JADELA OIL CORP.

(formerly UNITECH ENERGY RESOURCES INC.)

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012

AND DECEMBER 31, 2011

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Jadela Oil Corp.

We have audited the accompanying consolidated financial statements of Jadela Oil Corp., which comprise the consolidated balance sheets as at December 31, 2012 and December 31, 2011, the consolidated statements of loss and comprehensive loss, cash flows and shareholders' equity flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Jadela Oil Corp. as at December 31, 2012 and December 31, 2011, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards**.**

Emphasis of matter – Going Concern

Without modifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that Jadela Oil Corp. incurred losses and used cash flow in operations over at least the past two years and will need to raise capital to fund its planned operating and investing activities. These conditions, along with other matters as set forth in Note 1 in the financial statements indicate the existence of a material uncertainty that may cast significant doubt about Jadela Oil Corp.'s ability to continue as a going concern.

(signed) "KPMG"

Chartered Accountants
Calgary, Canada

April 30, 2013

JADELA OIL CORP.
CONSOLIDATED BALANCE SHEETS
AS AT

In Canadian Dollars

	Note	Dec. 31 2012	Dec 31 2011
ASSETS			
CURRENT			
Cash		$ 287,348	$ 1,673,125
Accounts receivable		125,308	77,778
Prepaid expenses and deposits		16,499	52,749
		429,155	1,803,652
Restricted cash held in trust	3	109,858	124,460
Property and equipment	4	607,431	981,942
Exploration and evaluation assets	5	541,065	10,257,516
		$ 1,687,509	$ 13,167,570
LIABILITIES			
CURRENT			
Accounts payable and accrued liabilities		$ 193,268	$ 1,846,636
		193,268	1,846,636
Asset retirement obligations	7	164,686	62,300
SHAREHOLDERS' EQUITY			
Share capital	8	11,914,171	11,914,171
Warrants	10	5,337,400	5,337,400
Contributed surplus		3,664,204	3,505,204
Accumulated other comprehensive income		81,048	301,858
Deficit		(19,667,268)	(9,799,999)
		1,329,555	11,258,634
		$ 1,687,509	$ 13,167,570

Going concern	2
Subsequent event	17

Signed "Gregory J. Leia", Director

Signed "Randolph Aldridge", Director

JADELA OIL CORP.

CONSOLIDATED STATEMENTS
OF LOSS AND COMPREHENSIVE LOSS

FOR THE YEARS ENDED

In Canadian Dollars

	Note		2012		2011
REVENUE					
Natural gas sales		$	178,605	$	222,439
Oil sales			111,520		203,011
Royalties			(55,997)		(89,220)
Downhole well information			-		489,000
Water-well disposal			15,911		59,525
			250,039		884,755
EXPENSES					
Production and transportation			301,374		263,557
Water-well operation costs			49,420		255,804
General and administrative	12		903,673		1,217,667
Share based compensation	9		159,000		2,383,000
Depletion and depreciation	4, 5		9,011,271		166,918
			10,424,738		4,286,946
OPERATING LOSS		$	(10,174,699)	$	(3,402,191)
Other (income) expense items					
Interest income			(1,266)		(4,767)
Interest expense and accretion			11,972		4,449
Gain on sale of water-well assets			(318,136)		-
NET LOSS			(9,867,269)		(3,401,873)
Foreign exchange translation adjustment			(220,810)		301,858
COMPREHENSIVE LOSS		$	(10,088,079)	$	(3,100,015)
LOSS PER SHARE					
Basic and Diluted	13	$	(0.37)	$	(0.20)

The accompanying notes are an integral part of these financial statements

JADELA OIL CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED

In Canadian Dollars

	Note	2012	2011
OPERATING ACTIVITIES			
Net loss		$ (9,867,269)	$ (3,401,873)
Items not requiring cash:			
Depletion and depreciation		9,011,271	166,918
Asset retirement obligations settled		-	(5,975)
Share based compensation		159,000	2,383,000
Provision for doubtful accounts		109,890	-
Gain on sale of water-well assets		(318,136)	-
Interest expense and accretion, non-cash		11,400	4,400
Funds used in operations		(893,844)	(853,530)
Changes in non-cash working capital		(4,218)	373,599
CASH USED IN OPERATING ACTIVITIES		(898,062)	(479,931)
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES			
Purchase of property and equipment		(12,992)	(187,330)
Purchase of exploration and evaluation assets		(948,346)	(9,950,855)
Divestiture of exploration and evaluation assets		1,630,255	-
Divestitures of property and equipment		9,378	
Restricted cash held in trust		-	(1,977)
Changes in non-cash working capital		(1,180,370)	1,084,230
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		(502,075)	(9,055,952)
CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES			
Proceeds of shares and warrants	8, 10	-	11,327,715
Share issue costs		-	(732,529)
Proceeds of warrants and finders fee warrants exercised		-	28,500
CASH PROVIDED BY FINANCING ACTIVITIES		-	10,623,686
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(1,400,137)	1,087,803
Foreign exchange on cash balances		14,360	30,000
CASH AND CASH EQUIVALENTS, beginning of year		1,673,125	555,322
CASH AND CASH EQUIVALENTS, end of year		$ 287,348	$ 1,673,125
Interest paid		$ 572	$ 49

The accompanying notes are an integral part of these financial statements

JADELA OIL CORP.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

In Canadian Dollars

FOR THE YEARS ENDED

	2012	2011
SHAREHOLDERS' EQUITY		
Share capital		
Balance, beginning of year	$ 11,914,171	$ 6,623,741
Private placement	-	6,401,386
Shares issued on warrants exercised	-	32,644
Share issue costs, non-cash consideration	-	(411,071)
Share issue costs, cash consideration	-	(732,529)
Balance, end of year	11,914,171	11,914,171
Warrants		
Balance, beginning of year	5,337,400	241,324
Warrants issued private placement	-	5,337,400
Warrants exercised	-	(4,144)
Warrants expired	-	(237,180)
Balance, end of year	5,337,400	5,337,400
Contributed surplus		
Balance, beginning of year	3,505,204	885,024
Share based compensation on grant of options	159,000	2,383,000
Transfer upon expiry of warrants	-	237,180
Balance, end of year	3,664,204	3,505,204
Accumulated other comprehensive income		
Balance, beginning of year	301,858	-
Foreign exchange translation adjustment	(220,810)	301,858
Balance, end of year	81,048	301,858
Deficit		
Balance, beginning of year	(9,799,999)	(6,398,126)
Net loss	(9,867,269)	(3,401,873)
Balance, end of year	(19,667,268)	(9,799,999)
TOTAL SHAREHOLDERS' EQUITY	$ 1,329,555	$ 11,258,634

On June 29, 2006, Unitech Energy Corp. ("UEC") amalgamated with NR2 Resources Corporation ("NR2), a capital pool company listed on the TSX Venture Exchange, to form an amalgamated entity, which continued under the name of Unitech Energy Resources Inc.

On June 23, 2008 UEC acquired all the issued and outstanding shares of three private companies - Pendor IV Joint Venture Ltd., Pendor V Joint Venture Ltd., and Medicine Hat VI Inc. On July 19, 2011 the three subsidiary companies were amalgamated with UEC.

On May 10, 2011 UEC acquired all the issued and outstanding shares of Jadela Oil (US) Operating LLC. Results of operations from the acquired company subsequent to May 10, 2011 are included in the consolidated financial statements.

On July 21, 2011, UEC changed its name to Jadela Oil Corp. ("Jadela" or the "Company") and consolidated its common shares on a one new for ten old basis.

Jadela is in the business of exploring for and developing petroleum and natural gas properties in Western Canada and Texas, USA. Jadela is a company domiciled in Canada. The address of the Company's registered office is 1510, 777 – 8th Avenue SW, Calgary, Alberta.

1. GOING CONCERN

These financial statements do not reflect the adjustments and classifications of assets, liabilities, revenues and expenses which would be necessary if the Company were unable to continue as a going concern. The accompanying financial statements have been prepared using the going concern assumption which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business.

As the Company incurred losses and used cash flow in operations over at least the past two years and expects that it will need capital to fund its planned exploration and development activities, there is a material uncertainty which casts doubt on the Company's ability to continue as a going concern. For the year ended December 31, 2012, the Company incurred a net loss of $9,867,269 and used cash flows in operating activities of $898,062 and at December 31, 2012 the Company had an accumulated deficit of $19,667,268 and working capital of $235,887.

2. SIGNIFICANT ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATION UNCERTAINTY

Basis of presentation and measurement

Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and International Financial Reporting Interpretations Committee ("IFRIC"). The consolidated financial statements of the Company include the accounts of Jadela Oil Corp. and its subsidiaries (collectively referred to as ("the Company")) and have been prepared by management. These financial statements were authorized for issue by the Board of Directors on April 30, 2012.

These consolidated financial statements have been prepared on a historical cost basis.

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Financial results as determined by actual events may differ from these estimates. These financial statements have, in management's opinion, been properly prepared using careful judgment within reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

The significant estimates in the financial statements include:

Estimating oil and gas reserves

The Company engages a qualified, independent oil and gas reserves evaluator to perform an estimation of the Company's oil and gas reserves annually. Reserves form the basis for the calculation of depletion charges and assessment of impairment of oil and gas assets. Reserves are estimated using the reserve definitions and guidelines prescribed by National Instrument 51-101 and the Canadian Oil and Gas Evaluation Handbook.

Proved plus probable reserves are defined as the “best estimate” of quantities of oil, natural gas and related substances estimated to be commercially recoverable from known accumulations, from a given date forward, based on drilling, geological, geophysical and engineering data, the use of established technology and specified economic conditions. It is equally likely that the actual remaining quantities recovered will be greater than or less than the sum of the estimated proved plus probable reserves. The estimates are made using all available geological and reservoir data as well as historical production data. Estimates are reviewed and revised as appropriate. Revisions occur as a result of changes in prices, costs, fiscal regimes and reservoir performance or a change in the Company’s plans with respect to future development or operating practices.

Determination of CGUs

The recoverability of development and production asset carrying values are assessed at the CGU level. Determination of what constitutes a CGU is subject to management’s judgment. The asset composition of a CGU can directly impact the recoverability of the assets included therein. In assessing the recoverability of oil and gas properties, each CGU’s carrying value is compared to its recoverable amount, defined as the greater of fair value less costs to sell and value in use.

Asset Retirement Obligation

The Company estimates obligations under environmental regulations in respect of decommissioning and site restoration. These obligations are determined based on the expected present value of expenses required in the process of plugging and abandoning wells, dismantling of wellheads, production and transportation facilities and restoration of producing areas in accordance with relevant legislation, discounted from the date when expenses are expected to be incurred. Most of the abandonment of future expenses, estimated logistics of performing abandonment work and the discount rate used to calculate the present value of future expenses would have a significant effect on the carrying amount of the decommissioning provision.

Impairment testing

The impairment testing of property and equipment is completed for each CGU, and is based on estimates of proved plus probable reserves, production rates, oil and natural gas prices, future costs, discount rate and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and may impact the financial statements of future periods.

Fair values of Stock Options and Warrants

The amounts recorded for fair values of stock options and warrants are based on estimates of the expected volatility of the Company's share price, expected lives of the options and warrants, expected future dividend rates and other relevant assumptions.

Property and equipment and Exploration and Evaluation Assets

Exploration and Evaluation Assets

Costs of exploring for and evaluating oil and natural gas properties (exploration and evaluation assets or “E&E Assets”) are capitalized within intangible exploration assets. These costs include lease acquisition costs, geological and geophysical expenditures, costs of drilling and completion of wells, plant and production equipment costs and related overhead charges. E & E Assets do not include costs of general prospecting, or evaluation costs incurred prior to having obtained the legal rights to explore an area, which are expensed as incurred. Interest is not capitalized on E&E Assets.

E&E Assets are not depleted or depreciated and are carried forward until technical feasibility and commercial viability is considered to be determined. The technical feasibility and commercial viability is generally considered to be determined when proved plus probable reserves are determined to exist and the production of oil and gas has commenced. A review of each exploration license or field is carried out, at least annually, to ascertain whether proved plus probable reserves have been discovered and production has commenced. Upon determination of proved plus probable reserves and commencement of production, E&E Assets attributable to those reserves are first tested for impairment and then reclassified from E&E Assets to oil and natural gas interests, a separate category within Property Plant and Equipment ("PP&E").

Property, Plant and Equipment

PP&E is stated at cost, less accumulated depletion, depreciation and amortization, and accumulated impairment losses. The initial cost of an asset comprises its purchase price or construction cost, and costs attributable to bring the asset into operation, the initial estimate of decommissioning obligation. Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of PP&E are recognized as oil and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis.

Depletion and depreciation

The net carrying value of developed and producing fields are depleted using the unit of production method by reference to the ratio of production in the period to the related proved plus 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 are reviewed by independent reserve engineers at least annually. Total proved plus probable reserves are estimated using independent reserve engineer reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrated with a 50 percent statistical probability.

Other property and equipment are depreciated over their estimated useful lives at the following annual rates and methods:

Water-well disposal assets	10%	straight line
Vehicles	20%	declining balance
Computer equipment	30%	declining balance
Office equipment	20%	declining balance

Depreciation methods, useful lives and residual values are reviewed at least annually.

Impairment – Property, Plant and Equipment

For the purpose of impairment testing, PP&E are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets – cash generating unit ("CGU").

The carrying amounts of PP&E are reviewed at each reporting date to determine whether there is any indication of impairment, such as decreased commodity prices or downward revisions in reserves volumes. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount is the greater of the value in use or fair value less costs to sell.

Value in use is based on the estimated future cash flows 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. The recoverable amount is generally computed by reference to the present value of the future cash flows expected to be derived from production of proved and probable reserves. An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in the statement of income.

Impairment losses recognized in respect of CGU's are allocated to reduce the carrying amounts of the assets in the unit on a pro rata basis.

Impairment losses, except those on goodwill, 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 permitted to be recognized.

Impairment – Exploration and Evaluation Assets

E&E Assets are tested for impairment where there is an indication that a particular exploration and evaluation project may be impaired. Examples of indications of impairment include the decision to no longer pursue the E&E project or expiry of the rights to explore or failure to receive regulatory approval. In addition, E&E assets are assessed for impairment upon their reclassification to producing assets (oil and natural gas interests in PP&E). In assessing the impairment of E&E Assets, the carrying value of the E&E assets would be compared to their estimated recoverable amount, and in certain circumstances, could include any surplus from PP&E impairment testing of related CGUs. The impairment of E&E Assets is recognized as additional depletion and depreciation expense in the income statement.

Decommissioning obligations

Decommissioning obligations include legal obligations to retire tangible long-lived assets such as well sites, pipelines, and production facilities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

Decommissioning obligations are measured at the present value of management’s best estimate of expenditure required to settle the present obligation at the balance sheet date. Subsequent to the initial measurement, the obligations are adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision were established.

The Company's estimates of future asset retirement obligations are based on reclamation standards that meet current regulatory requirements. The estimate of the total liability of future site restoration costs may be subject to change based on amendments to laws and regulations and as new information concerning the Company's operations becomes available. Accordingly, the amount of the liability will be subject to re-measurement at each reporting period. Any adjustments to this liability will impact the related asset.

Share based compensation

The grant date fair value of options granted to employees, officers, and directors is recognized as share based compensation expense with a corresponding increase in contributed surplus over the vesting period. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest. A Black-Scholes option pricing model was used to estimate share based compensation with various assumptions that are detailed in note 9. As the Company does not pay dividends a dividend rate was not considered in the Black-Scholes model. For options and other share based payments to non-employees, compensation costs are generally measured based on the estimated fair value of the goods or services received.

Revenue recognition

Revenue from the sale of petroleum and natural gas is recognized based on volumes delivered to customers at contractual delivery points and rates and when collection is reasonably assured.

Revenue from the disposal water well is recognized when earned for performance of service.

LeadScan study revenue was recognized as the services are performed. Amounts received in advance of the services being performed are recorded as deferred revenue.

Downhole well information revenue was recognized on drilling and completing the Company’s first well in Texas as per terms of the contract.

Interest income is recognized when earned.

Per share calculations

Loss per share is computed by dividing the loss for the period by the weighted average number of common shares outstanding during the period. Diluted per share calculations reflect the exercise or conversion of potentially dilutive securities or other contracts to issue shares at the later of the date of grant of such securities or the beginning of the period.

Income taxes

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.

Flow-through shares

The Company may from time to time issue flow-through shares to finance a portion of its expenditure program. Pursuant to the terms of flow-through share agreements, the tax deductions associated with the expenditures are renounced to the subscribers. The Company recognizes a deferred tax liability for flow-through shares and a deferred tax expense, at the moment the eligible expenditures are incurred. The difference between the quoted price of the common shares or the amount recognized in common shares and the amount the investors pay for the shares (the “premium”) is recognized as an other liability which is reversed as a deferred tax recovery when eligible expenditures have been made. In instances where the Company has sufficient available tax loss carry forwards or other deductible temporary differences available to offset the renounced tax deductions, the realization of the deductible taxable differences will be credited to income in the period of renunciation.

Joint operations

Certain of the Company’s exploration and development activities are conducted jointly with others. Accordingly, the consolidated financial statements reflect only the Company’s proportionate interest in such activities.

Financial Instruments

All financial instruments are classified into one of the following five categories: fair value through profit and loss, held-to-maturity, loans and receivables, available-for sale financial assets, or other financial liabilities. On initial recognition financial instruments are recognized at fair value. Subsequent measurement and recognition of changes in the value of financial instruments depends on their classification.

Cash and cash equivalents, restricted cash held in trust, accounts receivable and deposits are classified as loans and receivables and are measured at amortized cost using the effective interest method. At each balance sheet date, the Company assesses whether loans and receivables are impaired and any impairment is recognized in the statement of loss. Accounts payable and accrued liabilities and debentures payable are classified as other financial liabilities and are measured at amortized cost using the effective interest method.

Cash and cash equivalents include cash and highly liquid investments with original maturities of less than three months.

Business Combinations

For acquisitions goodwill as determined under IFRS represents the excess of the cost of the acquisition over the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired assets or company. When the excess is negative, it is recognized immediately in the Statement of Loss.

Foreign currency translation and transactions

These consolidated financial statements are presented in Canadian dollars. The functional currency of the Canadian parent entity and its Canadian subsidiaries is the Canadian dollar and the functional currency of the Company's US subsidiary is the US dollar.

Transactions in foreign currencies are translated to the functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the period end exchange rate. Non-monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate at the date of the transaction. Foreign currency differences arising on translation are recognized in profit or loss.

Assets and liabilities of the US subsidiary are translated to Canadian dollars at exchange rates at the reporting date. The income and expenses of the US subsidiary are translated to Canadian dollars at exchange rates at the dates of transactions. Foreign currency differences are recognized in other comprehensive income. Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognized directly in equity in other comprehensive income.

Presentation of statement of loss

The Company's statement of loss is prepared primarily by the nature of the expense.

Accounting policies adopted January 1, 2013

The adoption of these standards on January 1, 2013 will have no impact on the amounts recorded in the financial statements.

IFRS 10 - Consolidated Financial Statements

IFRS 10 establishes the principles for the presentation and preparation of consolidated financial statements. The standard defines the principle of control and establishes control as the basis for consolidation, as well as providing guidance on how to apply the control principle to determine whether an investor controls an investee.

IFRS 11 - Joint Arrangements

IFRS 11 defines two types of joint arrangements, joint operations and joint ventures. In a joint operation, the parties with joint control have rights to the assets and obligations for the liabilities of the joint arrangement and are required to recognize their proportionate interest in the assets, liabilities, revenues and expenses of the joint arrangement. In a joint venture, the parties have an interest in the net assets of the arrangement and are required to apply the equity method of accounting.

IFRS 13 – Fair Value Measurement

IFRS 13 defines fair value, sets out a single standard framework for measuring fair value and the required disclosures about fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

IFRS 13 is applied prospectively to fair value measurements occurring on or after January 1, 2013. The additional disclosure requirements of IFRS 13 are also applied prospectively and will be presented, as relevant, in the 2013 interim and annual financial statements.

New accounting standards not yet adopted:

The IASB issued the following standard which is relevant but has not yet been adopted by the Company: IFRS 9, Financial instruments. The Company has not yet begun the process of assessing the impact that this new standard will have on its financial statements or whether to early adopt any of the new requirements.

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

In Canadian Dollars DECEMBER 31, 2012

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income. IFRS 9 is required to be applied for accounting periods beginning on or after January 1, 2015, with earlier adoption permitted.

3. RESTRICTED CASH HELD IN TRUST

Restricted cash held in trust includes $49,702 (2011 - $50,740) held by the Alberta Energy and Utilities Board, $36,128 (2011 - $49,156) held by British Columbia Minister of Energy, Mines and Petroleum Resources and $24,029 (2011 - $24,564) held by the Texas Railway Commission.

4. PROPERTY AND EQUIPMENT

	Oil and Natural Gas Assets	Water-well assets	Other assets	Total
COST OR DEEMED COST				
Balance, December 31, 2010	$ 777,916	$ 335,657	$ 17,784	$ 1,131,357
Expenditures on property, plant and equipment	108,097	9,423	69,810	187,330
Change in asset retirement obligations	12,752	-	-	12,752
Foreign exchange	-	-	197	197
Balance, December 31, 2011	$ 898,765	$ 345,080	$ 87,791	$ 1,331,636
Expenditures on property, plant and equipment	12,992	-	-	12,992
Adjustments	(109,890)	(129,750)	-	(239,640)
Change in asset retirement obligations	37,300	-	-	37,300
Foreign exchange	-	-	(828)	(828)
Divestitures	(26,375)	(59,530)	(16,378)	(102,283)
Balance, December 31, 2012	$ 812,792	$ 155,800	$ 70,585	$ 1,039,177
ACCUMULATED DEPLETION, DEPRECIATION				
Balance, December 31, 2010	$ 148,721	$ 28,520	$ 5,535	$ 182,776
Depletion, depreciation for the year	119,330	35,459	12,129	166,918
Balance, December 31, 2011	$ 268,051	$ 63,979	$ 17,664	$ 349,694
Depletion, depreciation for the year	58,117	19,386	28,449	106,012
Divestitures	-	(16,959)	(7,000)	(23,959)
Balance, December 31, 2012	$ 326,228	$ 66,406	$ 39,113	$ 431,747
CARRYING AMOUNT				
December 31, 2011	630,714	281,101	70,127	981,942
December 31, 2012	486,564	89,394	31,473	607,430

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5. EXPLORATION AND EVALUATION ASSETS

The following table summarizes information about the Company's exploration and evaluation assets:

Cost		
Balance, December 31, 2010	$	-
Additions		9,950,855
Foreign exchange		306,661
Balance, December 31, 2011	$	10,257,516
Additions		948,346
Divestitures		(1,630,255)
Asset retirement obligation addition		56,311
Impairment loss		(8,905,258)
Foreign exchange		(185,595)
Balance, December 31, 2012	$	541,065

E&E Assets consist of the Company's exploration and development projects which are pending the determination of proved and probable reserves and production. Additions represent costs incurred on E&E Assets during the period, predominantly land acquisition costs and drilling costs on the Company's first well in Texas.

On September 27, 2012, the Company sold a 35% interest in the Option Assets (as defined in the agreement) for US$1,106,404 and US$972,205 was paid to acquire certain options. On October 15, 2012 the Company sold an additional 17.5% interest in the Option Assets for US$532,000.

The Company has recognized a $1,967,575 impairment on the carrying value of the Option Assets as of December 31, 2012. The Option Assets rights ended on the execution of lease agreements and the Company did not exercise its rights to participate in lease agreements on the previous Option Asset lands.

The Company has recognized a $6,937,683 impairment on the carrying value of the earned 660 acres and first well in Texas. The costs associated with drilling the first well were written off as the well is not expected to be able to generate production to support the carrying value. The remaining E&E Assets of $0.5 million related to undeveloped land acreage in Texas, the carrying value of which is supported by recent land transactions in the area.

6. ACQUISITION

On May 10, 2011 the Company acquired all the issued and outstanding shares of Jadela Oil (US) Operating LLC. Results of operations from the acquired company subsequent to May 10, 2011 are included in the consolidated financial statements.

The acquisition was not considered a business combination under IFRS. The consideration paid and acquired net assets are as follows:

Acquired net assets:		
Restricted cash held in trust	$	24,563
Other assets		1
Accounts payable and accrued liabilities		(24,563)
	$	1

Consideration:		
Cash	$	1
	$	1

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7. ASSET RETIREMENT OBLIGATIONS

The Company estimates the total undiscounted cash flows to settle its asset retirement obligations are approximately $267,400. A credit-adjusted risk-free interest rate of 10.00% and an estimated inflation rate of 2% was used to calculate the present value of asset retirement obligations.

The following table reconciles the asset retirement obligations:

Asset Retirement Obligations		**2012**		**2011**
Balance, beginning of year	$	62,300	$	51,123
Additions		37,300		7,752
Change in estimate		56,311		5,000
Sold		(2,453)		-
Foreign exchange		(172)		-
Liabilities settled		-		(5,975)
Accretion expense		11,400		4,400
Balance, end of year	$	164,686	$	62,300

8. SHARE CAPITAL

Authorized:

Unlimited	Common voting shares with no par value
Unlimited	First Preferred shares, issuable in series, with rights and privileges to be determined at time of issue

Issued: Common shares	**Number of shares**		**Value**
Balance, December 31, 2010	7,063,315	$	6,623,741
Private placements	19,319,930		6,345,915
Shares issued on exercise of warrants	28,500		32,644
Shares issued to broker in private placement	119,092		55,471
Share issue costs, shares issued to broker	-		(55,471)
Shares issue costs, non cash consideration - finders fees warrants	-		(355,600)
Share issue costs, cash consideration	-		(732,529)
Balance, December 31, 2011 and December 31, 2012	26,530,837	$	11,914,171

On July 21, 2011 the Company consolidated its common shares on a one new for ten old basis. All share amounts and exercise prices have been adjusted retrospectively for this change.

During May to July 2011, the Company completed various tranches of a private placement and issued a total of 15,984,430 Units at a price $0.50 per Unit for gross proceeds of $7,992,215. Each Unit is comprised of one common share in the capital of the Company and one common share purchase warrant. Each Warrant entitles the holder to purchase one Common Share at any time within two years of the date of issuance at a price of $1.00 per Common Share. On completion of the one new for ten old common share consolidation the warrants exercise price changed to $0.75 per warrant.

During July 2011, 28,500 shares were issued on exercise of warrants.

During September 2011, the Company completed various tranches of a private placement and issued a total of 3,335,500 Units at a price $1.00 per Unit for gross proceeds of $3,335,500. Each Unit is comprised of one common share in the capital of the Company and one common share purchase warrant. Each Warrant entitles the holder to purchase one Common Share at any time within two years of the date of issuance at a price of $1.50 per common share.

9. STOCK OPTIONS

As a result of the 1 for 10 share consolidation the number of options and the exercise price thereof has been adjusted for all periods presented.

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The Company has a stock option plan available to directors, officers, employees and consultants. The maximum number of common shares reserved for issuance pursuant to the plan cannot exceed 10 percent of the issued and outstanding common shares. Options vest on grant, are generally exercisable for five years from the date of grant and are exercisable at prices equal to or greater than the market value of the shares at the date of the grant less the maximum discount permitted by the stock exchange. At December 31, 2012, there were an additional 140,083 common shares that are still available to be reserved for the granting of stock options.

A summary of the status of the Company's stock option plan as at December 31, 2012 and December 31, 2011 and changes during the years ending on those dates is as follows:

	2012		2011	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	2,143,000	$ 1.00	285,000	$ 1.00
Granted	1,150,000	0.20	1,993,000	1.00
Forfeited / Expired	(780,000)	1.00	(135,000)	1.00
Outstanding, end of year	2,513,000	$ 0.63	2,143,000	$ 1.00
Exercisable, end of year	2,513,000	$ 0.63	2,143,000	$ 1.00

Outstanding and exercisable stock options as at December 31, 2012 have a weighted average remaining contractual life of 4.16 years (2011 – 4.17 years).

The fair value of the 1,993,000 options granted with an exercise price of $1.00 expiring 1,883,000 on July 27, 2016 and 160,000 on July 27, 2013 was estimated on the date of grant at a fair value of $1.20 per option using the Black-Scholes option pricing model with the following assumptions: weighted average risk-free interest rate of 1.4%, weighted average term of 4.8 years, expected volatility of 275% and a 0% expected dividend yield.

The fair value of the 1,150,000 options granted with an exercise price of $0.20 expiring on December 5, 2017 was estimated on the date of grant at a fair value of $0.14 per option using the Black-Scholes option pricing model with the following assumptions: weighted average risk-free interest rate of 1.37%, weighted average term of 5.0 years, expected volatility of 226% and a 0% expected dividend yield.

See note 19 for discussion of subsequent reduction in exercise price on outstanding stock options.

10. WARRANTS

As a result of the 1 for 10 share consolidation the number of warrants and the exercise price thereof has been adjusted for all periods presented.

The following table summarizes information about the Company's common share purchase warrants:

	Number of Warrants	Stated Value
Balance, December 31, 2010	1,101,000	$ 241,324
Warrants issued private placement (note 8)	19,319,930	4,981,800
Finder's fee warrants issued	1,347,993	355,600
Warrants exercised	(28,500)	(4,144)
Warrants expired	(1,072,500)	(237,180)
Balance, December 31, 2011 and December 31, 2012	20,667,923	$ 5,337,400

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Outstanding warrants at December 31, 2012 consist of:

Exercise Price		Number	Weighted Average Remaining Contractual Life
$	0.75	17,059,273	0.46 years
$	1.50	3,608,650	0.70 years
		20,667,923	0.50 years

The fair value of warrants issued was estimated on the date of issuance using the Black-Scholes option pricing model with the following weighted average assumptions: risk-free interest rate 0.87%, term of 2 years, expected volatility of 180% and a 0% expected dividend yield.

See note 17 for discussion of subsequent reduction in exercise price on holders election, for outstanding warrants.

11. INCOME TAXES

The provision for income tax differs from the results that would be obtained by applying the combined Canadian Federal and Provincial tax rate of approximately 25.0% (2011 – 26.5%) to loss before taxes. The reasons for this difference are as follows:

	2012	2011
Expected income tax reduction	$ (2,469,224)	$ (901,496)
Difference resulting from:		
Impact of tax rate differences	(845,400)	8,530
Stock-based compensation expense	39,750	631,495
Change in unrecognized tax assets	3,274,894	261,471
Deferred income tax reduction	$ -	$ -

The combined federal and provincial tax rate decreased from 26.5% in 2011 to 25.0% in 2012 as a result of the federal rate decreasing from 16.5% to 15.0% year over year.

The following deferred tax assets have not been recognized in the consolidated financial statements because it is not probable that future taxable profits will be available against which they can be utilized.

	December 31, 2012	December 31, 2011
Temporary differences related to property and equipment and asset retirement obligations	$ 9,236,415	$ 2,350,309
Non-capital loss carryforwards	6,383,765	3,553,739
Share issue costs	717,771	720,971
Total	$ 16,337,951	$ 6,625,019

Canadian and U.S. non-capital loss carryforwards of $6.4 million expire between 2015 and 2032.

12. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2012, the Company was charged $nil (2011 - $1,467,000) for oilfield services provided by a corporation having a common director which is included in exploration and evaluation assets, and $nil (2011 - $61,021) for office rent by corporations having common officers and directors which are included in general and administrative expenses . During 2011, the Company reimbursed $200,000 in predrill costs incurred on a cost for cost basis to a company owned by an officer and director as per terms of a farm-in agreement. These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

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El Indio Investments Corp. (formerly Batoche Resources Limited), a company owned by an officer and director of the Company, earned a 22.5% working interest in 660 acres upon the drilling of El Indio #1H well in Texas where the Company paid 100% of capital costs of the well. The Company is entitled to 100% of revenues from the well until payout.

Key Management Personnel

The Company has determined that the key management personnel of the Company consists of its officers and directors. The following table provides information on compensation expense related to officers and directors.

		2012		2011
Wages, consulting fees and benefits	$	415,401	$	666,600
Share based compensation expense		159,000		1,770,310
	$	574,401	$	2,430,910

13. PER SHARE AMOUNTS

Basic loss per share has been calculated using the weighted average number of common shares outstanding during the year of 26,530,837 (2011 - 16,829,620) which has been adjusted for the 1 for 10 share consolidation. As the Company was in a loss position, there was no change in the numerator or denominator in calculating diluted loss per share. The effect of all stock options and warrants has been excluded from the calculation as they are anti-dilutive.

14. FINANCIAL INSTRUMENTS

The Company's Board of Directors and management have overall responsibility for the establishment of risk management strategies and objectives. The Company's policies are established to identify the risks faced by the Company, to set appropriate risk limits, and to monitor adherence to risk limits.

Fair value - The fair value of cash and cash equivalents, accounts receivable, deposits, restricted cash held in trust, and accounts payable and accrued liabilities approximate their carrying values due to their short term to maturity or because they bear interest at market rates.

Credit risk- A portion of the Company's accounts receivable are with joint venture partners in the petroleum and natural gas industry and is subject to normal credit terms. The Company generally extends unsecured credit to these customers and, therefore, the collection of accounts receivable may be affected by changes in economic or other conditions. The carrying value of accounts receivable reflects management's assessment of the associated credit risk. The Company is also exposed to credit risk on certain deposits to the extent that the Company may not be refunded these amounts. The Company does not anticipate any default or non-performance by its oil and gas sales customers. As such a provision for doubtful accounts has not been recorded at December 31, 2012 and 2011, except as noted below:

The Company obtained judgment in a suit against a former joint venture partner with respect to unpaid joint venture billings and related damages but does not expect payment and therefore has recorded an allowance for doubtful accounts in the amount of $136,383, included in General and administrative expenses.

Liquidity risk -The Company approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its obligations when due, under normal and stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation. The Company has to date required funds from private placements to finance capital expenditures and operations.

Commodity price risk - The Company is exposed to oil and gas commodity price risk and has not entered any financial derivatives to manage this risk.

Interest rate risk –the Company's exposure to interest rate risk is low.

Foreign exchange risk -The Company is exposed to foreign currency risk on its United States operations. The Company has not entered into any foreign exchange derivative contracts to mitigate its currency risks as at December 31, 2012.

Changes in the United States to Canadian foreign exchange rates with respect to the United States operations affect other comprehensive income as the segment has a United States functional currency. The following financial instruments were denominated in United States dollars as at December 31, 2012:

As at December 31, 2012 In Canadian Dollars	Canadian Operations	United States Operations
Cash	$ 70	$ 266,448
Restricted cash held in trust	-	24,029
Accounts payable and accrued liabilities	-	(37,760)
Net exposure	70	252,717

15. CAPITAL DISCLOSURES

The Company's objective when managing capital is to maintain the confidence of shareholders and investors in the implementation of its business plans by maintaining sufficient levels of liquidity to fund and support its exploration and development as well as other corporate activities. The Company's capital historically has been derived from the issuance of equity or debentures. Management monitors its financial position on an ongoing basis. Equity or debentures are issued to finance drilling programs and the Company's operations.

16. SEGMENTED INFORMATION

The Company's reportable segments are organized by geographical areas and consist of Canada and the United States. The following is the statements of operations for each segment for the year ended December 31, 2012.

For the Year ended December 31, 2012	**Canada**	**United States**	**Total**
REVENUE			
Natural gas sales	$178,605	$ -	$ 178,605
Oil sales	24,275	87,245	111,520
Royalties	(37,095)	(18,902)	(55,997)
Water-well disposal	15,911	-	15,911
	181,696	68,343	250,039
EXPENSES			
Production and transportation	70,906	230,468	301,374
Water-well operation costs	49,420	-	49,420
General and administrative	601,290	302,383	903,673
Share based compensation	159,000	-	159,000
Depletion and depreciation	101,479	8,909,792	9,011,271
	982,095	9,442,643	10,424,738
OPERATING INCOME (LOSS)	(800,399)	(9,374,300)	(10,174,699)
Other (income) expense items			
Interest income	(1,266)	-	(1,266)
Interest expense and accretion	11,175	797	11,972
Gain on sale of water-well assets	(318,136)	-	(318,136)
NET INCOME (LOSS)	$(492,172)	$ (9,375,097)	$(9,867,269)

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For the Year ended December 31, 2011	Canada	United States	Total
REVENUE			
Natural gas sales	$222,439	$ -	$ 222,439
Oil sales	-	203,011	203,011
Royalties	(37,563)	(51,657)	(89,220)
Downhole well information	-	489,000	489,000
Water-well disposal	59,525	-	59,525
	244,401	640,354	884,755
EXPENSES			
Production and transportation	74,523	189,034	263,557
Water-well operation costs	255,804	-	255,804
General and administrative	854,888	362,779	1,217,667
Share based compensation	2,383,000	-	2,383,000
Depletion and depreciation	164,692	2,226	166,918
	3,732,907	554,039	4,286,946
OPERATING INCOME (LOSS)	(3,488,506)	86,315	(3,402,191)
Other (income) expense items			
Interest income	(4,767)	-	(4,767)
Interest expense and accretion	4,449	-	4,449
NET INCOME (LOSS)	$(3,488,188)	$ 86,315	$(3,401,873)

Total assets in Canada and the United States amounted to $0.8 million (2011 - $1.7 million) and $0.9 million (2011 - $11.4 million) respectively.

17. SUBSEQUENT EVENT

On January 31, 2013, Shareholders of the Company approved re-pricing the exercise price of all outstanding warrants to $0.30 per warrant, excluding Broker and Finder Fee warrants.

On January 31, 2013, Shareholders of the Company approved re-pricing the exercise price of outstanding stock options issued in 2010 and 2011 (1,363,000 options) to $0.30 per options.