754 thousand for the year ended December 31, 2011 (2010 - $230 thousand) relate to the Saskatchewan Resource Surcharge on the Company's Saskatchewan production revenue.

b) Deferred income tax asset

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts for income tax purposes. The Company has recognized a net deferred tax asset based on the independently evaluated reserve report as future cash flows are expected to be sufficient to realize the deferred tax asset. The components of the deferred income tax asset and associated movement are as follows:

	Dec 31, 2010	**Recognized in Profit and Loss**	**Acquired in Business Combinations**	**Recognized in Equity**	**Dec 31, 2011**
Property and equipment and E&E assets	$ 5,212	$ (3,857)	$ -	$ -	$ 1,355
Decommissioning liabilities	2,160	853	-	-	3,013
Non-capital losses	14,878	2,902	-	-	17,780
Share issuance costs	1,729	-	-	(37)	1,692
Scientific research and development	4,993	(108)	-	-	4,885
Valuation allowance	(12,309)	5,785	-	1,729	(4,795)
	$ 16,663	$ 5,575	$ -	$ 1,692	$ 23,930

	Jan 1, 2010	Recognized in Profit and Loss	Acquired in Business Combinations	Recognized in Equity	Dec 31, 2010
Property and equipment and E&E assets	$ 6,681	$ 1,359	$ (2,828)	$ -	$ 5,212
Decommissioning liabilities	931	871	358	-	2,160
Non-capital losses	7,951	4,515	2,412	-	14,878
Share issuance costs	1,274	-	-	455	1,729
Scientific research and development	4,861	132	-	-	4,993
Valuation allowance	(17,475)	5,621	-	(455)	(12,309)
	$ 4,223	$ 12,498	$ (58)	$ -	$ 16,663

The amount and timing of reversals of temporary differences will be dependent upon a number of factors, including the Company's future operating results.

The following is a summary of the Company's estimated tax pools as at December 31, 2011:

Classification		**Amount**
Non-capital loss carry-forwards	**$**	**71,994**
Canadian development expenditures		**55,269**
Canadian oil and gas property expenditures		**34,997**
Capital cost allowance		**28,086**
Scientific research and development		**18,899**
Canadian exploration expenditures		**13,895**
Share issue costs		**2,850**
Other		**235**
	$	**226,225**

The estimated non-capital loss carry-forwards available to reduce future year's income for tax purposes expire as follows:

Year		**Amount**
2013	**$**	**4,672**
2014		**1,898**
2022 – 2031		**65,424**
Total non-capital loss carry-forwards	**$**	**71,994**

14. Supplemental cash flow information

	Year ended Dec 31, 2011	Year ended Dec 31, 2010
Changes in non-cash working capital related to:		
Accounts receivable	**$ (3,725)**	$ (2,622)
Deposits and prepaid expenses	**143**	(96)
Accounts payable and accrued liabilities	**(4,648)**	6,916
Business combinations (note 6)	**-**	(516)
	$ (8,230)	$ 3,682
Changes in non-cash working capital related to:		
Operating activities	**$ (6,406)**	$ (756)
Financing activities	**-**	(293)
Investing activities	**(1,824)**	4,731
	$ (8,230)	$ 3,682

Cash and cash equivalents consist of:				
Cash on deposit	**$**	**-**	$	5,063
Finance costs paid	**$**	**956**	$	123
Income taxes paid	**$**	**268**	$	190

15. Financial instruments and risk management

The nature of the Company's financial instruments and operations expose the Company to certain risks. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework, and senior management employs various strategies to ensure that the exposure to risk is in compliance with the Company's business objectives and tolerance levels.

Credit Risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligation. The Company is exposed to credit risk with respect to accounts receivable and cash and cash equivalents.

Substantially all of the Company's accounts receivable are with customers and joint interest partners in the oil and natural gas industry and are subject to normal industry credit risks. The Company markets its petroleum and natural gas to several marketers so that the exposure to any one entity is minimized. Receivables from petroleum and natural gas marketers are normally collected on the 25th day of the month following production. Two of these marketers owed the Company $7.3 million at December 31, 2011, which was subsequently received. Receivables from joint venture partners are typically collected within one to three months of the joint venture billing being issued, however collection is dependent on industry factors such as commodity price fluctuations, escalating costs, the risk of unsuccessful drilling, and disputes amongst partners. The Company attempts to mitigate credit risk from joint venture partners by obtaining partner approval of significant capital costs prior to expenditure. While the Company does not typically obtain collateral from joint venture partners, it may cash call a partner in advance of the work being done. In addition, the Company has the ability to withhold production from partners in the event of non-payment. Should any of the Company's customers or partners be unable to settle amounts due, the impact on the Company could be significant. The maximum exposure to losses arising from accounts receivable and cash and cash equivalents is equal to their total carrying amounts on the balance sheet. During the period ended December 31, 2011, the Company has a provision for doubtful accounts in the amount of $175 thousand (2010 – $175 thousand). Although allowances may be provided, the Company will continue to pursue collection of outstanding balances. Allowances may be adjusted if circumstances or events change. When determining whether past due accounts are collectible, the Company factors in the past credit history of the counter parties.

As at December 31, 2011, the Company's accounts receivable were comprised of the following:

Sales revenue receivable	$	7,907
Joint interest receivable		907
Cash call receivable		-
Accrued and other receivable		45
Total accounts receivable	$	8,859

As at December 31, 2011, the Company estimates its accounts receivables to be aged as follows:

Total accounts receivable	0 to 30 days	31 to 60 days	61 to 90 days	Greater than 90 days
$ 8,859	$ 6,022	$ 2,091	$ 538	$ 208

The Company considers all amounts greater than 90 days as past due and collectible.

Cash and cash equivalents consist of bank balances. The Company manages the credit exposure of cash by selecting financial institutions with high credit ratings.

Liquidity risk

This is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's objective in managing liquidity risk is to ensure that it has sufficient resources available to meet its liabilities when due. The Company's ongoing liquidity is impacted by various external events and conditions, including commodity price fluctuations and the global economic downturn. At December 31, 2011, the Company's accounts payable and accrued liabilities were $7.9 million, all of which are due for payment within normal terms of trade, which are generally between 30 and 60 days. The Company has a $60 million revolving operating demand loan to manage its liquidity and settlement of liabilities, of which $49.6 million has been drawn as at December 31, 2011.

The Company's financial liabilities at December 31, 2011 are aged as follows:

Total accounts payable and accrued liabilities	0 to 30 days	31 to 60 days	61 to 90 days	Greater than 90 days
$ 7,942	$ 5,777	$ 1,624	$ 223	$ 318

The Company expects to satisfy its obligations under accounts payable and accrued liabilities within the next year. As well, the Company is required to meet certain financial commitments as described in notes 9 and 17.

Foreign currency exchange risk

This is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. Although the Company's petroleum and natural gas sales are denominated in Canadian dollars, the underlying market prices in Canada are impacted by changes in the exchange rate between the Canadian and United States dollar and the impact of such exchange rate fluctuations cannot be accurately quantified. The Company had no forward exchange rate contracts in place, nor any working capital items denominated in foreign currencies, as at or during the year ended December 31, 2011.

Commodity price risk

This is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are not only impacted by the relationship between the Canadian and United States dollar as outlined above, but also by world economic events that dictate the levels of supply and demand. The Company had no commodity contracts locking in petroleum or natural gas prices as at or during the year ended December 31, 2011.

Interest rate risk

This is the risk that the fair value or future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate fluctuations on its bank debt which bears a floating rate of interest. From time to time, the Company may attempt to mitigate this risk by utilizing short-term bankers'

acceptances to lock in a portion of its bank debt at fixed rates. No interest rate swaps or financial contracts were in place as at or during year ended December 31, 2011.

For the year ended December 31, 2011, a 100 basis points change to the effective interest rate would have an impact of $368 thousand on net loss and $496 thousand on cash flow from operating activities.

16. Capital disclosures

The Company considers its capital structure to consist of working capital, including bank debt. The Company manages its capital structure in order to meet its financial obligations and sustain the future development of the Company. The Company's Officers are responsible for managing the Company's capital and do so through quarterly meetings and regular reviews of financial information including budgets and forecasts. The Company's Directors are responsible for overseeing this process. Methods used by the Company to manage its capital include the issuance of new share capital to raise additional funds and adjusting its capital spending to manage current and projected debt levels. The Company continually monitors business conditions including: changes in economic conditions; the risk of its drilling programs; forecasted commodity prices; and potential corporate or asset acquisitions. There was no change in the Company's approach to Capital management during the year ended December 31, 2011.

The Company monitors its capital structure using primarily the non-IFRS measurement ratio of net debt to funds flow from operations, annualized from the most recent quarter. This ratio is calculated as net debt, defined as outstanding bank debt plus or minus net working capital, divided by annualized funds flow from operations. Annualized funds flow is calculated as cash flow from operations before changes in non-cash working capital and decommissioning expenditures from the Company's most recent quarter, multiplied by four. The objective is to maintain this ratio below 1.5:1, although this ratio may temporarily increase at certain times as a result of acquisitions or other significant capital expenditures for which the full quarterly effect of funds flow has not yet been accounted for. As at December 31, 2011 the ratio of net debt to funds flow from operations was 1.0:1 calculated as follows:

		As at Dec 31, 2011
Current assets	**$**	**9,269**
Current liabilities		**(57,526)**
Net debt	**$**	**(48,257)**

		Three months ended Dec 31, 2011
Cash flow from operations	**$**	**12,238**
Changes in non-cash working capital items		**(409)**
Decommissioning expenditures		**196**
Funds flow from operations		**12,025**
Annualized funds flow from operations	**$**	**48,100**
Net debt to annualized funds flow from operations		**1.0:1**

The Company's share capital is not subject to any external restrictions; however its credit facility is subject to periodic reviews (note 9). The credit facility also contains certain covenants such that the Company cannot, without prior approval of the bank, hedge or contract petroleum or natural gas volumes, on a fixed price basis, exceeding 50% of production volumes, nor can it monetize or settle any fixed price financial hedge or contract. The credit facility also contains a financial covenant that requires the Company to maintain a working capital ratio of at least 1:1, but for the purposes of the covenant, bank debt and the fair value of any commodity contracts are excluded and the unused portion of the revolving operating demand loan may be added to current assets. As at December 31, 2011, this working capital ratio was 2.5:1.

17. Commitments

As at December 31, 2011, the Company had commitments as follows:

		2012		2013		2014		Thereafter
Office lease	$	646	$	592	$	-	$	-

18. Personnel expenses

The following table summarizes the personnel expenses of the Company during the years ended December 31, 2011 and December 31, 2010:

		Year ended Dec 31, 2011		Year ended Dec 31, 2010
Short-term benefits	**$**	**3,841**	$	2,900
Stock-based compensation		**4,872**		3,082
	$	**8,713**	$	5,982

Short-term benefits are comprised of salaries, bonuses, benefits, and director fees and are inclusive of $457 thousand for the year ended December 31, 2011 (2010 - $430 thousand) which was capitalized and included as property and equipment expenditures.

The Company considers its key management personnel to be its executive officers and directors. Short-term benefits for executive officers include salaries, bonuses and benefits. Short-term benefits for directors consist of director fees. Stock-based compensation for executive officers consist of incentive stock options and performance warrants while stock-based compensation for directors consist of incentive stock options. The total compensation relating to key management personnel is as follows:

		Year ended Dec 31, 2011		Year ended Dec 31, 2010
Short-term benefits	**$**	**1,643**	$	1,501
Stock-based compensation		**3,937**		2,289
	$	**5,580**	$	3,790

19. First adoption of international financial reporting standards

As disclosed in note 2, these financial statements represent the Company's initial presentation of the financial position and financial results under IFRS as at and for the year ended December 31, 2011, including 2010 comparative periods. As a result, these financial statements have been prepared in accordance with IFRS 1. Prior hereto, the Company prepared its annual financial statements in accordance with Previous GAAP.

IFRS 1 requires the presentation of comparative information as at the January 1, 2010 transition date and subsequent comparative periods as well as the consistent and retrospective application of IFRS accounting policies. To assist with the transition, the provisions of IFRS 1 allow for certain mandatory and optional exemptions for first-time adopters to alleviate the retrospective application of all IFRS.

The following reconciliations present the adjustments made to the Company's Previous GAAP financial position and financial results of operations to comply with IFRS 1. A summary of the significant accounting policy changes and applicable exemptions are discussed following the reconciliations. Reconciliations include the Company's statement of financial position as at January 1, 2010 and December 31, 2010, statements of loss and comprehensive loss and cash flows for the year ended December 31, 2010 and shareholders' equity reconciliations as at January 1, 2010 and December 31, 2010.

Reconciliation of statement of financial position as at January 1, 2010 (date of transition to IFRS)

	Notes	Previous GAAP	Effect of transition to IFRS	IFRS
ASSETS				
Current Assets				
Cash and cash equivalents		$ 22,143	$ -	$ 22,143
Accounts receivable		2,512	-	2,512
Deposits and prepaid expenses		457	-	457
		25,112	-	25,112
Exploration and evaluation	a(i)	-	4,900	4,900
Property and equipment	a(i)	45,387	(4,900)	40,487
Deferred income taxes		4,223	-	4,223
Goodwill	a(ii)	5,915	(5,915)	-
		$ 80,637	$ (5,915)	$ 74,722
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current				
Accounts payable and accrued liabilities		$ 5,674	$ -	$ 5,674
Decommissioning liabilities	a(i)	2,385	1,234	3,619
		8,059	1,234	9,293
Shareholders' Equity				
Equity instruments	b(v)	156,532	2,415	158,947
Contributed surplus		3,600	-	3,600
Deficit		(87,554)	(9,564)	(97,118)
		72,578	(7,149)	65,429
		$ 80,637	$ (5,915)	$ 74,722

Reconciliation of statement of financial position as at December 31, 2010

	Notes	Previous GAAP	Effect of transition to IFRS	IFRS
ASSETS				
Current Assets				
Cash and cash equivalents		$ 5,063	$ -	$ 5,063
Accounts receivable		5,134	-	5,134
Deposits and prepaid expenses		553	-	553
		10,750	-	10,750
Exploration and evaluation	b(i)	-	11,779	11,779
Property and equipment	b(i)	100,378	(14,182)	86,196
Deferred income taxes		16,663	-	16,663
Goodwill	a(ii)	5,915	(5,915)	-
		$ 133,706	$ (8,318)	$ 125,388
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current				
Accounts payable and accrued liabilities		$ 12,590	$ -	$ 12,590
Decommissioning liabilities	b(iii)	5,193	2,981	8,174
		17,783	2,981	20,764
Shareholders' Equity				
Equity instruments	b(v)	110,227	2,415	112,642
Contributed surplus		8,813	-	8,813
Deficit		(3,117)	(13,714)	(16,831)
		115,923	(11,299)	104,624
		$ 133,706	$ (8,318)	$ 125,388

Reconciliation of statement of loss and comprehensive loss for the year ended December 31, 2010

	Notes	Previous GAAP	Effect of transition to IFRS	IFRS
REVENUE				
Production revenue		$ 20,209	$ -	$ 20,209
Royalties		(3,518)	-	(3,518)
		16,691	-	16,691
EXPENSES				
Field operations		6,468	-	6,468
Transportation and marketing		650	-	650
General and administrative	b(vii)	5,351	(123)	5,228
Exploration and evaluation expense	b(i)	-	1,643	1,643
Transaction costs		237	-	237
Stock-based compensation		3,082	-	3,082
Depletion, depreciation and impairment	b(ii,iv)	15,896	2,618	18,514
Accretion	b(iii)	359	(359)	-
		32,043	3,779	35,822
Loss from operations		(15,352)	(3,779)	(19,131)
Other income (loss)				
Finance costs	b(iii,vii)	-	(371)	(371)
		-	(371)	(371)
Loss before income taxes		(15,352)	(4,150)	(19,502)
Income taxes				
Current		230	-	230
Deferred (recovery)		(12,498)	-	(12,498)
		(12,268)	-	(12,268)
Net loss and comprehensive loss for the period		$ (3,084)	$ (4,150)	$ (7,234)
Net loss and comprehensive loss per share				
Basic and diluted		$ (0.02)	$ (0.03)	$ (0.05)

Reconciliation of shareholders’ equity as at January 1, 2010 and December 31, 2010

	Notes		Jan 1, 2010		Dec 31, 2010
Total shareholder’s equity under Previous GAAP		$	72,578	$	115,923
Impairment of goodwill	a(ii)		(5,915)		(5,915)
Effect on decommissioning liabilities	a(i)		(1,234)		(1,234)
Tax impact of flow-through shares	b(v)		3,836		3,836
Premium liability on flow-through shares	b(v)		(1,421)		(1,421)
Renunciation of flow-through expenditures	b(v)		(2,415)		(2,415)
Increase in depletion expense	b(iv)		-		(2,618)
Accretion effect on decommissioning liabilities	b(iii)		-		111
Exploration and evaluation expense	b(i)		-		(1,643)
			(7,149)		(11,299)
Total shareholders’ equity under IFRS		$	65,429	$	104,624

Reconciliation of statement of cash flows for the year ended December 31, 2010

	Notes	Previous GAAP	Effect of transition to IFRS	IFRS
CASH PROVIDED BY (USED IN)				
OPERATING ACTIVITIES				
Net loss for the period		$ (3,084)	$ (4,150)	$ (7,234)
Non-cash and other items:				
Stock-based compensation		3,082	-	3,082
Depletion, depreciation and impairment	b(iv)	15,896	2,618	18,514
Accretion	b(iii)	359	(111)	248
Deferred income taxes recovery		(12,498)	-	(12,498)
Decommissioning expenditures		(32)	-	(32)
Exploration expense	b(i)	-	1,581	1,581
Changes in non-working capital		(756)	-	(756)
		2,967	(62)	2,905
FINANCING ACTIVITIES				
Proceeds from issuance of equity instruments, net of issuance costs		24,504	-	24,504
Redemption of share capital		(112)	-	(112)
Change in non-cash working capital		(293)	-	(293)
		24,099	-	24,099
INVESTING ACTIVITIES				
Capital expenditures, net	b(i)	(55,201)	62	(55,139)
Cash paid on business combinations		(1,952)	-	(1,952)
Cash acquired on business combinations		8,276	-	8,276
Change in non-cash working capital		4,731	-	4,731
		(44,146)	62	(44,084)
Decrease in cash and cash equivalents		(17,080)	-	(17,080)
Cash and cash equivalents, beginning of period		22,143	-	22,143
Cash and cash equivalents, end of period		$ 5,063	-	$ 5,063

a) First-time adoption exemptions and exceptions applied

The following optional exemptions and required exceptions were applied by the Company:

(i) Deemed cost exemption

Under Previous GAAP, the Company has historically accounted for exploration and development costs of petroleum and natural gas properties in a single Canada wide full cost accounting pool. Under IFRS, exploration expenditures are reclassified as exploration and evaluation assets. IFRS 1 contains an exemption that allowed the Company to measure petroleum and natural gas assets at the date of transition as follows:

a) Exploration and evaluation assets are reclassified from the full cost pool to exploration and evaluation assets at the amount that was recorded under Previous GAAP; and

b) the remaining full cost pool is allocated to the development and production assets and components pro rata using reserve values or reserve volumes.

The reclassification of exploration and evaluation assets resulted in a $4.9 million increase in exploration and evaluation assets with a corresponding decrease in property and equipment at January 1, 2010. The remaining full cost pool was allocated pro-rata on the basis of total proved plus probable reserve values and January 1, 2010 forecast pricing.

Decommissioning liabilities, disclosed as asset retirement obligations under Previous GAAP, are calculated using a risk-free discount rate under IFRS, resulting in an increase of $1.2 million to decommissioning liabilities at January 1, 2010, which was recognized directly in opening deficit.

(ii) Impairment

In accordance with IFRS 6 and IAS 36, the Company performed an impairment test on transition of its revalued assets. The impairment test compared the fair value less cost to sell of each of its CGUs to the allocated net book value at January 1, 2010, including any underlying previously recorded goodwill, which was allocated to the specific CGUs that were expected to benefit from the acquisitions for the purpose of impairment testing. There was no impairment of property and equipment or E&E assets on transition at January 1, 2010. Goodwill of $5.9 million was impaired which resulted in a write down with a corresponding charge to opening deficit. The majority of goodwill was allocated to the Flaxcombe, Northwest Alberta and Southeast Alberta CGU's from the business combination with Ammonite Energy Ltd. The estimate of fair value less cost to sell was determined using proved plus probable reserves forecasted before tax net cash flows discounted at 10%. The forecast commodity prices were estimated by the Company's independent qualified reserves evaluator taking into account future prices in effect at the time. A 2% inflation rate was also used. If the discount rate applied to forecasted future net cash flows increased (decreased) by 1%, the magnitude of the impairment loss recognized would increase (decrease) by approximately $458 thousand.

(iii) Business combinations exemption

IFRS 1 allows the Company to adopt IFRS 3, "Business Combinations", on a prospective basis rather than retrospectively restating all prior business combinations. The Company elected not to retrospectively apply IFRS 3 to business combinations that occurred prior to January 1, 2010 and such business combinations have not been restated. Any goodwill arising on such business combinations before January 1, 2010 has not been adjusted from the

carrying value previously determined under Previous GAAP as a result of applying these exemptions.

(iv) Estimate exception

The applicable mandatory exception in IFRS 1 applied in the conversion from Previous GAAP to IFRS is "Estimates". Hindsight is not used to create or revise estimates. The estimates previously made by the Company under Previous GAAP were not revised for the application of IFRS except where necessary to reflect any difference in accounting policies.

b) Changes in accounting policies

In addition to the exemptions and exceptions discussed above, the following narratives explain the significant differences between the previous Previous GAAP and the current IFRS accounting policies applied by the Company. Only the differences having an impact on the Company are described below. The following is not a complete summary of all of the differences between Previous GAAP and IFRS. Unless a quantitative impact was noted below, the impact from the change was not material to the Company.

(i) Exploration and evaluation assets

Under IFRS, E&E costs are recognized as E&E assets. The Company followed full cost accounting under Previous GAAP and classified all E&E costs as petroleum and natural gas property and equipment. The effect of this change results in a reclassification of E&E costs from petroleum and natural gas property and equipment to E&E assets. As well, pre-license seismic and other costs incurred are expensed directly to results of operations. Under Previous GAAP, such pre-license and seismic costs were capitalized as part of petroleum and natural gas property and equipment.

E&E assets increased by $11.8 million at December 31, 2010, with a corresponding decrease to property and equipment. Pre-license, seismic costs and carrying costs of $62 thousand on non-producing properties were expensed for the year ended December 31, 2010.

E&E assets decreased by $1.6 million for the year ended December 31, 2010 for unsuccessful exploratory drilling charged to exploration and evaluation expense. Under Previous GAAP, these amounts were recorded in the full cost pool and depleted accordingly.

(ii) Impairment

Under Previous GAAP, impairment was measured by comparing the carrying amounts of property and equipment to the estimated net present value of future cash flows from proved plus probable reserves and the cost less impairment of unproved properties. Under IFRS, the aggregate carrying value is compared against the expected recoverable amount of each CGU, generally by reference to the present value of the future net cash flows expected to be derived from production of commercial reserves. If the carrying value of a CGU exceeds its recoverable amount, then an impairment loss shall be recognized. Additionally, an impairment loss from a prior period may be reversed in a subsequent period if impairment no longer exists or has decreased.

Impairments were recorded on four of the Company’s CGUs principally due to decreasing natural gas prices and reserve revisions during 2010. The amounts of these impairments were $7.6 million for the year ended December 31, 2010. The impairments reduced property and equipment with corresponding charges to depletion, depreciation and impairment expense.

(iii) Decommissioning provisions

Under Previous GAAP, asset retirement obligations were measured at fair value, incorporating market assumptions and discount rates based on the Company's credit-adjusted risk-free rate. Adjustments were made to asset retirement obligations for changes in the timing or amount of the cash flows and the unwinding of the discount. However, changes in discount rates alone did not result in a re-measurement of the provision. Under Previous GAAP, changes in estimates related to asset retirement obligations discriminated changes in estimates that increased the liability from those that decreased it. Upward revisions in the estimates of undiscounted cash flows were required to be discounted using the current credit-adjusted risk-free rate and downward revisions in the estimated cash flows were required to be discounted using the credit- adjusted risk-free rate employed when the original liability was recognized.

Under IFRS, future cash outflows are estimated as they arise and are discounted at the current appropriate discount rate. Both the cash flows to settle the obligation and the discount rate are considered at each reporting period are adjusted to the appropriate estimate at that point in time. Under IFRS, the estimated cash flow to abandon and remediate the wells and facilities is risk adjusted, therefore the provision is discounted at a risk-free rate. In addition, under Previous GAAP, accretion of the discount was either included in the depletion, depreciation and impairment expense or shown as a separate expense item. Under IFRS, it is included in finance costs.

Upon application of IFRS, decommissioning liabilities increased by $1.7 million as at December 31, 2010, and accretion expense/finance costs decreased by $111 thousand for the year ended December 31, 2010.

(iv) Depletion policy

Upon transition to IFRS, the Company adopted a policy of depleting petroleum and natural gas interests on a unit of production basis over proved plus probable reserves. The depletion policy under Previous GAAP was based on units of production over proved reserves. In addition, depletion was done on the Canadian cost centre under Previous GAAP. IFRS requires depletion and depreciation to be calculated based on individual components (i.e. fields or combinations thereof). The use of proved plus probable reserve bases for calculating depletion resulted in a decrease to depletion, depreciation and impairment expense of $5.0 million for the year ended December 31, 2010.

For E&E assets, the cost of undeveloped land that expires during the period is charged as additional depletion, depreciation and impairment expense.

(v) Flow-through shares

Under Previous GAAP, the accounting treatment for flow-through shares is to record the full amount of proceeds in share capital. The carrying value of the shares issued was reduced, and the deferred income tax liability was increased when the expenditures were renounced and filed with taxation authorities. Under IFRS, the amount initially recorded in share capital is limited to the value of common shares that would have been issued on that date, with the difference between the common share value and the net proceeds set up as a deferred liability. The difference between this liability and the deferred income tax liability is recorded as income tax expense at the time qualifying expenditures are incurred. Since the flow-through spending commitments were fully satisfied by January 1, 2010, the difference between the initial liability and the deferred income tax liability of $2.4 million was adjusted through opening equity.

(vi) Farm-in arrangements and dispositions in property and equipment

Farm-in arrangements where the Company cedes a portion of its working interest to a partner are generally considered disposals of property and equipment under IFRS. The Canadian full cost accounting guideline required that no gain or loss be recorded on these or other dispositions where the change in depletion was less than 20%. The significance of these gains or losses will be dependent on the details of specific transactions. There were no dispositions of property and equipment during the year ended December 31, 2010.

(vii) Finance costs

Under IFRS a separate line item is required in the statement of loss and comprehensive loss for finance costs. The items under Previous GAAP that were reclassified to finance costs were interest and borrowing costs and the accretion on the decommissioning liabilities.

(viii) Deferred income taxes

Any changes to income tax reporting are predominantly caused by the changes in the carrying value of assets, not due to the change in accounting methodology, with the exception of flow-through shares. IFRS requires that all deferred taxes be disclosed as non-current assets or liabilities and designated as deferred income taxes.

There was no adjustment to deferred income taxes on transition or throughout 2010 as all of the adjustments to decommissioning liabilities and property and equipment resulted in an increase of temporary differences related to the deferred income tax assets. A valuation allowance was applied to these temporary differences resulting in no deferred income tax effect on transition.