Audited Consolidated Financial Statements

December 31, 2011

3MV ENERGY

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Audit Committee is composed of a majority of Directors who are neither management nor employees of the Company. The Audit Committee is responsible for overseeing management in the performance of its financial reporting responsibilities, and for recommending approval of the financial information to the Board of Directors. The Audit Committee fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. The Audit Committee is also responsible for recommending the appointment of the Company's external auditors.

KPMG LLP, an independent firm of Chartered Accountants, is appointed by the shareholders to audit the financial statements and report directly to them. The external auditors have full and free access to the Audit Committee and management to discuss their audit findings.

April 30, 2012

(Signed) "Douglas McKinnon"
President and Chief Executive Officer

(Signed) "William (Billy) Abbey"
Vice President, Finance and Chief Financial Officer

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of 3MV Energy Inc.

We have audited the accompanying consolidated financial statements of 3MV Energy Inc., which comprise the consolidated statements of financial position as at December 31, 2011, April 30, 2011 and May 1, 2010, the consolidated statements of comprehensive loss, changes in shareholders' equity and cash flows for the eight month period ended December 31, 2011 and the twelve month period ended April 30, 2011, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of 3MV Energy Inc. as at December 31, 2011, April 30, 2011 and May 1, 2010, and its consolidated financial performance and its consolidated cash flows for the eight month period ended December 31, 2011 and the twelve month period ended April 30, 2011 in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements which describes that 3MV Energy Inc. incurred a net loss of $13.9 million during the eight month period ended December 31, 2011 and, as of that date, 3MV Energy Inc. had a working capital deficiency of $6.1 million. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt about 3MV Energy Inc.'s ability to continue as a going concern.

KPMG LLP

Chartered Accountants
Calgary, Canada
April 30, 2012

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KPMG Canada provides services to KPMG LLP.

3MV Energy Inc. (Formerly Seawall Energy Management Corp.)
Consolidated Statements of Financial Position

As at:

(Canadian dollars)	Note	**December 31, 2011** **$**	April 30, 2011 (Note 26) $	May 1, 2010 (Note 26) $
ASSETS				
Current assets				
Cash and cash equivalents	8	**15,021**	60,488	1,772,714
Accounts receivable	9	**1,217,666**	1,724,639	1,974,759
Inventory		**-**	28,339	13,453
Prepaid expenses and deposits		**37,406**	37,755	11,211
		1,270,093	1,851,221	3,772,137
Non-current assets				
Property and equipment	10	**11,742,149**	12,107,272	5,977,647
Exploration and evaluation assets	11	**314,780**	-	-
		12,056,929	12,107,272	5,977,647
Total Assets		**13,327,022**	13,958,493	9,749,784
LIABILITIES				
Current liabilities				
Bank indebtedness		**104,004**	582,641	-
Accounts payable and accruals	13	**5,691,567**	1,636,949	1,595,033
Bank operating loans	14	**1,530,000**	2,720,000	-
		7,325,571	4,939,590	1,595,033
Non-current liabilities				
Flow through premium liability		**112,122**	-	-
Deferred tax liability	16	**-**	1,120,768	1,071,148
Decommissioning liabilities	15	**1,743,075**	1,102,629	609,685
		1,855,197	2,223,397	1,680,833
SHAREHOLDERS' EQUITY				
Share capital	17	**18,551,791**	7,824,799	7,599,789
Contributed surplus		**400,007**	-	-
Warrants	17	**168,208**	-	22,510
Deficit		**(14,973,752)**	(1,029,293)	(1,148,381)
		4,146,254	6,795,506	6,473,918
Total Liabilities and Shareholders' Equity		**13,327,022**	13,958,493	9,749,784

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Approved on behalf of the Board of Directors on April 30, 2012:

"Douglas McKinnon"	*"Donald Fairholm"*
Douglas McKinnon	Donald Fairholm

The accompanying notes are an integral part of these consolidated financial statements.

3MV Energy Inc. (Formerly Seawall Energy Management Corp.)
Consolidated Statements of Comprehensive Loss

(Canadian dollars)	Notes	Eight months ended December 31, 2011 $	Twelve months ended April 30, 2011 (Note 26) $
Oil and natural gas revenues		**3,686,742**	4,105,732
Royalties		**(499,122)**	(457,670)
Total revenue		**3,187,620**	3,648,062
Production and operating		**1,324,716**	1,133,262
General and administrative		**2,298,168**	1,065,612
Depletion and depreciation	10	**1,722,388**	1,213,366
Impairment loss	12	**14,116,814**	-
Income (loss) from operations		**(16,274,466)**	235,822
Interest and other income		**8,159**	6,478
Finance costs		**(178,842)**	(71,076)
Gain on asset swap	7	**492,087**	-
Income (loss) before income tax		**(15,953,062)**	171,224
Income tax (expense) - current		**(19,042)**	(2,516)
Income tax (expense) recovery-deferred	16	**2,027,645**	(49,620)
Total income tax		**2,008,603**	(52,136)
Total comprehensive income (loss)		**(13,944,459)**	119,088
Income (loss) per share			
Basic and diluted	23	**(2.97)**	0.04

The accompanying notes are an integral part of these consolidated financial statements.

3MV Energy Inc. (Formerly Seawall Energy Management Corp.)
Consolidated Statements of Changes in Shareholders' Equity

(Canadian dollars)	Note	Number of shares outstanding #	Share capital $	Warrants $	Contributed Surplus $	Deficit $	Total Shareholders' equity $
As at May 1, 2010[(1)]	26	1,042,000	7,599,789	22,510	-	(1,148,381)	6,473,918
Shares issued		164,124	202,500	-	-	-	202,500
Total comprehensive income for the period		-	-	-	-	119,088	119,088
Expiration of warrants			22,510	(22,510)	-	-	-
As at April 30, 2011[(2)]	26	**1,206,124**	**7,824,799**	**-**	**-**	**(1,029,293)**	**6,795,506**
Shares exchanged on reverse takeover		(1,206,124)	-	-	-	-	-
Existing shares of Seawall		929,430	-	-	-	-	-
Shares issued to shareholders of 3 Martini Ventures Inc. upon reverse takeover	17	3,662,255	4,173,002	-	-	-	4,173,002
Shares Issued November 9, 2011	17	1,962,235	6,904,936	-	-	-	6,904,936
Flow through share premium	17		(182,738)				(182,738)
Fair Value of Warrants issued		-	(168,208)	168,208	-	-	-
Share based payment		-	-	-	400,007	-	400,007
Total comprehensive loss for the period		-	-	-	-	**(13,944,459)**	(13,944,459)
As at December 31, 2011		**6,553,920**	**18,551,791**	**168,208**	**400,007**	**(14,973,752)**	**4,146,254**

(1) At May 1, 2010 3 Martini had 511,000 class A common shares and 531,000 class B preferred shares.
(2) At April 30, 2011 3 Martini had 593,062 class A common shares and 613,062 class B preferred shares.

The accompanying notes are an integral part of these consolidated financial statements.

3MV Energy Inc. (Formerly Seawall Energy Management Corp.)
Consolidated Statements of Cash Flows

(Canadian dollars)	Note	Eight months ended December 31, 2011 $	Twelve months ended April 30, 2011 $
Cash provided by (used for) the following activities			
Operating activities			
Income (loss) for the period		**(13,944,459)**	119,088
Add (deduct):			
Depletion and depreciation	10	**1,722,388**	1,213,366
Gain on asset swap	7	**(492,087)**	-
Accretion	15	**28,030**	26,647
Deferred tax expense (recovery)	16	**(2,027,645)**	49,620
Share-based payments		**400,007**	
Impairment loss	12	**14,116,814**	
Change in non-cash working capital			
Account receivable		**646,397**	250,120
Inventory		**28,339**	(14,886)
Prepaid expenses and deposits		**349**	(26,544)
Accounts payable and accruals		**536,609**	(361,296)
Cash from operating activities		**1,014,742**	1,256,115
Investing activities			
Purchase of property and equipment		**(8,928,527)**	(6,876,694)
Exploration and evaluation assets		**(314,780)**	-
Proceeds from reverse take over	6	**934,373**	-
Net change in non-cash working capital		**3,012,426**	403,212
Cash used in investing activities		**(5,296,508)**	(6,473,482)
Financing activities			
Proceeds from bank operating loans		**(2,190,000)**	2,720,000
Change in bank indebtedness		**(478,637)**	582,641
Issuance of common shares		**6,904,936**	202,500
Cash from financing activities		**4,236,299**	3,505,141
Decrease in cash and cash equivalents		**(45,467)**	(1,712,226)
Cash and cash equivalents, beginning of period		**60,488**	1,772,714
Cash and cash equivalents, end of period	8	**15,021**	60,488

The accompanying notes are an integral part of these consolidated financial statements.

1. Reporting entity

Seawall Energy Management Corp., ("Seawall") was incorporated under the Business Corporations Act (Alberta) on March 4, 2010. Seawall was extra–provincially registered in British Columbia on March 29, 2010 under the assumed name "Seawall Oil & Gas Corporation" and extra-provincially registered in Saskatchewan on March 31, 2010. Seawall is based in Calgary and engaged in the exploration, development, production and acquisition of petroleum and natural gas reserves in Western Canada. On September 1, 2011 Seawall changed its legal name to 3MV Energy Inc. (the "Corporation"). The address of the registered office is #250, 305-10 Ave SE Calgary, Alberta T2G 0W2.

3 Martini Ventures Inc. ("3 Martini") was incorporated under the Business Corporations Act (Alberta) on March 31, 2008. 3 Martini is also extra–provincially registered in the province of Saskatchewan. 3 Martini owns and operates oil and gas properties in Saskatchewan. 3 Martini has a wholly owned subsidiary, Buckhorn Resources Ltd.

On June 30, 2011 Seawall and 3 Martini completed an Arrangement Agreement (the "Arrangement") in which each 3 Martini share was transferred to Seawall, and each holder thereof were entitled to receive from Seawall the consideration comprised of such number of Seawall shares as determined in accordance with the Exchange Ratio. The Exchange Ratio was 3.63 Seawall Shares for each 3 Martini Class A Share and 1.815 Seawall Shares for each 3 Martini Class B Share through which the 3 Martini shareholders acquired a majority share of Seawall. For accounting purposes, 3 Martini is considered the acquirer and Seawall the acquiree. In accordance with IFRS 3, the consolidated financial statements are in the name of 3MV Energy Inc. (formerly Seawall Energy Management Corp.), however are a continuation of the consolidated financial statements of 3 Martini Ventures Inc., the accounting acquirer. Additional information on the Arrangement is available in note 6.

The financial year end of the Corporation was changed from April 30 to December 31. Accordingly, the comparative figures for the consolidated statement of comprehensive loss, consolidated statement of changes in shareholders' equity, consolidated statement of cash flows and the related notes to the financial statements are for twelve month period ended April 30, 2011.

2. Basis of preparation

Statement of compliance

These consolidated financial statements comply with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These are the Corporation's first consolidated financial statements prepared in accordance with IFRS and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied. In previous years, the Corporation prepared its consolidated financial statements in accordance with Canadian generally accepted accounting principles in effect prior to January 1, 2011 ("Canadian GAAP"). As stated above these statements are a continuation of the consolidated financial statements of 3 Martini Ventures Inc., the accounting acquirer. See note 26 for details on the impact of the transition from Canadian GAAP to IFRS.

The consolidated financial statements were approved and authorized for issuance by the Board of Directors on April 30, 2012.

Going concern

For the eight months ended December 31, 2011, the Corporation reported a net loss of $13.9 million and had a working capital deficiency of $6.1 million. The Corporation's banking arrangements in place are likely not sufficient to fund the exploration and development program for the next twelve months and the Corporation is in violation of bank covenants and forecasts bank covenant violations. These conditions create a material uncertainty that may cast significant doubt about the Corporation's ability to continue as a going concern. Additional equity, debt and/or farm-out arrangements will be required to meet the Corporation's obligations as they become due and there are no guarantees that such additional capital funding will be available when needed.

2. Basis of preparation (continued)

These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities and commitments in the normal course of business and does not reflect adjustments that would otherwise be necessary if the going concern assumption was not valid. Management believes that the going concern assumption is appropriate for these financial statements. If this assumption were not appropriate, adjustments to the carrying amounts of assets and liabilities, and expenses and the statement of financial position classifications used may be necessary.

Basis of measurement
These consolidated financial statements are stated in Canadian dollars and were prepared on a going concern basis, under the historical cost convention.

Use of estimates and judgments
The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. Areas where estimates are significant to the financial statements are disclosed in further in note 4.

Functional and presentation currency
These consolidated financial statements are presented in Canadian dollars, which is the Corporation's and its subsidiaries' functional currency.

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Basis of consolidation

Subsidiaries
Subsidiaries are entities controlled by the Corporation. Control is achieved where the entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the period are included in the consolidated statement of comprehensive loss from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the consolidated financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the group.

Intra-group balances and transactions, and any unrealized gains and losses or income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

Jointly controlled operations and jointly controlled assets
Substantially all of the Corporation's petroleum and natural gas exploration and production activities are conducted jointly with others and involve jointly controlled assets accordingly, these consolidated financial statements reflect only the Corporation's proportionate interest in such activities.

Cash and cash equivalents

Cash and cash equivalents include balances with banks and short-term investments with maturities of three months or less.

3. Summary of significant accounting policies (continued)

Revenue recognition

Revenues associated with the sale of crude oil and natural gas are recognized based on volumes delivered at contractual delivery points when title passes to the customer. Oil sales are recognized when the oil is delivered to customer. Gas sales are recognized when the gas is delivered to customer gas lines. Sales revenue is recorded at the gross amount before transportation and marketing charges. Revenues from crude oil and natural gas production from properties from which the Corporation has an interest with other producers is recognized on the basis of the Corporation's net working interest.

Inventory

Inventory is valued at the lower of cost and net realizable value. The cost of petroleum products is calculated as the average production costs per barrel, multiplied by the number of barrels in inventory. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling costs.

Flow through shares

The amount initially recorded in share capital is limited to the value that would have been received for shares issued on a non-flow-through basis, and the difference between the actual proceeds and the amount recorded in share capital is set up as a deferred premium on flow-through shares. When the expenditures are incurred, the related deferred premium on flow-through shares is reversed and the related tax effect is recorded to the deferred income tax liability.

Non-derivative financial Instruments

Non-derivative financial instruments are recognized when the Corporation becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Corporation has transferred substantially all risks and rewards of ownership. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs.

At initial recognition, the Corporation's financial instruments have been classified in one of the following categories depending on the purpose for which the instruments were acquired:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss ("FVTPL") are financial assets held for trading or that are designated as such by management. Such assets are held for trading if it is acquired principally for the purpose of selling in the short-term. These assets are initially recognized, and subsequently carried, at fair value, with changes recognized in the consolidated statement of comprehensive income. Transaction costs are expensed. Assets in this category include cash and cash equivalents.

Loans and receivables

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less any impairment losses, with interest expense recognized on an effective yield basis. Assets in this category include accounts receivable.

3. Summary of significant accounting policies (continued)

Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis. Liabilities in this category include bank indebtedness, accounts payable and accruals and bank operating loans.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Corporation are recorded at the proceeds received, less of direct issue costs, net of any tax effects.

Exploration and evaluation expenditures

General exploration and evaluation ("E&E") expenditures incurred prior to acquiring the legal right to explore are charged to the consolidated statement of comprehensive loss as incurred.

E&E expenditures incurred subsequent to acquisition of the legal right to explore, including license and property acquisition costs, geological and geophysical expenditures, costs of drilling exploratory wells and directly attributable overhead including salaries and employee benefits, are initially capitalized as E&E assets. E&E assets are not depleted and are moved into property and equipment when they are determined to meet certain technical feasibility and commercial viability thresholds as determined by management. Upon transfer to property and equipment, E&E assets are assessed for impairment in addition to regular impairment reviews to ensure they are not carried at amounts above their estimated recoverable values.

E&E assets are assessed for impairment at the cash-generating unit level when there are indicators of impairment. The Corporation considers the following to be indicators of impairment:
(a) the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
(b) substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
(c) exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area; and,
(d) sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

3. Summary of significant accounting policies (continued)

Property and equipment

Property and equipment include petroleum and natural gas assets, computer equipment and leasehold improvements.

Petroleum and natural gas assets

Expenditures on developed petroleum and natural gas assets such as drilling of development wells, tangible costs of facilities and infrastructure construction are capitalized to oil and gas assets when it is probable that a future economic benefit will flow to the Corporation as a result of the expenditure and the cost can be reliably measured. Such costs include property acquisitions, drilling and completion costs, gathering and processing infrastructure, capitalized decommissioning obligations, directly attributable internal costs and major overhaul and turnaround activities that maintain property, plant and equipment. Repairs and maintenance and operation costs that do not extend or enhance the recoverable reserves are charged to profit and loss when incurred.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of any decommissioning liabilities associated with the asset and finance charges on qualifying assets.

Depletion

Petroleum and natural gas assets are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Petroleum and natural gas assets are depleted using the unit-of-production method over their reserve life based on proved plus probable reserve volumes at each area level. Future development costs are included in costs subject to depletion. Reserves and estimated future development costs are determined annually by qualified independent reserve engineers. Changes in factors such as estimates of reserves that affect unit-of-production calculations are dealt with on a prospective basis. Natural gas reserves are converted to barrels of oil equivalent based on relative energy content (6:1).

Disposals

Petroleum and natural gas assets are derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss on derecognition of the asset, calculated as the difference between the proceeds on disposal, if any, and the carrying value of the asset, is recognized in the consolidated statement of comprehensive loss in the period of derecognition.

Computer equipment and leasehold improvements

Computer equipment and leasehold improvements are carried at cost less accumulated depreciation. Depreciation is charged so as to write-off the cost of these assets less residual value on a straight-line basis over the estimated useful economic lives of 3 years.

Office furniture and fixtures

Office furniture and fixtures are carried at cost less accumulated depreciation. Depreciation is charged so as to write-off the cost of these assets less residual value on a straight-line basis over the estimated useful lives of 5 years.

3. Summary of significant accounting policies (continued)

Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. Significant financial difficulties of a debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the financial assets are impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the consolidated statement of comprehensive loss. When an accounts receivable is uncollectible, it is written off against the allowance account for accounts receivables.

Non-financial assets

At the end of each reporting period, the Corporation reviews the carrying amounts of its long lived assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Corporation estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. CGU's are the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU's, or otherwise they are allocated to the smallest group of CGU's for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in the consolidated statement of comprehensive loss.

Where an impairment loss subsequently reverses for assets with a finite useful life, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, had no impairment loss been recognized for the asset or CGU in prior periods. A reversal of an impairment loss is recognized immediately in the consolidated statement of comprehensive loss.

Please refer to previous page for impairment treatment of E&E expenditures.

3. Summary of significant accounting policies (continued)

Share-based compensation

The Corporation operates an equity-settled compensation plan under which it receives services from employees, directors, officers, and contractors as consideration for equity instruments of the Corporation.

The Corporation uses the Black-Scholes pricing model to estimate the fair value of equity-settled awards at the grant date. The expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are satisfied. For awards with graded vesting, the fair value of each tranche is separately determined and recognized over its respective vesting period.

When recognizing the fair value of each tranche over its respective vesting period, the Corporation incorporates an estimate of the number of options expected to vest and revises that estimate when subsequent information indicates that the number of options expected to vest differs from previous estimates. The ultimate expense recognized is adjusted to reflect the actual number of awards that vest.

No expense is recognized for awards that do not ultimately vest, except for equity-settled awards where vesting is conditional upon a market or non-vesting condition which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Provisions

Provisions are recognized when the Corporation has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Corporation expects some or the entire obligation to be reimbursed, the expense relating to any obligation is presented in the consolidated statement of comprehensive loss net of the reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. Where discounting is used, the increase in the obligation due to the passage of time is recognized as a finance cost in the consolidated statement of comprehensive loss.

Decommissioning liabilities

The Corporation provides for the costs of decommissioning associated with long-lived assets, including the abandonment of crude oil and natural gas wells, removal of equipment from leased acreage and returning such land in a condition as it is contractually obligated. The best estimate of each asset retirement liability is recorded in the period a well or related asset is drilled and evaluated, constructed or acquired. The decommissioning liabilities is measured in the consolidated statement of financial position at the fair value of the expenditures expected to be required to settle the obligation using a risk free rate that reflects current market assessments of the time value of money and the risks specific to the obligation. A corresponding amount is capitalized as part of tangible nonfinancial assets. Any further adjustment arising from a reassessment of estimated cost of the asset retirement liabilities also has a corresponding amount capitalized, whilst the charge arising from the accretion of the discount applied to the retirement liabilities is treated as a component of finance costs in the consolidated statement of comprehensive loss.

3. Summary of significant accounting policies (continued)

Taxes

Tax expense comprises current and deferred tax. Tax is recognized in the consolidated statement of comprehensive loss except to the extent it relates to items recognized in other comprehensive loss or directly in equity.

Current Income taxes

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred taxes

Deferred taxes are the taxes expected to be payable or recoverable on differences between the carrying amounts of assets in the consolidated statement of financial position and their corresponding tax bases used in the computation of taxable profit, and are accounted for using the liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences between the carrying amounts of assets and liabilities and their corresponding tax bases. Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities:

- are generally recognized for all taxable temporary differences;
- are recognized for taxable temporary differences arising on investments in subsidiaries except where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future; and,
- are not recognized on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred tax assets:

- are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilized; and,
- are reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are not recognized in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination.

3. Summary of significant accounting policies (continued)

Finance costs

Finance costs comprise interest expense on borrowings, accretion of provisions and any impairment losses recognized on financial assets.

Borrowing costs incurred for the construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the assets for their intended use or sale. All other borrowing costs are recognized in the consolidated statement of comprehensive loss using the effective interest method. Interest has been capitalized at the rate of interest applicable to the specific borrowings financing the asset, or where financed through general borrowings, at a capitalization rate representing the average interest rate on such borrowings.

Earnings per share (“EPS”)

Basic EPS is calculated by dividing profit or loss attributable to owners of the Corporation (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the period. The denominator (number of units) is calculated by adjusting the shares in issue at the beginning of the period by the number of shares bought back or issued during the period, multiplied by a time-weighting factor.

Diluted EPS is calculated by adjusting the earnings and number of shares for the effects of dilutive options, warrants and other potential dilutive shares. The effects of anti-dilutive potential shares are ignored in calculating diluted EPS. All options and warrants are considered anti-dilutive when the Corporation is in a loss position.

4. Critical judgments and accounting estimates

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continuously evaluated and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual outcomes can differ from these estimates.

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the consolidated financial statements are:

Critical Judgements:

Identification of cash generating units

Cash generating units are defined as the lowest grouping of integrated assets that generate identifiable cash inflows that are largely independent of the cash inflows of other assets or groups of assets. The classification of assets into cash generating units requires significant judgement and interpretations with respect to shared infrastructure, geographical proximity, petroleum type and similar exposure to market risk and materiality.

4. Critical judgments and accounting estimates (continued)

Critical Estimates:

Share-based payment transaction

The Corporation measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model including the expected life, volatility and dividend yield of the share option.

Decommissioning liabilities

Decommissioning liabilities consist of asset retirement obligations that are based, in part, on estimates of future costs to settle the obligation, in addition to estimates of the useful life of the underlying assets, the rate of inflation and the risk-free interest rate.

Fair value of financial instruments

The estimated fair value of financial assets and liabilities, by their very nature, are subject to measurement uncertainty.

Assessment of commercial reserves

Management is required to assess the level of the Corporation's commercial reserves together with the future expenditures to access those reserves, which are utilized in determining the depletion charge for the period, assessing whether any impairment charge is required against producing and developed, and the determination of the deferred tax liability. By their nature, these estimates of discovered and probable crude oil and natural gas reserves, including the estimates of future prices, costs, related future cash flows and the selection of a pre-tax risked discount rate relevant to the asset in question are subject to measurement uncertainty. The Corporation employs an independent reserves specialist who periodically assesses the Corporation's level of commercial reserves in compliance with NI51-101 by reference to data sets including geological, geophysical and engineering data together with reports, presentation and financial information pertaining to the contractual and fiscal terms applicable to the Corporation's assets. Significant judgment is involved when determining whether there have been any significant changes in the Corporation's crude oil and natural gas reserves.

Recoverable amounts of CGUs.

The recoverable amount of a CGU used in the assessment of impairment is the greater of its value in use ("VIU") and its fair value less costs to sell ("FVLCTS").

VIU is determined by estimating the present value of the future net cash flows from the continued use of the CGU, and is subject to the risks associated with estimating the value of reserves. FVLCTS refers to the amount obtainable from the sale of a CGU in an arm's length transaction between knowledgeable, willing parties, less costs of disposal.

At December 31, 2011 the recoverable amounts of the Corporation's CGUs were based on their estimated FVLCTS. The key assumptions and estimates of the value of oil and gas reserves and the existing and potential markets for the Corporation's oil and gas assets are valid at the time of reserves estimation and market assessment and are subject to change as new information becomes available. Changes in international and regional factors including supply and demand of commodities, inventory levels, drilling activity, currency exchange rates, weather, geopolitical and general economic environment factors may result in significant changes to the estimated recoverable amounts of CGUs.

Taxes

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Corporation reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

4. Critical judgments and accounting estimates (continued)

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm’s length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. If there is no binding sale agreement or active market for an asset, fair value less costs to sell is based on the best information available to reflect the amount that an entity could obtain, at the end of the reporting period, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Corporation is not yet committed to or significant future investments that will enhance the asset’s performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

5. Recent accounting pronouncements

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee (“IFRIC”) that are mandatory for accounting periods beginning after January 1, 2011 or later periods. The standards impacted that are applicable to the Corporation are as follows:

a) IFRS 9, ‘Financial Instruments’ was issued in November 2009 as the first step in its project to replace IAS 39 ‘Financial Instruments: Recognition and Measurement’. IFRS 9 introduces new requirements for classifying and measuring financial assets that must be applied starting January 1, 2013, with early adoption permitted. In October 2010, additional requirements for classifying and measuring financial liabilities were added to IFRS 9. Under this guidance, entities have the option to recognize financial liabilities at fair value through profit or loss. If this option is elected, entities would be required to reverse the portion of the fair value change due to own credit risk out of profit or loss and recognize the change in other comprehensive income.

   On August 4, 2011, the IASB issued an exposure draft proposing to change the mandatory effective date of I FRS 9 to annual periods beginning on or after January 1, 2015 from the original effective date of January 1, 2013. Early adoption is permitted and the standard is required to be applied retrospectively. The implementation of the issued standard is not expected to have a significant impact on the Corporation’s financial position or results.

b) IFRS 10, ‘Consolidated Financial Statements’ was issued in May 2011 and will supersede the consolidation requirements in SIC-12 ‘Consolidation – Special Purpose Entities’ and IAS 27 ‘Consolidated and Separate Financial Statements’ effective for annual periods beginning on or after January 1, 2013, with early application permitted. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard also provides additional guidance to assist in the determination of control where this is difficult to assess. The Corporation is currently assessing the impact of this standard however the standard is not expected to have a significant impact on the Corporation’s financial position or results.

5. Recent accounting pronouncements (continued)

c) IFRS 13, 'Fair Value Measurement' was issued in May 2011 and sets out in a single IFRS a framework for measuring fair value. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This definition of fair value emphasizes that fair value is a market-based measurement, not an entity-specific measurement. In addition, IFRS 13 also requires specific disclosures about fair value measurement. IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Corporation is currently assessing the impact of this standard.

d) IAS 12, Income Taxes ("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 Corporation is currently assessing the impact of this standard.

6. Reverse takeover

Under the terms of the arrangement agreement, Seawall acquired on June 30, 2011 all of the issued and outstanding shares of 3 Martini, a non-arm's length private company related by virtue of common senior management, certain shareholders and directors. As consideration, the shareholders of 3 Martini received 3.63 common shares of Seawall for each 3 Martini Class A share held and 1.815 common shares of Seawall for each 3 Martini Class B share held, resulting in the issuance of 3,662,255 common shares of Seawall.

The arrangement agreement was completed to create the best position to deliver a low cost advantage though the drilling and completion of combined inventory. The combined company also created an attractive investment vehicle for institutional investor and scope to build a public company.

The acquisition of 3 Martini by Seawall has been accounted for using the reverse-takeover ("RTO") method of acquisition accounting in accordance with the reverse acquisition accounting method of IFRS 3. 3 Martini is deemed to be the acquirer or the accounting parent as if 3 Martini purchased the assets and liabilities of Seawall because the former shareholders of 3 Martini, as a group, became owners of 80% of the voting shares of Seawall after the transaction which therefore gives them control of Seawall. The accounting information and results of operations of the legal parent Seawall are included in the consolidated financial statements from the date of reverse takeover, June 30, 2011. For accounting purposes, the Corporation is considered to be a continuation of 3 Martini, except with regard to the authorized and issued share capital which is that of the legal parent company, Seawall. The consolidated statement financial position of the Corporation as at May 1, 2010 and April 30, 2011 and the consolidated statement of comprehensive loss and cash flows for the period ended April 30, 2011 as presented in these consolidated financial statements are of 3 Martini only.

The consolidated statements of operations and comprehensive loss include the results of operations for the period following the close of the transaction on June 30, 2011. Net loss for the year ended December 31, 2011 includes $1.4 million of petroleum and natural gas revenue and $184,368 of net loss incurred from the Seawall assets since the acquisition on June 30, 2011. If Seawall had been acquired on May 1, 2011, an additional $120,863 of petroleum and natural gas revenue and $117,310 of net loss would have been included on the consolidated statements of operation and comprehensive loss for the year ended December 31, 2011.

6. Reverse takeover (continued)

The following summarizes the estimated fair value of the Seawall assets acquired and liabilities assumed at June 30, 2011:

Net assets acquired:	**$**
Cash	934,373
Accounts receivable	139,424
Property and equipment	5,414,447
Accounts payable and accruals	(434,909)
Credit facility	(1,000,000)
Deferred tax liability	(836,261)
Decommissioning liabilities	(44,072)
	4,173,002
Consideration paid:	
Common shares in the Corporation issued (3,662,255 common shares)	4,173,002

The net asset value has been finalized and there were changes to the preliminary estimates based on completion of outstanding matters that existed at time of preliminary filings.

7. Asset swap

In July 2011, the Corporation completed an asset swap with another oil and gas company. The exchange transaction is considered to have commercial substance as the configuration (risk, timing and amount) of the assets received differs significantly from the configuration of the cash flows of the assets transferred. As a result, the cost on initial recognition of the assets received during the swap was measured at the fair value of the assets given up as it was the more readily determinable.

The Corporation derecognized the carrying amount of the assets given up and recognized the assets received at the fair value of the assets given up on initial recognition. The resulting gain recognized in the consolidated statement of comprehensive loss is calculated as follows:

	$
Deemed carrying value of assets given up	(1,902,861)
Fair market value of assets received	2,521,069
	618,208
Less:	
Decommissioning liability given up in asset swap	(175,570)
Decommissioning liability received in asset swap	301,691
Gain on swap	**492,087**

8. Cash and cash equivalents

	December 31, 2011	April 30, 2011	May 1, 2010
	$	$	$
Cash at banks and on hand	**-**	56,613	359,529
Short-term investments	**15,021**	3,875	1,413,185
	15,021	60,488	1,772,714

Short-term investments earn interest at a rate of 60bps on deposits under $5 million and 105bps on amount over $5 million.

9. Accounts receivable

	December 31, 2011	April 30, 2011	May 1, 2010
	$	$	$
Oil and natural gas customers	**1,050,360**	1,638,699	1,939,689
Other receivables	**167,306**	85,940	35,070
	1,217,666	1,724,639	1,974,759

Receivables from oil and natural gas marketers are normally collected on the 25th day of the month following production. Joint venture receivables are typically collected within one to three-months of the joint venture bill being issued to the partner. As at December 31, 2011, April 30, 2011 and May 1, 2010 no accounts receivable were impaired and an allowance for doubtful accounts has not been established.

The aging analysis of accounts receivable is as follows:

			Past due but not impaired		
	Total $	Neither past due nor impaired $	**31-60 days** **$**	**61-90 days** **$**	**> 91days** **$**
December 31, 2011	1,217,666	1,124,811	205	-	92,650
April 30, 2011	1,724,639	843,785	26,229	445,643	408,982
May 1, 2010	1,974,759	1,663,030	308,305	-	3,424

In determining the recoverability of an accounts receivable, the Corporation performs a risk analysis considering the type and age of the outstanding receivable and the credit worthiness of the counterparties.

10. Property and equipment

	Petroleum and natural gas assets $	Corporate assets $	Total $
Cost:			
Balance at May 1, 2010	5,977,647	-	5,977,647
Additions	7,311,190	-	7,311,190
Change in decommissioning provisions	31,801	-	31,801
Balance at April 30, 2011	13,320,638	-	13,320,638
Additions	14,364,553	129,875	14,494,428
Transfers from exploration and evaluation assets	107,828	-	107,828
Assets given up in asset swap	(1,902,861)	-	(1,902,861)
Assets received in asset swap (net of liabilities incurred) (note 7)	2,521,069	-	2,521,069
Change in decommissioning provisions	253,615	-	253,615
Balance at December 31, 2011	28,664,842	129,875	28,794,717
Accumulated depletion and depreciation and impairment loss:			
Balance at May 1, 2010	-	-	-
Depletion and depreciation for the period	(1,213,366)	-	(1,213,366)
Balance at April 30, 2011	(1,213,366)	-	(1,213,366)
Depletion and depreciation for the period	(1,685,061)	(37,327)	(1,722,388)
Impairment of PPE (note 12)	(14,116,814)	-	(14,116,814)
Balance at December 31, 2011	(17,015,241)	(37,327)	(17,052,568)
Net book value:			
May 1, 2010	5,977,647	-	5,977,647
April 30, 2011	12,107,272	-	12,107,272
December 31, 2011	11,649,601	92,548	11,742,149

Future development costs on proved plus probable reserves totalling approximately $11,375,000 (April 30, 2011 - $7,276,000) are included in the depletion calculation. An impairment write-down was required as at December 31, 2011 (note 12). No impairment was recorded as at April 30, 2011 or May 1, 2010. Capitalized general and administration expenses for the period ended December 31, 2011, amounted to $292,796 (April 30, 2011- $319,659).

11. Exploration and evaluation assets

	Petroleum and natural gas assets $
Cost:	
Balance at April 30, 2011 and May 1, 2010	-
Additions	422,608
Transfers to property and equipment	(107,828)
Balance at December 31, 2011	314,780

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

12. Impairment loss

In 2011, there was an indicator of impairment for one of the Corporation's two CGUs due to changes to proved and probable reserve estimates and related cash flows as determined by the Corporation's external reserve evaluators. Accordingly, the Corporation tested this CGU for impairment and determined that the aggregate carrying value was $13.79 million higher than the recoverable amount and impairments were recorded. In addition, the Corporation incurred an impairment loss of $0.33 million on one of its properties recently drilled and completed. The total amount of the impairment recognized during the eight month period ended December 31, 2011 was $14.12 million.

The recoverable amounts of the Corporation's CGUs were estimated as the fair value less costs to sell based on the net present value of the before tax cash flows from oil and natural gas proved plus probable reserves estimated by the Corporation's external reserve evaluators discounted at a rate of 10% per annum adjusted for removal of decommissioning costs in the reserves report.

The forecast prices used to determine fair value reflect the following benchmark prices, adjusted for basis differentials to determine local reference prices, transportation costs and tariffs, heat content and quality.

At December 31, 2011, if the discount rate had been five percent higher or five percent lower, the impairment losses recognized would have been revised as follows:

	Impairment to CGU 1	Impairment with 10% discount rate	Difference
Impairment using a 5 percent discount rate	**12,353,033**	13,783,184	(1,430,151)
Impairment using a 15 percent discount rate	**15,055,033**	13,783,184	1,271,849

The following table shows the future commodity prices used by the Corporation's independent qualified reserves evaluators at December 31, 2011 for certain commodities:

Year	Edmonton Par Price 40° API ($Cdn/bbl)		Natural Gas1 AECO Gas Prices ($Cdn/MMBtu)
2012	96.87		3.16
2013	93.75		3.78
2014	90.89		4.13
2015	96.23		5.53
2016	98.16		5.65
2017	100.12		5.77
2018	102.12		5.89
2019	104.17		6.01
2020	106.25		6.14
2021	108.38		6.27

13. Accounts payable and accruals

	December 31, 2011 $	April 30, 2011 $	May 1, 2010 $
Current			
Trade payables	**4,918,697**	1,321,093	829,749
Joint venture payables	**171,336**	285,356	718,088
Accrued expenses	**601,534**	30,500	47,196
	5,691,567	1,636,949	1,595,033

Trade payables and joint venture payables are non-interest bearing and are normally settled on 30 to 90 day terms.

14. Bank operating loans

		Year of maturity	**December 31, 2011 $**	April 30, 2011 $	May 1, 2010 $
Operating loan facility	(a)	-	**1,530,000**	2,720,000	-
Credit facility	(b)	2011	**-**	-	-
			1,530,000	2,720,000	-

a) Operating loan facility
Bank indebtedness is replenished by an operating loan facility bearing interest at prime plus 1.5%. Prime at December 31, 2011 was 3.00% (April 30, 2011 – 3.00%). The maximum principal amount on the facility is $4,000,000. As of December 31, 2011 the Corporation had drawn $1,530,000. The loan is a demand loan, secured by a general security agreement providing a security interest over all present and after acquired personal property and a floating charge on all lands. The Corporation is subject to a working capital ratio covenant calculated as: current assets plus undrawn availability under this facility divided by current liabilities, excluding any amount drawn under both facilities. As at December 31, 2011 the Corporation's working capital ratio was 0.7:1; which was in violation of the minimum 1.0:1 ratio required. Subsequent to the end of the year, the lender has waived the covenant violation. The next renewal date is scheduled to be completed on May 31, 2013.

b) Credit facility
As disclosed in Note 6, the $1,000,000 loan was part of the liabilities assumed in the reverse takeover. Interest was payable at 15.00% per annum through maturity of September 1, 2011. Interest was due and calculated monthly. The loan had been extended to December 31, 2011, however on November 17, 2011, the Corporation repaid in full the principal and any outstanding interest amounts of this loan, as such this facility has been terminated.

15. Decommissioning liabilities

	$
Balance at May 1, 2010	609,685
Accretion	26,647
Change in estimate	31,801
Liabilities incurred	434,496
Balance at April 30, 2011	1,102,629
Accretion	28,030
Change in estimate	253,615
Given up in asset swap	(175,570)
Received in asset swap	301,691
Liabilities incurred	232,680
Balance at December 31, 2011	**1,743,075**

The Corporation’s decommissioning liabilities results from ownership interests in petroleum and natural gas assets, including well sites and gathering systems. The total future decommissioning obligation was estimated based on the Corporation’s net ownership interest in all wells, estimated costs to reclaim and abandon the wells and the estimated timing of the costs to be incurred in future periods. The Corporation used a weighted average risk free rate of 2.24% as of December 31, 2011 (April 30, 2011 – 3.48% and May 1, 2010 – 4.25%) and an inflation rate of 2% (April 30, 2011 and May 1, 2010 – 2%) were used to calculate the net present value of the future cash flows expected to be made in satisfaction of the decommissioning obligation. The majority of the costs are estimated to be incurred between the years 2018 and 2038. The total undiscounted decommissioning liability as at December 31, 2011 amounts to $3,124,252 (April 30, 2011 - $1,897,858 and May 1, 2010 - $1,214,829).

16. Income taxes

(a) Provision for income taxes reflects an effective tax rate which differs from the Federal and Provincial Statutory tax rates.
The main differences are as follows:

	December 31, 2011 $	April 30, 2011 $
Income/(Loss) before income tax	(15,953,062)	171,224
Combined Federal and Provincial income tax rate	28.50%	30.00%
Expected income tax reduction	(4,546,623)	51,368
Increase (decrease) in income taxes resulting from:		
Share based compensation and non-deductible expenses	114,002	1,450
Flow through shares	315,464	-
Change in rate	223,880	(682)
Change in unrecognized tax benefits	1,975,385	-
Other	(20,095)	-
	(1,937,987)	52,136
Flow through share premium	(70,616)	-
Income tax expense (reduction)	(2,008,603)	52,136

The statutory tax rate was 28.5% in 2011 (2010 - 30%). The decrease from 2010 to 2011 was due to a reduction in the 2011 Canadian corporate tax rates as part of a series of corporate rate reductions previously enacted by the Canadian federal government.

(b) Unrecognized deferred tax assets:
The temporary differences associated with the Company's unrecognized deferred tax assets are as follows:

	December 31, 2011 $	April 30, 2011 $
Property, plant and equipment	3,122,645	-
Non-capital losses (expiring 2029 to 2031)	2,266,256	-
Decommissioning liabilities	1,743,075	-
Share issue costs	568,889	-
Unrecognized deferred tax assets	7,700,865	-

The Company has not recognized these deferred tax assets because it is uncertain that future taxable profits will be available against which the Company can utilize these benefits.

Recognized deferred tax assets
The components of the Company's recognized deferred tax assets and liabilities are as follows:

	December 31, 2011 $	April 30, 2011 $
Property, plant and equipment	-	(1,600,323)
Non-capital losses	-	177,272
Decommissioning Liabilities	-	297,710
Share issue costs	-	4,573
Recognized deferred tax assets	-	(1,120,768)

16. Income taxes (continued)

Movement in deferred tax assets and liabilities:

	May 1, 2010	Recognized in profit or loss	FTS premium	Acquired in business combination	April 30, 2011
	$	$	$	$	$
Property, plant and equipment	(1,271,104)	(329,219)	-	-	(1,600,323)
Non-capital losses	29,698	147,574	-	-	177,272
Decommissioning liabilities	164,615	133,095	-	-	297,710
Share issue costs	5,643	(1,070)	-	-	4,573
Deferred tax asset/(liability)	(1,071,148)	(49,620)	-	-	(1,120,768)

	April 30, 2011	Recognized in profit or loss	FTS premium	Acquired in business combination	December 31, 2011
	$	$	$	$	$
Property, plant and equipment	(1,600,323)	2,518,218	(70,616)	(847,279)	-
Non-capital losses	177,272	(177,272)	-	-	-
Decommissioning liabilities	297,710	(308,728)	-	11,018	-
Share issue costs	4,573	(4,573)	-	-	-
Deferred tax asset/(liability)	(1,120,768)	2,027,645	(70,616)	(836,261)	-

17. Share capital

A) Authorized

Common shares

Class A, unlimited, voting, no par value, subject to priority rights of any other class of shares.

B) Issued

	Number of Shares	$
Balance at May 1, 2010 (3 Martini)	1,042,000	7,599,789
Warrants exercised and cancelled (a)	164,124	225,010
Balance at April 30, 2011	1,206,124	7,824,799
Shares exchanged on reverse takeover (3 Martini)	(1,206,124)	-
Existing shares of Seawall	929,430	-
Class A Shares issued for 3 Martini Shares (b)	3,662,255	4,173,002
Class A Shares issued November 9, 2011 (c)	1,962,235	7,541,119
Flow through share premium (c)	-	(182,738)
Share issuance costs (c)	-	(636,183)
Fair value of warrants on private placement (c)	-	(168,208)
Balance at December 31, 2011	**6,553,920**	**18,551,791**

a) During the period ended April 30, 2011, nine units of 3 Martini warrants (consisting of 13,500 Class A and 13,500 Class B share purchase warrants) were exercised at $10 per Class A share and $5 per class B shares for total proceeds of $202,500. In addition, on March 10, 2011 3 Martini offered all remaining warrant unit holders the opportunity to exercise their warrant units on a cashless basis whereby each warrant unit holder would be granted 878.882 Class A and 878.882 Class B 3 Martini shares for each warrant unit held, at zero cost to the warrant unit holder. 37 individual warrant unit holders chose to exercise their warrants, with 68,562 Class A and 68,562 Class B shares being issued. The remaining warrants expired on March 31, 2011. The number of shares issued has been retroactively adjusted to reflect the legal capital of Seawall. The fair value of $22,510 originally attributed to the warrants has been credited to share capital.

b) As consideration of the Arrangement Agreement between Seawall and 3 Martini dated June 30, 2011, the shareholders of 3 Martini received 3.63 common shares of Seawall for each 3 Martini class A share held and 1.815 common shares of Seawall for each 3 Martini class B share held, resulting in the issuance of 3,662,255 common shares of Seawall at a value of $4,173,002.

c) On November 9, 2011, the Corporation closed the private placement of 1,231,285 Class A common shares issued at a price of $3.75 per share. In addition 730,950 Class A shares were issued on a "flow-through" basis with respect to Canadian exploration expenses at a price of $4.00 per share, for gross proceeds of approximately $2.9 million. $182,738 or $0.25 per share was determined to be the implied premium on the flow-through shares. Of the $2.9 million raised in flow-through, $1.1 million has been expended to December 31, 2011. The total amount of equity received totaled $7.5 million. The Corporation renounced the tax credits associated with the qualifying expenditures. However the deferred tax effect is recorded in the year the expenditure is incurred therefore an increase in the Corporation's deferred income tax liability and deferred tax expense will be recorded in the year ended December 31, 2011. In conjunction with the private placement the Corporation issued 97,078 broker warrants that were determined to have a fair value of $168,208. Share issuance costs relating to the private placement totaled $636,183.

17. Share capital (continued)

C) Warrants

	# of Warrants	$
As at May 1, 2010	51	22,510
Warrants exercised/cancelled	51	(22,510)
As at April 30, 2011	-	-
Warrants Issued (a)	97,078	168,208
As at December 31, 2011	97,078	168,208

a) Pursuant to the private placement on November 9, 2011 the Corporation issued 97,078 broker warrants. Each warrant entitles the holder to purchase one common share at a price of $3.75 per share for a period of two years vesting immediately.

The fair value of the warrants was estimated using the Black-Scholes model with the following weighted average inputs:

		December 31, 2011
Fair value at grant date	$	1.73
Common share price	$	3.75
Exercise price	$	3.75
Volatility		86%
Option life		5 years
Dividends		0%
Risk-free interest rate		0.89%
Forfeiture rate		0%

18. Share-based payments

On May 14, 2008, the Corporation granted the two shareholders options to purchase additional shares of the Corporation. The option grants each of the holders the right to acquire an additional four Class A common shares and four Class B preferred shares for a price of $150,000 plus an amount calculated at rate of 8% simple interest from the grant date to the exercise date. Exercise terms enabled the holder to exercise any time from the period from December 31, 2008 to December 31, 2011. As at June 30, 2011 all outstanding 3 Martini options were exchanged for 218,905 Seawall shares as part of the reverse takeover. As of December 31, 2011 no class B shares were issued or outstanding.

On December 21, 2011, the Corporation introduced an employee stock option plan under which employees, directors and consultants are eligible to purchase common shares of the Corporation. Options were granted using an exercise price equal to the $3.75 share price from the November 9, 2011 private placement issuance. The options have a term of five years and vest over a two year period starting on the first anniversary date of the grant with one third of the total amount vesting immediately upon granting. The number of options outstanding and exercisable at December 31, 2011 totaled 456,000 (2010 – nil) and 152,000 respectively.

18. Share-based payments (continued)

The fair value of the options was estimated using the Black-Scholes model with the following weighted average inputs:

		December 31, 2011
Fair value at grant date	$	2.52
Common share price	$	3.75
Exercise price	$	3.75
Volatility		86%
Option life		5 years
Dividends		0%
Risk-free interest rate		0.89%
Forfeiture rate		0%

This estimated forfeiture rate is adjusted to the actual forfeiture rate when each tranche vests. Share based compensation cost of $400,007 (2010 – $nil) was expensed during the eight months ended December 31, 2011.

19. Capital management

The Corporation's objective when managing capital is to safeguard the entity's ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders.

The Corporation sets the amount of capital in proportion to risk and manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Corporation may issue new shares.

Management reviews its capital management approach on an ongoing basis. There were no material changes to this approach during the period ended December 31, 2011. The Corporation is subject to externally imposed capital requirements on its bank operating loans. The Corporation is required to maintain a working capital ratio of greater than 1.00:1. As at December 31, 2011, the Corporation was in violation of this covenant. Subsequent to year end, the lender has waived the covenant violation.

The Corporation manages the following as capital:

As at,	**December 31, 2011** $	April 30, 2011 $	May 1, 2010 $
Share capital	**18,551,791**	7,824,799	7,599,789
Warrants	**168,208**	-	22,510
Deficit	**(14,973,752)**	(1,029,293)	(1,148,381)
Total capitalization	**3,746,247**	6,795,506	6,473,918

20. Financial instruments and risk management

Fair value of financial instruments

The carrying amount of financial instruments reported on the consolidated statement of financial position approximates their estimated fair values as at December 31, 2011, April 30, 2011 and May 1, 2010 due to the short-term nature of the instruments. The company does not have any financial assets that are subject to the fair value hierarchy.

Financial risks

The Corporation's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (foreign exchange, interest rates and commodity prices). The Corporation manages its exposure to financial risks by operating in a manner that minimizes its exposure to the extent practical.

Credit Risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Corporation.

Credit risk is primarily related to the Corporation's receivables from oil and natural gas marketers and joint venture partners and the risk of financial loss if a customer, partner or counterparty to a financial instrument fails to meet its contractual obligations. Receivables from oil and natural gas marketers are normally collected on the 25th day of the month following production. To mitigate credit risk associated with the sale of its production to petroleum and natural gas marketers, the Corporation maintains a policy transacting with large credit-worthy purchasers. The Corporation historically has not experienced any collection issues with its oil and natural gas marketers. Joint venture receivables are typically collected within one to three-months of the joint venture bill being issued to the partner. The Corporation attempts to mitigate the risk from joint venture receivables by obtaining partner approval of significant capital expenditures prior to expenditure. The Corporation does not typically obtain collateral from joint venture partners; however, in certain circumstances, it may cash-call a partner in advance of the work and as well the Corporation has the ability in most cases to withhold production from joint venture partners in the event of non-payment.

The maximum exposure to credit risk as at:

	December 31, 2011	April 30, 2011	May 1, 2010
	$	$	$
Cash and cash equivalents	15,021	60,488	1,772,714
Accounts receivables	1,217,666	1,724,639	1,974,759
	1,232,687	**1,785,127**	**3,747,473**

Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they come due. The Corporation's approach to managing liquidity risk is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking harm to the Corporation's reputation.

As at December 31, 2011, April 30, 2011 and May 1, 2010 all of the Corporation's financial liabilities are due within one year and are therefore classified as current liabilities.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices, and interest rates will affect the Corporation's net earnings or the value of financial instruments.

Foreign exchange risk

Foreign currency risk is the risk that future cash flows will fluctuate as a result of changes in foreign exchange rates. Although substantially all the Corporation's oil and natural gas sales are denominated in Canadian dollars, the underlying market prices in Canada for oil and natural gas are impacted by changes in the exchange rate between the Canadian dollar and the United States dollar.

20. Financial instruments and risk management (continued)

Foreign exchange risk (continued)

As at December 31, 2011, April 30, 2011 and May 1, 2010 the Corporation had no monetary assets or liabilities denominated in foreign currency.

Commodity price risk

Commodity price risk is the risk that the fair value or future cash flow will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas are impacted by the local, national and international economy and other events that dictate the levels of supply and demand. The Corporation has not attempted to mitigate commodity price risk through the use of financial derivative contracts.

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in interest rates. The Corporation is exposed to interest rate risk on its operating loan facility bearing interest at prime plus 1.75%. A 1% increase/decrease in the prime lending rate during the period ended December 31, 2011 would have resulted in an increase/decrease in comprehensive loss of approximately $14,205 (2010: $nil).

21. Related party transactions

The consolidated financial statements include the financial statements of 3MV Energy Inc. and its subsidiaries, listed in the following table:

		% equity interest	
Name	**Country of incorporation**	**December 31, 2011**	**April 30, 2011**
3MV Energy Inc.	Canada	100%	-
Buckhorn Resource Ltd.	Canada	100%	100%

Balances and transactions between 3MV Energy Inc. and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Compensation of key management personnel

The remuneration of directors and other members of key management personnel during the period were as follows:

	Eight months ended December 31, 2011 $	Twelve months ended April 30, 2011 $
Salaries and payments to contractors	298,789	319,695
Share based payments	213,600	-
Total	512,389	319,695
Capitalized portion of key management personnel	(292,796)	(319,659)
Total	219,593	-

Personnel costs incurred by the Corporation for the period ending December 31, 2011 totaled $261,378 (12 months ending April 2011 - $nil) and are included in the general and administrative expenses.

22. Commitments

The Corporation has operating lease commitments for office premises that expire in 2014. The future minimum lease payments are as follows:

	December 31, 2011 $
2012	66,392
2013	66,392
2014	38,728

Capital Commitments
The Corporation has entered into "farm-in" agreements whereby the Corporation may earn working interests in oil and gas properties in exchange for undertaking capital spending programs to develop the properties. As at December 31, 2011 the Corporation is committed to fulfilling the all of its farm-in obligations.

On November 9, 2011, the Corporation issued 730,950 Class A shares on a "flow-through" basis with respect to Canadian exploration expenses at a price of $4.00 per share. The tax deductions related to the flow through shares will be renounced to flow through shareholders and booked to the accounts in December 2011. The Corporation is required to spend $2.9 million on qualifying Canadian exploration expenditures by December 31, 2012 to satisfy the flow through obligation in connection with this issue. As at December 31, 2011, the Corporation had $1.8 million remaining to spend on qualifying expenditures related to the November 9, 2011 flow through issue.

23. Income (loss) per share

Basic and diluted income (loss) per share
The calculation of basic loss per share for the period ending December 31, 2011 was based on net loss of $13,944,458 (April 30, 2011: net earnings of $119,088), and a weighted average number of common shares outstanding of 4,691,764 (April 30, 2011: 929,430).

	Loss for the period $	Weighted average number of shares	Per share amount $
As at December 31, 2011			
Basic and diluted	(13,944,458)	4,691,764	(2.97)
As at April 30, 2011			
Basic and diluted	119,088	2,891,064	0.04

The effect of warrants and stock options outstanding on loss per share for the period ended December 31, 2011 and April 30, 2011 is anti-dilutive.

24. Comparative figures and restatement

Certain comparative figures have been reclassified to conform to current period presentation.

Restatement
During the year the Corporation determined it was necessary to revise the accounting for depletion and depreciation. It was determined that due to an error in the calculation of the Corporation's depletion and depreciation expense incurred over the April 30, 2011 period was overstated. Accordingly, an adjustment to depletion and property plant and equipment was required. Prior periods have been restated to reflect this change. The effect of the restatement on the year ended April 30, 2011 is outlined below:

	April 2011 Previously Reported	Adjustment	Other IFRS Adjustments (Note 26)	April 2011 Restated
Depletion and depreciation	1,414,717	201,351		1,213,366
Property plant and equipment	11,905,921	201,351		12,107,272
Net income	5,112	201,351	(87,375)	119,088
Deficit	696,748	201,351	131,194	1,029,293

25. Subsequent events

The Corporation had entered into a letter of intent (LOI) with Noravena Capital Corporation ("Noravena") (TSX VENTURE:NRV.P) a capital pool company dated August 26, 2011 and amended November 1, 2011 with respect to a proposed business combination in conjunction with a best-efforts private placement. Subsequent to year end, the Corporation closed the amalgamation between 3MV and Noravena on January 29, 2012. All of the issued and outstanding shares of 3MV were acquired on the basis of 20.27 pre-consolidation common shares of Noravena for each one common share of 3MV. Noravena has changed its name to "3MV Energy Corp." and consolidated its common shares on the basis of one post-consolidation common share for each ten pre-consolidation common shares.

On February 23, 2012, the Corporation filed a notice on SEDAR to change its corporate year end from April 30th to December 31st. More information regarding subsequent financial period dates and comparative dates can be found on SEDAR at www.sedar.com.

On March 29, 2012 the Corporation closed a $2 million subordinated debt facility with a capital corporation at a rate of 15% per annum and calculated daily and compounded and payable monthly on the last day of each month. The funds will be used to bridge finance the 2012 capital drilling program.

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26. Explanation of transition to IFRS

The consolidated financial statements for the period ended December 31, 2011 are the Corporation's first annual financial statements prepared under IFRS. For all accounting periods prior to this, the Corporation prepared its financial statements under Canadian GAAP. In accordance with IFRS 1 'First time adoption of IFRS', certain disclosures relating to the transition to IFRS are given in this note. These disclosures are prepared under IFRS as set out in the basis of preparation in Note 2.

IFRS 1 allows first time adopters to IFRS to take advantage of a number of voluntary exemptions from the general principal of retrospective restatement. The Corporation has taken the following exemptions:

IFRS 3 Business Combinations ("IFRS 3")

The Corporation has elected to apply the exemption for retrospective application of IFRS 3 to business combinations that took place before the Transition Date (May 1, 2010).

IFRS 2 Share-based Payments ("IFRS 2")

The Corporation has elected to apply the exemption and therefore has not applied IFRS 2 to equity settled share-based payment transactions that were granted after November 7, 2002 but vested before May 1, 2010, the Corporation's Transition Date.

All of the stock options outstanding at May 1, 2010 were fully vested.

IAS 16 – Property, Plant and Equipment ("IAS 16")

The Corporation has elected to apply the deemed cost exemption from full retrospective application of IFRS 6. As such the Corporation has at May 1, 2010, measured the exploration and evaluation assets at the amount determined under Canadian GAAP and measured the development and production assets by allocating the amount determined under Canadian GAAP to the underlying assets on a pro rata basis using reserve values at that date. As a result of using the IFRS 1 optional exemption, the exploration and evaluation assets and the development and production assets have been subjected to an impairment test.

The Corporation had no exploration and evaluation assets at May 1, 2010 and therefore no costs were allocated to these assets. The Corporation conducted an impairment test of its development and production assets at May 1, 2010 and determined that the recoverable amount of these assets exceed their carrying value.

Depletion and depreciation- Upon transition to IFRS, the Corporation adopted a policy of depleting and depreciating oil and natural gas interests on a unit of production basis over proved plus probable reserves. The depletion and depreciation policy under Canadian GAAP was based on unit of production over proved reserves. In addition, depletion and depreciation was calculated on the Canadian full cost pool under Canadian GAAP. IFRS requires depletion and depreciation to be calculated based on individual components.

At May 1, 2010, there were no adjustments recorded as a result of the change in policy. For the year ended April 30, 2011, depletion and depreciation expense decreased by $383,450, with a corresponding decrease in deficit.

IAS 23 – Borrowing Costs ("IAS 23")

The Corporation has elected to apply the exemption and therefore IAS 23 has not been applied retrospectively. As at the Transition Date, the Corporation did not have any qualifying assets.

IAS 37 - Provisions, Contingent Liabilities and Contingent Assets ("IAS 37")

The Corporation has elected to apply the exemption from full retrospective application of decommissioning liabilities as allowed under IFRS 1. As such the Corporation has re-measured the provisions as at May 1, 2010 under IAS 37 and recognized the difference between the amount determined under IAS 37 and the carrying amount of the provisions at May 1, 2010, directly in deficit.

A) Reconciliations of equity

Reconciliation as at May 1, 2010

			Effect of transition to IFRS		
	Canadian GAAP $	Canadian GAAP reclassification (Note 1) $	Flow-through shares (Note 2) $	Decommissioning liabilities (Note 3) $	IFRS $
ASSETS					
Current assets					
Cash and cash equivalents	1,772,714	-	-	-	1,772,714
Accounts receivable	1,974,759	-	-	-	1,974,759
Inventory	13,453	-	-	-	13,453
Prepaid expenses and deposits	11,211	-	-	-	11,211
	3,772,137	-	-	-	3,772,137
Non-current assets					
Property and equipment	5,977,647	-	-	-	5,977,647
Total Assets	9,749,784	-	--	-	9,749,784
LIABILITIES					
Current liabilities					
Accounts payable and accruals	1,595,033	-	-	-	1,595,033
Non-current liabilities					
Deferred tax liability (Note 5)	624,626	458,012	-	(11,490)	1,071,148
Decommissioning liabilities	567,129	-	-	42,556	609,685
	1,191,755	458,012	-	31,066	1,680,833
SHAREHOLDERS' EQUITY					
Share capital	7,253,823	(22,510)	368,478	-	7,599,791
Contributed surplus	22,510	(22,510)	-	-	-
Warrants	-	22,510	-	-	22,510
Deficit	(313,337)	(435,502)	(368,478)	(31,066)	(1,148,381)
	6,962,996	(458,012)	-	(31,066)	6,473,918
Total Liabilities and Shareholders' Equity	9,749,784	-	-	-	9,749,784

A) Reconciliations of equity (continued)

Reconciliation as at April 30, 2011

	Canadian GAAP $	Canadian GAAP reclassification (Note 1) $	Effect of transition to IFRS: Flow-through shares (Note 2) $	Decommissioning liabilities (Note 3) $	Depletion (Note 4) $	IFRS $
ASSETS						
Current assets						
Cash and cash equivalents	-	60,488	-	-	-	60,488
Accounts receivable	1,724,639	-	-	-	-	1,724,639
Inventory	28,339	-	-	-	-	28,339
Prepaid expenses and deposits	37,755	-	-	-	-	37,755
	1,790,733	60,488	-	-	-	1,851,221
Non-current assets						
Property and equipment	11,532,176	-	-	191,646	383,450	12,107,272
Total Assets	13,322,909	60,488	-	191,646	383,450	13,958,493
LIABILITIES						
Current liabilities						
Bank Indebtedness	522,153	60,488	-	-	-	582,641
Accounts payable and accruals	1,636,949	-	-	-	-	1,636,949
Bank operating loan	2,720,000	-	-	-	-	2,720,000
	4,879,102	60,488	-	-	-	4,939,590
Non-current liabilities						
Deferred tax liability (Note 5)	586,871	458,012	-	(23,616)	99,498	1,120,768
Decommissioning liabilities	866,083	-	-	236,546	-	1,102,629
	1,452,954	458,012	-	212,933	99,498	2,223,397
SHAREHOLDERS' EQUITY						
Share capital	7,478,831	(22,510)	368,478	-	-	7,824,799
Deficit	(487,978)	(435,502)	(368,478)	(21,287)	283,953	(1,029,293)
	6,990,853	(458,012)	-	(21,287)	283,953	6,795,506
Total Liabilities and Shareholders' Equity	13,322,909	60,488	-	191,646	383,450	13,958,493

B) Reconciliations of statement of comprehensive loss (continued)

Reconciliation for the year ended April 30, 2011:

			Effect of transition to IFRS		
	Canadian GAAP	Reclassification	Decommissioning liabilities (Note 3)	Depletion (Note 4)	IFRS
	$	$	$	$	$
Oil and natural gas revenues	4,105,732	-	-	-	4,105,732
Royalties	(457,670)	-	-	-	(457,670)
Total revenue	3,648,062	-	-	-	3,648,062
Production and operating	(1,133,262)	-	-	-	(1,133,262)
General and administrative	(1,065,612)	-	-	-	(1,065,612)
Depletion and depreciation	(1,621,679)	24,863	-	383,450	(1,213,366)
Income (loss) from operations	(172,491)	24,863		383,450	235,822
Interest and other income	6,478	-	-	-	6,478
Finance costs	(43,869)	(24,863)	(2,344)	-	(71,076)
Loss before income tax	(209,882)	-	(2,344)	383,450	171,224
Income tax (expense) - current	(2,516)	-	-	-	(2,516)
Income tax (expense) recovery – deferred (Note 5)	37,755	-	12,123	(99,498)	(49,620)
Total comprehensive income (loss)	(174,643)	-	9,779	283,953	119,088

B) Explanation of material adjustments

Note1 – Canadian GAAP reclassification

Under Canadian GAAP the Corporation issued units consisting of common shares and common share purchase warrants. The warrants were incorrectly accounted for as a share-based payment expense, i.e. credit contributed surplus and debit profit and loss with the fair value of the warrants of $22,510. At the time the units were issued the Corporation also issued flow-through shares at the same price as the non-flow-through units with the only difference that the non-flow-through units contained a warrant that the flow-through units did not. The fair value of the warrants is therefore considered to be the premium on the flow-through shares under IFRS.

The effect of the $22,510 on the Canadian GAAP financial statements is considered to be immaterial and as a result the Canadian GAAP financial statements have not been restated. These consolidated financial statements have been stated to accurately reflect the difference between treatments of flow-through shares under IFRS and Canadian GAAP (refer to note 2 and 3 below).

An amount of $60,488 has been reclassified between bank indebtedness and cash and cash equivalents as at April 30, 2011. The adjustment relates to a bank overdraft facility previously disclosed on a net basis.

Additionally an amount of $458,012 has been reclassified between deferred tax liability and deficit as at May 1, 2010. The adjustment relates to the tax rate change on temporary differences between tax and accounting values in deferred income tax liability.

Note 2 - Flow-through shares premium

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. Generally, due to transferring the benefit of tax deduction to the investors, the shares on flow through basis are offered at higher than the prevailing quoted prices of the shares. Under Canadian GAAP, the Corporation only recorded a deferred tax liability on renouncement of the qualifying expenditures with corresponding reduction of share capital.

Under IFRS, the proceeds from issuance of these shares are allocated between share capital and a liability to incur the qualifying expenditures in lieu of the sale of tax deductions. The amounts allocated to share capital represent 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. As expenditures are incurred, the liability is reversed and a deferred tax liability is recognized at that time. As a result, share capital decreased by $22,510 with a corresponding decrease to deficit on May 1, 2010.

Tax effect on flow through shares

Under Canadian GAAP, the Corporation recorded a deferred tax liability on renouncement of the qualifying expenditures with a corresponding reduction of share capital. Under IFRS, the deferred tax is recognised in the consolidated statement of comprehensive loss rather than as a reduction of share capital. This resulted in a $390,988 increase in share capital and deficit on May 1, 2010 as a result of deferred tax previously recognised against share capital under Canadian GAAP.

Note 3 – Decommissioning liabilities

Under Canadian GAAP, the decommissioning liability was measured at the estimated fair value of the retirement and decommissioning expenditures expected to be incurred. Liabilities were not re-measured to reflect period end discount rates. Under IFRS, the decommissioning liability is measured as the best estimate of the expenditure to be incurred and requires that the decommissioning liability be re-measured using the period end discount rate. In conjunction with the IFRS 1 exemption regarding full cost oil and gas assets discussed above, the Corporation was required to remeasure its decommissioning liability upon transition to IFRS and recognize the difference in deficit. The application of this exemption resulted in a $42,556 increase to the decommissioning liability on the Corporation's consolidated statement of financial position as at May 1, 2010 with a corresponding charge to deficit. Subsequent IFRS re-measurements of the obligation are recorded through property and equipment with an offsetting adjustment to decommissioning liability. April 30, 2011, excluding the May 1, 2010 adjustment, the Corporation's decommissioning liability increased by $191,646 which primarily reflects the re-measurement of the liability using an average risk free rate of 3.48 percent as at April 30, 2011. The use of the lower discount rate resulted in an increase in the accretion amounting to $2,344 in the year ended April 30, 2011.

B) Explanation of material adjustments (continued)

Note 4 - Depletion

Under Canadian GAAP, the production and development costs were depleted using the unit-of-production method based on proved reserves calculated for the full cost pool. Under IFRS, production and development costs are depleted using the unit-of-production method based on estimated proved and probable reserves determined using estimated future prices and costs calculated at the established area level. As a result, depletion and depreciation expense decreased by $383,450 in the year ended April 30, 2011, respectively, with a corresponding increased to property and equipment and decrease in deficit.

Note 5- Deferred income tax

Adjustments to deferred income tax have been made in regards to the adjustments noted above that resulted in a change to the temporary differences between tax and accounting values.

C) Restatement of consolidated statement of cash flows from Canadian GAAP to IFRS

The restatement from Canadian GAAP to IFRS had no significant effect on the reported cash flows generated by the Corporation. The reconciling items between Canadian GAAP presentation and IFRS have no effect on the cash flows generated.