CANADIAN PHOENIX RESOURCES CORP.

Condensed Consolidated Interim Financial Statements (unaudited)

For the three and nine months ended September 30, 2011

CANADIAN PHOENIX RESOURCES CORP.

Condensed Consolidated Interim Statements of Financial Position (unaudited)

In Canadian dollars

	September 30 2011	December 31 2010	January 1 2010
Assets			
Current assets			
Cash and cash equivalents (note 5)	**79,657,798**	75,018,593	459,207
Accounts receivable	**84,252**	118,247	3,187,076
Cash call deposits	**-**	-	1,280,912
Prepaid expenses	**19,243**	28,437	203,576
Assets held for sale (note 6)	**58,913**	-	-
	79,820,206	75,165,277	5,130,771
Restricted cash (note 5)	**296,384**	-	234,751
Exploration and evaluation properties (note 7)	**-**	-	7,012,000
Property, plant and equipment (note 8)	**105,905**	1,183,648	48,650,861
Equity investment	**-**	-	30,363,053
	80,222,495	76,348,925	91,391,436
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	**238,731**	715,512	6,277,269
Bank loan	**-**	-	9,979,259
Loan payable	**-**	-	1,660,000
Liabilities related to assets held for sale (note 6)	**58,913**	-	-
	297,644	715,512	17,916,528
Asset retirement obligation (note 9)	**-**	777,231	5,633,736
Deferred income tax liability	**-**	-	3,183,872
	297,644	1,492,743	26,734,136
Shareholders' equity			
Share capital (note 11a)	**149,733,948**	139,252,062	119,397,580
Warrants (note 11c)	**-**	20,896,695	31,054,963
Contributed surplus (note 11b)	**22,509,921**	6,558,264	4,922,715
Non-controlling interest	**-**	-	17,996,050
Deficit	**(92,319,018)**	(91,850,839)	(108,714,008)
	79,924,851	74,856,182	64,657,300
	80,222,495	76,348,925	91,391,436

Commitments & contingencies (note 12)

Subsequent events (note 16)

See accompanying notes to the consolidated financial statements

On behalf of the Board of Directors:

"Harry Knutson" Director *"Daryl Clark"* Director

CANADIAN PHOENIX RESOURCES CORP.

Condensed Consolidated Interim Statements of Income (Loss) and Comprehensive Income (Loss)
For the three and nine months ended September 30, 2011 and 2010 (unaudited)
In Canadian dollars

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	**2011**	2010
Revenue				
Oil and natural gas sales	**9,232**	86,817	**64,642**	7,364,000
Royalty expense	**(611)**	(12,432)	**(6,302)**	(1,075,850)
	8,621	74,385	**58,340**	6,288,150
Expenses				
General and administrative	**277,567**	367,453	**902,251**	6,257,051
Operating (recovery) expense	**(42,406)**	98,292	**255,815**	3,481,739
Revaluation of assets and liabilities held for sale	**-**	-	**140,024**	-
Impairment of exploration and evaluation properties (note 7)	**-**	10,321	**3,536**	87,593
Depletion and depreciation (note 8)	**5,994**	59,395	**34,177**	3,835,741
Bad debts (recovery) expense	**(15,000)**	-	**(30,000)**	39,000
Financing costs (note 9)	**-**	2,674	**1,943**	71,358
Stock based compensation (note 11b)	**-**	1,592,294	**-**	3,087,452
Interest expense	**-**	34	**-**	710,616
	226,155	2,130,463	**1,307,746**	17,570,550
Net loss before other items	**(217,534)**	(2,056,078)	**(1,249,406)**	(11,282,400)
Other items				
Interest income	**236,619**	124,495	**781,227**	131,258
Other income (loss)	**-**	(38,818)	**-**	83,842
Net loss - equity investment	**-**	-	**-**	(1,053,427)
Gain on disposal of equity investment	**-**	-	**-**	15,381,762
Gain on disposal of subsidiary	**-**	-	**-**	11,350,806
Gain on disposal of exploration and evaluation properties	**-**	-	**-**	4,980,000
Net income (loss) before taxes	**19,085**	(1,970,401)	**(468,179)**	19,591,841
Current income tax expense (note 10)	**-**	-	**-**	-
Deferred income tax recovery (note 10)	**-**	-	**-**	153,371
	-	-	**-**	153,371
Net income (loss) and comprehensive income (loss)	**19,085**	(1,970,401)	**(468,179)**	19,745,212
Net income (loss) and comprehensive income (loss) attributed to shareholders of the Corporation	**19,085**	(1,970,401)	**(468,179)**	18,426,405
Net income and comprehensive income attributed to non-controlling interests	**-**	-	**-**	1,318,807
Basic and diluted income (loss) per share (note 11d)	**0.00**	(0.04)	**(0.01)**	0.40

See accompanying notes to the consolidated financial statements

CANADIAN PHOENIX RESOURCES CORP.

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity (unaudited)

In Canadian dollars

	Share Capital	Warrants	Contributed Surplus	Deficit	Subtotal	Non-Controlling Interest	Total
January 1, 2010	119,397,580	31,054,963	4,922,715	(108,714,008)	46,661,250	17,996,050	64,657,300
Net income and comprehensive income attributed to shareholders of the Corporation	-	-	-	18,426,405	18,426,405	-	18,426,405
Exercise of warrants	1,646,448	(363,611)	-	-	1,282,837	-	1,282,837
Stock-based compensation	-	-	1,936,707	-	1,936,707	-	1,936,707
Increase in percentage of subsidiary held by non-controlling interests	-	-	-	-	-	241,311	241,311
Net income and comprehensive income attributed to non-controlling interests	-	-	-	-	-	1,318,807	1,318,807
Disposal of subsidiary	-	-	-	-	-	(19,556,168)	(19,556,168)
September 30, 2010	121,044,028	30,691,352	6,859,422	(90,287,603)	68,307,199	-	68,307,199
Net loss and comprehensive loss attributed to shareholders of the Corporation	-	-	-	(1,563,236)	(1,563,236)	-	(1,563,236)
Exercise of warrants	18,210,189	(9,794,657)	-	-	8,415,532	-	8,415,532
Shares cancelled	(2,155)	-	-	-	(2,155)	-	(2,155)
Forfeiture of stock options, net of stock-based compensation	-	-	(301,158)	-	(301,158)	-	(301,158)
December 31, 2010	139,252,062	20,896,695	6,558,264	(91,850,839)	74,856,182	-	74,856,182
Net loss and comprehensive loss attributed to shareholders of the Corporation	-	-	-	(468,179)	(468,179)	-	(468,179)
Exercise of warrants	10,481,886	(4,945,038)	-	-	5,536,848	-	5,536,848
Expiry of warrants	-	(15,951,657)	15,951,657	-	-	-	-
September 30, 2011	**149,733,948**	**-**	**22,509,921**	**(92,319,018)**	**79,924,851**	**-**	**79,924,851**

See accompanying notes to the consolidated financial statements

CANADIAN PHOENIX RESOURCES CORP.

Condensed Consolidated Interim Statements of Cash Flows
For the nine months ended September 30, 2011 and 2010 (unaudited)
In Canadian dollars

	Nine Months Ended September 30	
	2011	2010
Cash flow provided by (used in)		
Operating activities		
Net (loss) income for the period	**(468,179)**	19,745,212
Adjustments for:		
Impairment of exploration and evaluation properties	**3,536**	87,593
Revaluation of assets and liabilities held for sale	**140,024**	-
Depletion and depreciation	**34,177**	3,835,741
Financing costs	**1,943**	71,358
Stock-based compensation	**-**	1,895,696
Future income tax recovery	**-**	(153,371)
Net loss - equity investment	**-**	1,053,427
Gain on disposal of exploration and evaluation properties	**-**	(4,980,000)
Gain on disposals of subsidiary and equity investment	**-**	(26,732,568)
Bad debts (recovery) expense	**(30,000)**	39,000
	(318,499)	(5,137,912)
Interest income	**(781,227)**	(131,258)
Interest expense	**-**	710,616
Change in non-cash working capital - operating activities	**(140,107)**	(1,398,714)
	(1,239,833)	(5,957,268)
Financing activities		
Receipts from exercise of warrants	**5,536,848**	-
Repayment of bank loan and loan payable	**-**	(12,079,259)
Interest paid	**-**	(222,018)
Change in non-cash working capital – financing activities	**(223,179)**	-
	5,313,669	(12,301,277)
Investing activities		
Disposal of assets and liabilities held for sale and exploration and evaluation properties	**200,000**	20,748,791
Disposal of subsidiary, net of cash held in subsidiary and transaction costs	**-**	19,069,284
Disposal of equity investment, net of transaction costs	**-**	44,691,364
Payments for properties held for sale; exploration and evaluation properties; and property, plant and equipment	**(79,474)**	(580,264)
Interest received	**781,227**	131,258
Movement in restricted cash	**(296,384)**	-
Change in non-cash working capital - investing activities	**(40,000)**	(610,614)
	565,369	83,449,819
Increase in cash and cash equivalents	**4,639,205**	65,191,274
Cash and cash equivalents, beginning of the period	**75,018,593**	459,207
Cash and cash equivalents, end of the period	**79,657,798**	65,650,481

See accompanying notes to the consolidated financial statements

1. NATURE OF OPERATIONS

Canadian Phoenix Resources Corp. (the "Corporation") is engaged in the exploration, development and production of petroleum and natural gas ("P&NG") in Western Canada. The Corporation is registered in Alberta, and the address of its principal place of business is #3300-205 5th Ave SW, Calgary, Alberta. During 2010, the Corporation disposed of the majority of its productive assets, holding the proceeds from disposition in cash and cash equivalents, which the Corporation is seeking to redeploy in new P&NG assets.

2. STATEMENT OF COMPLIANCE

These condensed consolidated interim financial statements are prepared in conjunction with the Corporation's annual audited consolidated financial statements for the year ended December 31, 2011, which will be the Corporation's first annual financial statements to be issued under International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). Accordingly, these condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* ("IAS 34") and are covered by International Financial Reporting Standard 1, *First-Time Adoption of IFRS* ("IFRS 1"). The recognition and measurement of certain balances and transactions, as well as certain disclosures in these financial statements may differ from the financial statements previously reported under Canadian generally accepted accounting principles ("Canadian GAAP"). Reconciliations from Canadian GAAP to IFRS for certain comparative periods, with explanations for significant differences, are included in note 4. These financial statements should be read in conjunction with the Corporation's 2010 audited annual consolidated statements and the condensed consolidated interim financial statements for the three months ended March 31, 2011, which were the Corporation's first under IFRS.

These financial statements are presented in Canadian dollars, which is also the functional currency of the Corporation and all its consolidated subsidiaries.

These financial statements were authorized by the Board of Directors on November 23, 2011.

3. ACCOUNTING POLICIES

These financial statements are prepared using IFRSs in effect as at January 1, 2010. Significant accounting policies and the applicable basis of measurement used in the preparation of these financial statements are described in note 3. The following accounting policies are those the policies that the Corporation plans to adopt for its consolidated financial statements for the year ended December 31, 2011. These policies have been applied consistently to all periods presented in these financial statements and in preparing the opening IFRS consolidated statement of financial position as at January 1, 2010 for the purposes of the transition to IFRSs, unless otherwise indicated. However, as new IFRS pronouncements and interpretations are issued by the IASB, the actual accounting standards and policies adopted as at December 31, 2011 may differ from those used herein.

a) Basis of consolidation

The consolidated statement of financial position as at September 30, 2011 includes the Corporation's accounts and those of its wholly-owned subsidiaries:

- CPH-Sarcee Corporation
- CPH-Investment Corporation

In addition to wholly-owned subsidiaries, these consolidated financial statements include the balances and results of entities over which the Corporation exercises control. Control is achieved where the Corporation has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain the benefits from its operations.

These financial statements include the financial results of all controlled entities from the date control commences until the date that control ceases. All transactions between consolidated entities are eliminated in the consolidation of these financial statements.

b) Basis of measurement

These interim consolidated financial statements have been prepared on a historical cost basis except for the following material items in the consolidated statement of financial position:

- Liabilities for cash-settled share-based payment arrangements are measured at fair value; and
- Assets classified as held for sale are measured at fair value where carrying amount is higher than the fair value.

c) Business combinations

i) Acquisition of control

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the total fair value of consideration given, determined on the date of acquisition, plus the amount of non-controlling interests, if any. In each acquisition for which a non-controlling interest exists, the Corporation measures the non-controlling interest in the acquiree either at its fair value or at the proportionate share of the acquiree's identifiable net assets held by non-controlling interests. Acquisition-related costs are recognized in profit or loss as incurred.

Any contingent consideration payable by the Corporation on an acquisition is recognized at its fair value at the acquisition date. Subsequent changes to the fair value of such contingent consideration result in adjustments to the cost of acquisition when they occur within the measurement period; all other subsequent changes to the fair value of contingent consideration may be recorded in profit or loss or other comprehensive income. Changes to the fair value of contingent consideration classified as equity are not recognized. The measurement period is the period from the date of acquisition to the date the Corporation obtains complete information about facts and circumstances that existed as of the acquisition date – and is subject to a maximum of one year.

Where a business combination is achieved in stages, the Corporation's previously held interests in the acquiree are re-measured to their fair value on the date the Corporation obtains control and the resulting gain or loss, if any, is recognized in profit and loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed.

ii) Goodwill

The Corporation measures goodwill at the acquisition date as the fair value of the consideration given plus any non-controlling interests, less the fair value of the identifiable assets acquired and liabilities assumed. When the difference is negative, a bargain purchase gain is recognized in profit and loss.

Subsequent to initial recognition, goodwill is tested for impairment and is carried at its historical cost, less accumulated impairment losses. Such impairment losses are recorded in profit and loss when recognized. Further discussion on impairment methodology is included in note 3j.

iii) Non-controlling interests

Non-controlling interests in the net assets of consolidated subsidiaries are presented as a separate component of shareholders' equity. Subsequent to acquisition, the carrying amount of non-controlling interests reflects the initial measurement plus the proportionate share of any changes to the equity of the subsidiary attributable to non-controlling interests. Total comprehensive income is also attributed to non-controlling interests on a proportionate basis.

iv) Changes in controlling interests and loss of control

Changes in the Corporation's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Corporation's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of any consideration paid or received is recognized directly in equity and attributed to the shareholders of the Corporation.

When the Corporation loses control of a subsidiary, the gain or loss on disposal is calculated as the fair value of consideration received plus the fair value of any retained interest, less the carrying value of net assets in the subsidiary including and any non-controlling interests. Amounts related to the subsidiary that were previously recognized in accumulated other comprehensive income are reclassified to retained earnings on the loss of control. The carrying value of any residual interest in the subsidiary is measured at its fair value on the date control is lost.

d) Investments in associates

Investments for which the Corporation exerts significant influence over the investee, but does not hold a controlling interest, are accounted for using the equity method of accounting. These investments are initially recorded at cost which is adjusted for the Corporation's proportionate share of the profit or loss and other comprehensive income of these investees. The Corporation's consolidated statement of income (loss) and comprehensive income (loss) includes the Corporation's share of the profit or loss and other comprehensive income of equity-accounted investees, after adjustments to align the accounting policies with those of the Company, from the date that significant influence commences until the date that it ceases.

e) Jointly controlled operations and assets

A significant portion of the Corporation's operating activities are conducted through unincorporated joint ventures with other parties. Under these arrangements, the Corporation proportionately contributes to the exploration, development and production costs of P&NG properties, and earns a proportionate share of any revenues generated from these properties. The Corporation records its proportionate share of any assets, liabilities, revenues or expenses related to these arrangements.

f) Financial instruments

Financial instruments consist of financial assets and financial liabilities and are initially recognized at fair value net of transaction costs, if applicable. 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 follows:

i) Financial assets

Financial assets comprise cash and cash equivalents, accounts receivable and restricted cash. Cash and cash equivalents comprise cash held at financial institutions and bank short-term deposits with maturities of three months or less at the date of acquisition, and are measured at fair value through profit and loss. Accounts receivable are classified as loans and receivables and are recorded at amortized cost less any impairment. Restricted cash includes cash that has been designated for various operational or environmental reclamation purposes, and is measured at fair value through profit and loss.

ii) Financial liabilities

Financial liabilities comprise accounts payable and accrued liabilities, and amounts due to related parties. All of these instruments are classified as financial liabilities measured at amortized cost using effective interest rate method. Under this classification, all cash flows from these instruments are discounted, where material, to their present value. Over time, this present value is accreted to the future value of remaining cash flows, and this accretion is recorded as interest expense.

g) Non-current assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. This condition is when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification as held for sale.

Immediately before classification as held for sale, the assets, or components of a disposal group, are re-measured in accordance with the company's accounting policies. Thereafter, the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Fair value is based on recent purchase offers, market transactions for similar assets, or appropriate valuation models.

Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognized in the consolidated statement of income (loss) and comprehensive income (loss). Property, plant and equipment and intangible assets are no longer depreciated once classified as held for sale, but interest and other expenses attributable to the liabilities of a disposal group or asset held for sale is recognized.

h) Exploration and evaluation properties

All costs directly associated with the exploration and evaluation ("E&E") of P&NG reserves, incurred after acquiring the legal right to explore, are capitalized as E&E properties. Costs incurred prior to acquiring the legal right to explore are recorded as an expense in the consolidated statement of income (loss) and comprehensive income (loss) for the period in which they were incurred. Capitalized E&E costs are those expenditures where technical feasibility and commercial viability has not been yet been determined and may include license and unproved property acquisition costs, geological and geophysical costs and costs of drilling exploratory wells.

Except for certain lease costs which may be amortized over the term of the lease, E&E costs are classified as intangible assets and are not depleted, but are rather assessed, quarterly, for impairment. Indicators of impairment would be when properties are known not to be technically feasible or commercially viable, or where the Corporation has no intention of further developing the properties. Impairments are recorded as an expense in the consolidated statement of income (loss) and comprehensive income (loss) in the period in which impairment has occurred. Further discussion on the Corporation's impairment methodology is included in note 3j.

When the technical feasibility and commercial viability of an E&E property is known, the property is subject to an impairment assessment and its residual carrying value is reclassified as property, plant and equipment.

i) Property, plant and equipment ("PP&E")

i) Measurement

PP&E related to P&NG properties is initially recognized at cost which includes all costs directly associated with the development of P&NG reserves where technical feasibility and commercial viability is determined. Such costs include drilling costs of development wells, tangible costs of facilities and infrastructure construction, costs of optimization and enhanced recovery projects, proved property acquisition costs, asset retirement costs, transfers from E&E assets and borrowing costs relating to qualifying assets.

Expenditures on major maintenance repairs comprise the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Where an asset or part of an asset that was separately depreciated is replaced and it is probable that future economic benefits associated with the item will flow to the company, the expenditure is capitalized and the carrying amount of the replaced asset is derecognized. Inspection costs associated with major maintenance programs are capitalized and amortized over the period to the next inspection. Normal repairs and maintenance costs are recorded as an expense in the consolidated statement of income (loss) and comprehensive income (loss) when incurred.

PP&E is subsequently carried at cost less accumulated depletion, depreciation, and any impairment. Gains and losses on disposals are determined by comparing disposal proceeds with the carrying amounts of assets sold and recognized in the consolidated statement of income (loss) and comprehensive income (loss) and reported within interest and other income or expenses.

ii) Depletion, depreciation and amortization

PP&E equipment relating to P&NG properties, including related facilities, are depleted and depreciated using the unit-of-production method over the proved reserves of the area. Where the Corporation intends to develop existing undeveloped, proved reserves, estimated future costs to develop proved reserves are included in costs subject to depletion, which are then depleted over total proved reserves. When the Corporation does not intend to develop existing undeveloped, proved reserves, the costs subject to depletion do not include future development costs, and the cost base is depleted over developed, proved reserves.

PP&E relating to the corporate office includes leasehold improvements and office and computer equipment. Leasehold improvements and office equipment are amortized using the declining balance method at a 20% rate per annum. Computer equipment is amortized using the declining balance method at a 30% rate per annum

The estimates of useful lives of property, plant and equipment are reviewed quarterly and if, necessary, changes are accounted for prospectively.

iii) Impairment

The carrying value of PP&E is reviewed for quarterly for impairment, in accordance with note 3j, or whenever events or changes in circumstances indicate the carrying value may not be recoverable.

j) Impairment of E&E properties, PP&E and goodwill

If indicators exist that non-financial assets are impaired, an impairment test is carried out in which the carrying amounts of those assets are written down to their recoverable amount, which is the higher of fair value less costs to sell (“FVLCS”) and value-in-use (“VIU”). For the purpose of impairment test, E&E, PP&E and goodwill are grouped together into the smallest group of assets (the “cash-generating unit” or “CGU”), which generate cash flows from continuing use that are largely independent of the cash flows of other assets or groups of assets.

VIU is determined by estimating the discounted future cash flows expected to be derived from continuing use of the assets. In determining FVLCS, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

Estimates of future cash flows used in the evaluation of impairment of assets are made using forecasts of commodity prices, market supply and demand, product margins and, in the case of P&NG properties, expected reserves volumes. The cash flows used in the impairment test are generally derived from the information contained in the reserve reports, which are prepared annually by independent qualified reserve evaluators and management's assumptions based on past experience.

Impairment losses are recognized in the consolidated statement of income (loss) and comprehensive income (loss) and reported within depletion, depreciation and amortization. Impairment losses recognized in respect of a CGU are allocated first, to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amount of the other assets in the CGU.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. If the amount of the impairment loss decreases in a subsequent period and the decrease can be objectively related to an event occurring after the impairment was recognized, the impairment loss is reversed up to the original carrying value of the asset that would have been determined, net of depletion, depreciation and amortization, if no impairment loss had been recognized. Such reversal is recognized in depletion, depreciation and amortization reported in the consolidated statement of income (loss) and comprehensive income (loss).

k) Asset retirement obligations

The company recognizes an asset retirement obligation, in the period a well or related asset is drilled, constructed or acquired, for the expected costs to abandon P&NG wells and related facilities, remove equipment from leased acreage and return such land to its original condition. The asset retirement obligation is estimated at the present value of the estimated expected future cash outflows, discounted using a risk–free interest rate. The discounted obligation is initially capitalized as part of the carrying amount of the related property, plant and equipment and a corresponding liability is recognized.

Subsequent to initial recognition, the obligation is reviewed regularly by management, based upon current regulations, costs, technologies and industry standards, as well as to changes in the risk-free rate. The effects of changes resulting from revisions to the timing or the amount of the original estimate of the provision are reflected on a prospective basis, generally by adjustment to the carrying amount of the related property, plant and equipment. The accretion of the obligation is recorded as a financing cost in the consolidated statement of income (loss) and comprehensive income (loss), and actual abandonment and reclamation expenditures are charged to the accumulated obligation as incurred and obligations related to properties disposed are removed.

The amount of the capitalized retirement obligation is depleted and depreciated on the same basis as the other capitalized property, plant and equipment.

l) Stock-based compensation

Stock options granted by the Corporation to directors, officers, employees and consultants are measured at their fair values. Fair values of stock options issued are determined on their grant date, using the Black-Scholes option pricing model, and are recognized as an expense over the vesting periods of the options; a corresponding increase is recorded to contributed surplus.

When stock options are exercised, the cash proceeds along with the amount previously recorded as contributed surplus are recorded as share capital. When the right to receive options is forfeited before the options have vested, any expense previously recorded is reversed.

The fair value of stock appreciation rights granted by the Corporation is assessed at grant date and each reporting date. Stock appreciation rights are cash-settled instruments, with the cash settlement amount being the difference between the exercise price of the instrument and the Corporation's share price on the date of exercise. The fair value of each stock appreciation right is recorded as a liability, and is determined as the excess, if any, between the Corporation's share price on the assessment date and the exercise price of each right. The movement in value since the prior reporting period is recorded in the consolidated statement of income (loss) and comprehensive income (loss), with a corresponding adjustment to the liability on the consolidated statement of financial position.

m) Share purchase warrants

Warrants with the right to acquire common shares in the Corporation are typically issued through the Corporation's debt or equity financing activities. The fair values of these warrants are determined on their issuance date, using the Black-Scholes option pricing model, and are recorded as both a separate component of shareholders' equity and as a reduction in the values of related debt or share capital.

When share purchase warrants are exercised, the cash proceeds along with the amount previously recorded as a separate component of shareholders' equity are recorded as share capital. When share purchase warrants expire, the amount previously recorded as a separate component of shareholders' equity is reclassified to contributed surplus.

n) Share issue costs

Costs incurred to issue shares, which may include cash or equity-settled payments, are accounted for as a reduction in share capital.

o) Flow-through shares

Under Canadian income tax legislation, a company is permitted to issue flow-through shares whereby the company is obligated to incur qualifying expenditures and renounce the related income tax deductions to the investors. The qualifying expenditures incurred by the company primarily relate to P&NG exploration activities. Generally, due to transferring the benefit of tax deduction to the investors, the shares issued on flow-through basis are offered at prices higher than the prevailing quoted prices of the shares. Accordingly, the proceeds from issuance of these shares are allocated between share capital and the liability to incur the qualifying expenditures in lieu of the sale of tax deductions. The amounts allocated to share capital represents the quoted price of the existing shares whereas the liability represents the difference between the quoted price of the existing shares and the amount the investor pays for the shares. The liability is reversed when qualifying expenditures are renounced and reported within deferred income tax in the consolidated statement of income (loss) and comprehensive income (loss).

p) Revenue recognition

Revenue from sales of oil, natural gas, natural gas liquids and all other products is recognized when the significant risks and rewards of ownership have been transferred, which is when title passes to the customer. This generally occurs when product is physically transferred into a pipe or when delivery is are accepted by the customer. Recognized revenue is measured at the fair value of consideration received or receivable, net of discounts, custom duties and royalties paid in kind.

q) Income taxes

Income tax provisions are recognized when it is considered probable that there will be a future outflow of funds to a taxing authority. In such cases, provision is made for the amount that is expected to be settled, where this can be reasonably estimated. This requires the application of judgment as to the ultimate outcome, which can change over time depending on facts and circumstances. A change in estimate of the likelihood of a future outflow and/or in the expected amount to be settled would be recognized in income in the period in which the change occurs.

Deferred tax assets or liabilities arising from temporary differences between the tax and accounting values of assets and liabilities, are recorded based on tax rates expected to be enacted when these differences are reversed. Deferred tax assets are recognized only to the extent it is considered probable that those assets will be recovered. This involves an assessment of when those deferred tax assets are likely to be realized, and a judgment as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as in the amounts recognized in income in the period in which the change occurs.

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in income both in the period of change, which would include any impact on cumulative provisions, and in future periods.

r) Per share amounts

Basic (loss) earnings per share is calculated by dividing net (loss) income attributable to shareholders of the Corporation by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the earnings or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments, which includes stock options and common share purchase warrants, as if their dilutive effect was at the beginning of the period. The calculation of the diluted number of common shares assumes that proceeds received from the exercise of “in-the-money” stock options and common share purchase warrants are used to purchase common shares of the Corporation at their average market price for the period. In periods that the Corporation reports a net loss, per share amounts are not presented on a diluted basis as the result would be anti-dilutive.

s) Judgments, estimates and measurement uncertainty

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts and presentation of assets, liabilities, revenues, expenses and disclosures of contingencies and commitments. Although these estimates are based on management's expectations for the likely outcome, timing and amounts of events or transactions, actual results may differ from these expectations and the corresponding amounts and disclosures reported in these financial statements.

Areas where management is required to make significant estimations or where measurements are uncertain are as follows:

i. P&NG reserves

Using geological and engineering data, estimates of petroleum and natural gas reserves are determined. These reserves form the basis for the depletion of P&NG properties, which are depleted on a unit-of-production basis, as well as the impairment assessment of these properties.

The data used to determine reserves is based on drill results and production and reserve models, which are inherently imprecise. The Corporation engages a recognized reserves engineering firm, annually, to update its estimated petroleum and natural gas reserves based on new information such as additional drill results, long-term reservoir production, changes to expectations for the economic viability of reserves, and changes to property leases or intentions for property development. Changes to reserve estimates are applied prospectively, and could result in increases or decreases to future depletion expenses or the carrying value of these properties.

ii. Impairment of E&E and P&NG properties

In addition to estimates of P&NG reserves, management's impairment assessment, and the resulting carrying value of E&E and P&NG properties, is based on factors such as the future prices of oil and natural gas, future P&NG production costs, the timing and amount of future P&NG production, fair values and the costs to sell these properties, and expectations for the intended use of these properties.

These estimates are forward-looking and are therefore subject to change. Actual outcomes that differ from those estimated by management could result in future impairment expenses or impairment reversals, and increases or decreases to the carrying values of E&E or P&NG properties.

iii. Asset retirement obligation

The Corporation's provision for asset retirement obligations requires management to estimate the timing and amount of cash flows required to retire its P&NG assets. These cash flows are based on management assumptions for P&NG reserves and production, which determine the timing of reclamation expenditures, as well as expectations for the future costs and legal or constructive requirements for environmental reclamation.

Changes to either the timing or amount of the cash flows required for asset retirement, or to the discount rate used to record the present value of these cash flows, are considered prospectively. Such changes could increase or decrease the asset retirement obligation reported by the

Corporation, and will ultimately result in changes to the total expense for environmental reclamation.

iv. Taxation

Tax provisions are recognized to the extent that it is probable that there will be a future outflow of funds to a taxation authority. Such provisions often require judgment on the treatment of certain taxation matter that may not have been reported to or assessed by the taxation authority at the date of these financial statements. Differences in judgment by the taxation authority could result in changes to actual taxes payable by the Corporation.

Deferred tax assets are recognized to the extent that certain taxable losses or deferred expenditures will be utilized by the Corporation to reduce future taxes payable. The amount of deferred tax assets recognized, if any, is based objective evidence that the Corporation will generate sufficient future taxable income to utilize these deferred assets, as well as the expected future tax rates that will apply to these assets. Changes to the Corporation’s ability to generate sufficient taxable income or changes to enacted tax rates could result in the write-down of deferred tax assets, or the recognition of new deferred tax assets.

v. Stock-based compensation

The Corporation uses the Black-Scholes option pricing model to determine the fair value of stock options and share purchase warrants granted. This model requires management to estimate the volatility of the Corporation’s future share price, expected lives of stock options and future dividend yields. Consequently, there is significant measurement uncertainty in the stock-based compensation expense reported.

t) Future changes in accounting standards

The Corporation has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on its financial statements:

i. IAS 12 Income Taxes (“IAS 12”)

IAS 12 was amended in December 2010 to remove subjectivity in determining on which basis an entity measures the deferred tax relating to an asset. The amendment introduces a presumption that an entity will assess whether the carrying value of an asset will be recovered through the sale of the asset. The amendment to IAS 12 is effective for reporting periods beginning on or after January 1, 2012. The company is currently evaluating the impact of this amendment to IAS 12 on its consolidated financial statements.

ii. IAS 28 Investments in Associates and Joint Ventures (“IAS 28”)

IAS 28, which was amended in 2011, prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures, eliminating a previously available alternative method for accounting for these investments. IAS 28 is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Corporation is currently evaluating the impact of this amendment to IAS 28 on its consolidated financial statements; however, as it has accounted for investments in associates using the equity method rather than the now unavailable alternative, the impact of this new standard is not expected to be significant.

iii. IFRS 7 Financial Instruments: Disclosures ("IFRS 7")

IFRS 7 was amended in October 2010 to provide additional disclosure on the transfer of financial assets including the possible effects of any residual risks that the transferring entity retains. These amendments are effective as of July 1, 2011. The Corporation is currently evaluating the impact of these amendments to IFRS 7 on its consolidated financial statements, but the impact, if any, is not expected to be significant.

iv. IFRS 9 Financial Instruments ("IFRS 9")

IFRS 9 was issued in November 2009 and is the first step to replace current IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing 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, replacing the multiple impairment methods in IAS 39. IFRS 9 is tentatively effective for annual periods beginning on or after January 1, 2015. The Corporation is currently evaluating the impact of IFRS 9 on its consolidated financial statements, but the impact, if any, is not expected to be significant.

v. IFRS 10 Consolidated Financial Statements ("IFRS 10")

IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 supersedes IAS 27 "Consolidated and Separate Financial Statements" and SIC-12"Consolidation—Special Purpose Entities" and is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Corporation is currently evaluating the impact of this standard on its consolidated financial statements.

vi. IFRS 11 Joint Arrangements ("IFRS 11")

IFRS 11 establishes principles for financial reporting by parties to a joint arrangement. IFRS 11 supersedes current IAS 31 "Interests in Joint Ventures and SIC-13 Jointly Controlled Entities—Non-Monetary Contributions by Venturers" and is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Corporation is currently evaluating the impact of this standard on its consolidated financial statements.

vii. IFRS 12 Disclosure of Interests in Other Entities ("IFRS 12")

IFRS 12 applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Corporation is currently evaluating the impact of this standard on its consolidated financial statements.

viii. IFRS 13 Fair Value Measurements ("IFRS 13")

IFRS 13 defines fair value and sets out a single IFRS framework for fair value measurements and disclosures. IFRS 13 applies to other IFRSs that require or permit measurements or disclosures based on fair values, except in specified circumstances. IFRS 13 is to be applied for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Corporation is currently evaluating the impact of this standard on its consolidated financial statements.

4. FIRST-TIME ADOPTION OF IFRS

As stated in note 2, these interim consolidated financial statements are prepared conjunction with the Corporation's annual audited financial statements as at and for the year ended December 31, 2011 – the Corporation's first annual financial statements to be prepared under IFRS. Accordingly, these financial statements are prepared in accordance with IFRS 1, which requires comparative information as at January 1, 2010 (the "transition date") and subsequent comparative periods to be prepared under the consistent and retrospective application of IFRS accounting policies, although this standard provides mandatory exceptions and optional exemptions to the retrospective application of IFRS for certain areas. Additionally, IFRS 1 requires that the Company's to reconcile certain balances previously reported under Canadian GAAP to their IFRS balances reported herein.

IFRS 1 mandatory exceptions and optional exemptions

a) Deemed cost election for oil and gas properties

Under Canadian GAAP, the Corporation used the "full cost accounting" method of accounting for its P&NG properties. Under this method, all costs directly associated with the exploration, evaluation and development of these properties were capitalized. These costs attributed to proved reserves were pooled and depleted, on a unit-of-production basis, based on the Corporation's aggregate production and aggregate proved reserves, while costs attributed to unproved properties were only tested for impairment with any impairment recorded being added to the costs of proved reserves subject to depletion. Undepleted costs of proved reserves were assessed for impairment on an aggregate basis.

Under IFRS, the Corporation classifies capitalized costs attributed to unproved reserves as E&E properties, which are not subject to depletion, but are tested for impairment on a property-by-property basis. Any impairments are recorded as an expense as incurred. Costs related to proved reserves are depleted on a unit-of-production basis and assessed for impairment property-by-property.

To allocate the full cost of its proved P&NG properties, as determined under Canadian GAAP, to individual properties, the Corporation has availed of an IFRS 1 exemption from retrospectively allocating, depleting and impairing costs on a property-by-property basis. Instead, the Corporation deemed its January 1, 2010 cost of E&E properties to be the cost, as recorded under Canadian GAAP, of its unproved reserves. The Corporation allocated the total Canadian GAAP cost of proved reserves to individual properties on pro rata basis using the proved reserves on the transition date.

b) Non-controlling interests

The Corporation has applied certain requirements of IAS 27, *Consolidated and Separate Financial Statements*, on a prospective basis from the transition date, rather than on a retrospective basis. These requirements include the attribution of total comprehensive income between the shareholders of the Corporation and non-controlling interests, and the treatment of changes in ownership of a subsidiary that do not result in loss of control as equity transactions.

c) Business combinations

IFRS 3, *Business Combinations*, has not been applied to business combinations occurring prior to the transition date.

d) Estimates

Where the application of IFRS has required management to make new estimates, such estimates were made based on information available as at the date to which the estimate relates, and do not incorporate the benefit of hindsight.

Reconciliations from Canadian GAAP to IFRS

a) Consolidated Statement of Financial Position as at January 1, 2010

	As Reported Under Canadian GAAP	**Reference (See Note 4f)**	**IFRS Adjustments**	**As Reported Under IFRS**
Assets				
Current assets				
Cash and cash equivalents	459,207		-	**459,207**
Accounts receivable	4,467,988	i.	(1,280,912)	**3,187,076**
Cash call deposits	-	i.	1,280,912	**1,280,912**
Prepaid expenses	203,576		-	**203,576**
	5,130,771		-	**5,130,771**
Restricted cash	234,751		-	**234,751**
Exploration and evaluation properties	-	ii.	7,012,000	**7,012,000**
Property, plant and equipment	61,224,188	ii.	(12,573,327)	**48,650,861**
Equity investment	32,875,493	v.	(2,512,440)	**30,363,053**
	99,465,203		(8,073,767)	**91,391,436**
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	6,277,269		-	**6,277,269**
Bank loan	9,979,259		-	**9,979,259**
Loan payable	2,100,000	iv.	(440,000)	**1,660,000**
	18,356,528		(440,000)	**17,916,528**
Asset retirement obligation	4,850,525	iii.	783,211	**5,633,736**
Deferred income tax liability	3,363,475	iii.	(179,603)	**3,183,872**
	26,570,528		163,608	**26,734,136**
Non-controlling interest	18,229,659	i.	(18,229,659)	**-**
Shareholders' equity				
Share capital	119,397,580		-	**119,397,580**
Warrants	31,054,963		-	**31,054,963**
Contributed surplus	4,922,715		-	**4,922,715**
Non-controlling interest	-	i., iii.	17,996,050	**17,996,050**
Deficit	(100,710,242)	ii., iii., iv., v.	(8,003,766)	**(108,714,008)**
	54,665,016		9,992,284	**64,657,300**
	99,465,203		(8,073,767)	**91,391,436**

b) Consolidated Statement of Financial Position as at September 30, 2010

	As Reported Under Canadian GAAP	Reference (See Note 4f)	IFRS Adjustments	As Reported Under IFRS
Assets				
Current assets				
Cash and cash equivalents	65,650,481		-	**65,650,481**
Accounts receivable	1,982,290	i.	(242,967)	**1,739,323**
Cash call deposits	-	i.	242,967	**242,967**
Prepaid expenses	78,816		-	**78,816**
	67,711,587		-	**67,711,587**
Property, plant and equipment	2,610,620	ii.	(383,384)	**2,227,236**
	70,322,207		(383,384)	**69,938,823**
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	559,384		-	**559,384**
	559,384		-	**559,384**
Asset retirement obligation	1,011,894	iii.	60,346	**1,072,240**
	1,571,278		60,346	**1,631,624**
Shareholders' equity				
Share capital	121,044,028		-	**121,044,028**
Warrants	30,691,352		-	**30,691,352**
Contributed surplus	6,859,422		-	**6,859,422**
Deficit	(89,843,873)	ii., iii.	(443,730)	**(90,287,603)**
	68,750,929		(443,730)	**68,307,199**
	70,322,207		(383,384)	**69,938,823**

c) Consolidated Statement of Financial Position as at December 31, 2010

	As Reported Under Canadian GAAP	Reference (See Note 4f)	IFRS Adjustments	As Reported Under IFRS
Assets				
Current assets				
Cash and cash equivalents	75,018,593		-	**75,018,593**
Accounts receivable	118,247		-	**118,247**
Prepaid expenses	28,437		-	**28,437**
	75,165,277		-	**75,165,277**
Property, plant and equipment	1,587,695	ii.	(404,047)	**1,183,648**
	76,752,972		(404,047)	**76,348,925**
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	715,512		-	**715,512**
	715,512		-	**715,512**
Asset retirement obligation	741,785	iii.	35,446	**777,231**
	1,457,297		35,446	**1,492,743**
Shareholders' equity				
Share capital	139,252,062		-	**139,252,062**
Warrants	20,896,695		-	**20,896,695**
Contributed surplus	6,558,264		-	**6,558,264**
Deficit	(91,411,346)	ii, iii.	(439,493)	**(91,850,839)**
	75,295,675		(439,493)	**74,856,182**
	76,752,972		404,047	**76,348,925**

d) Consolidated Statement of Income and Comprehensive Income for the three months ended September 30, 2010

	As Reported Under Canadian GAAP	Reference (See Note 4f)	IFRS Adjustments	As Reported Under IFRS
Revenue				
Oil and natural gas sales	86,817		-	**86,817**
Royalties	(12,432)		-	**(12,432)**
	74,385		-	**74,385**
Expenses				
Operating costs	98,292		-	**98,292**
Depletion and depreciation	103,552	i., ii.	(44,157)	**59,395**
Impairment of exploration and evaluation properties	-	ii.	10,321	**10,321**
Stock based compensation	1,592,294		-	**1,592,294**
General and administrative	367,453		-	**367,453**
Financing costs	-	i., iii.	2,674	**2,674**
Interest expense	34		-	**34**
	2,161,625		(31,162)	**2,130,463**
Net loss before other items	(2,087,240)		31,162	**(2,056,078)**
Other items				
Interest income	124,495		-	**124,495**
Other loss	(38,818)		-	**(38,818)**
Net loss and comprehensive loss	(2,001,563)	ii., iii.	31,162	**(1,970,401)**
Net loss and comprehensive loss attributed to shareholders of the Corporation	-	i.	(1,970,401)	**(1,970,401)**

e) Consolidated Statement of Income and Comprehensive Income for the nine months ended September 30, 2010

	As Reported Under Canadian GAAP	**Reference (See Note 4f)**	**IFRS Adjustments**	**As Reported Under IFRS**
Revenue				
Oil and natural gas sales	8,366,462	i.	(1,002,462)	**7,364,000**
Royalties	(2,078,312)	i.	1,002,462	**(1,075,850)**
	6,288,150		-	**6,288,150**
Expenses				
Operating costs	3,481,739		-	**3,481,739**
Depletion and depreciation	4,435,773	i., ii.	(600,032)	**3,835,741**
Impairment of property, plant, & equipment	5,000,000	ii.	(5,000,000)	**-**
Impairment of exploration and evaluation properties	-	ii.	87,593	**87,593**
Bad debts (recovery) expense	39,000		-	**39,000**
Stock based compensation	3,087,452		-	**3,087,452**
General and administrative	6,257,051		-	**6,257,051**
Financing costs	-	i., iii.	71,358	**71,358**
Interest expense	270,616	iv.	440,000	**710,616**
	22,571,631		(5,001,081)	**17,570,550**
Net loss before other items	(16,283,481)		5,001,081	**(11,282,400)**
Other items				
Interest income	131,258		-	**131,258**
Other income	83,842		-	**83,842**
Net loss - equity investment	(1,026,088)	v.	(27,339)	**(1,053,427)**
Gain on disposal of equity investment	12,841,983	v.	2,539,779	**15,381,762**
Gain on disposal of subsidiary	13,161,409	ii., iii.	(1,810,603)	**11,350,806**
Gain on disposal of exploration and evaluation properties	-	ii.	4,980,000	**4,980,000**
Net income before taxes	8,908,923		10,682,918	**19,591,841**
Current income tax expense	-		-	**-**
Future income tax recovery (expense)	1,500,737	ii., iii.	(1,347,366)	**153,371**
	1,500,737		(1,347,366)	**153,371**
Non-controlling interest	456,709	i., ii., iii.	(456,709)	**-**
Net income and comprehensive income	10,866,369	ii., iii., iv., v.	8,878,843	**19,745,212**
Net income and comprehensive income attributed to shareholders of the Corporation	-	i.	18,426,405	**18,426,405**
Net income and comprehensive income attributed to non-controlling interests	-	i.	1,318,807	**1,318,807**

e) Consolidated Statement of Income and Comprehensive Income for the year ended December 31, 2010

	As Reported Under Canadian GAAP	Reference (See Note 4f)	IFRS Adjustments	As Reported Under IFRS
Revenue				
Oil and natural gas sales	8,437,953	i.	(1,002,462)	**7,435,491**
Royalties	(2,087,222)	i.	1,002,462	**(1,084,760)**
	6,350,731		-	**6,350,731**
Expenses				
Operating costs	3,825,218		-	**3,825,218**
Depletion and depreciation	4,499,005	i., ii.	(617,946)	**3,881,059**
Impairment of property, plant, & equipment	5,900,002	ii.	(4,999,324)	**900,678**
Impairment of exploration and evaluation properties	-	ii.	97,914	**97,914**
Bad debts expense	43,333		-	**43,333**
Stock based compensation	3,151,331		-	**3,151,331**
General and administrative	6,698,392		-	**6,698,392**
Financing costs	-	i., iii.	74,038	**74,038**
Interest expense	270,625	iv.	440,000	**710,625**
	24,387,906		(5,005,318)	**19,382,588**
Net loss before other items	(18,037,175)		5,005,318	**(13,031,857)**
Other items				
Interest income	277,198		-	**277,198**
Other income	124,123		-	**124,123**
Net loss - equity investment	(1,026,088)	v.	(27,339)	**(1,053,427)**
Gain on disposal of equity investment	12,841,983	v.	2,539,779	**15,381,762**
Gain on disposal of subsidiary	13,161,409	ii., iii.	(1,810,603)	**11,350,806**
Gain on disposal of exploration and evaluation properties	-	ii.	4,980,000	**4,980,000**
Net income before taxes	7,341,450		10,687,155	**18,028,605**
Current income tax expense	-		-	**-**
Future income tax recovery	1,500,737	ii., iii.	(1,347,366)	**153,371**
	1,500,737		(1,347,366)	**153,371**
Non-controlling interest	456,709	i., ii., iii.	(456,709)	**-**
Net income and comprehensive income	9,298,896	ii., iii., iv., v.	8,883,080	**18,181,976**
Net income and comprehensive income attributed to shareholders of the Corporation	-	i.	16,863,169	**16,863,169**
Net income and comprehensive income attributed to non-controlling interests	-	i.	1,318,807	**1,318,807**

f) IFRS reconciliation notes

i. Reclassifications

For the three months ended September 30, 2010, $13,362 in accretion expense has been reclassified from depletion and depreciation under Canadian GAAP to financing costs under IFRS. For the nine months ended September 30, 2010, $161,346 in accretion expense was reclassified to financing costs and $1,002,462 in royalties paid in-kind has been reclassified from royalty expense under Canadian GAAP to a reduction in oil and natural gas sales under IFRS. For the year ended December 31, 2010, $174,708 in accretion and $1,002,462 in royalties were reclassified.

Under Canadian GAAP, the Corporation deducted the portion of income and expenses attributable to non-controlling interests as an expense in the consolidated statement of income (loss) and comprehensive income (loss) and the portion of net assets attributed to non-controlling interests was reported between liabilities and shareholders' equity on the consolidated statement of financial position. Under IFRS, non-controlling interests are not deducted from income, but income attributed to non-controlling interests is separately disclosed from income attributed to the Corporation's shareholders. Additionally, net assets attributed to non-controlling interests are presented as a component of shareholders' equity on the consolidated statement of financial position.

Under IFRS, the Corporation reports cash call deposits separately from accounts receivable. These amounts were aggregated when the Corporation reported under Canadian GAAP.

ii. Exploration and evaluation properties and property, plant and equipment

Under Canadian GAAP, the Corporation capitalized all costs related to the acquisition, exploration and development of its P&NG properties in a single cost pool. This cost pool was depleted on a unit-of-production basis over the Corporation's aggregate reserves, and was assessed for impairment as a whole. When properties were disposed, the carrying value of the cost pool was reduced by the amount of the proceeds received, and no gain or loss on disposal was recorded.

Under IFRS, the Corporation classifies assets for which no proved or feasible reserves have been determined as exploration and evaluation properties. These properties are not depleted, but are assessed for impairment on an individual property basis. Properties with proved and feasible reserves are classified as property, plant and equipment, and are individually depleted on a unit-of-production basis over the reserves of each property. When either exploration and evaluation properties or those classified as property, plant and equipment are disposed, the Corporation records a gain or loss on disposal for any difference between proceeds received and the carrying value of the property disposed.

Applying IFRS resulted in the following related changes to Corporation's consolidated financial statements:

Reclassification

$7,012,000 was reclassified from property, plant and equipment to exploration and evaluation properties as at January 1, 2010.

Impairment

Property, plant and equipment as at January 1, 2010 was reduced by $5,561,327 with a corresponding increase to deficit to reflect impairment of certain properties not recognized under Canadian GAAP. For the three months and nine months ended September 30, 2010, the Company recorded $10,321 and $87,593 in IFRS impairment charges, respectively, further decreasing the carrying value of property, plant and equipment. For the year ended December 31, 2010, the application of IFRS resulted in a $4,887,192 decrease to impairment expense than that recorded under Canadian GAAP.

Depletion

Under IFRS, depletion of property, plant and equipment decreased by $30,795 for the three months ended September 30, 2010, $438,686 for the nine months ended September 30, 2010 and $443,238 for the year ended December 31, 2010 compared with amounts reported under Canadian GAAP, with corresponding increases to property, plant and equipment as at September 30, 2010 and December 31, 2010.

Gain on disposal of exploration and evaluation properties

Under IFRS, the Corporation recorded a $4,980,000 gain on the disposal of certain exploration and evaluation properties for the nine months ended September 30, 2010 and year ended December 31, 2010 ($nil for the three months ended September 30, 2010). Under Canadian GAAP, this amount was reported as a reduction to the carrying value of property, plant and equipment.

Impact on gain on disposal of subsidiary

The differences in depletion and the gain on disposal of exploration and evaluation properties under IFRS resulted in differences to the carrying value of assets held by a subsidiary disposed in May 2010. Accordingly, the IFRS gain on sale of the subsidiary decreased by $2,036,282 compared with that reported under Canadian GAAP for these differences.

Impact on income taxes, non-controlling interests and deficit

As a result of the IFRS adjustments discussed above, deferred income tax recovery increased by $nil for the three months ended September 30, 2010 and decreased by $1,332,311 for the nine months ended September 30, 2010 and for the year ended December 31, 2010. Under IFRS, the above items, including their impacts on deferred income taxes and non-controlling interests, resulted in increases to the Corporation's deficit of $5,561,327 as at January 1, 2010, $383,384 as at September 30, 2010, and $404,047 as at December 31, 2010.

iii. Asset retirement obligation

Under Canadian GAAP, the Corporation used a credit and inflation-adjusted rate to discount future reclamation expenditures to their present value. Once established, this rate was not adjusted and accretion was recorded as an expense to reflect the unwinding of this discounted amount. Under IFRS the Corporation uses a risk free rate prevailing on the date of each consolidated statement of financial position to discount its reclamation liability.

As a result of updating the rate used to discount future expenditures, the Corporation's asset retirement obligation under IFRS increased by $783,211 as at January 1, 2010, $60,346 as at September 30, 2010 and $35,446 as at December 31, 2010, compared with Canadian GAAP. Accretion expense decreased by $10,688 for the three months ended September 30, 2010, $89,988 for the nine months ended September 30, 2010 and $100,670 for the year ended December 31, 2010.

Impact on gain on disposal of subsidiary

The differences in the asset retirement obligation and accretion expenses under IFRS resulted in differences to the carrying value of assets held by a subsidiary disposed of during 2010. Accordingly, the IFRS gain on sale of the subsidiary increased by $225,679 compared with that reported under Canadian GAAP.

Impact on income taxes, non-controlling interests and deficit

As a result of the IFRS adjustments to the Corporation's asset retirement obligation and accretion expense, deferred income tax recovery decreased by $nil for the three months ended September 30, 2010 and by $15,055 for the nine months ended September 30, 2010 and the year ended December 31, 2010. Similarly, net of the impact on deferred income taxes, non-controlling interest under IFRS decreased by $233,609 as at January 1, 2010. Under IFRS, the above items, including their impacts on deferred income taxes and non-controlling interests, resulted in increases to the Corporation's deficit of $369,999 as at January 1, 2010, $60,346 as at September 30, 2010, and $35,446 as at December 31, 2010.

iv. Debt origination fees

In 2009, the Corporation paid origination fees related to a note payable. Under Canadian GAAP, the Corporation recorded these fees as an expense in the period they were incurred. Under IFRS, the Corporation records these amounts as a reduction of the carrying value of debt at origination, and amortizes them over the life of the debt facility using the effective interest rate method.

As a result of the change to the treatment of these deferred fees under IFRS, both the note payable and the Corporation's deficit decreased by $440,000 as at January 1, 2010. Interest expense increased by $nil for the three months ended September 30, 2010 and by $440,000 for the nine months ended September 30, 2010 and the year ended December 31, 2010.

v. Equity investment

As at January 1, 2010, the Corporation held 58.1% of the voting shares of Marble Point Energy Limited ("Marble Point"), now Teine Energy Ltd. The Corporation sold its full interest in Marble Point during the second quarter of 2010.

Control over Marble Point was shared with another party, and the Corporation's interest has been recorded using the equity method of accounting under both Canadian GAAP and IFRS. However, certain adjustments have been made in the transition of Marble Point's financial statements to IFRS and the Corporation's share of these adjustments is reflected in its reconciliations between Canadian GAAP and IFRS. The most significant IFRS transition adjustments for Marble Point and their impacts on the Corporation's financial statements are as follows:

Asset retirement obligation

As discussed in Note 4f(iii), IFRS requires the use of a risk free interest rate prevailing on each balance sheet date when discounting an asset retirement obligation to its present value. Under IFRS, a lower interest rate was used to determine Marble Point's asset retirement obligation, which increased the value of the obligation attributed to the Corporation's interest in Marble Point by $2,603,767 as at January 1, 2010. The lower interest rate under IFRS reduced the Corporation's share of financing costs by $13,496 in the period between January 1, 2010 and the date the investment was disposed.

Long-term incentive plan

Under Canadian GAAP, the value of a cash option feature of a long-term incentive plan was presented as a component of the plan liability. Under IFRS, the value attributed to this feature is presented as a component of equity. As a result, the Corporation's equity investment as at January 1, 2010 increased by $91,327 to reflect its share of the increase in Marble Point's equity.

Stock-based compensation

Under Canadian GAAP, Marble Point recognized the fair value of stock-based compensation as an expense on a straight-line basis over the vesting period of the group of options granted. Under IFRS, the fair value attributed to options is recognized over the vesting period of each option. As a result, the Corporation's share of Marble Point's stock-based compensation expense for period from January 1, 2010 until the disposal of Marble Point increased by $49,968.

Gain on disposal of equity investment

As a result of the Corporation's share of Marble Point's IFRS adjustments for the asset retirement obligation, compound financial instruments, stock-based compensation, and other insignificant adjustments, the carrying value of the Corporation's investment in Marble Point under IFRS decreased by $2,539,779 as at the date of disposal compared with the value under Canadian GAAP. When the investment was disposed in the second quarter of 2010, the resulting gain on sale increased by the same amount under IFRS for the nine months ended September 30, 2010 and the year ended December 31, 2010.

v. Statement of Cash Flows

Under Canadian GAAP, the Corporation classified both interest payments and interest receipts as cash flows from operating activities. Under IFRS, the Corporation classifies interest payments as cash flows from financing activities and interest receipts as cash flows from investing activities. Aside from this reclassification there are no differences between the total cash flows from operating, financing or investing cash flows under IFRS than those reported under Canadian GAAP.

5. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

Cash and cash equivalents comprise the following:

	September 30 2011	December 31 2010
	$	$
Cash and cash equivalents		
Operating account	**559,973**	7,518,488
Term deposit	**79,097,825**	67,500,105
	79,657,798	75,018,593

The operating account and term deposits are held with chartered Canadian banks. The term deposits earn at fixed and variable interest rates, effectively bearing between 1.10% and 1.30% as at September 30, 2011, have original maturity terms of fewer than 90 days, can be redeemed without penalties, and are not subject to valuation fluctuations.

As at September 30, 2011, the Corporation held $0.3 million in cash restricted as security for a letter of credit held with a government authority for environmental reclamation. As at December 31, 2010, the Corporation had no restrictions on any cash balances.

6. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

Changes to the carrying values of assets and liabilities classified as held for sale are as follows:

	Assets	**Liabilities**	**Net**
	$	**$**	**$**
Balance, January 1, 2010	**-**	**-**	-
Balance, December 31, 2010	**-**	**-**	-
Carrying value transferred from exploration and evaluation properties and property, plant and equipment	1,074,143	-	1,074,143
Carrying value transferred from Asset Retirement Obligation	-	(779,174)	(779,174)
Additions to existing assets and liabilities held for sale	45,055	-	45,055
Revaluation loss	(138,073)	(1,951)	(140,024)
Disposals	(922,212)	722,212	(200,000)
Balance, September 30, 2011	**58,913**	**(58,913)**	**-**

During 2010, the Corporation commenced a program to assess strategies for disposing its remaining exploration and evaluation and P&NG properties, as well as related asset retirement obligations. During 2011, the Corporation expanded its efforts to dispose of these properties, and the assets and related liabilities were reclassified as held for sale. During the nine months ended September 30, 2011, the Corporation disposed of the majority of its assets and related liabilities held for sale for cash proceeds of $200,000, incurring a $140,024 revaluation loss on these assets and liabilities.

The fair value of assets held for sale represents management's best estimate of market value based on the preliminary terms of potential sales of these assets. The fair value of liabilities held for sale has been determined by discounting the expected future cash flows for asset reclamation to their present value using a discount rate equal to the risk-free interest rate prevailing on September 30, 2011. As at September 30, 2011, the undiscounted value of cash flows required to settle the estimated asset retirement obligation is $0.1 million occurring between 2012 and 2018. These costs have been estimated using an inflation rate of 2% and, as at September 30, 2011, have been discounted to their present value using a risk-free rate of 1%.

7. EXPLORATION AND EVALUATION PROPERTIES

During the nine months ended September 30, 2011, the Corporation reclassified its exploration and evaluation properties as assets held for sale, further discussed in note 6. This reclassification reflects the Corporation's intent to dispose of these properties rather than seeking any contained P&NG reserves. Prior to reclassification, the Corporation incurred $3,536 in additions to the cost base of these properties for well license fees, and a corresponding impairment to bring these properties down to their fair value.

	$
Cost	
Balance, January 1, 2010	7,012,000
Additions	97,914
Disposals	(7,071,807)
Balance, December 31, 2010	38,107
Additions	3,536
Transferred to assets classified as held for sale	(41,643)
Balance, September 30, 2011	**-**
Accumulated impairment	
Balance, January 1, 2010	-
Additions	97,914
Disposals	(59,807)
Balance, December 31, 2010	38,107
Additions	3,536
Transferred to assets classified as held for sale	(41,643)
Balance, September 30, 2011	**-**
Carrying value	
January 1, 2010	7,012,000
December 31, 2010	-
September 30, 2011	**-**

8. PROPERTY, PLANT AND EQUIPMENT

Movements in the Corporation's property, plant and equipment are as follows:

	P&NG Assets	Office Equipment	Total
	$	$	$
Cost			
Balance, January 1, 2010	48,435,000	481,862	48,916,862
Additions	162,094	-	162,094
Disposals	(46,365,000)	(98,574)	(46,463,574)
Balance, December 31, 2010	2,232,094	383,288	2,615,382
Net additions (disposals)	30,882	(305)	30,577
Transferred to assets classified as held for sale	(2,262,976)	-	(2,262,976)
Balance, September 30, 2011	**-**	**382,983**	**382,983**
Accumulated depletion, depreciation and impairment			
Balance, January 1, 2010	-	266,001	266,001
Depletion and depreciation	3,848,915	32,141	3,881,056
Impairment	1,008,408	-	1,008,408
Disposals	(3,683,618)	(40,113)	(3,723,731)
Balance, December 31, 2010	1,173,705	258,029	1,431,734
Depletion and depreciation	15,128	19,049	34,177
Transferred to assets classified as held for sale	(1,188,833)	-	(1,188,833)
Balance, September 30, 2011	**-**	**277,078**	**277,078**
Carrying value			
January 1, 2010	48,435,000	215,861	48,650,861
December 31, 2010	1,058,389	125,259	1,183,648
September 30, 2011	**-**	**105,905**	**105,905**

9. ASSET RETIREMENT OBLIGATION

The Corporation's asset retirement obligation is determined by discounting its portion of the estimated timing and amount of the future costs required to remediate, reclaim and abandon its P&NG wells.

	$
Balance, January 1, 2010	5,633,736
Liabilities disposed	(4,573,780)
Additional liabilities incurred	200,000
Reclamation expenditures	(10,797)
Changes to estimates	(545,965)
Accretion expense	74,039
Balance, December 31, 2010	777,231
Accretion expense	1,943
Reclassified as liabilities held for sale	(779,174)
Balance, September 30, 2011	**-**

As at September 30, 2011, the Corporation's remaining P&NG assets have been classified as held for sale. As such, related asset retirement obligations have also been classified as held for sale, further discussed in note 6.

10. INCOME TAXES

Income tax expense for the three and nine months ended September 30, 2011 and 2010 comprises the following:

	Three Months Ended September 30		**Nine Months Ended September 30**	
	2011	2010	**2011**	2010
	$	$	**$**	$
Current portion of income tax expense	**-**	-	**-**	-
Deferred income tax recovery	**-**	-	**-**	153,371
	-	-	**-**	153,371

As at September 30, 2011, no objective evidence exists to indicate that the deferred benefits from taxable losses incurred in the three months then ended will be realized. As such, no deferred income tax recovery has been reported.

11. SHAREHOLDERS' EQUITY

a) Share capital

Authorized

Unlimited number of common voting shares with no par value
Unlimited number of preferred shares with no par value

Issued and outstanding

	Number of Common Shares	Assigned Value
		$
Outstanding, January 1, 2010	46,252,495	119,397,580
Issued on exercise of warrants, net of transaction costs	7,787,767	19,856,637
Cancelled	(1,022)	(2,155)
Outstanding, December 31, 2010	54,039,240	139,252,062
Issued on exercise of warrants, net of transaction costs	4,429,478	10,481,886
Outstanding, September 30, 2011	**58,468,718**	**149,733,948**

During the nine months ended September 30, 2011, 4,429,478 common shares were issued as a result of the exercise of common share purchase warrants. Total cash proceeds, net of transaction costs, from the exercise of these warrants were $5,536,848 and an additional $4,945,038 in fair value attributed to these warrants has been reclassified from warrants to share capital.

In September 2011, the Corporation received regulatory approval to repurchase and cancel up to 4,529,956 of its common shares at a maximum price of $1.34 by way of a normal course issuer bid ("NCIB") on the open market of the TSX Venture Exchange (the "Exchange"). The maximum number of shares eligible for repurchase is equal to 10% of the Corporation's public share float at the time the NCIB application was made, and individual purchases under the NCIB are subject to certain limits imposed by the Exchange. The NCIB expires September 22, 2012, unless the repurchase limit is reached or if the Corporation terminates the NCIB on an earlier date. As of September 30, 2011, no shares have been repurchased and cancelled under the NCIB.

b) Stock-based compensation

Stock-based compensation for the nine months ended September 30, 2011 and 2010 comprise the following:

	2011	2010
	$	$
Fair value of stock options recognized	-	1,573,094
Valuation adjustments for stock appreciation rights	-	1,514,358
Total stock-based compensation	**-**	3,087,452

Stock options

Pursuant to the Corporation's stock option plan, the aggregate number of shares that may be reserved for issuance under the plan shall not exceed 10% of the Corporation's issued and outstanding common shares. The number of options granted, as well as their vesting terms, contractual lives and exercise prices are at the discretion of the Board of Directors, provided that the exercise price is not less than the market price of the common shares on the grant date.

Changes to stock options outstanding during 2010 and 2011 are as follows:

	Number of options	Weighted average exercise price
		$
Outstanding, January 1, 2010	122,400	3.13
Forfeited	(97,600)	4.12
Granted	2,460,000	1.29
Outstanding, December 31, 2010	2,484,800	1.31
Outstanding, September 30, 2011	**2,484,800**	**1.31**

The following table summarizes the terms of stock options outstanding and exercisable as at September 30, 2011:

Options Outstanding			Options Exercisable	
Weighted Average Exercise Price	Number of Options Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Options Outstanding
$		Years	$	
1.28	2,310,000	3.9	1.28	2,310,000
1.40	150,000	4.2	1.40	150,000
3.13	24,800	1.4	3.13	24,800
1.31	**2,484,800**	**3.9**	**1.31**	**2,484,800**

Stock appreciation rights

During the year ended December 31, 2009, the Corporation created a Stock Appreciation Rights Plan ("Plan") under which, stock appreciation rights ("SARs") to certain directors and officers the Corporation. On August 27, 2010, the SARs Plan was terminated by the Corporation's Board of Directors, resulting in the immediate exercise of all remaining unexercised SARs.

c) Warrants

Changes to warrants outstanding during 2010 and 2011 are as follows:

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Fair Value per Warrant	Total Value
		$	$	$
Outstanding, December 31, 2009	28,169,735	1.25	1.10	31,054,963
Exercised	(7,787,767)	1.25	1.30	(10,158,268)
Outstanding, December 31, 2010	20,381,968	1.29	1.03	20,896,695
Exercised	(4,429,478)	1.25	1.12	(4,945,038)
Expired	(15,952,490)	2.50	1.00	(15,951,657)
Outstanding, September 30, 2011	**-**	**-**	**-**	**-**

During the nine months ended September 30, 2011, the exercise price for certain warrants outstanding as at December 31, 2010 was increased from $1.25 to $2.50 per warrant, pursuant to the terms of a 2010 warrant amendment. Prior to the increase in exercise price, 4,429,478 warrants were exercised during the nine months ended September 30, 2011 and all remaining warrants expired, unexercised.

d) Per share amounts

Basic and diluted (loss) income per share for the three and nine months ended September 30, 2011 and 2010 is calculated as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
$ - unless otherwise stated	**2011**	2010	**2011**	2010
Numerator				
Net (loss) income and comprehensive loss (income) attributed to shareholders of the Corporation	**19,085**	(1,970,401)	**(468,179)**	18,426,405
Denominator				
Basic and diluted weighted average number of shares outstanding	**58,468,718**	46,252,320	**58,344,579**	46,252,320
Basic and diluted (loss) income per share	**0.00**	(0.04)	**(0.01)**	0.40

Diluted weighted average shares outstanding for the three and nine months ended September 30, 2011 excludes the impact of 2,484,800 stock options outstanding as at September 30, 2011 because these options were not “in-the-money” during these periods. Further, the dilutive effect of 4,429,478 warrants outstanding during the period prior to their exercise has also been excluded from the calculation of diluted loss per share because their inclusion is anti-dilutive in periods when a loss is incurred.

12. COMMITMENTS & CONTINGENCIES

a) Management services agreement

The Corporation is party to a management services agreement for the provision certain executive and administrative functions at a rate of $10,000 per month. The agreement expires in December 2012 and is renewed on an annual basis thereafter, but can be cancelled on two months' notice. The counter-party to the agreement is related to the Corporation (see note 13).

b) Indemnifications

From time to time, the Corporation may be involved in litigation or have claims sought against it in the normal course of business operations. As at or subsequent to September 30, 2011, the Corporation is unaware of any claims or actions that would materially affect its reported financial position or results from operations.

Under the terms of certain agreements and the by-laws of the Corporation, the Corporation indemnifies individuals who have acted at the request of the Corporation to be a director and/or officer to the extent permitted by law, against any and all damages, liabilities, costs, charges or expenses suffered by or incurred by the individuals as a result of their service.

13. RELATED PARTY TRANSACTIONS

During the nine months ended September 30, 2011 the Corporation recorded an expense of $96,500 ($51,000) for consulting services provided by Michael Atkinson and Harry Knutson, two directors of the Corporation, or to parties related to these directors. The fees were for management and business development services provided in the normal course of business, and have been measured at an exchange amount also considered to be equivalent to the amount that would have been paid to an unrelated third party. Also, during the nine months ended September 30, 2010, the Corporation repaid a syndicated loan of which a $95,000 component was repaid to Mr. Atkinson. No related amounts were included in accounts payable as at September 30, 2011 or December 31, 2010.

In December 2010, the Corporation entered into a management services agreement with Ionic Management Corp. for services provided by the Chief Financial Officer of the Corporation and other administrative services. Ionic Management Corp. is related through affiliation with the Chief Financial Officer. For the nine months ended September 30, 2011, the Corporation recorded an expense of $100,900 for such services of which $10,673 (December 31, 2010 - $10,000) is included in accounts payable and accrued liabilities as at September 30, 2011.

14. FINANCIAL INSTRUMENTS

Fair value of financial instruments

The Corporation's financial instruments as at September 30, 2011 consist of cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities. The carrying values of all of the Corporation's financial instruments are equal to their fair values. The fair values of financial instruments are allocated between three levels of a fair value hierarchy, based on the degree of certainty around the fair values. The levels and the valuation techniques used to value financial instruments are as follows:

Level 1 - Quoted prices in active markets for identical assets

Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 - Significant other observable inputs

Quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 - Significant unobservable inputs

Significant reliance is placed on unobservable prices, supported by little or no market activity.

As at September 30, 2011, all financial instruments held by the Corporation were considered to be Level 1 financial instruments whose fair values approximate their carrying values.

Classification of financial instruments

All financial assets (except for cash and cash equivalents which are classified as held for trading) are classified as either loans or receivables and are accounted for on an amortized cost basis. All financial liabilities are classified as other liabilities. There are no financial assets on the consolidated statement of financial position that have been designated as available-for-sale. There have been no changes to the aforementioned classifications during the nine months ended September 30, 2011.

Financial instrument risk management

The nature of these instruments and its operations expose the Corporation to market risks and credit risks. The Corporation manages its exposure to these risks by operating in a manner that minimizes this exposure. While management monitors and administers these risks, the Board of Directors of the Corporation has the overall responsibility for the establishment and oversight of the Corporation's risk management framework.

a) Market risks

Market risks to which the Corporation is exposed include unfavorable movements in commodity prices, interest rates, and foreign exchange rates. As at September 30, 2011, the Corporation has disposed of most of its producing assets and holds a significant cash position.

Consequently, its exposure to these risks has been significantly reduced, but as the Corporation redeploys its cash, exposure to these risks may increase. The objective of the Group is to mitigate exposure to these risks while maximizing returns.

Commodity price risk

The Corporation is exposed to adverse consequences such as declining revenue and asset recoverability in the event of declining oil and gas prices. The Corporation manages commodity price risk by updating and monitoring forecast cash flows and profitability and taking appropriate actions as needed. To date, the Corporation has not used hedging strategies, such as forward oil and natural gas sale contracts to lock-in prices with respect to future deliveries, to counter commodity price risk, but it may do so in the future.

Interest rate risk

As at September 30, 2011, the Corporation's exposure to movements in interest rates was limited to potential decreases in interest income from variable rate interest income on its cash and cash equivalents. The Corporation mitigates its exposure to this risk by holding its cash and cash equivalents in a combination of fixed and variable interest rate accounts, held with three Canadian chartered banks. As at September 30, 2011, $40.4 million of the Corporation's cash and cash equivalents were held in a fixed interest rate account, and $39.3 million was held in variable interest rate accounts based on Canadian prime rates. Based on these allocations, an immediate and prolonged 1% decrease in market interest rates would result in a $0.4 decrease in pre-tax interest income over a 12-month period, and an immediate and prolonged 1% increase in market interest rates would result in a $0.4 million increase in pre-tax interest income over a 12-month period.

Foreign exchange risk

Although the Corporation's P&NG revenues are denominated in Canadian dollars, the underlying market prices of these commodities are quoted in United States dollars, exposing the Corporation to fluctuations in the exchange rate between the Canadian and the United States dollar. The Corporation does not make any significant foreign currency denominated payments. Management monitors foreign exchange rate movements, but as at September 30, 2011 the Corporation had no currency hedging contracts in place to manage foreign exchange risk and no such contracts have been utilized during 2011.

b) Credit risk

Credit risk is the risk of default on payment by counterparties to financial assets held by the Corporation. Virtually all of the Corporation's accounts receivables are concentrated with a limited number of customers and joint venture partners in the oil and gas industry. Management considers this concentration of credit risk to be acceptable, as customers are major industry participants, and receivables from partners are protected by effective industry standard legal remedies. The Corporation requires cash calls from its partners on major field projects in advance of commencement.

Consolidated accounts receivable as at September 30, 2011 were $0.1 million, net of a $0.2 million provision for bad debts on one account.

The maximum exposure to credit risk is therefore represented by the carrying amount of accounts receivable on the consolidated statement of financial position. In the immediate future, it is not expected that the Corporation’s exposure to credit risk will be significant, until such time as cash is redeployed in new P&NG assets.

c) Concentration risk

Concentration risk is the risk that a significant proportion of the Corporation’s cash and cash equivalents are held with one financial institution, exposing the Corporation to the risk that this institution may not have the liquidity to honour withdrawals or redemptions of the Corporation’s funds. Concentration risk is managed by placing cash and cash equivalents between several chartered Canadian banks.

As at September 30, 2011, the largest holding of cash and cash equivalents with one financial institution was $40.3 million.

15. CAPITAL MANAGEMENT

The Corporation's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders. The Corporation defines capital as shareholder equity and working capital. The Board of Directors does not establish quantitative return on capital criteria for management; but rather promotes year-over-year sustainable profitable growth.

As at September 30, 2011, the Corporation’s focus is to convert its remaining P&NG assets to cash at values that maximize shareholder value, while preserving the base of its cash and cash equivalents available for redeployment to producing assets. Notwithstanding the aforementioned focus, there have been no changes in the Group’s capital management strategies and processes during 2011.

The Corporation has no externally imposed capital requirements and there are no external financial covenants to which the Corporation must adhere as at September 30, 2011.

16. SUBSEQUENT EVENTS

Share capital

Subsequent to September 30, 2011, the Corporation has repurchased for cancellation 186,300 of its common shares pursuant to the NCIB disclosed in note 11. The total cost of these repurchases, including broker commissions, is $233,127.

CANADIAN PHOENIX RESOURCES CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine months ended September 30, 2011

INTRODUCTION

This management discussion and analysis ("MD&A") of financial position and results of operation of Canadian Phoenix Resources Corp. (the "Corporation") is prepared as at November 23, 2011 and should be read in conjunction with the Corporation's unaudited condensed consolidated interim financial statements and related notes as at and for the three and nine months ended September 30, 2011 and with the Corporation's audited consolidated financial statements as at and for the years ended December 31, 2010 and 2009.

In conjunction with the Corporation's annual audited consolidated financial statements to be issued under International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), for the year ended December 31, 2011, the condensed consolidated interim financial statements as at and for the three and nine months ended September 30, 2011 are the Corporation's initial financial statements prepared under IFRS. Accordingly, they have been prepared in accordance with International Financial Reporting Standard ("IFRS") 1, "First-time Adoption of International Financial Reporting Standards" and with International Accounting Standard 34, "Interim Financial Reporting", as issued by the International Accounting Standards Board. Previously, the company prepared its interim and annual consolidated financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Unless otherwise noted, 2010 comparative information contained in this MD&A has been prepared in accordance with IFRS. The transition from Canadian GAAP to IFRS has not affected the Company's operations, strategic decisions and cash flow, but has resulted in certain accounting policy changes and adjustments to numbers previously reported under Canadian GAAP. These policy changes and adjustments are discussed under the "Changes in Accounting Policies and Transition to IFRS" section, herein.

Additional information relating to the Corporation, including Annual Information Forms, Management Information Circulars, NI 51-101 oil and gas disclosures, material change reports, and previous interim and annual financial statements are available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.

Forward-looking statements

This MD&A includes certain statements that constitute forward-looking statements or forward-looking information (collectively, "forward-looking information") within the meaning of applicable securities laws. These statements may appear throughout this MD&A and include the views of management and the Corporation's directors on areas including but not limited to the Corporation's expected future financial position, financial and operational results, the execution of the Company's business strategy, access to capital, and the outcomes of uncertain events. When used in this MD&A, works such as "believe," "anticipate," "project," "intend," "expect," "may," "will," "plan," "attempts," "seeks," and similar expressions are intended to identify these forward-looking statements.

Forward-looking statements are based on current expectations which themselves may be based on significant judgment and estimates. Also, the actual outcomes of forward looking statements are dependent on a number of risks and uncertainties. These risks and uncertainties, many of which are beyond the control of the Corporation, include the impact of general economic conditions and specific industry conditions, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other producers, stock market volatility and ability to generate sustainable future earnings.

The Corporation's actual results, performance or achievements could differ materially from those expressed in, or implied by these forward-looking statements, and accordingly, no assurance can be given that any events, situations or outcomes indicated in these forward-looking statements will transpire or what benefits or liabilities to the Corporation will arise from these outcomes. Accordingly, readers of this MD&A are cautioned against placing undue reliance on forward-looking statements. Unless required by law, the Corporation will not update or revise any forward-looking statements contained in this MD&A to reflect actual results, and differences between actual results or outcomes and those indicated in forward-looking statements herein will not be publicly announced with reference to these forward-looking statements.

BUSINESS PROFILE AND STRATEGY

Historically, the Corporation's business strategy has been to consolidate undervalued oil and gas assets in the Western Canadian Sedimentary Basin, while also being involved in the exploration, development and operation of oil and natural gas properties in certain high-potential, multi-zone areas in Western Canada. In mid-2009, the Corporation constituted a Special Committee of independent directors to investigate and evaluate strategic alternatives available to the Corporation, including opportunities to divest of its oil and gas assets.

During 2010, the Corporation disposed of the majority of its oil and gas assets through the sales of its controlling interest in Serrano Energy Ltd ("Serrano") and in its equity investment in Marble Point Energy Limited ("Marble Point"), substantially increasing its cash position. Following these divestitures, the Corporation's oil and gas production has been negligible as the Corporation divests its remaining properties.

Management is currently assessing alternatives to redeploy the Corporation's cash into the oil and gas sector, which may include direct acquisitions of exploration-stage or producing oil and gas properties with the objective of earning production revenues, and exploration projects with the objective of earning royalty streams. To date, management has not identified any suitable investments that would provide accretive shareholder value; however, management remains optimistic that an appropriate investment alternative will be identified, although the timing and nature of such an investment is uncertain.

NON-IFRS MEASUREMENTS

The following terms are used in this MD&A, but do not have any standardized meaning prescribed by IFRS and therefore might not be comparable with similarly described measures for other companies. The Corporation defines these terms as follows:

- "Funds from operations" are cash flows from operating activities, excluding related changes in non-cash working capital.
- "Netbacks" equal total oil and gas sales, less royalties and operating costs.

Funds from operations and netbacks may be presented as a total amount, on a per share basis, or on a per barrel of oil equivalent ("boe") basis. Measurements on a boe basis are used to present all petroleum and natural gas ("P&NG") measures in uniform units which are calculated using a conversion rate of six thousand cubic feet of natural gas to one barrel of oil ("6:1") based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Readers are cautioned not to view non-IFRS measures as alternatives to financial measures calculated in accordance with IFRS.

THIRD QUARTER 2011 FINANCIAL HIGHLIGHTS AND FINANCIAL POSITION

The following table highlights certain aspects of the Corporation's financial performance and position as at and for the three and nine months ended September 30, 2011. This information should be read in conjunction with the "Results of Operations" section of this MD&A.

Selected Financial and Operational Information				
($ thousands, except as indicated)	**For the three months ended September 30**		**For the nine months ended September 30**	
	2011	2010	**2011**	2010
Total P&NG production (boe)	**17**	2,458	**1,785**	140,249
Average daily P&NG production (boe)	**-**	27	**7**	514
Oil and natural gas sales	**9**	87	**65**	7,364
Netbacks	**51**	(23)	**(197)**	2,806
Net interest income (expense)	**237**	124	**781**	(580)
Revaluation of assets and liabilities held for sale	**-**	-	**(140)**	-
Impairment of exploration and evaluation properties	**-**	(10)	**(4)**	(88)
Net loss - equity investment	**-**	-	**-**	(1,053)
Gain on disposal of exploration and evaluation property	**-**	-	**-**	4,980
Net income (loss) and comprehensive income (loss)	**19**	(1,970)	**(468)**	19,745
Net income (loss) and comprehensive income (loss) attributed to shareholders of the Corporation	**19**	(1,970)	**(468)**	18,426
Basic and diluted loss per share	**0.00**	(0.04)	**(0.01)**	0.40
Weighted average number of shares	**58,468,718**	46,252,320	**58,344,579**	46,252,320
Cash flows (used in) from operating activities	**(401)**	(1,397)	**(1,240)**	(5,957)
Cash flows from (used in) financing activities	**-**	-	**5,314**	(12,301)
Cash flows from (used in) investing activities	**436**	115	**565**	83,450
		As at September 30		As at December 31
		2011		2010
Cash and cash equivalents		**79,658**		75,019
Working capital surplus		**79,523**		74,450
Assets held for sale, net of related liabilities		**-**		-
Total assets		**80,222**		76,349
Asset retirement obligation		**-**		777
Common shares outstanding		**58,468,718**		54,039,240
Fully diluted common shares outstanding[1]		**60,953,518**		76,906,008

[1] Fully diluted common shares outstanding is calculated based on the full exercise of all share purchase warrants and stock options outstanding as at the reported date.

During the second quarter of 2010, the Corporation disposed of its controlling interest in Serrano. Prior to its disposal Serrano accounted for 135,591 boe of the Corporation's total production for the nine months ended September 30, 2010. Since the sale of Serrano, the Corporation continued to divest of its remaining oil and gas assets and in July 2011 most of these assets were sold with an effective date of June 1, 2011. As a result of these disposals, the Corporation's P&NG production and related sales are significantly lower for the three and nine months ended September 30, 2011 than for the same periods of 2010. For the three months ended September 30, 2011, the Corporation recorded a $74 thousand recovery on the reversal of operating costs previously accrued, but generally the Corporation's revenues are insufficient to cover certain fixed operating costs, which will ordinarily result in negative netbacks. Netbacks for the three months ended September 30, 2011 were $0.1 million and a negative netback of $0.2 million was incurred for the nine months ended September 30, 2011.

Proceeds from the disposal of its interest in Serrano and the exercise of warrants during the fourth quarter of 2010 and first quarter of 2011 have led to the Corporation holding cash and cash equivalents of $79.7 million as at September 30, 2011. Interest income from this balance was $0.2 million for the three months ended September 30, 2011 and $0.8 million for the nine months ended September 30, 2011.

The Corporation incurred general and administrative costs of $0.3 million and $0.9 million for the three and nine months ended September 30, 2011, respectively. These costs primarily relate to audit, legal and other professional fees; management contracts; directors' fees; and office expenses. For the nine months ended September 30, 2011, the Corporation also incurred $0.1 million in revaluation of assets and liabilities held for sale and impairment of exploration and evaluation properties, none of which relates to the three months ended September 30, 2011.

For the three months ended September 30, 2011, the combination of interest income and the positive netbacks more than offset the impacts of general and administrative costs, and the Company recorded net income of $19 thousand. For the nine months ended September 30, 2011, total general and administrative costs and negative netbacks exceeded interest income, resulting in a net loss of $0.5 million.

As at September 30, 2011, the Corporation's remaining P&NG assets and related liabilities were classified as held for sale. The carrying value of these assets, net of related liabilities is $nil, reflecting their net estimated fair values.

In September 2011, the Corporation commenced with a normal course issuer bid ("NCIB") to repurchase and cancel up to 4,529,956 of its common shares at a maximum price of $1.34 on or before September 22, 2012. As at September 30, 2011, no shares had been repurchased, but 186,300 common shares have subsequently been repurchased for $233,127, including broker commissions.

OUTLOOK

The Corporation's ability to generate net income in the long-term is dependent on the successful redeployment of cash into new assets or revenue streams. As discussed under the "Business and Profile" section, herein, management has assessed a number of potential investment opportunities, but none have met the key criterion of increasing shareholder value. Management will continue to assess investment opportunities through 2011, but the timing for reinvesting in new oil and gas assets or revenue streams is uncertain, as is the exact form that such a transaction will take.

In the near term, until such a transaction transpires, management is focusing on cost containment to preserve the cash and capital of the Corporation. It is expected that interest income will be sufficient to cover operating and administrative expenses and that earnings will generally be flat.

OPERATIONAL REVIEW

Petroleum and natural gas revenues and production

($ thousands, except as indicated)	**For the three months ended September 30**		**For the nine months ended September 30**	
	2011	2010	**2011**	2010
Revenues				
Heavy oil	**-**	-	**-**	7,121
Light oil	**9**	45	**35**	100
Natural gas	**-**	42	**30**	143
	9	87	**65**	7,364
Production volumes and prices				
Total production (boe)	**17**	2,458	**1,785**	140,249
Average daily production (boe)	**-**	27	**7**	514
Average realized selling price – oil ($/bbl)	**N/A**[1]	79.79	**70.27**	61.02
Average realized selling price – natural gas ($/mcf)	**-**	3.69	**3.94**	4.33

[1] Information is not presented on a per unit basis for the three months ended September 30, 2011 as the negligible level of production does not yield meaningful results.

Prior to the disposal of the Corporation's controlling interest in Serrano in May 2010, the majority of the Corporation's revenue came from sales of heavy oil produced by Serrano. Without the benefit of Serrano's operations, production and revenues are significantly lower for the three and nine months ended September 30, 2011 compared with the same periods in 2010. Further, the Corporation negotiated the sold of the majority of its remaining P&NG assets, effective June 1, 2011, so production and revenues further declined during the third quarter of 2011.

Royalties

The Corporation pays royalties to the governing bodies in the jurisdictions in which it produces, as well as to land holders and other industry participants. Royalties, including in-kind royalties incurred for production during the three and nine months ended September 30, 2011 and 2010 are as follows:

($ thousands, except as indicated)	**For the three months ended September 30**		**For the nine months ended September 30**	
	2011	2010	**2011**	2010
Total royalty expense	**-**	12	**6**	1,076
Average royalty expense ($/boe)	**-**	4.88	**3.36**	7.67

During 2011, the Corporation's royalty expense per boe decreased from 2010. This reflects the Corporation's shift in production from oil to natural gas following the disposal of Serrano in May 2010, and a general decline in levels of production; royalties are calculated on a sliding scale based on production and are higher for oil production than for natural gas. For the three months ended September 30, 2011, the Corporation's low production resulted in negligible royalties.

Operating (recovery) expense

($ thousands, except as indicated)	**For the three months ended September 30**		**For the nine months ended September 30**	
	2011	2010	**2011**	2010
Operating (recovery) expense	**(42)**	98	**256**	3,482
Average operating (recovery) expense ($/boe)	**N/A**[1]	39.87	**143.40**	24.83

[1] Information is not presented on a per unit basis for the three months ended September 30, 2011 as the negligible level of production does not yield meaningful results.

A $42 thousand recovery of operating costs was recorded for the three months ended September 30, 2011 resulting from the settlement of certain operating liabilities for $86 thousand, while an accrual for $160 thousand had been established in previous periods. Excluding the impact of this cost recovery, operating costs for the quarter were $32 thousand. The reduction in this amount from the operating costs for three months ended September 30, 2010 is a result of the declining production realized through the disposal of the Corporation's oil and gas assets. These disposals have also resulted in lower operating costs for the nine months ended September 30, 2011 compared with the same period in 2010. Costs on a per boe basis increased for the nine months ended September 30, 2011 compared with those for 2010, as levels of production have declined to negligible amounts, so certain fixed operating costs are averaged over a lower boe base as that for 2010.

General and administrative ("G&A") expenses and stock-based compensation

($ thousands, except as indicated)	**For the three months ended September 30**		**For the nine months ended September 30**	
	2011	2010	**2011**	2010
General and administrative expenses	**278**	368	**902**	6,257
Stock-based compensation	**-**	1,592	**-**	3,087

Following the Corporation's disposal of its Serrano operations in 2010 and further asset disposals in the second quarter of 2011, G&A costs decreased significantly as a result of smaller back-office support required to administer day-to-day operations. Total G&A expense for the nine months ended September 30, 2011 comprised $323 thousand in consulting fees and salaries for executive, accounting, land and administrative personnel; $266 thousand for legal, transfer agent, listing and audit fees; $158 thousand in directors' fees; and $155 thousand in other office and administrative costs.

During the three and nine months ended September 30, 2010, the Corporation recorded expenses for stock-based compensation, which reflected increases to the fair value of stock appreciation rights and the vesting-period recognition of the fair values of certain stock options granted by Serrano. During 2011, no stock appreciation rights were outstanding and all stock options outstanding were fully vested. As such, no equivalent charges have been incurred in 2011.

Revaluations, impairment, depletion and depreciation

($ thousands, except as indicated)	**For the three months ended September 30**		**For the nine months ended September 30**	
	2011	2010	**2011**	2010
Revaluation of assets and liabilities held for sale	**-**	-	**140**	-
Impairment of exploration and evaluation properties and property, plant and equipment	**-**	10	**4**	88
Depletion and depreciation	**6**	59	**34**	3,836

In the first quarter of 2011, the Corporation classified all its remaining P&NG assets and related liabilities as held for sale. As such, no depletion is recorded on these assets, but rather they are measured at their fair value less costs to sell and during the second quarter of 2011, a $140 thousand write-down on the revaluation of these assets and liabilities was recorded. As at September 30, 2011 the value of these assets, net of related liabilities is $nil, and no further write-downs have been recorded during the third quarter of 2011.

Prior to classification as held for sale, exploration and evaluation properties were not depleted, but were rather assessed for impairment. As the Corporation did not intend to develop these properties, all costs incurred on these properties were written off through an impairment charge. As such, a $4 thousand impairment charge was recorded on these properties for the first quarter of 2011, while charges of $10 thousand and $88 thousand were recorded for the three and nine months ended September 30, 2010, respectively.

Depletion and depreciation includes unit-of-production depletion of the Corporation's P&NG properties prior to their classification as held for sale and straight-line depreciation on the Corporation's office equipment. Following the disposal of Serrano in the second quarter of 2010, levels of production were lower for the first quarter of 2011 compared with the first and second quarters of 2010 as was the average value of assets subject to depletion, resulting in a decrease in the depletion and depreciation.

Interest and financing expense

($ thousands, except as indicated)	**For the three months ended September 30**		**For the nine months ended September 30**	
	2011	2010	**2011**	2010
Financing costs	**-**	3	**2**	71
Interest expense	**-**	-	**-**	711

Financing costs is made up of accretion on the Corporation's asset retirement obligation. Since the first quarter of 2011, the Corporation classified its asset retirement obligation as held for sale with related P&NG assets. As such, the Corporation no longer records a financing charge for these liabilities as they are measured at fair value with changes to fair value recorded in the revaluation expense for assets and liabilities held for sale, as discussed under the previous section. Financing costs recorded for the nine months ended September 30, 2011 and for the three and nine months ended September 30, 2010 resulted from accretion expense recorded prior to the reclassification of the asset retirement obligation as held for sale.

Interest expense recorded in the nine months ended September 30, 2010 is made up of cash interest charges and the amortization of deferred financing costs related to a note payable and bank debt outstanding. Both facilities were repaid during the first two quarters 2010, so no equivalent charges have been incurred in the third quarter of 2010 or in the nine months ended September 30, 2011.

Other income (expenses)

($ thousands, except as indicated)	**For the three months ended September 30**		**For the nine months ended September 30**	
	2011	2010	**2011**	2010
Interest income	**237**	124	**781**	131
Bad debts recovery (expense)	**15**	-	**30**	(39)
Other (loss) income	**-**	(39)	**-**	84
Net loss – equity investment	**-**	-	**-**	(1,053)
Gain on disposal of Marble Point	**-**	-	**-**	15,382
Gain on disposal of Serrano	**-**	-	**-**	11,351
Gain on disposal of E&E properties	**-**	-	**-**	4,980

In the nine months ended September 30, 2010, the corporation disposed of its controlling interest in Serrano and its equity investment in Marble Point, recording gains of $11.4 million and $15.4 million respectively. Prior to its disposal, the Corporation recorded a $1.1 million loss on its equity investment in Marble Point for the nine months ended September 30, 2010.

The proceeds from the disposals of Serrano and Marble Point, combined with the proceeds from the exercise of warrants in the fourth quarter of 2010 and first quarter of 2011, resulted in an increase to the Corporation's cash position, which was $79.7 million as at September 30, 2011. The Corporation keeps its cash in operating and term-deposit accounts earning between 1.10% and 1.30%, and interest revenue was $0.2 million and $0.8 million for the three and nine months ended September 30, 2011, respectively.

During the first quarter of 2010, Serrano disposed of its Blackrod exploration and evaluation property. The Corporation recorded a $5.0 million gain on the disposal of this asset.

Income taxes

($ thousands, except as indicated)	**For the three months ended September 30**		**For the nine months ended September 30**	
	2011	2010	**2011**	2010
Current income tax expense	**-**	-	**-**	-
Future income tax recovery (expense)	**-**	-	**-**	153
	-	-	**-**	153

For the three and nine months ended September 30, 2011, the Corporation has incurred taxable losses and did not incur current income tax expenses for these periods. As the Corporation has negligible operating revenues at this time, no future income tax benefits from current-period losses are recognized.

The future income tax recoveries recorded for the nine months ended September 30, 2010 relate to the operations of the Corporation's Serrano subsidiary, disposed in the second quarter of 2010.

Consistent with prior periods, no tax benefits have been recorded for losses incurred by the Corporation or for the benefits of its tax pools, as it is not more likely than not that any future income tax benefits from these amounts would be realized from the Corporation's remaining properties.

The Corporation's tax pools at September 30, 2011 totaled $62.6 million on a gross basis and are allocated as follows:

Tax pool	Value ($ thousands)
Canadian oil and gas property expenses	3,365
Canadian development expenses	269
Canadian exploration expenses	6,669
Undepreciated capital costs	2,278
Non-capital loss carry-forwards	28,961
Capital loss carry-forwards	19,989
Share issuance costs	1,086

A full valuation allowance has been recognized against the future tax-effected benefit from these pools as it is not likely that these benefits will be realized through future taxable income. At such a point when the Corporation demonstrates the ability to earn taxable income on a consistent basis, this valuation allowance may be partially or fully reversed.

Attribution of net income (loss) and comprehensive income (loss)

($ thousands, except as indicated)	**For the three months ended September 30**		**For the nine months ended September 30**	
	2011	2010	**2011**	2010
Net income (loss) and comprehensive income (loss) attributed to shareholders of the Corporation	**19**	(1,970)	**(468)**	18,426
Net income and comprehensive income attributed to non-controlling interests	**-**	-	**-**	1,319
Net income (loss) and comprehensive income (loss)	**19**	(1,970)	**(468)**	19,745

Prior to its disposal in the second quarter of 2010, income earned by the Corporation's Serrano subsidiary was attributed between the Corporation's controlling share and interests held by non-controlling parties. Following the disposal of Serrano, all consolidated net income (loss) and (loss) comprehensive income is attributed to shareholders of the Corporation.

QUARTERLY HIGHLIGHTS

($ thousands, except as indicated)	**Q3 2011**	**Q2 2011**	**Q1 2011**	**Q4 2010**	**Q3 2010**	**Q2 2010**	**Q1 2010**	**Q4 2009[1]**
Revenues								
Oil and natural gas sales, net of royalties	9	14	35	63	74	2,053	4,161	5,793
Interest income, net of interest expense	237	272	272	147	124	(311)	(393)	(333)
Expenses								
Operating (recovery) expense	(42)	79	219	344	98	1,277	2,106	2,170
Depletion, depreciation, impairments and revaluations	6	140	31	956	70	1,214	2,640	3,294
General and administrative costs and stock-based compensation	278	366	258	505	1,960	5,240	2,145	2,012
Financing costs	-	-	2	2	3	28	41	1,027
Net (loss) income – equity investment	-	-	-	-	-	(1,543)	489	(2,144)
Income tax recovery (expense)	-	-	-	-	-	961	(808)	81
Net income (loss) and comprehensive income (loss)	19	(302)	(185)	(1,563)	(1,970)	20,136	1,580	(5,583)
Basic and diluted (loss) income loss per share – attributable to shareholders of the Corporation	0.00	(0.01)	0.00	(0.03)	(0.04)	0.47	(0.03)	(0.66)
Working capital surplus (deficiency)	79,523	79,497	79,799	75,633	67,152	65,844	7,570	(13,226)

[1] 2009 amounts are presented in accordance with Canadian GAAP and have not been adjusted for the impacts of IFRS. Additionally, per share amounts reported in 2009 are based on shares outstanding prior to a 25:1 share consolidation in the fourth quarter of 2009. All amounts reported for 2010 and 2011 have been prepared in accordance with IFRS and are based on post-share consolidation shares outstanding.

Oil and natural gas sales, net of royalties decreased throughout 2010 and into the first two quarters of 2011 as a result of the disposals of assets held by Serrano in May 2010 and an increase in the number of remaining wells being shut-in. This decrease in production activity has generally led to corresponding decreases in operating costs and depletion and depreciation. Additionally, due to the disposals of Serrano and Marble Point and decreases in the number of remaining producing wells, the Corporation's operations have simplified, resulting in a decline in general and administrative costs.

In the second quarter of 2010, the Corporation recorded $26.7 million in total gains from the dispositions of Serrano and Marble Point, which resulted in a profitable second quarter of 2010. Additionally, the proceeds from these disposals were used to repay loans payable at December 31, 2009, and net proceeds to the Corporation were $63.8 million. Consequently, interest income on the cash balance, net of interest expense on the loans payable, has increased in the second half of 2010 and throughout 2011.

LIQUIDITY & SOURCES OF CAPITAL

The Corporation's working capital consists of cash and cash equivalents and accounts receivable, offset by accounts payable. As at September 30, 2011 there was a surplus in working capital of $79.5 million, including cash and cash equivalents of $79.7 million. In addition, the Corporation had $62.6 million in total tax pools available reduce future taxable income, although no benefit has been recognized for these pools.

The Corporation's working capital surplus is in excess of immediate and near term operating requirements, and enables the Corporation to consider a number of alternatives to reinvest in the oil and gas sector. If required, the Board will seek conventional and alternative methods of financing to enable the Corporation to acquire assets or participate in other investments in the oil and gas sector, but it is not expected that the Corporation will require additional financing in the near term.

Share capital

As at September 30, 2011 and the date of this MD&A, the Corporation had 58,468,718 common shares and 2,484,800 stock options outstanding.

Contractual obligations, commitments and contingencies

In the normal course of business, the Corporation may enter into various contractual obligations, which could include the following:

- management or professional services agreements;
- royalty agreements;
- processing agreements;
- right of way agreements; and
- lease obligations for office premises and equipment.

Effective December 1, 2010, the Corporation entered into an agreement with a related party for the provision of services filled by the Corporation's Interim Chief Financial Officer and Corporate Secretary, as well as certain administrative support. The term of this agreement is two years, automatically renewing on an annual basis thereafter, although it can be cancelled on two months' notice. Monthly fees payable under this agreement are $10,000, and all related expenses are reimbursed by the Corporation.

The Corporation's operating lease for office space is renewed on a month-month basis at a cost of approximately $4,000 per month.

The Corporation has no other capital or operating commitments and management is unaware of any contingent liabilities to which the Corporation is exposed.

RELATED PARTY TRANSACTIONS

During the nine months ended September 30, 2011 the Corporation recorded an expense of $96,500 for consulting services provided by Michael Atkinson and Harry Knutson, two directors of the Corporation, or to parties related to these directors. The fees were for management and business development services provided in the normal course of business, and have been measured at an exchange amount also considered to be equivalent to the amount that would have been paid to an unrelated third party.

As described under the heading "Contractual obligations, commitments and contingencies" section herein, the Corporation is party to a management services agreement for services provided by the Corporation's Interim Chief Financial Officer, Corporate Secretary and for other administrative services. The counterparty to the agreement is Ionic Management Services, which is related through affiliation with the Interim Chief Financial Officer. For the nine months ended September 30, 2011, the Corporation recorded an expense of $100,900 for such services with $10,673 in accounts payable as at September 30, 2011.

OFF BALANCE SHEET ARRANGEMENTS

Disclosure is required regarding all off-balance sheet arrangements such as transactions, agreements or contractual arrangements with unconsolidated entities, structured finance entities, special purpose entities or variable interest entities that are reasonably likely to materially affect the liquidity of or the availability of, or requirements for, capital resources. The Corporation had no such off-balance sheet arrangements as at September 30, 2011.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Corporation is engaged in the exploration, development and production of crude oil and natural gas. The oil and gas business is inherently risky and there is no assurance that hydrocarbon reserves will be discovered and economically produced.The Corporation is exposed to a number of business risks, some of which are beyond its control, as are all companies in the oil and natural gas exploration and production industry. These risks can be categorized as operational, regulatory, liquidity, credit, and market risks.

Operational risks

Operational risks include the risk that P&NG exploration activities may not yield any exploitable reserves, or that any such reserves identified by the Corporation cannot be economically developed. Specific related risks include the risks that:

- required land rights are not obtained or maintained;
- reservoir production is not effectively managed;
- production processes and costs are not effectively managed;
- the Corporation may not be able to market its P&NG production; and
- skilled and qualified personnel cannot be hired or retained.

The Corporation manages these risks by entering into projects with partners who have the internal expertise, experience and ability to oversee successful exploration and development activities. In addition, the Corporation outsources certain activities to recognized industry experts for certain marketing, engineering and land functions.

Regulatory risks

The exploration, development and extraction of P&NG reserves is managed by various levels of government, which oversee issues such as land management and environmental reclamation. There is a risk that the Corporation may face penalties or lawsuits should it not adhere to government regulations. To mitigate this risk, the Corporation hires third-party consultants to monitor environmental regulations and develop or manage programs to help the Corporation comply with current environmental legislation. The Corporation has also put in place a corporate safety program and a site-specific emergency response program to help manage these risks.

Increased public and political concern regarding climate change issues will likely result in increased regulation regarding emissions standards. Given that the Corporation produces hydrocarbons, such regulation may not only cause the Corporation to alter its growth strategy and operating practices, but could also result in additional costs and taxes associated with climate change regulation. Climate change matters and their potential impact on the Corporation are monitored by management, through frequent consultation the Corporation's with legal counsel.

Liquidity risk

Liquidity risk is the risk that the Corporation may not be able to meet its financial obligations as they come due. This risk has historically been managed by closely monitoring its financial position and forecasting future cash flows on at least a monthly basis, such that an additional need for capital can be identified as soon as possible. As the oil and gas industry is very capital intensive, the majority of the Corporation's spending was historically related to capital expenditure programs. The objective of the Corporation is to prudently spend its capital while maintaining its credit reputation amongst its suppliers. The Corporation attempts to maintain aged payables of less than 90 days.

For the nine months ended September 30, 2011, the Corporation did not have significant levels of production from its remaining oil and gas assets or near-term operating obligations. Cash and cash equivalents of $79.7 million far exceeded accounts payable and accrued liabilities of $0.2 million and other financial obligations as at September 30, 2011. Under its current level of operations, liquidity risk is not considered significant; however, should the Corporation acquire new oil and gas assets or revenue streams, this risk may increase.

Market risks

Market risks to which the Corporation is exposed include unfavorable movements in commodity prices, interest rates, and foreign exchange rates. As at September 30, 2011, the Corporation has disposed of most of its producing assets and holds a significant cash position. Consequently, its exposure to these risks has been significantly reduced, but as the Corporation redeploys its cash, exposure to these risks may increase. The objective of the Group is to mitigate exposure to these risks while maximizing returns.

Commodity price risk

The Corporation is exposed to adverse consequences such as declining revenue and asset recoverability in the event of declining oil and gas prices. The Corporation manages commodity price risk by updating and monitoring forecast cash flows and profitability and taking appropriate actions as needed. To date, the Corporation has not used hedging strategies, such as forward oil and natural gas sale contracts to lock-in prices with respect to future deliveries, to counter commodity price risk, but it may do so in the future.

Interest rate risk

As at September 30, 2011, the Corporation's exposure to movements in interest rates was limited to potential decreases in interest income from variable rate interest income on its cash and cash equivalents. The Corporation mitigates its exposure to this risk by holding its cash and cash equivalents in a combination of fixed and variable interest rate accounts, held with three Canadian chartered banks. As at September 30, 2011, $40.4 million of the Corporation's cash and cash equivalents were held in a fixed interest rate account, and $39.3 million was held in variable interest rate accounts based on Canadian prime rates. Based on these allocations, an immediate and prolonged 1% decrease in market interest rates would result in a $0.4 decrease in pre-tax interest income over a 12-month period, and an immediate and prolonged 1% increase in market interest rates would result in a $0.4 million increase in pre-tax interest income over a 12-month period.

Foreign exchange risk

Although the Corporation's P&NG revenues are denominated in Canadian dollars, the underlying market prices of these commodities are quoted in United States dollars, exposing the Corporation to fluctuations in the exchange rate between the Canadian and the United States dollar. The Corporation does not make any significant foreign currency denominated payments. Management monitors foreign exchange rate movements, but as at September 30, 2011 the Corporation had no currency hedging contracts in place to manage foreign exchange risk and no such contracts have been utilized during 2011.

Credit risk

Credit risk is the risk of default on payment by counterparties to financial assets held by the Corporation. Virtually all of the Corporation's accounts receivables are concentrated with a limited number of customers and joint venture partners in the oil and gas industry. Management considers this concentration of credit risk to be acceptable, as customers are major industry participants, and receivables from partners are protected by effective industry standard legal remedies. The Corporation requires cash calls from its partners on major field projects in advance of commencement.

Consolidated accounts receivable as at September 30, 2011 were $0.1 million, net of a $0.2 million provision for bad debts on one account.

The maximum exposure to credit risk is therefore represented by the carrying amount of accounts receivable on the consolidated statement of financial position. In the immediate future, it is not expected that the Corporation's exposure to credit risk will be significant, until such time as cash is redeployed in new P&NG assets.

Concentration risk

Concentration risk is the risk that a significant proportion of the Corporation's cash and cash equivalents are held with one financial institution, exposing the Corporation to the risk that this institution may not have the liquidity to honour withdrawals or redemptions of the Corporation's funds. Concentration risk is managed by placing cash and cash equivalents between several chartered Canadian banks.

As at September 30, 2011, the largest holding of cash and cash equivalents with one financial institution was $40.3 million.

CRITICAL ACCOUNTING POLICIES AND MEASUREMENT UNCERTAINTY

Critical accounting policies

The Corporation's accounting policies are discussed in detail in Note 3 of the unaudited condensed consolidated interim financial statements as at and for the three and nine months ended September 30, 2011. Critical accounting policies are as follows:

i. Financial instruments

Financial instruments consist of financial assets and financial liabilities and are initially recognized at fair value net of transaction costs, if applicable. 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 follows:

Financial assets

Financial assets comprise cash and cash equivalents, accounts receivable and restricted cash. Cash and cash equivalents comprise cash held at financial institutions and bank short-term deposits with maturities of three months or less at the date of acquisition, and are measured at fair value through profit and loss. Accounts receivable are classified as loans and receivables and are recorded at amortized cost less any impairment. Restricted cash includes cash that has been designated for various operational or environmental reclamation purposes, and is measured at fair value through profit and loss.

Financial liabilities

Financial liabilities comprise accounts payable and accrued liabilities, and amounts due to related parties. All of these instruments are classified as financial liabilities measured at amortized cost using effective interest rate method. Under this classification, all cash flows from these instruments are discounted, where material, to their present value. Over time, this present value is accreted to the future value of remaining cash flows, and this accretion is recorded as interest expense.

ii. Non-current assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. This condition is when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification as held for sale.

Immediately before classification as held for sale, the assets, or components of a disposal group, are re-measured in accordance with the company's accounting policies. Thereafter, the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Fair value is based on recent purchase offers, market transactions for similar assets, or appropriate valuation models.

Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognized in the consolidated statement of income (loss) and comprehensive income (loss). Property, plant and equipment and intangible assets are no longer depreciated once classified as held for sale, but interest and other expenses attributable to the liabilities of a disposal group or asset held for sale is recognized.

iii. Exploration and evaluation properties

All costs directly associated with the exploration and evaluation ("E&E") of P&NG reserves, incurred after acquiring the legal right to explore, are capitalized as E&E properties. Capitalized E&E costs are those expenditures where technical feasibility and commercial viability has not been yet been determined and may include license and unproved property acquisition costs, geological and geophysical costs and costs of drilling exploratory wells.

Except for certain lease costs which may be amortized over the term of the lease, E&E costs are classified as intangible assets and are not depleted, but are rather tested annually for impairment. When the technical feasibility and commercial viability of an E&E property is known, the property is subject to an impairment assessment and its residual carrying value is reclassified as property, plant and equipment.

iv. Property, plant and equipment (“PP&E”)

Measurement

PP&E related to P&NG properties is initially recognized at cost which includes all costs directly associated with the development of P&NG reserves where technical feasibility and commercial viability is determined. Such costs include drilling costs of development wells, tangible costs of facilities and infrastructure construction, costs of optimization and enhanced recovery projects, proved property acquisition costs, asset retirement costs, transfers from E&E assets and borrowing costs relating to qualifying assets.

Expenditures on major maintenance repairs comprise the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Where an asset or part of an asset that was separately depreciated is replaced and it is probable that future economic benefits associated with the item will flow to the company, the expenditure is capitalized and the carrying amount of the replaced asset is derecognized. Inspection costs associated with major maintenance programs are capitalized and amortized over the period to the next inspection. Normal repairs and maintenance costs are recorded as an expense in the consolidated statement of income (loss) and comprehensive when (loss) incurred.

PP&E is subsequently carried at cost less accumulated depletion, depreciation, and any impairment. Gains and losses on disposals are determined by comparing disposal proceeds with the carrying amounts of assets sold and recognized in the consolidated statement of income (loss) and comprehensive income (loss) and reported within interest and other income or expenses.

Depletion, depreciation and amortization

PP&E equipment relating to P&NG properties, including related facilities, are depleted and depreciated using the unit-of-production method over the proved reserves of the area. Where the Corporation intends to develop existing undeveloped, proved reserves, estimated future costs to develop proved reserves are included in costs subject to depletion, which are then depleted over total proved reserves. When the Corporation does not intend to develop existing undeveloped, proved reserves, the costs subject to depletion do not include future development costs, and the cost base is depleted over developed, proved reserves.

Impairment

The carrying value of PP&E is reviewed for impairment for quarterly. If indicators exist that non-financial assets are impaired, an impairment test is carried out in which the carrying amounts of those assets are written down to their recoverable amount, which is the higher of fair value less costs to sell and value-in-use.

v. Asset retirement obligations

The company recognizes an asset retirement obligation for abandoning P&NG wells, related facilities, removal of equipment from leased acreage and for returning such land to its original condition in the period a well or related asset is drilled, constructed or acquired. The asset retirement is estimated at the present value of the estimated expected future cash outflows, discounted using a risk–free interest rate. The discounted obligation is initially capitalized as part of the carrying amount of the related property, plant and equipment and a corresponding liability is recognized.

Subsequent to initial recognition, the obligation is reviewed regularly by management, based upon current regulations, costs, technologies and industry standards, as well as to changes in the risk-free rate. The effects of changes resulting from revisions to the timing or the amount of the original estimate of the provision are reflected on a prospective basis, generally by adjustment to the carrying amount of the related property, plant and equipment. The accretion of the obligation is recorded as a financing cost in the consolidated statement of income (loss) and comprehensive income (loss), and actual abandonment and reclamation expenditures are charged to the accumulated obligation as incurred and obligations related to properties disposed are removed.

The amount of the capitalized retirement obligation is depleted and depreciated on the same basis as the other capitalized property, plant and equipment.

vi. Stock-based compensation

Stock options granted by the Corporation to directors, officers, employees and consultants are measured at their fair values. Fair values of stock options issued are determined on their grant date, using the Black-Scholes option pricing model, and are recognized as an expense over the vesting periods of the options; a corresponding increase is recorded to contributed surplus.

When stock options are exercised, the cash proceeds along with the amount previously recorded as contributed surplus are recorded as share capital. When the right to receive options is forfeited before the options have vested, any expense previously recorded is reversed.

The fair value of stock appreciation rights granted by the Corporation is assessed at grant date and each reporting date. Stock appreciation rights are cash-settled instruments, with the cash settlement amount being the difference between the exercise price of the instrument and the Corporation's share price on the date of exercise. The fair value of each stock appreciation right is recorded as a liability, and is determined as the excess, if any, between the Corporation's share price on the assessment date and the exercise price of each right. The movement in value since the prior reporting period is recorded in the consolidated statement of income (loss) and comprehensive income (loss), with a corresponding adjustment to the liability on the consolidated statement of financial position.

vii. Income taxes

Tax provisions are recognized when it is considered probable that there will be a future outflow of funds to a taxing authority. In such cases, provision is made for the amount that is expected to be settled, where this can be reasonably estimated. This requires the application of judgment as to the ultimate outcome, which can change over time depending on facts and circumstances. A change in estimate of the likelihood of a future outflow and/or in the expected amount to be settled would be recognized in income in the period in which the change occurs.

Deferred tax assets or liabilities arising from temporary differences between the tax and accounting values of assets and liabilities, are recorded based on tax rates expected to be enacted when these differences are reversed. Deferred tax assets are recognized only to the extent it is considered probable that those assets will be recovered. This involves an assessment of when those deferred tax assets are likely to be realized, and a judgment as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as in the amounts recognized in income in the period in which the change occurs.

Measurement uncertainty

Management is required to make estimates and assumptions that affect the reported amounts and presentation of assets, liabilities, revenues, expenses and disclosures of contingencies and commitments. Although these estimates are based on management's expectations for the likely outcome, timing and amounts of events or transactions, actual results may differ from these expectations and the corresponding amounts and disclosures reported in these financial statements.

Areas where management is required to make significant estimations or where measurements are uncertain are as follows:

i. P&NG reserves

Using geological and engineering data, estimates of petroleum and natural gas reserves are determined. These reserves form the basis for the depletion of P&NG properties, which are depleted on a unit-of-production basis, as well as the impairment assessment of these properties.

The data used to determine reserves is based on drill results and production and reserve models, which are inherently imprecise. The Company engages a recognized reserves engineering firm, annually, to update its estimated petroleum and natural gas reserves based on new information such as additional drill results, long-term reservoir production, changes to expectations for the economic viability of reserves, and changes to property leases or intentions for property development. Changes to reserve estimates are applied prospectively, and could result in increases or decreases to future depletion expenses or the carrying value of these properties.

ii. Impairment of E&E and P&NG properties

In addition to estimates of P&NG reserves, management's impairment assessment, and the resulting carrying value of E&E and P&NG properties, is based on factors such as the future prices of oil and natural gas, future P&NG production costs, the timing and amount of future P&NG production, fair values and the costs to sell these properties, and expectations for the intended use of these properties.

These estimates are forward-looking and are therefore subject to change. Actual outcomes that differ from those estimated by management could result in future impairment expenses or impairment reversals, and increases or decreases to the carrying values of E&E or P&NG properties.

iii. Asset retirement obligation

The Corporation's provision for asset retirement obligations requires management to estimate the timing and amount of cash flows required to retire its P&NG assets. These cash flows are based on management assumptions for P&NG reserves and production, which determine the timing of reclamation expenditures, as well as expectations for the future costs and legal or constructive requirements for environmental reclamation.

Changes to either the timing or amount of the cash flows required for asset retirement, or to the discount rate used to record the present value of these cash flows, are considered prospectively. Such changes could increase or decrease the asset retirement obligation reported by the Corporation, and will ultimately result in changes to the total expense for environmental reclamation.

iv. Taxation

Tax provisions are recognized to the extent that it is probable that there will be a future outflow of funds to a taxation authority. Such provisions often require judgment on the treatment of certain taxation matter that may not have been reported to or assessed by the taxation authority at the date of these financial statements. Differences in judgment by the taxation authority could result in changes to actual taxes payable by the Corporation.

Deferred tax assets are recognized to the extent that certain taxable losses or deferred expenditures will be utilized by the Corporation to reduce future taxes payable. The amount of deferred tax assets recognized, if any, is based objective evidence that the Corporation will generate sufficient future taxable income to utilize these deferred assets, as well as the expected future tax rates that will apply to these assets. Changes to the Corporation's ability to generate sufficient taxable income or changes to enacted tax rates could result in the write-down of deferred tax assets, or the recognition of new deferred tax assets.

v. Stock-based compensation

The Corporation uses the Black-Scholes option pricing model to determine the fair value of stock options and share purchase warrants granted. This model requires management to estimate the volatility of the Corporation's future share price, expected lives of stock options and future dividend yields. Consequently, there is significant measurement uncertainty in the stock-based compensation expense reported.

CHANGES IN ACCOUNTING POLICIES AND TRANSITION TO IFRS

On January 1, 2011, the Corporation adopted IFRS for financial reporting purposes, using a transition date of January 1, 2010. The unaudited condensed consolidated interim financial statements as at and for the three and nine months ended September 30, 2011, including required comparative information, have been prepared in accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards, and with International Accounting Standard ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). Previously, the company prepared its interim and annual consolidated financial statements in accordance with Canadian GAAP.

Changes in accounting policies

The transition to IFRS necessitated certain changes to the Corporation's accounting policies that resulted in differences between amounts previously reported under Canadian GAAP and those reported under IFRS.

A comprehensive reconciliation between Canadian GAAP and IFRS balances is provided in Note 4 of the unaudited condensed consolidated interim financial statements as at and for the three and nine months ended September 30, 2011, but the following table provides a summary of the IFRS changes to the Company's 2010 loss before income taxes:

($ thousands, except as indicated)	**Three months ended September 30 2010**	**Nine months ended September 30 2010**	**Year ended December 31 2010**
Net (loss) income before taxes and non-controlling interests under Canadian GAAP	(2,002)	8,909	7,341
IFRS gain on disposal of exploration and evaluation properties (note i)	-	4,980	4,980
Decrease in depletion and impairment under IFRS (note i)	21	5,352	5,346
Decrease in gain on sale of subsidiary under IFRS (notes i and ii)	-	(1,811)	(1,811)
Decrease in financing costs under IFRS (note ii)	11	90	101
Increase in interest expense under IFRS (note iii)	-	(440)	(440)
Decrease in net income – equity investment under IFRS (note iv)	-	(27)	(27)
Increase in gain on disposal of equity investment under IFRS (note iv)	-	2,539	2,539
Income tax recovery under IFRS	-	153	153
Net (loss) income and comprehensive (loss) income, per IFRS	1,970	19,745	18,182

i. Exploration and evaluation properties and property, plant and equipment

Under Canadian GAAP, the Corporation capitalized all costs related to the acquisition, exploration and development of its P&NG properties in a single cost pool. This cost pool was depleted on a unit-of-production basis over the Corporation's aggregate reserves, and was assessed for impairment as a whole. When properties were disposed, the carrying value of the cost pool was reduced by the amount of the proceeds received, and no gain or loss on disposal was recorded.

Under IFRS, the Corporation classifies assets for which no proved or feasible reserves have been determined as exploration and evaluation properties. These properties are not depleted, but are assessed for impairment on an individual property basis. Properties with proved and feasible reserves are classified as property, plant and equipment, and are individually depleted on a unit-of-production basis over the reserves of each property. When either exploration and evaluation properties or those classified as property, plant and equipment are disposed, the Corporation records a gain or loss on disposal for any difference between proceeds received and the carrying value of the property disposed.

The adoption of IFRS resulted in the Corporation recording a gain on the disposal of the Blackrod property by Serrano that had not been recorded under Canadian GAAP. In addition, calculating deletion and conducting assessments for impairment on individual properties resulted in differences in depletion and impairment recorded under IFRS. In turn, this led to changes in the carrying value of the Serrano subsidiary and the gain recorded on its disposal in the second quarter of 2010.

ii. Asset retirement obligation

Under Canadian GAAP, the Corporation used a credit and inflation-adjusted rate to discount future reclamation expenditures to their present value. Once established, this rate was not adjusted and accretion was recorded as an expense to reflect the unwinding of this discounted amount. Under IFRS the Corporation uses a risk free rate prevailing on the date of each consolidated statement of financial position to discount its reclamation liability.

Using a risk free rate prevailing on each balance sheet date resulted in adjustments to the carrying value Corporation's asset retirement obligation and accretion expense – reported as a financing fee – during 2010. Prior to its disposal in the second quarter of 2010, a portion of the Corporation's consolidated asset retirement obligation was held by Serrano, and the IFRS adjustment to the carrying value of the related obligation resulted in changes to the gain on the sale of this subsidiary.

iii. Debt origination fees

In 2009, the Corporation paid origination fees related to a note payable. Under Canadian GAAP, the Corporation recorded these fees as an expense in the period they were incurred. Under IFRS, the Corporation records these amounts as a reduction of the carrying value of debt at origination, and amortizes them over the life of the debt facility using the effective interest rate method.

iv. Equity investment

The corporation accounted for its investment in Marble Point using the equity method. As such, the financial statements of Marble Point must also be in compliance with IFRS, and any transitional adjustments it Marble Point's net and comprehensive income will be reflected in the Corporation's proportionate share.

Significant adjustments to Marble Point's financial statements under IFRS are owing to:

- Changes in the discount rate used to discount its asset retirement obligation, similar to the adjustments made by the Corporation, discussed under note ii, above;

- Differences in the recognition of stock-based compensation. Under Canadian GAAP, Marble Point recognized the fair value of stock-based compensation as an expense on a straight-line basis over the vesting period of the group of options granted. Under IFRS, the fair value attributed to options is recognized over the vesting period of each option.

- The reclassification of a compound financial instrument. Under Canadian GAAP, the value of a cash option feature of a long-term incentive plan was presented as a component of the plan liability. Under IFRS, the value attributed to this feature is presented as a component of equity.

As a result of these and other insignificant adjustments, the carrying value of the Corporation's share in Marble Point's net assets decreased under IFRS as at the date of the disposal of the investment, resulting in a larger gain on disposal under IFRS than that reported under Canadian GAAP.

Other impacts from the transition to IFRS

Cash flow classification

Under Canadian GAAP, the Corporation reported cash flows for interest paid on loans payable as cash flows from operating activities. Under IFRS, the Corporation reports these cash flows as financing activities. As a result, $0.2 million in related cash payments have been reclassified from cash flows from operating activities to cash flows from financing activities for the nine months ended September 30, 2010 and the year ended December 31, 2010.

There have been no other changes to operating, investing or financing cash flows as a result of the transition to IFRS.

Other impacts

The transition to IFRS has only resulted in adjustments to the Corporation's accounting policies and cash flow classification, and there have been no changes to accounting systems, processes or to the Corporation's operations.

DISCLOSURE CONTROLS AND PROCEDURES

On November 23, 2007, the ASC and the securities commissions in the other jurisdictions in which the Corporation is registered exempted Venture Issuers from certifying disclosure controls and procedures as well as Internal Controls over Financial Reporting. As the Corporation is a Venture Issuer, it is now required to file "basic certificates", which it has done for the three and nine months ended September 30, 2011.

ADDITIONAL INFORMATION

Further information on the Corporation can be found on SEDAR's website at www.sedar.com and Corporation's website at www.canadian-phoenix.com

CORPORATE DIRECTORY

DIRECTORS& OFFICERS:

Michael Atkinson
President & CEO
Director

Harry Knutson
Chairman & Director

Daryl Clark
Director

Bryce Rhodes
Director

John Downes, CA
Interim Chief Financial Officer

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LEGAL ADVISORS:

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AUDITORS:

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RESERVE ENGINEERS:

GLJ Petroleum Consultants
Calgary, Alberta

BANKER:

National Bank of Canada
Calgary, Alberta

REGISTRAR & TRANSFER AGENT:

Computershare Trust Company of Canada
Calgary, Alberta

STOCK EXCHANGE LISTING:

TSX Venture Exchange: Symbol "CXP"

COMMON SHARES OUTSTANDING:

58,282,418

COMMON SHARES OUTSTANDING:
(Fully diluted if all stock options are exercised as of the date of this report)

60,767,218