Eaglewood Energy Inc.
Annual Report
December 31, 2011

CHIEF EXECUTIVE'S MESSAGE

The year 2011 was an interesting one for Eaglewood, highlighted by our Ubuntu discovery in February on PRL 28, but equally notable was the increased level of activity and interest in the northern part of the PNG Forelands by a whole host of participants. This other activity was particularly relevant toward the end of the year.

Our two most active licenses, PPL 259 and PPL 260 were due to expire in 2011, and much of the second half of 2011 was consumed with regulatory issues. The PNG regulatory process is typically a very prolonged process and the formal grant of licenses and license extensions is critical in order to complete transactions to fund our 2012 capital program. In spite of some parliamentary cabinet shuffles which added delay to the process, in 2011 we did receive:

- a new retention license, PRL 28 granted over the Ubuntu discovery with the meaningful work commitments underway in Q4:2013;
- a PPL 259 extension for five years;
- a PPL 260 extension for five years; and
- a PPL 257 extension for five years with the meaningful work commitments underway in Q4:2013.

With the extensions in hand, we were then able to engage industry parties in negotiations for transactions that were subject to further regulatory approvals. Of the three transactions entered into, two have now received all regulatory approvals and have closed. As a result of these transactions our 2012 capital program, involving seismic programs and drilling an exploration well on PPL 259, will be fully funded.

The industry activity by others around us was also very beneficial to us. Appraisal wells in the Stanley discovery drilled by the PRL 4 joint venture participants and the Elevala discovery drilled by the PRL 21 joint venture participants were very successful, dramatically de-risking our PPL 259 license, as our license connects these two PRLs. The Siphon well which was drilled by the PPL 269 joint venture participants immediately north of our PPL 259 license, while not commercially successful did confirm the presence of hydrocarbons and supported our assumption of an active hydrocarbon system in the region.

The Stanley wells confirm lateral continuity and excellent quality reservoir sands, high grading the western parts of the license, which is also closer to infrastructure and less expensive to access. That is where our 2012 seismic and drilling program will be focussed. The Elevala appraisal well was announced to be "filled to spill", therefore increasing the likelihood that our nearby Ubuntu discovery is also filled to spill which would increase the size of the discovery and indeed may point to Ubuntu being in communication with the Elevala and Ketu discoveries on PRL 21.

In the first quarter of 2012 we initiated a seismic program to define one or two drilling locations on our prospects in the western half of PPL 259, and also to provide information to assist in the negotiation of the unitisation of part of our PPL 259 license with PRL 4, which contains the Stanley discovery.

We have a much more active operations schedule in 2012, and as always, we thank all our shareholders for their support.

Brad Hurtubise
Chief Executive Officer
April 19, 2012

Management's discussion and analysis ("MD&A") of Eaglewood Energy Inc.'s (the "Company" or "Eaglewood") financial condition and results of operations should be read in conjunction with the consolidated financial statements for the year ended December 31, 2011 and 2010 and related notes therein prepared in accordance with Canadian generally accepted accounting principles. The effective date of this MD&A is April 19, 2012.

Additional information relating to the Company is available on SEDAR at www.sedar.com and the Company's website at www.eaglewoodenergy.ca .

FORWARD-LOOKING STATEMENTS

Certain statements contained in this MD&A may constitute forward-looking statements. These statements relate to future events or the Company's future performance. All statements, other than statements of historical fact, may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "propose", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes that the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should not be unduly relied upon as actual results may vary. These statements speak only as of the date of this MD&A and are expressly qualified, in their entirety, by this cautionary statement.

In particular, this MD&A contains forward-looking statements, pertaining to the following:

- capital expenditure programs;
- development of resources;
- treatment under governmental regulatory and taxation regimes;
- expectations regarding the Company's ability to raise capital;
- expenditures to be made by the Company to meet certain work commitments; and
- work plans to be conducted by the Company.

With respect to forward-looking statements listed above and contained in this MD&A, the Company has made assumptions regarding, among other things:

- the Papua New Guinea legislative and regulatory environment;
- the impact of increasing competition;
- unpredictable changes to the market prices for oil and natural gas;
- that costs related to development of the oil and gas properties in Papua New Guinea will remain consistent with historical experiences;
- anticipated results of exploration activities;
- availability of additional financing and farm-in or joint venture partners; and
- the Company's ability to obtain additional financing in a timely manner and on satisfactory terms.

The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this MD&A:

- volatility in the market prices for oil and natural gas;
- uncertainties associated with estimating resources;
- geological, technical, drilling and processing problems;
- liabilities and risks, including environmental liabilities and risks, inherent in oil and natural gas operations;
- fluctuations in currency and interest rates;

- incorrect assessments of the value of acquisitions;
- unanticipated results of exploration activities;
- competition for, among other things, capital, acquisitions of reserves, equipment, undeveloped lands and skilled personnel;
- lack of availability of additional financing and farm-in or joint venture partners;
- unpredictable weather conditions; and
- other factors referred to under "Risk Factors" in the Company's annual information form for the year ended December 31, 2011, dated April 19, 2012 and filed on SEDAR on April 20, 2012.

Undue reliance should not be placed on forward-looking statements as the plans, intentions or expectations upon which they are based might not occur. Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement. The Company does not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by law.

ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

Eaglewood's consolidated financial statements and the financial data included in the MD&A have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") that are effective or available for early adoption by the Company as at December 31, 2011, the date of the Company's first annual reporting under IFRS. The adoption of IFRS does not impact the underlying economics of Eaglewood's operations or its cash flows.

Note 27 to the Company's consolidated financial statements contains a detailed description of the Company's adoption of IFRS, including a reconciliation of the consolidated financial statements previously prepared under Canadian GAAP to those under IFRS for the following:

- The Consolidated Balance Sheets at January 1, 2010 and at December 31, 2010; and
- The Consolidated Statement of Loss and Comprehensive Loss for the year ended December 2011 and the year ended December 31, 2010.

The most significant impacts of the adoption of IFRS, together with details of the IFRS 1 exemptions taken, are described in the IFRS first time adoption section of this MD&A.

Comparative information has been restated to comply with IFRS requirements, unless otherwise indicated.

COMPANY OVERVIEW

Eaglewood is an international, junior oil and gas company which trades on the TSX Venture Exchange (trading symbol "EWD"). The Company's primary activity is exploration and development of its four petroleum prospecting licenses and one petroleum retention license located in Papua New Guinea (the "PNG Licenses"). The Company has no oil and gas properties other than the PNG Licenses. Currently there is no production or reserves associated with the PNG Licenses, however the Company's retention license contains contingent hydrocarbon resources.

To reduce the Company share of costs and risks associated with exploration activities, the Company completed three farm-out agreements relating to its PNG licenses by the end of 2010. In 2009, the Company farmed out a 70 % interest in PPL 260 and a 10 % interest in PPL 259. During 2010, the Company entered into a farm-out agreement for a 50 % interest in PRL 28. The farmee paid 50 % of the drilling and other participating interest costs related to Ubuntu-1. In addition, the farmee paid Eaglewood US $3,000,000 for reimbursement of costs related to engineering work on river transport and liquids handling design and previous expenditures on the Ubuntu prospect.

During 2010, the first exploration well in license PPL 260, Korka-1, was drilled. The well encountered no commercial quantities of hydrocarbons and was subsequently plugged and abandoned. In late 2010, the Company spud its first exploration well in license PPL 259, Ubuntu-1, which resulted in a gas and gas condensate discovery in the first quarter of 2011.

2011 SIGNIFICANT EVENTS

- On January 20, 2011, the Company closed the over-allotment option pursuant to its December 2010 equity financing in which the Underwriters purchased an additional 710,000 common shares at $0.75 per common share for aggregate gross proceeds of $532,500.

- On February 7, 2011, Eaglewood suspended the Ubuntu-1 well as a gas and gas condensate discovery. On February 11, 2011, Eaglewood further announced that wireline logging and data acquisition programs had been completed in Ubuntu-1 including the recovery of down-hole hydrocarbon samples and sidewall cores.

- Recent mapping presented by the operator of Petroleum Retention License 4 ("PRL 4") indicates that a connected portion of the Stanley petroleum pool at Toro Reservoir level extends beyond PRL 4 and into Eaglewood's Petroleum Prospecting License 259 ("PPL 259"), specifically graticular block 1622 in the northwest corner of the license. This interpretation is consistent with the Company's ongoing mapping studies. On July 25, 2011 the Company received direction from the PNG Department of Petroleum and Energy ("DPE") to unitize the Stanley Hydrocarbon Pool within PRL 4 with graticular block 1622 in PPL 259. Negotiations as to how the unitization issue will be resolved with the PRL 4 Joint Venture will commence later this year.

- In September 2011, a five-year extension to PPL 259 was granted. The work commitments during this five year extension are found later in this document under License Commitments.

- In October 2011, the operator of PPL 260, of which Eaglewood has a 10% participating interest, was granted a five year extension to PPL 260.

- On November 11, 2011, the Company executed an agreement to sell 20% of its 30% participating interest in PPL 260. Eaglewood has also granted an option for the sale of its remaining 10% interest subject to certain conditions. The purchase price for the 20% interest is USD $7.0M, with USD $2.1M payable on execution of the agreement and the remaining USD $4.9M payable when the purchaser's interest is registered on the license, which occurred on March 14, 2012. The option granted to purchase the remaining 10% interest in PPL 260 for USD $3.5M was subject to the expiry or waiver of an option previously granted on the license. On March 15, 2012, the option was acquired by Eaglewood which allows for the sale of the remaining 10% interest if the farmee chooses to exercise their option.

- On December 6, 2011, the Company was granted a five year extension of the PPL 257 license. Eaglewood has a 100% participating interest in this license.

- On December 6, 2011, the Company was granted a Petroleum Retention License ("PRL") for the Ubuntu gas condensate discovery originally within PPL 259. This PRL is known as PRL 28 and was granted for five years. Eaglewood has a 40% participating interest in this license.

SUBSEQUENT EVENTS

(a) On January 24, 2012, the Company announced two farmout agreements. Each farmout is for 25% of Eaglewood's 90% participating interest in PPL 259 subject to receipt of regulatory approvals and other customary conditions. After completion of both transactions, Eaglewood will own a 40% participating interest in PPL 259 and maintain operatorship.

To earn their respective 25% participating interests, each farmee will pay $15.2 million, comprised of USD $2.5 million on completion of the agreement for Eaglewood's sunk costs, and in addition to funding their 25% participating interests, each will pay USD $1.375 million to cover Eaglewood expenses in the upcoming PPL 259 seismic program and USD $5.0 million to cover Eaglewood expenses in the next well to be drilled in PPL-259.

On April 11, 2012, the Company announced that for one of the two farmout agreements, all regulatory approvals and conditions precedent had been met, and the deal has been completed.

(b) On March 14, 2012, the agreement to sell 20% of the Company's 30% participating interest in PPL 260 was completed.

(c) On March 14, 2012 the Company released an update to the estimated contingent resources on its Ubuntu Discovery.

(d) On March 15, 2012, the Company purchased the back in right owned by Transeuro Energy Corp. to acquire a 10% interest in all of the Company's licenses.

DESCRIPTION OF PNG LICENSES AND COMMITMENTS

Each of the PNG Licenses gives the Company the right to explore for oil and natural gas on specified blocks in PNG. If exploration is successful, the Company can apply to the PNG government for either a retention license or a development license. A retention license is generally applied for if hydrocarbon reserves have been identified but additional time is required to either prepare a development plan or, if the amount of hydrocarbon reserves is not of a sufficient commercial quantity, to explore for further hydrocarbon reserves. A development license is generally applied for if hydrocarbon reserves have been discovered and production is commercially viable. The PNG government has historically granted retention or development licenses, however, there is a risk that a retention or development license may not be granted to the Company when, or on the terms, applied for.

PPL 259

In September 2011, a five-year extension to PPL 259 was granted. At December 31, 2011, Eaglewood had a 90% participating interest in this license. As at April 19, 2012, one of the farmout agreements is complete (see SUBSEQUENT EVENTS), reducing Eaglewood's participating interest to 65%. Within the first two years from the date of extension of this license, the Company must, at a cost of not less than US$26,000,000 acquire 100km of 2D seismic, drill one exploration well, and conduct geological and geophysical studies. Prior to the beginning of the third year of the extension, the Company must submit and have approved by the Minister, the work program for the remaining three years of the extension which must include drilling an appraisal well or another exploration well.

PRL 28

A Petroleum Retention License (PRL) has been granted for the two graticular blocks comprising the Ubuntu prospect of PPL 259. Eaglewood has a 40% participating interest in this license. The license was granted for five years and during this period, the Company must undertake marketing studies with analysis of future hydrocarbon commercialization scenarios for the Ubuntu gas and gas condensate resource; undertake technical studies to (i) re-map and assess the reserves of the Ubuntu feature, focusing on an integration of the Ubuntu seismic; (ii) determine the potential for an integrated development with other nearby fields; (iii) deliver gas and/or condensate to local markets; (iv) identify landowners and required social mapping; and (v) address other commercialization opportunities for gas/condensate. The cost of the above work is to be not less than US$350,000. Contingent on the conclusions reached on the above items and if the market warrants, the Company must then undertake engineering studies aimed at appraisal and development of gas and/or condensate delivery; perform a conventional or extended well test on Ubuntu-1; consider drilling an appraisal or development well; and undertake commercial negotiation of gas and/or condensate contracts.

PPL 257

On December 6, 2011, a five year extension to PPL 257 was granted. Eaglewood has a 100% participating interest in this license. During the first two years of the extension, the Company must, at a cost of not less than US$500,000 integrate recently completed studies; conduct further field studies as deemed necessary; integrate seismic interpretation and structural studies; and continue farm-out talks. Prior to the beginning of the third year of the extension, the Company must submit and have approved by the Minister, the work program for the remaining three years of the license which must include drilling one exploration well at a cost of not less than $US40,000,000, conduct post well studies and a comprehensive license review at a cost of not less than $US500,000; and provide particulars of the financial resources available to the Company to carry out the foregoing work program.

PPL 258

There was a commitment to drill one exploration well by October 20, 2009 which was not met. 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 Energy Minister. The Petroleum Advisory Board ("PAB") deliberated on the extension application but have not made a recommendation on extension of the license. Based on the lack of a recommendation from the PAB, the Company has decided to impair the asset. The Company has re-submitted a request for a five year extension to this license. Eaglewood has a 100% participating interest in this license.

PPL 260

A five-year extension to PPL 260 was granted in November 2011. At December 31, 2011, Eaglewood had a 30% participating interest in this license. As at April 19, 2012, this interest was reduced to 10% (see SUBSEQUENT EVENTS). During the first two years of the extension, at a cost of not less than US$1,000,000 the following work must be undertaken: field mapping to mature and de-risk leads; generation and modeling of structural cross sections; geological and geophysical studies; and generation of a Prospects and Leads inventory. Prior to the beginning of the third year of the extension, the Operator must submit and have approved by the Minister, the work program for the three remaining years of the extension which must include acquisition of 20km of 2D seismic; seismic processing and interpretation; and an update of the Prospects and Leads inventory. Following this work, and if a suitable prospect is identified, work must commence on a well proposal and the drilling of one exploration well, and a final permit prospectivity report must be prepared.

The PNG government retains the right to back-in for up to a 22.5 % interest at cost which can be exercised at the time a development license is granted. The PNG government also has a 2 % royalty over any oil or natural gas production that may occur with respect to the PNG Licenses.

The Company has issued bank guarantees totaling approximately $225,000 (100,000 Papua New Guinea dollars for each license) as security against the capital requirements associated with the PNG Licenses. If the Company does not fulfill its commitments under a PNG License and has not applied for and been granted an extension, it could potentially lose its guarantee and the applicable PNG License could be revoked by the PNG government.

As the Company does not currently generate sufficient cash flow from operating activities to fund its activities, it will need to raise equity financing and/or enter into joint venture or farm-out arrangements to finance its exploration commitments for the PNG Licenses.

SELECTED ANNUAL INFORMATION

The following is a summary of selected financial information for the Company for the periods indicated:

($000's except per share data)	Year ended December 31,	
	2011	**2010**
Net finance (loss) income	**(158)**	1,230
Loss before discontinued operations	**4,937**	2,134
Net loss	**4,937**	2,134
Loss per share before discontinued operations	**0.06**	0.03
Total loss per share	**0.06**	0.03
Total assets	**64,305**	72,202

RESULTS OF OPERATIONS

The Company had net losses of $4,937,387 and $2,133,625 for the years ended December 31, 2011 and 2010, respectively.

Total expenses for the year ended December 31, 2011 were $4,779,327 (2010 – $3,363,698).

The Company's most significant expenses, were as follows:

	Year ended December 31,	
	2011	2010
Impairment of exploration and evaluation assets	**$1,402,317**	$ -
General and administrative expenses	**3,218,118**	3,313,236
Depletion, depreciation and amortization	**158,892**	50,462
Total expenses	**$4,779,327**	$3,363,698

The following table provides a breakdown of the Company's general and administrative ("G&A") expenses by material component:

	Year ended December 31,	
	2011	2010
Salaries & wages	**$1,447,606**	$1,609,433
Stock based compensation	**763,039**	897,209
Professional fees	**304,365**	329,459
Office costs	**293,721**	310,521
Travel & accommodation	**252,523**	435,028
Public company	**129,346**	193,932
Bad debt expense	**101,188**	-
Office rent	**80,315**	109,870
Other general and administrative	**73,744**	88,860
Consulting	**72,150**	69,267
Overhead recoveries	**(299,879)**	(730,343)
	$3,218,118	$3,313,236

The G&A expenses for the year ended December 31, 2011 are $95,000 lower than the previous year.

Salaries and wages decreased $162,000 over the prior year. The Exploration Manager resigned in April 2011 and was not replaced, and the CFO resigned in February 2011 with the role being filled on an Interim basis by the Controller. Stock based compensation decreased $134,000 over the prior year, as fewer new options were issued in 2011 than in 2010 (950,000 options versus 1,665,000 options) and several option grants completed their vesting in 2011 resulting in only a partial year of stock based compensation being expensed in 2011.

Professional fees decreased $25,000 in 2011 when compared to 2010. While accounting/audit fees increased by $55,000 primarily related to the transition to IFRS, legal fees decreased by $75,000. In 2010, the Company completed a farm-out deal and financing which resulted in additional legal fees being incurred, that were not required in 2011.

Travel expenses decreased $183,000 over the prior year. In 2010, the Company raised funds twice resulting in travel related to investor presentations, finalizing transactions, etc., that were not required in 2011. Also in 2010, as operations were gearing up for the Korka and Ubuntu well, the directors and operations staff did more travelling than was required in 2011.

Public company expenses decreased by $65,000 over the prior year. This decrease was due to filing fees relating to the private placement special warrants offering and short form prospectus during the first quarter of 2010 that were not repeated in 2011.

A bad debt expense of $101,000 was recognized in 2011 for credit notes due from a vendor in PNG, from which collection is doubtful.

Office rent decreased by $30,000 over the prior year. In 2010, both the Australian and Canadian offices moved to new locations.

For the year ended December 31, 2010, overhead recoveries were approximately $430,000 higher than for the current year. Overhead recoveries are a function of joint operations. Pursuant to the Joint Operating Agreement for PPL 259, the Company recovers a percentage of the capital expenditures as compensation for the indirect services provided to the Joint Venture. Due to drilling activities in Q4:2010, the recoveries for 2010 were substantially higher than in 2011. The maximum overhead recovery allowed in the Ubuntu Joint Venture in 2011 was met in May 2011 and only a minor amount was recovered for the PPL 259 Joint Venture in the second half of the year.

SELECTED QUARTERLY INFORMATION

The following is a summary of selected financial information for the Company for the periods indicated:

($000's except per share data)	Dec 31 2011	Sep 30 2011	Jun 30 2011	Mar 31 2011	Dec 31 2010	Sep 30 2010	Jun 30 2010	Mar 31 2010
Revenue	-	-	-	-	-	-	-	-
Loss before discontinued operations	745	983	2,577	632	347	799	886	101
Net loss	745	983	2,577	632	347	799	886	101
Loss per share before discontinued operations	0.01	0.01	0.03	0.01	0.00	0.01	0.02	0.00
Total loss per share	0.01	0.01	0.03	0.01	0.00	0.01	0.02	0.00
Total assets	64,305	62,828	62,202	66,585	72,202	56,900	55,714	53,790

- The Company currently has no oil or gas production to offset its expenses. The Company's expenses are described more fully in RESULTS OF OPERATIONS.
- The Company's main assets are petroleum and natural gas properties and cash.

FINANCIAL CONDITION

At December 31, 2011, the Company had total assets of $64.3 million compared to $72.2 million at December 31, 2010. The decrease in assets was mainly due to the decrease in amounts outstanding as accounts receivable. As the drilling program on the Ubuntu prospect and the demobilization of rig were completed in the first half of 2011, the amounts outstanding from Joint Venture partners decreased by $9.8 million.

The Company does not currently generate sufficient cash flow from its operating activities to fund its activities and has relied upon contributions from farm-outs and the issuance of equity to provide additional funding. The Company's financial statements are presented 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's ability to continue as a going concern is dependent upon its ability to raise equity financing and/or enter into and complete joint venture or farm-out arrangements in the PNG Licenses to meet its exploration commitments and working capital requirements.

On November 14, 2011 the Company executed an agreement to sell 20% of its 30% participating interest in PPL 260, and has granted an option for the sale of its remaining 10% interest. The purchase price for the 20% interest is USD $7.0 million, with USD $2.1 million paid on execution of the agreement and the remaining USD $4.9 million payable when the transaction is complete which occurred on March 14, 2012.

On January 24, 2012, the Company announced two farmout agreements. Each farmout is for 25% of Eaglewood's 90% participating interest in PPL 259 in the Western Province of PNG. After completion of both transactions, Eaglewood will own a 40% participating interest in PPL 259. To earn their respective

25% interests, each farmee will pay $15.2 million, comprised of USD $2.5 million on completion of the agreement for Eaglewood's sunk costs, and in addition to funding their 25% participating interest, each will pay USD $1.375 million to cover Eaglewood expenses in the upcoming PPL 259 seismic program and USD $5.0 million to cover Eaglewood expenses in the next well to be drilled in PPL-259. Both transactions are conditional upon receipt of regulatory approvals and confirmation of financial capability.

Management believes there is the opportunity for the Company to enter into further farm-out or joint venture arrangements, complete existing farm-out arrangements and/or raise further equity in 2012 if required to continue as a going concern. However, there are no assurances that the Company will be successful in achieving these objectives. If the Company is unable to raise equity financing and/or secure farm-out or joint venture partners, the Company may be unable to continue as a going concern. The Company's financial statements do not reflect the adjustments to the carrying values of assets and liabilities, including any impairment in its petroleum and natural gas properties, 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.

LIQUIDITY

At December 31, 2011, the Company had net working capital of $2,743,457 compared to net working capital of $15,542,991 at December 31, 2010.

- The total cash and cash equivalents and restricted cash is $6,586,499 (2010 - $12,858,739). Cash raised in 2011 from the issuance of common shares, net of share issue costs was $508,136 and the release of the letter of credit contributed $2,749,725. Cash was used in the addition of capital assets of $10,668,731, and operating activities of $2,590,179. The change in non-cash working capital contributed $3,777,535 of cash and cash equivalents. Finance income was $26,571 and the effect of foreign exchange on cash was a loss of $75,297.
- The accounts receivable balance is $169,951 (2010 - $10,137,259). This is comprised of Joint Venture receivables of $67,162 (2010 - $9,827,759), GST receivables of $8,592 (2010 - $291,733), and various other receivables of $94,197 (2010 - $17,767). The decrease to Joint Venture receivables and GST receivables is indicative of the decrease in activities compared to 2010 related to the Ubuntu prospect.
- Prepaid expenses of $13,560 (2010 – $21,727) consists of refundable deposits for office space.
- The balance of accounts payable and accrued liabilities is $4,026,553 (2010 - $10,224,459). This balance includes payables outstanding to vendors for invoices not payable until after year-end $1,860,392 (2010 – $8,944,350). In addition, $2,112,361 (2010 – nil) was repayable to the farmee for PPL 260 should the agreement not be completed, which subsequently did occur on March 14, 2012. The amount payable to the PPL259 10% farmee, as their share of the cash restricted as security for the letter of credit issued to the rig provided is nil for 2011 (2010 – $556,607). The balance of the accounts payable and accrued liabilities of $53,800 (2010 - $723,502) is related to withholding tax payable, country taxes for expatriates working in PNG, payroll taxes and bonuses.

CAPITAL EXPENDITURES

A summary of capital expenditures for the year is provided below.

PPL 259 – Seismic program	$ 3,197,761
PPL 259 – Rig demobilization	3,024,903
PPL 259 – Ubuntu-1 exploration well	2,970,475
PRL 28 – Seismic program	834,021
Overhead	318,005
Drilling inventory management	262,778
PPL 259 – FEED study	45,056
PPL 260 – Operator overhead	36,664
Other	20,324
PPL 260 – Korka-1 exploration well	(75,377)
Total exploration and evaluation assets	10,634,610
Office equipment, furniture, computer equipment	34,121
Total capital expenditures	$ 10,668,731

2012 WORK PROGRAM AND OUTLOOK

2012 Work Program
The Company's 2012 work program is primarily based on meeting its PNG License commitments. In order to fund this work program, the Company is in discussions with industry partners to enter into further joint venture or farm-out arrangements in the PNG Licenses.

PPL 259
In the first half of 2012, the focus of the work program on PPL 259 will be seismic data acquisition, and will include: reprocessing of the existing vintage seismic data, a 18km seismic program focussed on the part of the license that contains the portion of the Stanley petroleum pool at Toro Reservoir level which extends beyond PRL 4 and into PPL 259; and 40km of license obligation seismic. With the completion of the farmout agreements announced on January 24, 2012 and assuming compliance by the farmees of their obligations (see SUBSEQUENT EVENTS) Eaglewood will be fully carried on this program. Contingent on the results of the seismic program undertaken in the first half of 2012, in the second half of 2012, the work program will include: 40km of prospect development seismic; and development of a well location and the drilling of an exploration well. Eaglewood's 40% share of these costs are estimated to be US $7.3 million. Finally, dependent on the results of the unitization process of the Stanley pool, the Company will have to pay its share of the sunk costs of the pool, as well as development costs. Eaglewood's share of these costs is not known at this time.

PRL 28
The 2012 work program for PRL 28 will include: half of the technical studies and half of the commercial studies required in the first two years of the license term. In addition, the Company will continue to maintain and secure the inventory remaining from the Ubuntu-1 well. Eaglewood's share of these costs are expected to be approximately US $127,200.

PPL 260
During 2012, the Operator of PPL 260 plans to complete the following work: select and prioritize an area to target for a geological mapping program; plan and conduct the geological mapping program; generate and submit the geological mapping report to the Department of Petroleum and Energy ("DPE"); integrate

the results of the geological mapping program with existing data; and update the Prospects and Leads inventory. Eaglewood's share of costs are expected to be approximately US $86,400.

PPL 257
The 2012 work program for PRL 257 will include: half of the field studies and half of the study integration work required in the first two years of the license term, at a cost expected to be approximately US $250,000.

As a result of the nature of the petroleum and natural gas exploration, development and exploitation industry, budgets are regularly reviewed with respect to both the success of expenditures and other opportunities that become available. Accordingly, while it is currently intended by management of the Company that the general expenditures set out in the work program above will be made by the Company, actual expenditures may in fact differ from these plans, amounts and allocations.

Additionally, completion of activities are subject to potential barriers such as, but not limited to, lack of capital, lack of available equipment and poor weather which may impact the timing and duration of operations. Additional risk factors are disclosed in the Company's Annual Information Form dated April 19, 2012 which is available on SEDAR at www.sedar.com.

OUTSTANDING SHARE DATA

As at April 19, 2012, the Company had 87,368,942 common shares outstanding and 5,676,000 stock options outstanding under its stock option plan. The Company also had 6,200,000 performance warrants outstanding.

OFF BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

For the year ended December 31, 2011, the Company paid $103,505 (2010 - $221,776) for legal services to a firm of which an officer of the Company is a partner.

For the year ended December 31, 2011, the Company paid $12,000 (2010 - $12,000) in management fees to a company controlled by a director. These fees were paid for administrative services which were provided by the director.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, restricted cash, accounts receivable and accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

IFRS FIRST TIME ADOPTION

Eaglewood's consolidated financial statements as at and for the year ended December 31, 2011 have been prepared in accordance with IFRS as issued by the IASB. Previously, the Company prepared its annual consolidated financial statements in accordance with Canadian GAAP. Since the consolidated financial statements represent the Company's initial presentation of its results and financial position under IFRS, they have been prepared in accordance with IFRS 1 - First Time Adoption of IFRS.

The Company's significant accounting policies under IFRS are described in note 3 to the consolidated financial statements.

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

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.

IFRS 1 election for 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.

The other significant differences between IFRS and Canadian GAAP, are summarized as follows:

(a) Share - based payments:
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.

(b) 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 (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 $593,516 for the year ended December 31, 2010 (January 1, 2010 - nil). The impact of the profit or loss is an increase in foreign currency exchange gain of $1,028,795 for the year ended December 31, 2010.

(c) Reclassifications
The Company has reclassified its consolidated statement of comprehensive income in order to conform to IFRS.

(d) 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.

NEW AND AMENDED ACCOUNTING STANDARDS

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. The listing is of standards and interpretations issued which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective. The Company has yet to assess the full impact of these standards.

As of January 1, 2013, the following standards and amendments issued by the IASB become effective:

- IFRS 10, "*Consolidated Financial Statements*", which is the result of the IASB's project to replace Standing Interpretations Committee 12, "*Consolidation – Special Purpose Entities*" and the consolidation requirements of IAS 27, "*Consolidated and Separate Financial Statem*ents". The new standard eliminates the current risk and rewards approach and establishes control as the single basis for determining the consolidation of an entity.
- IFRS 11, "*Joint Arrangements*", which is the result of the IASB's project to replace IAS 31, "*Interests in JointVentures*". The new standard redefines joint operations and joint ventures and requires joint operations to be proportionately consolidated and joint ventures to be equity accounted. Under IAS 31, joint ventures could be proportionately consolidated.
- IFRS 12, "*Disclosure of Interests in Other Entities*", which outlines the required disclosures for interests in subsidiaries and joint arrangements. The new disclosures require information that will assist financial statement users to evaluate the nature, risks and financial effects associated with an entity's interests in subsidiaries and joint arrangements.
- IFRS 13, "*Fair Value Measurement*", which provides a common definition of fair value, establishes a framework for measuring fair value under IFRS and enhances the disclosures required for fair value measurements. The standard applies where fair value measurements are required and does not require new fair value measurements.
- IAS 19, "*Employee Benefits*", which amends the recognition and measurement of defined benefit pension expense and expands disclosures for all employee benefit plans.
- IFRS 7, "*Financial Instruments: Disclosures*", which requires disclosure of both gross and net information about financial instruments eligible for offset in the balance sheet and financial instruments subject to master netting arrangements. Concurrent with the amendments to IFRS 7, the IASB also amended IAS 32, "*Financial Instruments: Presentation*" to clarify the existing requirements for offsetting financial instruments in the balance sheet. The amendments to IAS 32 are effective as of January 1, 2014.

As of January 1, 2015, the following standard issued by the IASB becomes effective:

- IFRS 9, "*Financial Instruments*", which is the result of the first phase of the IASB's project to replace IAS 39, "*Financial Instruments: Recognition and Measurement*". The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. The impairment and hedge accounting principles to be included in IFRS 9 have not yet been issued by the IASB.

ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE

The Company is a venture issuer that has not had significant revenue from operations in either of its last two financial years. In accordance with National Instrument 51-102, additional disclosure on material costs is presented below.

	Year ended December 31,	
	2011	2010
General and administrative:		
Salaries & wages	**$1,447,606**	$1,609,433
Stock based compensation	**763,039**	897,209
Professional fees	**304,365**	329,459
Office costs	**293,721**	310,521
Travel & accommodation	**252,523**	435,028
Public company	**129,346**	193,932
Bad debt expense	**101,188**	-
Office rent	**80,315**	109,870
Consulting	**72,150**	69,267
Other general and administrative	**73,744**	88,860
Overhead recoveries	**(299,879)**	(730,343)
Total general and administrative	**$3,218,118**	$3,313,236
Capitalized exploration and development costs	**$11,274,945**	$27,532,138

Eaglewood Energy Inc.
Consolidated financial statements and notes
As at December 31, 2011 and for the year ended December 31, 2011 and 2010

April 19, 2012

Independent Auditor's Report

To the Shareholders of Eaglewood Energy Inc.

We have audited the accompanying consolidated financial statements of Eaglewood Energy Inc, which comprise the consolidated balance sheets as at December 31, 2011 and December 31, 2010 and January 1, 2010 and the consolidated statement of loss and comprehensive loss, changes in equity, cash flow for the years ended December 31, 2011 and December 31, 2010, and the related notes, which comprise 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.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 the auditor's 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, the auditor considers 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 audit 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 financial position of Eaglewood Energy Inc. as at December 31, 2011, December 31, 20101 and January 1, 2010 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 1 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the corporation's ability to continue as a going concern.

PricewaterhouseCoopers LLP

Chartered Accountants

Calgary, Alberta

Eaglewood Energy Inc.
Consolidated Balance Sheets
Canadian Dollars

As at		December 31, 2011		December 31, 2010		January 1, 2010
ASSETS				(note 27)		(note 27)
Current Assets						
Cash and cash equivalents (note 6)	**$**	**6,586,499**	$	12,858,739	$	13,622,795
Restricted cash (note 7)		**-**		2,749,725		-
Accounts receivable (note 8)		**169,951**		10,137,259		394,652
Prepaid expenses		**13,560**		21,727		-
		6,770,010		25,767,450		14,017,447
Property, plant and equipment (note 9)		**260,674**		298,105		74,315
Exploration and evaluation assets (note 10)		**57,274,782**		46,136,943		18,723,528
TOTAL ASSETS	**$**	**64,305,466**	$	72,202,498	$	32,815,290
LIABILITIES AND SHAREHOLDERS' EQUITY						
Current Liabilities						
Accounts payable and accrued liabilities (note 11)	**$**	**4,026,553**	$	10,224,459	$	424,182
		4,026,553		10,224,459		424,182
Asset retirement obligation (note 12)		**1,799,739**		1,394,059		-
TOTAL LIABILITIES		**5,826,292**		11,618,518		424,182
Shareholders' Equity						
Share capital		**72,117,067**		70,174,886		41,306,246
Contributed surplus		**4,327,461**		3,175,660		2,311,319
Accumulated other comprehensive income		**332,115**		593,516		-
Deficit		**(18,297,469)**		(13,360,082)		(11,226,457)
TOTAL SHAREHOLDERS' EQUITY		**58,479,174**		60,583,980		32,391,108
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$**	**64,305,466**	$	72,202,498	$	32,815,290

Going concern (note 1)

Contingencies and commitments (note 22)

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 financial statements

Eaglewood Energy Inc.
Consolidated Statements of Loss and Comprehensive Loss
Canadian Dollars

		For the year ended,
	December 31, 2011	December 31, 2010
Expenses		(note 27)
Impairment of exploration and evaluation assets (note 10)	**$ (1,402,317)**	$ -
General and administrative expenses (note 14)	**(3,218,118)**	(3,313,236)
Depletion, depreciation and amortization	**(158,892)**	(50,462)
Results from operating activities	**(4,779,327)**	(3,363,698)
Finance income	**26,571**	1,273,490
Finance expense	**(184,631)**	(43,417)
Net finance (expense) income (note 16)	**(158,060)**	1,230,073
Loss for the period	**(4,937,387)**	(2,133,625)
Other comprehensive income		
Foreign currency translation adjustment	**(261,401)**	593,516
Total comprehensive loss for the period	**$ (5,198,788)**	$ (1,540,109)
Loss per share – basic and diluted (note 17)	**$ (0.06)**	$ (0.03)
Weighted average common shares – basic and diluted	**87,090,339**	69,396,515

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

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

	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					(4,937,387)	(4,937,387)
Other comprehensive income:						
Foreign currency translation				(261,401)		(261,401)
Total comprehensive income (loss) for the period		-	-	(261,401)	(4,937,387)	(5,198,788)
Transactions with owners, recorded directly in equity						
Issue of common shares	710,000	532,500				532,500
Share issue costs		(54,364)				(54,364)
Share based payments			1,076,787			1,076,787
Options exercised	300,000	49,322	(19,322)			30,000
Total transactions with owners	1,010,000	527,458	1,057,465	-		1,584,923
Translation differences		1,414,723	94,336			1,509,059
Balance at December 31, 2011	87,248,942	$ 72,117,067	$ 4,327,461	$ 332,115	$ (18,297,469)	$ 58,479,174

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

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

	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						(2,133,625)	(2,133,625)
Other comprehensive income:							
Foreign currency translation					593,516		593,516
Total comprehensive income (loss) for the period	-	-	-	-	593,516	(2,133,625)	(1,540,109)
Transactions with owners, recorded directly in equity							
Issue of special warrants			22,443,750				22,443,750
Issue costs, net of tax		(362,717)	(134,809)				(497,526)
Conversion of warrants to shares	13,500,000	22,443,750	(22,308,941)				134,809
Bought deal equity financing	13,500,000	9,618,750					9,618,750
Share based payments				897,209			897,209
Options exercised	644,000	382,973		(138,876)			244,097
Warrants exercised	50,000	39,303					39,303
Total transactions with owners	27,694,000	32,122,059	-	758,333	-	-	32,880,392
Translation differences		(3,253,419)	-	106,008	-	-	(3,147,411)
Balance at December 31, 2010	86,238,942	$ 70,174,886	$ -	$ 3,175,660	$ 593,516	$ (13,360,082)	$ 60,583,980

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

Eaglewood Energy Inc.
Consolidated Statements of Cash Flow
Canadian Dollars

			For the year ended,
		December 31, 2011	December 31, 2010
Cash flows related to the following activities:			
Operating activities			
Net loss	**$**	**(4,937,387)**	$ (2,133,625)
Adjustments for:			
Impairment of exploration and evaluation assets		**1,402,317**	-
Stock-based payments		**763,039**	897,209
Depletion, depreciation and amortization		**158,892**	50,462
Accretion of asset retirement obligation		**49,531**	-
Finance income		**(26,571)**	(57,330)
		(2,590,179)	(1,243,284)
Changes in non-cash working capital (note 18)		**3,777,535**	35,943
		1,187,356	(1,207,341)
Investing activities			
Additions to exploration and evaluation assets		**(10,634,610)**	(27,532,138)
Additions to property, plant and equipment		**(34,121)**	(286,572)
Release of letter of credit		**2,749,725**	2,909,293
Finance income		**26,571**	57,330
Restricted cash		**-**	(5,659,018)
		(7,892,435)	(30, 511,105)
Financing activities			
Issue of common shares		**562,500**	32,345,900
Share issue costs		**(54,364)**	(362,717)
		508,136	31,983,183
Net (decrease) increase in cash		**(6,196,943)**	264,737
Cash and cash equivalents, beginning of period		**12,858,739**	13,622,795
Effect of exchange rate change on cash and cash equivalents		**(75,297)**	(1,028,793)
Cash and cash equivalents, end of period	**$**	**6,586,499**	$ 12,858,739

The accompanying notes are an integral part of these consolidated 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 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 financial statements have been prepared using International Financial Reporting Standards applicable to a going concern 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 year ended December 31, 2011, the Company reported a net loss of approximately $4.9 million. At December 31, 2011, the Company had an accumulated deficit of approximately $18.3 million and net working capital of approximately $2.7 million. In addition to its ongoing working capital requirements, the Company must secure sufficient funding for the financial commitments related to its PNG licenses as described in note 22 (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 and accordingly, the appropriateness of the use of accounting policies applicable to 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 and complete joint venture or farm-out arrangements in the next twelve months (see notes 10 and 26). Management believes there is the opportunity for the Company to raise additional equity and/or enter into and complete 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 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. Since this is the Company's initial year presenting results and financial position under IFRS, these consolidated financial statements are prepared in accordance with IFRS 1 *First-time Adoption of IFRS*. In these consolidated financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

These consolidated financial statements have been prepared in accordance with IFRS standards and interpretations of the International Financial Reporting Interpretations Committee (IFRIC) that are effective as at and for the year ended December 31, 2011, the Company's first annual reporting under IFRS. Subject to certain transition elections disclosed in note 27, 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 27 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 consolidated financial statements were authorized for issue by the Board of Directors on April 19, 2012.

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 financial statements and in preparing the opening IFRS statement of financial position at January 1, 2010 for the purposes of the transition to IFRS.

(a) Basis of measurement

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

(b) 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.

(c) 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.

(d) 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.

(e) Cash and cash equivalents

Cash and cash equivalents include cash in bank accounts and short-term deposits that are redeemable at any time without penalty.

(f) 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.

(g) 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.

(h) Impairment

(i) Financial assets

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.

(i) 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.

(j) Share capital

Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity.

(k) 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.

(l) 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.

(m) Earnings per share

Basic loss per share figures are calculated using the weighted average number of shares outstanding during the period. The dilutive effect of options are computed using the treasury stock method and the effect of convertible bonds by the "if converted" method. Dilutive amounts are not presented when the effect of the computations are anti-dilutive due to the losses incurred.

(n) 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.

(o) 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. Critical accounting 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.

The following discusses the most significant accounting judgments and estimates that the Company has made in the preparation of the financial statements:

(a) Valuation of exploration and evaluation assets

The recoverability of exploration and evaluation asset costs is proven when sufficient data exists to determine technical feasibility and commercial viability of extracting a mineral resource.

(b) Valuation of asset retirement obligations

Amounts recorded for asset retirement costs and obligations requires the use of estimates with respect to the amounts and timing of asset retirements, site remediation and the related cash flows.

(c) Measurement of share based payments

The fair value of share based payments is based on significant estimates such as volatility, dividend yield and expected term.

5. New and amended accounting standards

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. The listing is of standards and interpretations issued which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective. The Company has yet to assess the full impact of these standards.

As of January 1, 2013, the following standards and amendments issued by the IASB become effective:

- IFRS 10, "*Consolidated Financial Statements*", which is the result of the IASB's project to replace Standing Interpretations Committee 12, "*Consolidation – Special Purpose Entities*" and the consolidation requirements of IAS 27, "*Consolidated and Separate Financial Statem*ents". The new standard eliminates the current risk and rewards approach and establishes control as the single basis for determining the consolidation of an entity.
- IFRS 11, "*Joint Arrangements*", which is the result of the IASB's project to replace IAS 31, "*Interests in JointVentures*". The new standard redefines joint operations and joint ventures and requires joint operations to be proportionately consolidated and joint ventures to be equity accounted. Under IAS 31, joint ventures could be proportionately consolidated.
- IFRS 12, "*Disclosure of Interests in Other Entities*", which outlines the required disclosures for interests in subsidiaries and joint arrangements. The new disclosures require information that

will assist financial statement users to evaluate the nature, risks and financial effects associated with an entity's interests in subsidiaries and joint arrangements.

- IFRS 13, "*Fair Value Measurement*", which provides a common definition of fair value, establishes a framework for measuring fair value under IFRS and enhances the disclosures required for fair value measurements. The standard applies where fair value measurements are required and does not require new fair value measurements.
- IAS 19, "*Employee Benefits*", which amends the recognition and measurement of defined benefit pension expense and expands disclosures for all employee benefit plans.
- IFRS 7, "*Financial Instruments: Disclosures*", which requires disclosure of both gross and net information about financial instruments eligible for offset in the balance sheet and financial instruments subject to master netting arrangements. Concurrent with the amendments to IFRS 7, the IASB also amended IAS 32, "*Financial Instruments: Presentation*" to clarify the existing requirements for offsetting financial instruments in the balance sheet. The amendments to IAS 32 are effective as of January 1, 2014.

As of January 1, 2015, the following standard issued by the IASB becomes effective:

- IFRS 9, "*Financial Instruments*", which is the result of the first phase of the IASB's project to replace IAS 39, "*Financial Instruments: Recognition and Measurement*". The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. The impairment and hedge accounting principles to be included in IFRS 9 have not yet been issued by the IASB.

6. Cash and cash equivalents

	December 31, 2011	December 31, 2010	January 1, 2010
Bank balances	**$ 6,586,499**	$ 12,858,739	$ 13,622,795
Term deposits	**-**	-	-
Cash and cash equivalents	**$ 6,586,499**	$ 12,858,739	$ 13,622,795

7. Restricted cash

In conjunction with the rig assignment agreement for the drilling rig to be used within PPL 259, the Company was required to provide Letters of Credit ("LOCs") in the amount of US $5,500,000. The LOCs were provided by a major Canadian bank in the form of a hold on the Company's funds. In November 2010, when the Company entered into a 50% farm-out agreement on this property, the farmee provided security for 50% of the LOC. As a result, the hold on the Company's funds was reduced by US $2,750,000. In July 2011, the letter of credit was withdrawn and the restriction on cash was fully released.

8. Accounts receivable

	December 31, 2011	December 31, 2010	January 1, 2010
Accounts receivables	**$ 472,473**	$ 10,178,109	$ 459,138
Less: allowance for doubtful accounts	**(302,522)**	(40,850)	(64,486)
Accounts receivables - net	**$ 169,951**	$ 10,137,259	$ 394,652

At December 31, 2010, the accounts receivable balance exceeded $10.0M as the Company was in the midst of drilling the Ubuntu-1 well and the Company had two Joint Venture partners that combined represented 60% of the drilling program or $9.3M in Joint Venture receivables.

9. Property and equipment

Cost:		**Office Equipment & Vehicles**
Balance at January 1, 2010	$	116,125
Additions		286,572
Foreign currency translation		(12,320)
Balance at December 31, 2010		390,377
Additions		34,121
Foreign currency translation		5,285
Balance at December 31, 2011	**$**	**429,783**

Depreciation and impairment losses:		**Office Equipment & Vehicles**
Balance at January 1, 2010	$	41,810
Depreciation		50,462
Balance at December 31, 2010		92,272
Depreciation		76,837
Balance at December 31, 2011	**$**	**169,109**

Carrying amounts:		**Office Equipment & Vehicles**
At January 1, 2010	$	74,315
At December 31, 2010	$	298,105
At December 31, 2011	**$**	**260,674**

10. Exploration and evaluation assets

Cost:		
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		11,274,945
Foreign currency translation		1,347,266
Balance at December 31, 2011	**$**	**58,759,154**

Amortization and impairment losses:		
Balance at January 1, 2010 and December 31, 2010	$	-
Impairment		1,402,317
Amortization		82,055
Balance at December 31, 2011	**$**	**1,484,372**

Carrying amounts:		
At January 1, 2010	$	18,723,528
At December 31, 2010	$	46,136,943
At December 31, 2011	**$**	**57,274,782**

During the year ended December 31, 2011, the Company recorded impairment of $1.4M related to PPL 258. On March 18, 2010, the Company submitted a request for a five year extension of the license upon its expiry in October 2010. The Petroleum Advisory Board ("PAB") deliberated on the extension application but has not made a recommendation on an extension of the license. Based on the lack of a recommendation from the PAB, the Company decided to impair the asset.

Included in exploration and evaluation assets is $1,624,179 (as at December 31, 2010 - $996,311) of capitalized general and administrative expenses related to exploration activities.

On November 14, 2011 the Company executed an agreement to sell 20% of its 30% equity interest in PPL 260, and has granted an option for the sale of its remaining 10% interest subject to the expiry or waiver of an option previously granted on the license. The previously granted option in not expected to expire until the third quarter of 2012. The purchase price for the 20% interest is USD $7 million, with USD $2.1 million paid on execution of the agreement, to be refunded if the transaction was not completed, and the remaining USD $4.9 million payable when the purchaser was registered on the license and the transaction was completed, which occurred on March 14, 2012.

11. Accounts payable

	December 31, 2011	December 31, 2010	January 1, 2010
Accounts payable	**$ 556,118**	$ 2,738,672	$ 352,122
PPL 260 farm-in deposit (note 10)	**2,112,361**	-	-
Payables to related parties (note 21)	**15,059**	38,240	1,491
Accrued expenses	**1,343,015**	7,447,547	70,569
Accounts payable and accrued liabilities	**$ 4,026,553**	$ 10,224,459	$ 424,182

12. 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		326,640
Accretion		49,531
Total before translation difference		1,770,230
Translation difference		29,509
Balance at December 31, 2011	**$**	**1,799,739**

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 $1,799,739 as at December 31, 2011 (December 31, 2010 - $1,394,059) based on an undiscounted total future liability of $2,696,865 (December 31, 2010 - $2,696,865). These payments are expected to occur in 2027 or 2028. The discount factor, being the risk-free rate, is 2.70% at December 31, 2011 (2010 - 3.96%).

13. 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% 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		950,000		0.26
Exercised		(300,000)		0.10
Cancelled		(150,000)		1.36
Forfeited		(650,000)		1.24
Balance, December 31, 2011	**2.73**	**5,796,000**	**$**	**0.66**

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

Range of exercise prices	**Options outstanding**	**Weighted average exercise price**	**Options exercisable**	**Weighted average remaining life (years)**
$0.10 - $0.50	2,456,000	0.16	1,506,000	3.04
$0.51 - $1.00	1,865,000	0.78	1,370,000	2.54
$1.01 - $1.50	1,100,000	1.21	1,100,000	2.14
$1.50 - $1.64	375,000	1.64	187,500	3.33
	5,796,000	**0.66**	**4,163,500**	**2.73**

The fair value of the stock options granted during the year ended December 31, 2011 for which the exercise price was equal to the share's market price was estimated at $202,514 (2010 - $1,563,303). 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 have been extended for a further two years and will expire in November 2013. 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**	**$**	**1.19**
Exercised	(50,000)		0.75
Forfeited	(150,000)		1.33
Balance, December 31, 2010	**7,800,000**	**$**	**1.19**
Expired	(1,600,000)		1.19
Balance, December 31, 2011	**6,200,000**	**$**	**1.19**

Exercise price	Warrants outstanding	Warrants exercisable
$0.75	1,550,000	1,550,000
$1.00	1,550,000	1,550,000
$1.25	1,550,000	1,550,000
$1.75	1,550,000	-
	6,200,000	**4,650,000**

(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.

		Year ended,
	December 31, 2011	December 31, 2010
Weighted average fair value of stock options granted (per option)	**$0.21**	0.94
Weighted average fair value of performance warrants granted	**n/a**	n/a
Expected life of stock options	**4 years**	4 years
Expected life of performance warrants	**n/a**	n/a
Expected volatility	**132% to 141%**	145% to 146%
Risk-free rate of return	**1.59% to 2.52%**	2.14% to 2.79%
Dividend yield	**Nil**	Nil

A forfeiture rate of 6% (December 31, 2010 – 13.5%) 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 year ended December 31, 2011 was $1,076,787 (2010 - $1,130,980), of which $313,748 (2010 – $233,771) has been capitalized.

14. General and administrative expenses by nature

				Year ended,
		December 31, 2011		December 31, 2010
Salaries & wages	**$**	**1,447,606**	$	1,609,433
Stock based compensation		**763,039**		897,209
Professional fees		**304,365**		329,459
Office costs		**293,721**		310,521
Travel & accommodation		**252,523**		435,028
Public company		**129,346**		193,932
Bad debt expense		**101,188**		-
Office rent		**80,315**		109,870
Other general and administrative		**73,744**		88,860
Consulting		**72,150**		69,267
Overhead recoveries		**(299,879)**		(730,343)
Total general & administrative expenses	**$**	**3,218,118**	$	3,313,236

15. Personnel expenses

The aggregate payroll expense of employees and executive management was as follows:

				Year ended,
		December 31, 2011		December 31, 2010
Salaries & wages	**$**	**2,081,543**	$	1,831,506
Benefits and other personnel costs		**88,984**		85,260
Share based payments		**1,076,787**		1,130,980
Total employee remuneration		**3,247,314**		3,047,746
Capitalized portion of remuneration		**(1,036,669)**		(541,104)
Total personnel expenses	**$**	**2,210,645**	$	2,506,642

16. Finance income and expenses

				Year ended,
		December 31, 2011		December 31, 2010
Finance income:				
Interest income	**$**	**26,571**	$	57,330
Net foreign exchange gain		**-**		1,216,160
		26,571		1,273,490
Finance expenses:				
Net foreign exchange loss		**(121,720)**		-
Asset retirement obligation accretion		**(49,331)**		-
Bank fees		**(13,580)**		(43,417)
		(184,631)		(43,417)
Net finance (expense) income	**$**	**(158,060)**	$	1,230,073

17. Earnings per share

Basic loss per share figures is calculated using the weighted average number of shares outstanding during the period. The dilutive effect of options is computed using the treasury stock method and the effect of convertible bonds by the "if converted" method. Dilutive amounts are not presented when the effect of the computations are anti-dilutive due to the losses incurred. Accordingly, there is no difference in the amounts presented for basic and diluted loss per share for 2011 and 2010.

The earnings and weighted average number of common shares used in the calculation of basic earnings per share are as follows:

	2011	2010
Loss for the year attributable to owners of the Company	**$ 4,937,387**	$ 2,133,625
Weighted average number of common shares for the purposes of basic earnings per share (all measures)	**87,090,339**	69,396,515

18. Supplementary cash flow information

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

		Year ended,
	December 31, 2011	December 31, 2010
Provided by (used in):		
Accounts receivable	**$ 9,967,413**	$ (9,742,606)
Prepaid expenses	**8,167**	(21,727)
Accounts payable and accrued liabilities	**(6,198,045)**	9,800,276
	$ 3,777,535	$ 35,943

19. Financial instruments and risk management

Measurement categories

Financial assets and liabilities have been classified into categories that determine their basis of measurement and for items measured at fair value, whether changes in fair value are recognized in the statement of income or comprehensive income (see note 3). The following table shows the carrying values of assets and liabilities for each of the categories at December 31, 2011 and 2010 and January 1, 2010.

	December 31, 2011	December 31, 2010	January 1, 2010
ASSETS			
Loans and receivables			
Cash and cash equivalents	**$ 6,586,499**	$12,858,739	$13,622,795
Restricted cash	**-**	2,749,725	-
Accounts receivable	**169,951**	10,137,259	394,652
	$ 6,756,450	$25,745,723	$14,017,447
LIABILITIES			
Amortized costs			
Accounts payable	**$ 4,026,553**	$10,224,459	$ 424,182

Fair values, including valuation methods and assumptions

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) corresponds to a Level 1 classification.

Financial risk factors

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 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 venture partners arise when the Company conducts joint operations on behalf of its partners and invoices them for their share of costs. As at December 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	
	December 31, 2011	December 31, 2010	January 1, 2010
Cash and cash equivalents	**$6,586,499**	$ 12,858,739	$13,622,795
Restricted cash	**-**	2,749,725	-
Accounts receivable	**169,951**	10,137,259	394,652
	$6,756,450	$ 25,745,723	14,017,447

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 year ended December 31, 2011 would reduce by $0.5 million (December 31, 2010 -$0.5 million) or increase by $0.6 million (December 31, 2010 - $0.6 million).

20. 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.

21. 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 year ended December 31, 2011 and 2010, the related party transactions were as follows:

(a) the Company paid $12,000 (December 31, 2010 - $12,000) 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 December 31, 2011, $nil (December 31, 2010 - $nil) was included in accounts payable and accrued liabilities.

(b) the Company paid $103,505 (December 31, 2010 - $221,776) for legal services to a law firm of which an officer of the Company is a partner. At December 31, 2011, $15,059 (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 and directors. The executive officers include the Chief Executive Officer, the Chief Operating Officer and the Chief Financial Officer. Executive officers and directors also participate in the Company's stock option program. Key management personnel compensation for the year ended December 31, is comprised as follows:

		Year ended,
	December 31, 2011	December 31, 2010
Salaries and wages	**$ 933,376**	$ 815,790
Directors fees	**76,865**	85,694
Short-term employee benefits	**15,728**	16,870
Share-based payments	**572,512**	931,348
	$ 1,598,481	$ 1,849,702

22. Contingencies and commitments

(a) Lease payments

Non-cancellable operating lease rentals are payable as follows:

	2011	2010	January 1, 2010
Less than one year	**$ 126,223**	$ 2,950,103	$-
Between one and five years	**35,113**	148,845	-
More than five years	**-**	-	-
	$ 161,336	$ 3,098,948	$-

(b) License commitments

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

License	**Commitment**
PPL 257	On December 6, 2011, a five year extension to PPL 257 was granted. Eaglewood has a 100% participating interest in this license. During the first two years of the extension, the Company must, at a cost of not less than US$500,000 integrate recently completed studies; conduct further field studies as deemed necessary; integrate seismic interpretation and structural studies; and continue farm-out talks. Prior to the beginning of the third year of the extension, the Company must submit and have approved by the Minister, the work program for the remaining three years of the license which must include drilling one exploration well at a cost of not less than $US40,000,000, conduct post well studies and comprehensive license review at a cost of not less than $US500,000; and provide particulars of the financial resources available to the Company to carry out the foregoing work program.
PPL 258	There was a commitment to drill one exploration well by October 20, 2009 which was not met. 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 Energy Minister. The PAB deliberated on the extension application but did not make a recommendation on extension of the license. Based on the lack of a recommendation from the PAB, the Company has decided to impair the asset. The Company has re-submitted a request for a five year extension to this license. Eaglewood has a 100% participating interest in this license.
PPL 259	In September 2011, a five-year extension to PPL 259 was granted. At December 31, 2011, Eaglewood had a 90% participating interest in this license. As at April 19, 2012, one of the farmout agreements is complete (see note 26), reducing Eaglewood's participating interest to 65%. This interest will be further reduced to 40% when the second farmout agreement is completed. Within the first two years from the date of extension of this license, the Company must, at a cost of not less than US$26,000,000 acquire 100km of 2D seismic, drill one exploration well, and conduct geological and geophysical studies. Prior to the beginning of the third year of the extension, the Company must submit and have approved by the Minister, the work program for the remaining three years of the extension which must include drilling an appraisal well or another exploration well.

PRL 28	A Petroleum Retention License (PRL) has been granted for the two graticular blocks comprising the Ubuntu prospect of PPL 259. Eaglewood has a 40% participating interest in this license. The license was granted for five years and during this period, the Company must undertake marketing studies with analysis of future hydrocarbon commercialization scenarios for the Ubuntu static gas and gas condensate resource; undertake technical studies to (i) re-map and assess the reserves of the Ubuntu feature, focusing on an integration of the Ubuntu seismic; (ii) determine the potential for an integrated development with other nearby fields; (iii) deliver gas and/or condensate to local markets; (iv) identify landowners and required social mapping; and (v) address other commercialization opportunities for gas/condensate. The cost of the above work is to be not less than US$350,000. Contingent on the conclusions reached on the above items and if the market warrants, the Company must then undertake engineering studies aimed at appraisal and development of gas and/or condensate delivery; perform a conventional or extended well test on Ubuntu-1; consider drilling an appraisal or development well; and undertake commercial negotiation of gas and/or condensate contracts.
PPL 260	A five-year extension to PPL 260 was granted in November 2011. At December 31, 2011, Eaglewood had a 30% participating interest in this license. As at April 19, 2012, this interest was reduced to 10% (see note 26). During the first two years of the extension, at a cost of not less than US$1,000,000 the following work must be undertaken: field mapping to mature and de-risk leads; generation and modeling of structural cross sections; geological and geophysical studies; and generation of a Prospects and Leads inventory. Prior to the beginning of the third year of the extension, the Operator must submit and have approved by the Minister, the work program for the three remaining years of the extension which must include acquisition of 20km of 2D seismic; seismic processing and interpretation; and an update of the Prospects and Leads inventory. Following this work, and if a suitable prospect is identified, work must commence on a well proposal and the drilling of one exploration well, otherwise prepare a final permit prospectivity report.

The Company has issued bank guarantees totaling approximately $225,000 (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) PNG government back in right

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) Reclamation

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.

23. Interests in joint arrangements

The Company is involved in three joint operations as follows:

PPL 260: Eaglewood will have a 10% participating interest in PPL 260 after the completion of the farm-in agreement (see note 10 and 26) which occurred on March 14, 2012. Three venturers will hold the remaining 90% of the license. The assets and expenditures of this operation are proportionally consolidated in the financial results of the Company.

PPL 259: Eaglewood will have a 40% participating interest in PPL 259 after completion of two farm-in agreements (see note 26). Two venturers will hold the remaining 60% of the license. The assets, expenditures and liabilities of this operation are proportionally consolidated in the financial results of the Company.

PRL 28: Eaglewood has a 40% participating interest in PRL 28. Two venturers hold the remaining 60% of the license. The assets, expenditures and liabilities of this operation are proportionally consolidated in the financial results of the Company.

24. Segmented information

The Company has one reportable business segment, that being oil and gas exploration and development, in Papua New Guinea.

	For the year ended December 31, 2011		
	Corporate	Papua New Guinea	Consolidated
Impairment of exploration and evaluation assets	$ -	$ (1,402,317)	$ (1,402,317)
General and administrative expenses	(1,960,237)	(1,257,881)	(3,218,118)
Depletion, depreciation and amortization	(16,719)	(142,173)	(158,892)
Results from operating activities	(1,976,956)	(2,802,371)	(4,779,327)
Net finance income	234,216	(392,276)	(158,060)
Loss for the period	$ (1,742,740)	$ (3,194,647)	$ (4,937,387)
Segment assets	$ 6,471,246	$ 57,834,220	$ 64,305,466
Segment liabilities	$ 552,374	$ 5,273,918	$ 5,826,292
Exploration and evaluation assets	$ -	$ 57,274,782	$ 57,274,782
Capital additions (excluding foreign currency adjustment)	$ 4,614	$ 11,304,452	$ 11,309,066

Assets held in the Corporate segment are primarily cash in nature.

	For the year ended December 31, 2010		
	Corporate	Papua New Guinea	Consolidated
General and administrative expenses	$ (2,755,747)	$ (557,489)	$ (3,313,236)
Depletion, depreciation and amortization	(22,089)	(28,373)	(50,462)
Results from operating activities	(2,777,836)	(585,862)	(3,363,698)
Net finance income	1,084,917	145,156	1,230,073
Loss for the period	$ (1,692,919)	$ (440,706)	$ (2,133,625)
Segment assets	$ 15,007,662	$ 57,194,836	$ 72,202,498
Segment liabilities	$ 2,908,210	$ 8,710,308	$ 11,618,518
Exploration and evaluation assets	$ -	$ 46,136,943	$ 46,136,943
Capital additions (excluding foreign currency adjustment)	$ 19,586	$ 28,761,698	$ 28,781,284

						As at January 1, 2010
		Corporate		**Papua New Guinea**		**Consolidated**
Segment assets	$	13,642,588	$	19,172,702	$	32,815,290
Segment liabilities	$	340,717	$	83,465	$	424,182
Exploration and evaluation assets	$	-	$	18,723,528	$	18,723,528

25. Income taxes

Reconciliation of effective tax rate:

		2011		2010
Loss before taxes	**$**	**(4,937,387)**	$	(2,133,625)
Expected tax rate		**26.5%**		28.5%
	$	**(1,308,408)**	$	(608,083)
Rate		**(26,729)**		28,624
Stock based compensation		**201,819**		272,526
Unrecognized deferred tax benefit		**4,093,136**		(3,700,251)
Foreign exchange		**(3,015,095)**		(1,249,166)
True up of tax pools		**55,277**		5,256,377
Other		**-**		(27)
Total income tax expense	**$**	**-**	$	-

The statutory rate was 26.5% in 2011 (2010 - 28.5%). 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 tax rate reductions previously enacted by the Canadian federal government in 2007.

Unrecognized deferred tax assets:

Deferred tax assets have not been recognized in respect of the following temporary differences:

		2011		2010
Cost recovery pool	**$**	**15,425,044**	$	2,383,158
Property, plant and equipment		**9,124**		159,434
Asset retirement obligation		**1,794,460**		1,386,669
Share issue costs and other		**387,744**		545,353
Tax losses		**7,492,456**		6,178,681
Total temporary differences	**$**	**25,108,828**	$	10,653,295

The Company has temporary differences associated with its investments in a foreign subsidiary. As at December 31, 2011, the Company has no deferred tax liabilities in respect of these temporary differences.

The tax losses expire through 2031. The deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize the benefits.

Movement in temporary differences during the year:

	Balance January 1, 2010	Recognized in profit or loss	Balance December 31, 2010
Cost recovery pool	$ 16,155,799	$ (13,772,641)	$ 2,383,158
Property, plant & equipment	138,132	21,302	159,434
Asset retirement obligation	-	1,386,669	1,386,669
Share issue costs and other	376,593	168,760	545,353
Capital tax losses	1,859,859	(1,859,859)	-
Non-capital tax losses	4,488,705	1,689,976	6,178,681
	$ 23,019,088	$ (12,365,793)	$ 10,653,295

	Balance January 1, 2011	Recognized in profit or loss	Balance December 31, 2011
Cost recovery pool	$ 2,383,158	$ 13,041,886	$ 15,425,044
Property, plant & equipment	159,434	(150,310)	9,124
Asset retirement obligation	1,386,669	407,791	1,794,460
Share issue costs and other	545,353	(157,609)	387,744
Capital tax losses	-	-	-
Non-capital tax losses	6,178,681	1,313,775	7,492,456
	$ 10,653,295	$ 14,455,533	$25,108,828

26. Subsequent events

(a) On January 24, 2012, the Company announced two farmout agreements. Each farmout is for 25% of Eaglewood's 90% participating interest in PPL 259 subject to receipt of regulatory approvals and other customary conditions. After completion of both transactions, Eaglewood will own a 40% participating interest in PPL 259 and maintain operatorship.

To earn their respective 25% participating interests, each farmee will pay $15.2 million, comprised of USD $2.5 million on completion of the agreement for Eaglewood's sunk costs, and in addition to funding their 25% participating interests, each will pay USD $1.375 million to cover Eaglewood expenses in the upcoming PPL 259 seismic program and USD $5.0 million to cover Eaglewood expenses in the next well to be drilled in PPL-259.

On April 11, 2012, the Company announced that for one of the two farmout agreements, all regulatory approvals and conditions precedent had been met, and the deal has been completed.

(b) On March 14, 2012, the agreement to sell 20% of the Company's 30% participating interest in PPL 260 was completed (see note 10).

(c) On March 14, 2012 the Company released an update to the estimated contingent resources on its Ubuntu Discovery.

(d) On March 15, 2012, the Company purchased the back in right owned by Transeuro Energy Corp. to acquire a 10 % interest in all of the Company's licenses.

27. Explanation of transition to IFRSs

As stated in note 2, this is the first year that the Company's consolidated financial statements have been prepared in accordance with IFRS.

The accounting policies set out in note 3 have been applied in preparing the financial statements for the year ended December 31, 2011, the comparative information presented in these financial statements for the 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 IFRS 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 27 (iii) (a))
- Share-based payments (see note 27 (iii) (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**

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**

(ii) 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)

(iii) 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	December 31, 2010
Increase in exploration and evaluation assets	$18,723,528	$46,136,943
Decrease in Property, plant and equipment	$(18,723,528)	$(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:

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

Consolidated balance sheet:

	January 1, 2010	December 31, 2010
Decrease in contributed surplus	$68,198	$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 (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 $593,516 for the year ended December 31, 2010 (January 1, 2010 - nil). The impact of the profit or loss is an increase in foreign currency exchange gain of $1,028,795 for the year ended December 31, 2010.

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

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

	January 1, 2010	December 31, 2010
Deficit under Canadian GAAP	$(13,565,349)	$(16,785,495)
Stock-based payments (see (b))	68,198	125,925
Functional currency (see (c))	2,270,694	3,299,488
Deficit under IFRS	$(11,226,457)	$(13,360,082)

(h) Adjustments to cash flows

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