Eaglewood Energy Inc.
Consolidated interim financial statements and notes
As at March 31, 2011 and for the three months ended March 31, 2011 and 2010
(unaudited)

Eaglewood Energy Inc.
Consolidated Balance Sheets
Canadian Dollars
(Unaudited)

As at	March 31, 2011	December 31, 2010	January 1, 2010
ASSETS			
Current Assets			
Cash and cash equivalents	**$ 5,546,364**	$ 12,858,739	$ 13,622,795
Restricted cash	**2,674,317**	2,749,725	-
Accounts receivable	**6,729,495**	10,137,259	394,652
Prepaid expenses	**17,341**	21,727	-
	14,967,517	25,767,450	14,017,447
Property, plant and equipment	**293,071**	298,105	74,315
Exploration and evaluation assets (note 6)	**51,324,424**	46,136,943	18,723,528
TOTAL ASSETS	**$ 66,585,012**	$ 72,202,498	$ 32,815,290
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Accounts payable and accrued liabilities	**$ 6,059,886**	$ 10,224,459	$ 424,182
	6,059,886	10,224,459	424,182
Asset retirement obligation (note 7)	**1,392,339**	1,394,059	-
TOTAL LIABILITIES	**7,452,225**	11,618,518	424,182
Shareholders' Equity			
Share capital	**68,758,991**	70,174,886	41,306,246
Contributed surplus	**3,415,857**	3,175,660	2,311,319
Accumulated other comprehensive income	**949,630**	593,516	-
Deficit	**(13,991,691)**	(13,360,082)	(11,226,457)
TOTAL SHAREHOLDERS' EQUITY	**59,132,787**	60,583,980	32,391,108
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 66,585,012**	$ 72,202,498	$ 32,815,290

Going concern (note 1)

Contingencies and commitments (note 13)

Approved by the Board of Directors

"signed"
Ray Antony, Director and Chairman

"signed"
Stan Grad, Director

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

Eaglewood Energy Inc.
Consolidated Statements of Loss and Comprehensive (Loss)/Income
Canadian Dollars
(Unaudited)

		For the three months ended,		
		March 31, 2011		March 31, 2010
Expenses				
General and administrative expenses	**$**	**(657,789)**	$	(908,861)
Depletion, depreciation and amortization		**(38,919)**		(4,833)
Results from operating activities		**(696,708)**		(913,694)
Finance income (note 5)		**106,320**		816,623
Finance expense		**(41,221)**		(3,996)
Net finance income		**65,099**		812,627
Loss for the period		**(631,609)**		(101,067)
Other comprehensive income				
Foreign currency translation adjustment		**356,114**		329,680
Total comprehensive (loss)/income for the period	**$**	**(275,495)**	$	228,613
Loss per share – basic and diluted	**$**	**(0.01)**	$	(0.01)
Weighted average common shares – basic and diluted		**86,876,831**		58,794,653

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

Eaglewood Energy Inc.
Consolidated Statements of Changes in Equity
Canadian Dollars
(Unaudited)

	Number of common shares		Share capital		Contributed Surplus		Accumulated other comprehensive income		Deficit		Total equity
Balance at January 1, 2011	86,238,942	$	70,174,886	$	3,175,660	$	593,516	$	(13,360,082)	$	60,583,980
Total comprehensive loss for the period:											
Loss for the period									(631,609)		(631,609)
Other comprehensive income:											
Foreign currency translation							356,114				356,114
Total comprehensive income (loss) for the period			-		-		356,114		(631,609)		(275,495)
Transactions with owners, recorded directly in equity											
Issue of common shares	710,000		532,500								532,500
Share issue costs			(35,527)								(35,527)
Share based payments					337,613						337,613
Options exercised	200,000		30,698		(10,698)						20,000
Total transactions with owners	910,000		527,671		326,915		-		-		854,586
Translation differences			(1,943,566)		(86,718)		-		-		(2,030,284)
Balance at March 31, 2011	87,148,942	$	68,758,991	$	3,415,857	$	949,630	$	(13,991,691)	$	59,132,787

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

Eaglewood Energy Inc.
Consolidated Statements of Changes in Equity
Canadian Dollars
(Unaudited)

	Number of common shares		Share capital		Special Warrants		Contributed Surplus		Accumulated other comprehensive income		Deficit		Total equity
Balance at January 1, 2010	58,544,942	$	41,306,246	$	-	$	2,311,319	$	-	$	(11,226,457)	$	32,391,108
Total comprehensive loss for the period:													
Loss for the period											(101,067)		(101,067)
Other comprehensive income:													
Foreign currency translation									329,680				329,680
Total comprehensive income (loss) for the period	-		-		-		-		329,680		(101,067)		228,613
Transactions with owners, recorded directly in equity													
Issue of special warrants					22,443,750								22,443,750
Issue costs, net of tax					(134,809)								(134,809)
Share based payments							235,436						235,436
Options exercised	594,000		375,817				(134,917)						240,900
Total transactions with owners	594,000		375,817		22,308,941		100,519		-		-		22,785,277
Translation differences			(1,200,293)		(786,700)		(64,135)		-		-		(2,051,128)
Balance at March 31, 2010	59,138,942	$	40,481,770	$	21,522,241	$	2,347,703	$	329,680	$	(11,327,524)	$	53,353,870

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

Eaglewood Energy Inc.
Consolidated Statements of Cash Flow
Canadian Dollars
(Unaudited)

	For the three months ended,	
	March 31, 2011	March 31, 2010
Cash flows related to the following activities:		
Operating activities		
Net loss	**$ (631,609)**	$ (101,067)
Adjustments for:		
Stock-based payments	**224,624**	235,436
Depletion, depreciation and amortization	**38,919**	4,833
Change in discount rate for asset retirement obligation	**23,226**	-
Finance income	**(15,228)**	(5,704)
Accretion of asset retirement obligation	**13,285**	-
	(346,783)	133,498
Changes in non-cash working capital (note 9)	**(752,535)**	328,018
	(1,099,318)	461,516
Investing activities		
Additions to property, plant and equipment	**(22,354)**	(1,812)
Additions to exploration and evaluation assets	**(6,502,133)**	(1,596,062)
Finance income	**15,228**	5,704
	(6,509,259)	(1,592,170)
Financing activities		
Issue of common shares	**552,500**	240,900
Issue of special warrants, net of commissions	**-**	22,443,750
Share issue costs	**(35,527)**	(134,809)
	516,973	22,549,841
Net (decrease) increase in cash	**(7,091,604)**	21,419,187
Cash and cash equivalents, beginning of period	**12,858,739**	13,622,795
Effect of exchange rate change on cash and cash equivalents	**(220,771)**	(1,163,999)
Cash and cash equivalents, end of period	**5,546,364**	$ 33,877,983

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

1. Nature of operations and going concern

Eaglewood Energy Inc. (collectively with its subsidiary, the "Company" or "Eaglewood") is a development stage enterprise whose primary activity is exploration of its Papua New Guinea ("PNG") licenses. Eaglewood is incorporated and domiciled in Canada. The address of its registered office is Suite 602, 304 – 8 Ave. SW, Calgary, Alberta. The Company has commenced exploration drilling activities but does not have any production revenue at this time.

The consolidated interim financial statements include the accounts of the Company and its wholly owned subsidiary, Eaglewood Energy (BVI) Ltd., which was incorporated on July 4, 2007.

The Company's consolidated interim financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company has not generated any petroleum revenue to date and for the three-month period ended March 31, 2011, the Company reported a net loss of approximately $0.6 million. At March 31, 2011, the Company had an accumulated deficit of approximately $14.0 million and net working capital of approximately $8.9 million. In addition to its ongoing working capital requirements, the Company has financial commitments related to its PNG licenses as described in note 13 (b). These conditions indicate the existence of material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern.

The Company's ability to continue as a going concern is dependent upon its ability to raise equity financing and/or enter into joint venture or farm-out arrangements in the next twelve months. Management believes there is the opportunity for the Company to raise additional equity and/or enter into further farm-out or joint venture arrangements in the next twelve months and therefore continue as a going concern. However, there are no assurances that the Company will be successful in achieving these objectives. These consolidated interim financial statements do not reflect the adjustments to the carrying values of assets and liabilities, including any impairment in the property, plant and equipment and exploration and evaluation assets, and the reported expenses and balance sheet classifications that would be necessary if the Company is unable to continue as a going concern, and such adjustments could be material.

The consolidated financial statements of the Company as at and for the year ended December 31, 2010 which were prepared under previous Canadian generally accepted accounting principles ("Canadian GAAP") are available at www.sedar.com.

2. Basis of preparation

The Company prepares its consolidated financial statements in accordance with Canadian GAAP as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards (IFRS), and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in these interim consolidated financial statements. In these interim consolidated financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

These interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34 and IFRS 1. The consolidated interim financial statements do not include all of the information required for full annual financial statements. Subject to certain transition elections disclosed in note 16, the Company has consistently applied the same accounting policies in its opening IFRS balance sheet at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 16 discloses the impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company's consolidated financial statements for the year ended December 31, 2010.

The policies applied in these interim consolidated financial statements are based on IFRS issued and outstanding as of June 3, 2011, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these interim consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

The interim consolidated financial statements should be read in conjunction with the Company's Canadian GAAP annual financial statements for the year ended December 31, 2010.

(a) Basis of measurement

The consolidated interim financial statements have been prepared on the historical cost basis.

(b) Use of Estimates and Judgments

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

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

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

- note 6 – valuation of exploration and evaluation assets
- note 7 – asset retirement obligations
- note 8 – measurement of share-based payments.

3. Significant accounting policies

The accounting policies set out below have been applied consistently by the Company and its subsidiary to all periods presented in these consolidated interim financial statements and in preparing the opening IFRS statement of financial position at January 1, 2010 for the purposes of the transition to IFRSs.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Jointly controlled operations and jointly controlled assets

Some of the Company's oil and natural gas activities involve jointly controlled assets. The consolidated financial statements include the Company's share of these jointly controlled assets and a proportionate share of the relevant revenue and related costs.

(iii) Transactions eliminated on consolidation

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

(b) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each consolidated entity in the Eaglewood group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is the Company's presentation currency. The functional currency of the Company is the US dollar.

The financial statements of entities are translated into Canadian dollars as follows: assets, liabilities, and equity (with the exception of deficit) – at the closing rate at the date of the statement of financial position, and income and expenses – at the average rate of the period (as this is considered a reasonable approximation to actual rates). All resulting changes are recognized in other comprehensive income as cumulative translation adjustments.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Generally, foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in currencies other than an operation's functional currency are recognized in profit or loss.

(c) Financial instruments

Financial assets and liabilities are recognized when the Company 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 Company has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

(i) Financial assets and liabilities at fair value through profit or loss

A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Derivatives are also included in this category unless they are designated as hedges. Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the profit or loss. Gains and losses arising from changes in fair value are presented in the profit or loss within other gains and losses in the period in which they arise. The Company currently has no financial assets and liabilities at fair value through profit or loss.

(ii) Available-for-sale investments

Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories.

Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive income. The Company currently has no available-for-sale investments.

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise accounts receivable and cash and cash equivalents, and are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

(iv) Financial liabilities at amortized cost

Financial liabilities at amortized cost include accounts payable and accrued liabilities. Accounts payable are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, accounts payable are measured at amortized cost using the effective interest method.

Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

(v) Share capital

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

(d) Property, plant and equipment and exploration and evaluation assets

(i) Recognition and measurement

Exploration and evaluation expenditures

Pre-license costs are recognized in profit or loss as incurred.

Exploration and evaluation costs, including the costs of acquiring licenses and directly attributable general and administrative costs, initially are capitalized as exploration and evaluation assets according to the nature of the assets acquired. The costs are accumulated in cost centers by licenses pending determination of technical feasibility and commercial viability.

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

The technical feasibility and commercial viability of extracting a mineral resource is considered determinable when proven reserves are determined to exist and a production development license is applied for. A review of each exploration license or field is carried out, at least annually, to ascertain whether proven reserves have been discovered. Upon determination of proven reserves, exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from exploration and evaluation assets to a separate category within property, plant and equipment, referred to as petroleum and natural gas properties.

Development and production costs

Items of property, plant and equipment, which include petroleum and natural gas properties, will be measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Development and production assets will be grouped into CGU's for impairment testing. When significant parts of an item of property, plant and equipment, including petroleum and natural gas properties, having different useful lives, they will be accounted for as separate items (major components).

Gains and losses on disposal of an item of property, plant and equipment, including petroleum and natural gas properties, will be determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and will be recognized net within "other income" or "other expenses" in profit or loss.

(ii) Farm-outs

Exploration and evaluation assets are reduced for the amount of cash received from the farm-outs. No gain or loss is recognized on this transaction.

(iii) Depletion and depreciation

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

For other assets, depreciation is recognized in profit or loss on a declining balance basis as follows:

Office furniture and equipment	20%
Computer equipment	30%

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(e) Asset retirement obligation

The Company recognizes the fair value of a liability for an asset retirement obligation ("ARO") in the period in which it is incurred and records a corresponding increase in the carrying value of the related long-lived asset. The liability is subsequently adjusted for the passage of time and is recognized as an accretion expense in the consolidated statement of operations. The fair value of the obligation is periodically adjusted for revisions in either the risk-free rate, timing or the amount of the original estimated cash flows associated with the liability. The fair value is determined through a review of engineering studies, industry guidelines, and management's estimates on a site by site basis. The asset is amortized on a straight-line basis, over the life of the asset.

(f) Impairment

(i) Financial assets (including accounts receivable)

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in profit or loss.

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than exploration and evaluation assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Exploration and evaluation assets are assessed for impairment when they are reclassified to property, plant and equipment, as petroleum and natural gas properties, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proven and probable reserves.

Fair value less costs to sell is the amount obtainable from the sale of an asset or cash-generating unit in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Exploration and evaluation assets are allocated to related CGU's when they are assessed for impairment, both at the time of any triggering facts and circumstances as well as upon their eventual reclassification to producing assets (petroleum and natural gas properties in property, plant and equipment).

Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGU's are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

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

(g) Share based payment

The grant date fair value of options granted to employees is expensed to general and administrative expenses or capitalized in the same manner in which the salaries for the related employees are treated, with a corresponding increase in contributed surplus over the vesting period based on the number of awards expected to vest. The number of awards expected to vest is reviewed at least annually, with any impact being recognized immediately. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value.

Fair value of each tranche is measured at the date of grant using the Black Scholes option pricing model.

(h) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses. The unwinding of the discount is recognized as a finance cost.

(i) Finance income and expenses

Finance expense comprises interest expense on borrowings, accretion of the discount on provisions and impairment losses recognized on financial assets.

Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Foreign currency gains and losses, reported under finance income and expenses, are reported on a net basis.

(j) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

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

(k) Earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as options granted to employees.

4. New and amended accounting standards

(a) New accounting standards

IFRS 9 was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent not clearly representing a return of investment, are recognized in profit or loss; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

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

This standard is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

In May 2011, the IASB issued the following standards which have not yet been adopted by the Company: IFRS 11, *Joint Arrangements* (IFRS 11), IAS 27, *Separate Financial Statements* (IAS 27), IFRS 13, *Fair Value Measurement* (IFRS 13) and amended IAS 28, *Investments in Associates and Joint Ventures* (IAS 28). Each of the new standards is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements.

The following is a brief summary of the new standards:

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

IFRS 13 - *Fair Value Measurement* is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosure requirements for fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

(b) Amendments to Other Standards

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

5. Finance income

		Three months ended,
	March 31, 2011	March 31, 2010
Interest income	**$ 15,228**	$ 5,704
Net foreign exchange gain	**91,092**	810,919
	$ 106,320	$ 816,623

6. Exploration and evaluation assets

Balance at January 1, 2010	$	18,723,528
Additions		27,532,138
Foreign currency translation		(118,723)
Balance at December 31, 2010		46,136,943
Additions		6,502,133
Foreign currency translation		(1,314,652)
Balance at March 31, 2011	$	51,324,424

During the three months ended March 31, 2011 the Company had capital expenditures relating to exploration and evaluation assets of $6,502,133 (three months ended March 31, 2010 - $1,596,062).

Included in exploration and evaluation assets is $1,353,827 (as at March 31, 2010 - $531,324) of capitalized general and administrative expenses related to exploration activities.

7. Asset retirement obligation

Balance at January 1, 2010	$	-
ARO additions during the period		1,394,059
Balance at December 31, 2010		1,394,059
Change in risk-free rate		23,226
Accretion		13,285
Total before translation difference		1,430,570
Translation difference		(38,231)
Balance at March 31, 2011	$	1,392,339

The Company's asset retirement obligations result from its ownership interest in petroleum and natural gas properties. The total asset retirement obligation is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years. The Company has estimated the net present value of the asset retirement obligations to be $1,392,339 as at March 31, 2011 (December 31, 2010 - $1,394,059) based on an undiscounted total future liability of $2,696,865 (March 31, 2010 - nil). These payments are expected to occur in 2027 or 2028. The discount factor, being the risk-free rate, is 3.85 percent at March 31, 2011 (2010 - 3.96 percent).

8. Share capital

(a) Authorized
The Company is authorized to issue an unlimited number of common shares and preferred shares.

(b) Stock options
The Company has a stock option plan for directors, officers, employees and consultants. Under the Company's stock option plan, the Company may grant options of up to 10 percent of the issued and outstanding common shares. The plan is administered by the Board of Directors. In accordance with the policies of the TSX Venture Exchange, the option exercise price, when granted, is based on the last closing price of the Company's shares on the TSX-V prior to the grant, subject to a permitted discount. Options granted under the plan have an exercise period not exceeding ten years. The vesting period is determined at the time of grant at the discretion of the Board of Directors.

The Company had stock options outstanding to acquire common shares as follows:

	Weighted average remaining life (years)	**Number of options**		**Weighted average exercise price**
Balance, January 1, 2010	**3.64**	**5,575,000**	**$**	**0.65**
Granted		1,665,000		1.09
Exercised		(644,000)		0.38
Forfeited		(650,000)		0.94
Balance, December 31, 2010	**3.26**	**5,946,000**	**$**	**0.77**
Granted		100,000		0.50
Exercised		(200,000)		0.10
Balance, March 31, 2011	**3.06**	**5,846,000**	**$**	**0.80**

The following table summarizes the stock options outstanding at March 31, 2011:

Range of exercise prices	Options outstanding	Weighted average exercise price	Options exercisable	Weighted average remaining life (years)
$0.10 - $0.50	1,706,000	0.12	1,606,000	2.78
$0.51 - $1.00	2,065,000	0.81	925,000	3.36
$1.01 - $1.50	1,500,000	1.24	1,125,000	2.58
$1.50 - $1.64	575,000	1.64	-	4.08
	5,846,000	**0.80**	**3,656,000**	**3.06**

The fair value of the stock options granted during the three months ended March 31, 2011 for which the exercise price was equal to the share's market price was estimated at $42,410 (2010 - $nil). These amounts will be recognized as stock based compensation expense over the vesting period of the options.

(c) Performance warrants

In 2008, the Company granted performance warrants to certain employees. The performance warrants entitle the employees to purchase an equivalent number of common shares of the Company if the common shares close at or above pre-determined prices for specified periods of time. The performance warrants vest in four equal tranches over a two year period and expire three years from the date of grant. Certain of these warrants will be extended for two years, prior to the expiration. The exercise price of the performance warrants escalates with each tranche and ranges from $0.75 to $1.75.

	Number of warrants		Weighted average exercise price
Balance, January 1, 2010	**8,000,000**	**$**	**1.19**
Exercised	(50,000)		0.75
Forfeited	(150,000)		1.33
Balance, December 31, 2010 and March 31, 2011	**7,800,000**	**$**	**1.19**

Exercise price	Warrants outstanding	Warrants exercisable
$0.75	1,950,000	1,950,000
$1.00	1,950,000	1,950,000
$1.25	1,950,000	1,950,000
$1.75	1,950,000	-
	7,800,000	**5,850,000**

(d) Share-based payments

The fair value of common share options and performance warrants granted is estimated on the date of grant and is recognized over the vesting period, using the Black Scholes Model.

	Three months ended,	
	March 31, 2011	March 31, 2010
Weighted average fair value of stock options granted (per option)	**$0.42**	n/a
Weighted average fair value of performance warrants granted	**n/a**	n/a
Expected life of stock options	**4 years**	n/a
Expected life of performance warrants	**n/a**	n/a
Expected volatility	**141%**	n/a
Risk-free rate of return	**2.52%**	n/a
Dividend yield	**Nil**	n/a

A forfeiture rate of 5 percent (March 31, 2010 - 10 percent) is used when recording share-based payments. This estimate is adjusted to the actual forfeiture rate. The stock based compensation expense related to the stock options for the three months ended March 31, 2011 was $337,613 (2010 - $235,436), of which $112,989 (2010 – nil) has been capitalized.

9. Supplementary cash flow information

The following table details the components of non-cash working capital:

	Three months ended,	
	March 31, 2011	March 31, 2010
Provided by (used in):		
Accounts receivable	**$ 3,407,866**	$ -
Prepaid expenses	**4,387**	(12,822)
Accounts payable and accrued liabilities	**(4,164,788)**	11,907
	$ (752,535)	$ 328,018

10. Financial instruments and risk management

The carrying amounts of financial instruments comprising cash and cash equivalents, restricted cash, accounts receivable and accounts payable and accrued liabilities approximate their fair values due to the immediate or short term nature of these financial instruments.

The Company's assets and liabilities recorded at fair value have been categorized based upon the following fair value hierarchy:

- Level 1 – quoted market prices in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted market prices included in Level 1 that are observable or the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3 – unobservable inputs such as inputs for the asset or liability that are not based on observable market data.

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The fair value of the financial instruments classified as held for trading (cash and cash equivalents and restricted cash) corresponds to a Level 1 classification.

The Company's activities expose it to a variety of financial risks that arise as a result of its exploration, development, production, and financing activities such as:

- credit risk;
- liquidity risk; and
- market risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these consolidated interim financial statements.

The Board of Directors oversees managements' establishment and execution of the Company's risk management framework. Management has implemented and monitors compliance with risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

(a) Credit Risk

Credit risk is the risk that a third party fails to meet its contractual obligations that could result in the Company incurring a loss. The Company's accounts receivable are primarily with joint venture partners. Receivables from joint partners arise when the Company conducts joint operations on behalf of its partners and invoices them for their share of costs. As at March 31, 2011 and 2010 and as at January 1, 2010, there was no allowance for doubtful accounts for the joint venture receivables as all amounts receivable were current.

The maximum exposure to credit risk is as follows:

	Carrying Amount	
	March 31, 2011	December 31, 2010
Cash and cash equivalents	**$ 5,546,364**	$ 12,858,739
Restricted cash	**2,674,317**	2,749,725
Accounts receivable	**6,729,495**	10,137,259
	$ 14,950,176	$ 25,745,723

Cash and cash equivalents

The Company limits its exposure to credit risk by only investing in liquid securities and only with major national banks. Given these credit ratings, management does not expect any counterparty to fail to meet its obligations.

Restricted cash

A letter of credit was provided by a major Canadian bank in the form of a hold on the Company's funds. Management does not expect the counterparty to fail to meet its obligations in releasing the letter of credit, once all conditions of the contract are met.

Accounts receivables

The majority of the Company's operations are conducted in Canada and Papua New Guinea. The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Typically the Company ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. To achieve this objective, the Company prepares annual operating and capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditure.

(c) Market risk

Market risk is the risk that changes in market prices, such as commodity prices, foreign exchange rates and interest rates will affect the Company's income or the value of the financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Company may use both financial derivatives and physical delivery sales contracts to manage market risks.

(d) Foreign currency exchange risk:

The Company is exposed to risk arising from fluctuations in foreign currency exchange rates and the volatility of those rates. This exposure primarily relates to: (i) certain expenditure commitments, deposits and accounts payable which are denominated in foreign currencies including Canadian dollars, Australian dollars or Papua New Guinea kina; and (ii) its operations in Papua New Guinea.

The Company's foreign currency exchange risk arises from cash and cash equivalents and current liabilities. With a 10% strengthening or weakening of the Canadian dollar against all exchange rates, the net loss for the three months ended March 31, 2011 would reduce by $0.4 million (December 31, 2010 - $0.5 million) or increase by $0.4 million (December 31, 2010 - $0.6 million).

11. Capital management

The Company's objective when managing its capital structure is to maintain adequate levels of available working capital, including cash and cash equivalents, to meet its license commitments in PNG.

The Company funds its share of expenditures of all commitments from existing cash and cash equivalent balances received primarily from fees from farming out its Licenses and issuances of shareholders' equity. In order to maintain positive working capital, the Company may issue new shares. The Company does not currently utilize debt and is not subject to any financial covenants.

The Board of Directors regularly reviews the Company's cash and cash equivalents against the expenditure commitments and assesses the timing and need for additional equity financing. The Company's results will impact its access to the capital necessary to meet these expenditure commitments. There can be no assurance that equity financing will be available or sufficient to meet those requirements, or for other corporate purposes, or if equity financing is available, that it will be on terms acceptable to the Company.

12. Related party transactions

The Company has entered into transactions with related parties in the normal course of business, which were valued at the exchange amount established and agreed to by the related parties. During the three months ended March 31, 2011 and 2010, the related party transactions were as follows:

(a) the Company paid $3,000 (March 31, 2010 - $3,100) to a company controlled by a director. These fees were paid for administration services which were provided by the director who previously acted as an officer of the Company. At March 31, 2011, $nil (December 31, 2010 - $nil) was included in accounts payable and accrued liabilities.

(b) the Company paid $18,248 (March 31, 2010 - $78,409) for legal services to a law firm of which an officer of the Company is a partner. At March 31, 2011, $4,261 (December 31, 2010 - $38,420) was included in accounts payable and accrued liabilities.

Key management personnel compensation

In addition to their salaries, the Company also provides non-cash benefits to executive officers. The executive officers include the Chief Executive Officer, the Chief Operating Officer and the Chief Financial Officer. Executive officers also participate in the Company's stock option program. Key management personnel compensation for the three months is comprised as follows:

		For the three months ended,
	March 31, 2011	March 31, 2010
Salaries and wages	**$ 330,682**	$ 208,046
Short-term employee benefits	**9,128**	8,713
Share-based payments	**46,591**	76,587
	$ 386,401	$ 293,346

13. Contingencies and commitments

(a) Pursuant to the acquisition of a 100 percent interest in four exploration prospecting licenses granted by the Government of PNG and all related geological, seismic and technical data (the "Licenses"), the vendor has the right to acquire a 10 percent interest in all, but not less than all, of the Licenses exercisable within 60 days from the date that the Company completes the drilling and testing of a third well on the Licenses by paying to the Company 10 percent of all costs incurred in respect of the Licenses up to the election date and by agreeing to pay 10 percent of the ongoing costs with respect to the exploration and development of the Licenses.

(b) Pursuant to the terms of the Licenses, the Company has assumed certain financial and work commitments relating to the licenses as described below:

License	**Commitment**
PPL 257	There was a commitment to drill one exploration well by October 20, 2009 which was not met. The Company estimates that the cost of drilling one exploration well is approximately US $60,000,000. On March 18, 2010, the Company submitted a request for a five year extension of the license upon its expiry in October 2010. Under the PNG Oil and Gas Act, the license is deemed to still be in effect while the Company awaits review of its extension request by the Minister. In accordance with the terms of the license extension, the Company will relinquish 50 percent of the area for PPL 257 when, and if, the extension is granted. The area to be relinquished was determined by the Company

	after an extensive review of seismic and aero/gravity magnetic surveys done on the license. The Company expects that PPL 257 will be extended and that the previous drilling commitment will be added to future work commitments.
PPL 258	There was a commitment to drill one exploration well by October 20, 2009 which was not met. The Company estimates that the cost of drilling one exploration well is approximately US $30,000,000. On March 18, 2010, the Company submitted a request for a five year extension of the license upon its expiry in October 2010. Under the PNG Oil and Gas Act, the license is deemed to still be in effect while the Company awaits review of its extension request by the Minister. In accordance with the terms of the license renewal, the Company will relinquish 50 percent of the area for PPL 258 when, and if, the extension is granted. The area to be relinquished was determined by the Company after an extensive review of seismic and aero/gravity magnetic surveys done on the license. For PPL 258, there is a risk that the Petroleum Advisory Board may recommend against extension to the PNG government. In the event that PPL 258 is not extended, the Company would be advised and would be provided the opportunity to appeal such decision.
PPL 259	There was originally a commitment to drill one exploration well by June 29, 2009. On September 21, 2010 the Minister for Petroleum and Energy approved a variation to the drilling commitment moving it to year five of the license term which is 2010. Drilling of the Ubuntu-1 well commenced in December 2010. On February 7, 2011, Eaglewood announced that it was suspending the Ubuntu-1 well as a gas and gas condensate discovery. The estimated gross cost of the well is approximately US $41,500,000. (net cost to the Company approximately US $16,600,000). In the event of a discovery there is a requirement to drill an appraisal well by June 30, 2011. An appraisal well is not currently warranted until further seismic is acquired. On March 7, 2011 a variation application was submitted to the Department of Petroleum and Energy requesting the requirement to drill an appraisal well be replaced by a seismic acquisition programme. On March 29, 2011, the Company submitted to the Department of Petroleum and Energy of PNG, an application for a five year extension on the PPL 259 license. Under the PNG Oil and Gas Act, the license is deemed to still be in effect while the extension request is under review by the Minister. In accordance with the terms of the license renewal, 50 percent of the area for PPL 259 will be relinquished when, and if, the extension is granted. The Company expects that PPL 259 will be extended and that the appraisal well drilling commitment will be replaced with the seismic programme.
PPL 260	There was a commitment to drill one exploration well by March 13, 2010. Pre-drilling activities for the first exploration well, Korka-1, began in March and drilling was underway during April 2010. Unfortunately, the exploration well encountered no hydrocarbons and was plugged and abandoned. The gross cost of the exploration well was approximately US $57,000,000 (net cost to the Company estimated at approximately US $6,600,000). PPL 260 has other prospects and timing and location for drilling a second well is under review but there are no commitments to do so. In December 2010, the Operator of the license submitted a request for a five year extension of the license upon its expiry in March 2011. Under the PNG Oil and Gas Act, the license is deemed to still be in effect while the extension request is under review by the Minister. In accordance with the terms of the license renewal, 50 percent of the area for PPL 260 will be relinquished when, and if, the extension is granted. The area to be relinquished was determined by the Operator after an extensive review of seismic and aero/gravity magnetic surveys done on the license.

The Company has issued bank guarantees totaling approximately $160,000 (100,000 Papua New Guinea kina for each license) as security against the capital requirements associated with the Licenses. If the Company does not fulfill its commitments under a License and has not applied for and been granted an extension, it could potentially lose its guarantee and the applicable License could be revoked by the PNG government.

(c) The PNG government retains a 22.5 percent back-in right which can be exercised at the time a development license is granted. If the PNG government exercises its back-in right, it would be required to pay the Company 22.5 percent of all costs incurred in respect of the Licenses up to the election date and to pay 22.5 percent of the ongoing production and development costs of the Licenses.

(d) The Company has a commitment to obtain a reclamation certificate relating to an abandoned well site in Alberta which relates to a predecessor company. The cost of any reclamation work relating to the site is not determinable at this time.

14. Segmented information

The Company has one reportable business segment, that being oil and gas exploration and development. The Company's operations were carried on in the following geographic locations:

	For the three months ended March 31, 2011		
	Canada	**Papua New Guinea**	**Consolidated**
Expenses	$ (683,262)	$ (13,446)	$ (696,708)
Net finance income	176,850	(111,751)	65,099
Loss for the period	$ (506,412)	$ (125,197)	$ (631,609)
Segment assets	$ 8,107,029	$ 58,477,983	$ 66,585,012
Exploration and evaluation assets	$ -	$ 51,324,424	$ 51,324,424
Capital additions (excluding foreign currency adjustment)	$ 2,596	$ 6,634,881	$ 6,637,477

	For the three months ended March 31, 2010		
	Canada	**Papua New Guinea**	**Consolidated**
Expenses	$ (620,460)	$ (293,234)	$ (913,694)
Net finance income	819,887	(7,260)	812,627
Loss for the period	$ 199,427	$ (300,494)	$ (101,067)
Segment assets	$ 33,921,946	$ 19,868,013	$ 53,789,959
Exploration and evaluation assets	$ -	$ 19,764,307	$ 19,764,307
Capital additions (excluding foreign currency adjustment)	$ 1,812	$ 1,596,063	$ 1,597,875

15. Subsequent events

(a) On April 28, 2011, the Company announced the results of a report of estimated resources on the Ubuntu-1 well. Details of the estimated resources are available in the Company's press release of April 28, 2011.

On April 28, 2011 the Company also announced the results of the pressure, volume, temperature ("PVT") analysis of the downhole fluid samples from the Ubuntu-1 well. The analysis indicates that in addition to natural gas and natural gas liquids, Ubuntu may also contain volumes of oil or a combination of oil and gas.

(b) On May 27, 2011 the Fly River Provincial Government of PNG ("FRPG") and Eaglewood signed a Memorandum of Agreement to initiate plans for the construction of the Drimdenasuk to Strickland River road transport project, which will provide road access to Eaglewood's Ubuntu Discovery and many other prospects on Eaglewood's PPL 259 license. Eaglewood will coordinate Project Management and access to its camp and fuel storage facilities at Drimdenasuk, and the FRPG is to provide construction equipment and funding for the project.

16. Explanation of transition to IFRSs

As stated in note 2(a), these are the Company's first consolidated interim financial statements prepared in accordance with IFRSs.

The accounting policies set out in note 3 have been applied in preparing the interim financial statements for the three months ended March 31, 2011, the comparative information presented in these interim financial statements for both the three months ended March 31, 2010 and year ended December 31, 2010 and in the preparation of an opening IFRS balance sheet at January 1, 2010 (the Company's date of transition).

In preparing its opening IFRS balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with previous Canadian GAAP. An explanation of how the transition from previous Canadian GAAP to IFRSs has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

The Company has applied the following transition exceptions and exemptions to full retrospective application of IFRS:

- Extractive activities (see note 16 (vi) (a))
- Share-based payments (see note 16 (vi) (b))

(i) Reconciliation of equity at the date of IFRS transition January 1, 2010:

	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
ASSETS				
Current assets				
Cash and cash equivalents		$13,622,795	-	$13,622,795
Accounts receivable		394,652	-	394,652
		14,017,447	-	14,017,447
Property, plant and equipment	(a), (c)	16,471,069	(16,396,754)	74,315
Exploration and evaluation assets	(a), (c)	-	18,723,528	18,723,528
TOTAL ASSETS		**$30,488,516**	**$2,326,774**	**$32,815,290**
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Accounts payable and accrued liabilities		$424,182	-	$424,182
TOTAL LIABILITIES		**424,182**	**-**	**424,182**
Shareholders' Equity				
Share capital	(c)	41,289,488	16,758	41,306,246
Contributed surplus	(b), (c)	2,340,195	(28,876)	2,311,319
Deficit	(b), (c)	(13,565,349)	2,338,892	(11,226,457)
TOTAL SHAREHOLDERS' EQUITY		**30,064,334**	**2,326,774**	**32,391,108**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**$30,488,516**	**$2,326,774**	**$32,815,290**

(ii) Reconciliation of equity March 31, 2010:

	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
ASSETS				
Current assets				
Cash and cash equivalents		$33,877,983	-	$33,877,983
Accounts receivable		65,719	-	65,719
Prepaid expenses		12,822	-	12,822
		33,956,524	-	33,956,524
Property, plant and equipment	(a),(c)	18,064,111	(17,994,983)	69,128
Exploration and evaluation assets	(a),(c)	-	19,764,307	19,764,307
TOTAL ASSETS		**$52,020,635**	**$1,769,324**	**$53,789,959**
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Accounts payable and accrued liabilities		$436,089	-	$436,089
TOTAL LIABILITIES		**436,089**	**-**	**436,089**
Shareholders' Equity				
Share capital	(c)	41,665,305	(1,183,535)	40,481,770
Special warrants	(c)	22,308,941	(786,700)	21,522,241
Contributed surplus	(b),(c)	2,451,809	(104,106)	2,347,703
Accumulated and other comprehensive income	(c)	-	329,680	329,680
Deficit	(b),(c)	(14,841,509)	3,513,985	(11,327,524)
TOTAL SHAREHOLDERS' EQUITY		**51,584,546**	**1,769,324**	**53,353,870**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**$52,020,635**	**$1,769,324**	**$53,789,959**

(iii) Reconciliation of equity at the end of the last reporting year under Canadian GAAP December 31, 2010:

	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
ASSETS				
Current assets				
Cash and cash equivalents		$12,858,739	-	$12,858,739
Restricted cash		2,749,725	-	2,749,725
Accounts receivable		10,137,259	-	10,137,259
Prepaid expenses		21,727	-	21,727
		25,767,450	-	25,767,450
Property, plant and equipment	(a),(c)	45,201,892	(44,903,787)	298,105
Exploration and evaluation assets	(a),(c),(e)	-	46,136,943	46,136,943
TOTAL ASSETS		**$70,969,342**	**$1,233,156**	**$72,202,498**
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Accounts payable and accrued liabilities		$10,224,459	-	$10,224,459
		10,224,459	-	10,224,459
Asset retirement obligation	(c),(e)	728,805	665,254	1,394,059
TOTAL LIABILITIES		**10,953,264**	**665,254**	**11,618,518**
Shareholders' Equity				
Share capital	(c)	73,411,547	(3,236,661)	70,174,886
Contributed surplus	(b),(c)	3,390,026	(214,366)	3,175,660
Accumulated and other comprehensive income	(c)	-	593,516	593,516
Deficit	(b),(c)	(16,785,495)	3,425,413	(13,360,082)
TOTAL SHAREHOLDERS' EQUITY		**60,016,078**	**567,902**	**60,583,980**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**$70,969,342**	**$1,233,156**	**$72,202,498**

(iv) Reconciliation of comprehensive income/(loss) for the three months ended March 31, 2010:

	Notes	Canadian GAAP	Reclassification to IFRS presentation	Effect of transition to IFRS	IFRS
Revenue					
Interest income	(d)	$5,704	$(5,704)	$-	$-
Expenses					
Bank charges and interest	(d)	3,996	(3,996)	-	-
Management fees	(d)	3,000	(3,000)	-	-
General and administrative expenses	(d)	459,284	449,577		908,861
Professional fees	(d)	31,952	(31,952)	-	-
Public company	(d)	111,897	(111,897)	-	-
Consulting	(d)	7,574	(7,574)	-	-
Stock-based compensation	(b),(c),(d)	246,531	(235,436)	(11,095)	-
Depreciation		4,833	-	-	4,833
Travel	(d)	59,504	(59,504)	-	-
Other	(d)	214	(214)	-	-
Foreign exchange loss	(d)	353,079	-	(353,079)	-
		1,281,864	(3,996)	(364,174)	913,694
Finance income	(c), (d)	-	5,704	810,919	816,623
Finance expenses	(d)	-	(3,996)	-	(3,996)
Net finance income		-	1,708	810,919	812,627
Loss for the period		(1,276,160)	-	1,175,093	(101,067)
Other comprehensive income					
Foreign currency translation adjustment	(c)	-	-	329,680	329,680
Total comprehensive income (loss) for the period		$(1,276,160)	$-	$1,504,773	$228,613
Loss per share:					
Basic		$(0.02)			$(0.001)
Diluted		$(0.02)			$(0.001)

(v) Reconciliation of comprehensive loss for the year ended December 31, 2010:

	Notes	Canadian GAAP	Reclassification to IFRS presentation	Effect of transition to IFRS	IFRS
Revenue					
Interest income	(d)	$57,330	$(57,330)	$-	$-
Expenses					
Bank charges and interest	(d)	43,417	(43,417)	-	-
Management fees	(d)	12,000	(12,000)	-	-
General and administrative expenses	(d)	1,375,959	1,937,277		3,313,236
Professional fees	(d)	329,459	(329,459)	-	-
Public company	(d)	193,932	(193,932)	-	-
Consulting	(d)	69,267	(69,267)	-	-
Stock-based compensation	(b),(c),(d)	954,936	(897,209)	(57,727)	-
Depreciation		50,462	-	-	50,462
Travel	(d)	435,028	(435,028)	-	-
Other	(d)	381	(381)	-	-
Foreign exchange gain	(d)	(187,365)	-	187,365	-
		3,277,476	(43,416)	129,638	3,363,698
Finance income	(c), (d)	-	57,330	1,216,160	1,273,490
Finance expenses	(d)	-	(43,417)	-	(43,417)
Net finance income		-	13,913	1,216,160	1,230,073
Loss for the period		(3,220,146)	-	1,086,521	(2,133,625)
Other comprehensive income					
Foreign currency translation adjustment	(c)	-	-	593,516	593,516
Total comprehensive loss for the period		$(3,220,146)	-	$1,680,037	$(1,540,109)
Loss per share:					
Basic		$(0.05)			$(0.03)
Diluted		$(0.05)			$(0.03)

(vi) Notes to reconciliations

(a) *IFRS 1 election for full cost oil and gas entities:*
The Company elected an IFRS 1 exemption whereby the Canadian GAAP full cost pool was measured upon transition to IFRS as follows: exploration and evaluation assets were reclassified from the full cost pool to exploration and evaluation assets at the amount that was recorded under Canadian GAAP. The impact arising from the change is summarized as follows:

Consolidated balance sheet:

	January 1, 2010	March 31, 2010	December 31, 2010
Increase in exploration and evaluation assets	$18,723,528	$19,764,307	$46,136,943
Decrease in Property, plant and equipment	$(18,723,528)	$(19,764,307)	$(46,136,943)

(b) *Share - based payments:*
The Company elected an IFRS 1 exemption relating to fully vested stock options at January 1, 2010 whereby the Canadian GAAP balances relating to fully vested stock options at January 1, 2010 have been carried forward without adjustment. Full retrospective application of IFRS has been applied to unvested stock options at January 1, 2010.

Under Canadian GAAP, the Company did not incorporate a forfeiture estimate in determining the fair value of share options and performance warrants. Under IFRS, the Company must estimate a forfeiture rate. Also, under IFRS for performance warrants, the Company estimates the probability of achieving certain share prices in determining the fair value of the warrants.

The impact arising from the changes (before translation differences) is summarized as follows:
Consolidated statement of comprehensive loss:

	March 31, 2010	December 31, 2010
Decrease in stock based compensation	$16,429	$61,687

Consolidated balance sheet:

	January 1, 2010	March 31, 2010	December 31, 2010
Decrease in contributed surplus	$68,198	$84,627	$129,885

(c) *Foreign currency:*
The Company has determined that US dollars and Canadian dollars are the functional and presentation currencies, respectively, for IFRS financial statements. The impact arising from this change has been included in the above reconciliations. The most significant impact on the balance sheet is an increase in exploration and evaluation assets and property, plant and equipment of $2,326,774 with an offsetting decrease in the deficit as at January 1, 2010 (March 31, 2010 - increase in exploration and evaluation assets and property, plant and equipment of $1,769,324 and the same decrease in the deficit; December 31, 2010: increase in exploration and evaluation assets and property, plant and equipment of $1,233,156 and an offsetting decrease in the deficit). The impact of the accumulated other comprehensive income is an increase in other comprehensive income of $329,680 for the three months ended March 1, 2010 (January 1, 2010 - nil; year ended December 31, 2010 - $593,516). The impact of the profit or loss is an increase in foreign currency exchange gain of $1,163,998 for the three months ended March 31, 2010 (year ended December 31, 2010 - $1,028,795).

(d) Reclassifications

The Company has reclassified its consolidated statement of comprehensive income in order to conform to IFRS. The effects of reclassification are presented in the above reconciliations.

(e) Asset retirement obligations

Consistent with IFRS, asset retirement obligations have been previously measured under Canadian GAAP based on the estimated cost of decommissioning, discounted to their net present value upon initial recognition. Under IAS 37, asset retirement obligations are discounted using a risk-free rate, whereas they were discounted using a credit-adjusted rate under Canadian GAAP.

The impact arising from the above change is summarized as follows:
Consolidated balance sheet:

	January 1, 2010	March 31, 2010	December 31, 2010
Increase in exploration and evaluation assets	$-	$-	$665,319
Increase in asset retirement obligations	$-	$-	$665,319

(f) The following is the summary of transition adjustments to the Company's accumulated other comprehensive income from Canadian GAAP to IFRS:

	January 1, 2010	March 31, 2010	December 31, 2010
Accumulated other comprehensive income under Canadian GAAP	$-	$-	$-
Functional currency (see (c))	-	329,680	593,516
Accumulated other comprehensive income under IFRS	$-	$329,680	$593,516

(g) The following is the summary of transition adjustments to the Company's deficit from Canadian GAAP to IFRS:

	January 1, 2010	March 31, 2010	December 31, 2010
Deficit under Canadian GAAP	$(13,565,349)	$(14,841,509)	$(16,785,495)
Stock-based payments (see (b))	68,198	84,627	129,885
Functional currency (see (c))	2,270,694	3,429,358	3,295,528
Deficit under IFRS	$(11,226,457)	$(11,327,524)	$(13,360,082)

(h) Adjustments to cash flows

The transformation from Canadian GAAP to IFRS had no significant impact on cash flows.

(i) Additional IFRS information for the year ended December 31, 2010

Key management personnel compensation:

Key management personnel compensation for the year ended December 31, 2010 is comprised as follows:

	December 31, 2010
Salaries and wages	$815,790
Short-term employee benefits	16,870
Stock-based payments	241,091
	$1,073,751

Employee benefits:

The aggregate employee benefits for the year ended December 31, 2010 were as follows:

	December 31, 2010
Wages and salaries	$ 2,000,947
Benefits and other personnel costs	82,868
Stock based payments	1,188,707
Total employee remuneration	3,272,522
Less: capitalized portion of total remuneration	(710,545)
	$ 2,561,977