BNP Resources Inc.

Consolidated Interim Financial Statements and Notes

As at September 30, 2011 and for the three and nine months ended September 30, 2011 and 2010

(unaudited)

Notice of No Auditor Review of Interim Financial Statements

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of BNP Resources Inc. (the "Corporation") have been prepared by and are the responsibility of the Corporation's management.

The Corporation's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

BNP Resources Inc.
Consolidated Statements of Financial Position
(Unaudited)

	September 30, 2011 $	December 31, 2010 $	January 1, 2010 $
Assets			
Current assets			
Cash	10,408	-	-
Accounts receivable	14,297	12,946	11,198
Prepaid expenses	3,242	3,242	23,206
	27,947	16,188	34,404
Deposits	354,715	-	-
Exploration and evaluation assets (note 4)	1,449,086	1,451,912	1,762,353
Property and equipment (note 5)	199,414	191,516	143,903
	2,031,162	1,659,616	1,940,660
Liabilities and Shareholders' Equity			
Current liabilities			
Cheques issued in excess of funds on deposit	-	7,469	103,769
Accounts payable and accrued liabilities	844,394	998,626	732,577
	844,394	1,006,095	836,346
Decommissioning obligations (note 6)	647,358	743,102	881,159
Convertible Class B shares liability (note 8)	-	8,915,551	8,332,291
	1,491,752	10,664,748	10,049,796
Shareholders' Equity			
Subsidiary convertible shares (note 7)	-	-	1,395,000
Share capital (note 9)	23,608,636	13,563,486	11,973,938
Warrants (note 9)	-	162,300	132,300
Contributed surplus (note 11)	1,445,860	1,251,040	1,189,980
Deficit	(24,515,086)	(23,981,958)	(22,800,354)
	539,410	(9,005,132)	(8,109,136)
	2,031,162	1,659,616	1,940,660

Going concern (note 1)

See accompanying notes to the consolidated interim financial statements.

Approved by the Board of Directors

(Signed) "Gregory Bilcox" Director (Signed) "John Brown" Director

BNP Resources Inc.

Interim Consolidated Statements of Comprehensive Loss
For the three and nine months ended September 30,
(Unaudited)

	Three month period ended		Nine month period ended	
	2011	**2010**	**2011**	**2010**
For the periods ended September 30	**$**	**$**	**$**	**$**
Revenues				
Petroleum and natural gas	43,782	33,001	125,761	110,731
Royalties	(14,466)	(10,796)	(41,999)	(33,265)
Interest and other income	96	8	134	4,734
	29,412	22,213	83,896	82,200
Expenses				
Operating expenses	(901)	52,558	34,302	99,215
General and administrative costs	30,307	102,589	195,776	290,683
Share-based compensation (note 11)	10,840	7,309	32,520	56,495
Depletion and depreciation	11,519	4,643	29,723	16,549
Finance expense	3,618	150,822	324,703	456,173
	55,383	317,921	617,024	919,115
Net loss and comprehensive loss for the period	(25,971)	(295,708)	(533,128)	(836,915)
Loss per share				
Basic and diluted (note 10)	(0.00)	(0.01)	(0.01)	(0.02)
Weighted average shares outstanding	47,201,673	37,920,291	42,387,093	37,098,105

See accompanying notes to the consolidated interim financial statements.

BNP Resources Inc.
Interim Consolidated Statements of Equity
For the nine months ended September 30,
(Unaudited)

	Share capital	Subsidiary convertible shares	Warrants	Contributed surplus	Deficit	Total
Balance at January 1, 2011	13,563,486	-	162,300	1,251,040	(23,981,958)	(9,005,132)
Issue of Class A shares (note 9)	820,150	-	-	-	-	820,150
Conversion of Class B shares	9,225,000	-	-	-	-	9,225,000
Share-based compensation expenditures (note 11)	-	-	-	32,520	-	32,520
Expiry of warrants	-	-	(162,300)	162,300	-	-
Total comprehensive loss	-	-	-	-	(533,128)	(533,128)
Balance at September 30, 2011	23,608,636	-	-	1,445,860	(24,515,086)	539,410
Balance at January 1, 2010	11,973,938	1,395,000	132,300	1,189,980	(22,800,354)	(8,109,136)
Issue of Class A shares (note 9)	121,660	-	30,000	-	-	151,660
Share-based compensation expenditures (note 11)	-	-	-	56,495	-	56,495
Total comprehensive loss	-	-	-	-	(836,915)	(836,915)
Balance at September 30, 2010	12,095,598	1,395,000	162,300	1,246,475	(23,637,269)	(8,737,896)

See accompanying notes to the consolidated interim financial statements

BNP Resources Inc.

Interim Consolidated Statements of Cash Flows
For the three and nine months ended September 30,
(Unaudited)

For the periods ended September 30,	Three month period ended 2011 $	2010 $	Nine month period ended 2011 $	2010 $
Cash flows related to the following activities				
Operating activities				
Net loss and comprehensive loss	(25,971)	(295,708)	(533,128)	(836,915)
Items not affecting cash				
Depletion and depreciation	11,519	4,643	29,723	16,549
Accretion of decommissioning obligations	3,618	5,008	15,254	18,730
Loss on exploration and evaluation assets	-	-	6,472	-
Accretion of convertible Class B shares	-	145,814	309,449	437,443
Share-based compensation	10,840	7,309	32,520	56,495
	6	(132,934)	(139,710)	(307,698)
Change in non-cash working capital (note 14)	15,092	204,178	(5,408)	343,720
	15,098	71,244	(145,118)	36,022
Financing activities				
Issue of Class A shares and warrants (note 9)	500,000	-	663,500	100,000
Investing activities				
Additions to property and equipment	(133,123)	(2,711)	(145,790)	(12,017)
Proceeds on disposition of property and equipment	-	-	-	4,750
Change in non-cash working capital	(354,715)	(29,768)	(354,715)	(29,768)
	(487,838)	(32,479)	(500,505)	(37,035)
Increase in cash	27,260	38,765	17,877	98,987
Cash (overdraft) - Beginning of period	(16,852)	(43,547)	(7,469)	(103,769)
Cash (overdraft) - End of period	10,408	(4,782)	10,408	(4,782)
Non-cash transactions				
Class A shares issued for property and equipment	-	-	59,853	-
Settlement of accounts payable through disposition of property and equipment	53,378	-	53,378	104,908
Class A shares issued for accounts payable	96,757	-	96,757	51,660

See accompanying notes to the consolidated interim financial statements.

BNP Resources Inc.
Notes to Interim Consolidated Financial Statements
September 30, 2011

1. Nature of the business and going concern

BNP Resources Inc. (the "Corporation") was incorporated under the Business Corporations Act (Alberta) on September 15, 2005, and commenced its operations in May 2006. The Corporation's principal business activity is the exploration, development and operation of oil and natural gas properties.

Going concern

These consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") on a going concern basis, which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. Should the Corporation be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due.

Operating losses, negative cash flows over the past four fiscal years along with negative working capital over the past three fiscal years, combined with uncertainty regarding its ability to obtain financing in a timely manner, have created significant challenges to the Corporation's ability to continue as a going concern. In addition, the Corporation's proved plus probable reserves base requires a significant capital investment in 2011 that the Corporation may be unable to make.

Based on the foregoing, the Corporation has not been able to generate sufficient cash and/or to raise enough capital to fund operations so it can continue as a going concern. Management plans to explore all alternatives possible for securing its financial viability, including joint ventures to help fund its petroleum and natural gas properties, debt and equity financings including the continued support of its creditors through debt for equity exchange, merger opportunities, and asset dispositions; however, there can be no assurance that the Corporation will be sufficiently funded after these initiatives are executed. These circumstances create uncertainty as to the ability of the Corporation to meet its obligations as they come due and accordingly, there is significant doubt as to the appropriateness of the use of accounting principles applicable to a going concern. The accompanying consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Corporation be unable to continue in existence. Such adjustments could be material.

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

2. Basis of Presentation and Adoption of IFRS

Consolidation and basis of presentation

These consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiary, BNP (Saskatchewan) Resources Inc. ("Subsidiary") (note 7).

The Corporation 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 IFRS, and require publically accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Corporation has commenced reporting on this basis in these interim consolidated financial statements. In these interim consolidated financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

These interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34 and IFRS 1. These consolidated interim financial statements do not include all of the information required for full annual financial statements. Subject to certain transition elections disclosed in note 17, the Corporation 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 18, discloses the impact of the transition of IFRS on the Corporation'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 Corporation's consolidated financial statements for the year ended December 31, 2010.

The policies applied in these interim consolidated financial statements are based on IFRS issued and outstanding as of November 25, 2011, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in the Corporation's annual consolidated financial statements for the year ended December 31, 2011 could result in restatement of these interim consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

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

Basis of measurement

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

Functional and presentation currency

In these financial statements, unless otherwise indicated, all dollar amounts are expressed in Canadian (CDN) dollars. The Corporation's functional currency is Canadian dollars. All references to CDN$ or to $ are to Canadian dollars and references to USD$ are to United States dollars.

2. Basis of Presentation and Adoption of IFRS

Measurement uncertainty

The timely preparation of the financial statements requires that management make estimates and assumptions and use judgment regarding the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, actual results may differ materially from estimated amounts as future confirming events occur.

Estimates of the stage of completion of capital projects at the financial statement date affect the calculation of additions to property, plant and equipment and the related accrued liability.

The amounts recorded for depletion, decommissioning costs and obligations, impairment calculations, and amounts used in the determination of deferred taxes are based on petroleum and natural gas reserves and future costs required to develop those reserves. By their nature, these estimates of reserves, including the estimates of future prices and costs and the related future cash flows are subject to measurement uncertainty, and the impact in the financial statements of future periods could be material.

Amounts recorded for decommissioning obligations are based on management's best estimate of expenditures required to settle the present obligation as well as changes in the discount rate. Accordingly, those amounts are subject to measurement uncertainty.

Amounts recorded for share-based compensation expense are based on the historical volatility of the Corporation's share price and those of similar publicly listed enterprises, which may not be indicative of future volatility. Accordingly, those amounts are subject to measurement uncertainty.

Deferred income tax expense is calculated using tax rates based on the estimated timing of reversal of temporary differences between accounting and tax values of assets and liabilities and involves forecasting the amount of the deferred income tax asset that will be realized.

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

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by the Corporation.

Certain comparative amounts have been reclassified to conform to the current quarter's presentation as noted below.

3. Significant accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents consist of cash held in a commercial bank account, bank overdraft, and short-term investments with maturity, at the time of purchase, of less than three months.

Revenue recognition

Revenues from petroleum and natural gas sales are recognized when title passes from the Corporation to its customer.

Joint operations

Exploration, development and production activities may be conducted jointly with others and accordingly, the Corporation only reflects its proportionate interest in such activities.

Office furniture, equipment and other

Office furniture, equipment and other are recorded at cost. Amortization is provided on a declining balance at 20%.

Property, plant and equipment, and exploration and evaluation assets

Exploration and evaluation assets

Exploration and evaluation ("E&E") assets include land acquisition costs, geological and geophysical costs, exploratory drilling, directly attributable expenses and activities relating to evaluating the technical feasibility and commercial viability of our resources.

E&E costs are capitalized and are not depleted until such time as the exploration phase is complete and technical feasibility and commercial viability of extracting the mineral resource has been demonstrated. Technical feasibility and commercial viability is demonstrated when proven and probable reserves are determined to exist. Once demonstrated, E&E assets are tested for impairment in accordance with IAS 36 "Impairment of Assets" and transferred to property, plant and equipment ("PP&E"), and further development costs are capitalized to PP&E. E&E assets are also tested for impairment in accordance with IAS 36 if facts and circumstances suggest that the carrying amount exceeds the recoverable amount. If it is determined that technical feasibility and commercial viability has not been achieved in relation to a property, the resulting loss is included in the statements of comprehensive loss.

Pre-license exploration costs are incurred prior to obtaining the legal right to explore, defined as the acquisition of mineral rights through acquisition or farm-in arrangement. Pre-license exploration costs are not included in exploration and evaluation assets and will be expensed as incurred in exploration expenditures. An example of pre-license exploration costs may be geological and geophysical work used to evaluate an acquisition or purchase.

3. Significant accounting policies (continued)

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

Property, plant and equipment

Items of property, plant and equipment, which include oil and gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Development and production assets are grouped into CGU's for impairment testing. The Corporation has grouped its development and production assets into two CGU's. The cost of property, plant and equipment at January 1, 2010, the date of transition to IFRS, was determined by reference to use of the IFRS 1 deemed cost exemption and related allocation methodology. When significant parts of an item of property, plant and equipment, including oil and natural gas interests, have different useful lives, they are accounted for as separate items (major components).

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

The carrying amounts of capital assets are reviewed for impairment when indicators of such impairment exist. If indicators exist, the assets are tested for impairment under IAS 36.

Subsequent costs

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property, plant and equipment 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. All other expenditures are recognized in profit or loss as incurred. 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. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

Depletion and depreciation

The net carrying value of development or production assets is 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 are reviewed by independent reserve engineers at least annually. Changes in estimates such as quantities of proved and probable reserves that affect unit-of-production calculations are applied on a prospective basis. Depreciation methods, useful lives and residual values are reviewed at each reporting date.

3. Significant accounting policies (continued)

Decommissioning obligations

A provision is recognized if, as a result of a past event, the Corporation 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. Decommissioning obligations are determined by discounting the expected future cash flows at a pre-tax risk free rate that reflects current market assessments of the time value of money and the risks specific to the liability. Decommissioning liabilities are not recognized for future operating losses.

The Corporation's activities give rise to dismantling, decommissioning and site disturbance remediation activities. 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 the expenditure required to settle the present obligation at the statement of financial position date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation as well as any changes in the discount rate. Increases in the provision due to the passage of time are recognized as a finance expense 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.

Changes in estimated decommissioning and site restoration liabilities that occurred before the transition to IFRS have been adjusted for at the transition date on a net basis in accordance with the applicable exemptions under IFRS 1.

Share capital

Class A shares are classified as equity. Convertible Class B shares are classified as compound instruments (See financial instrument section below. Incremental costs directly attributable to the issuance of Class A shares are recognized as a reduction of equity.

Share options and share-based compensation

Awards of share options to employees and non-employees are accounted for in accordance with the fair value method of accounting for share-based compensation. The fair value of share options is determined using the Black-Scholes option-pricing model. Under the fair value method, the amount to be recognized as expense is determined at the time the options are issued and is deferred and recognized in earnings over the vesting period of the options with a corresponding increase in contributed surplus. Each tranche in an award is considered a separate grant with its own vesting period and grant date fair value. Consideration paid by directors, officers and key employees and consultants on the exercise of share options is credited to share capital together with the amount previously recognized in contributed surplus. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest.

3. Significant accounting policies (continued)

Flow-through shares

Resource expenditures for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. A deferred liability is recognized for the premium on the flow-through shares and is subsequently reversed as the Corporation incurs qualifying expenditures. Any difference between the deferred liability set up for the premium and the tax effect on the renounced expenditures is recognized in profit or loss.

Financial instruments

Financial assets and liabilities are recognized when the Corporation becomes a party to the contractual provision of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Corporation has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position 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 Corporation classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

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.

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the statement of comprehensive loss. Gains and losses arising from changes in fair value are presented in income or loss within finance income or expense in the period in which they arise. Financial assets and liabilities at fair value through income or loss are classified as current except for any portion expected to be realized or paid beyond twelve months of the statement of financial position date.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at “fair value through profit or loss”. Changes in the fair value of separable embedded derivatives are recognized immediately in profit or loss.

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. The Corporation does not currently hold any available-for-sale investments.

3. Significant accounting policies (continued)

Financial instruments (continued)

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 Corporation's loans and receivables are comprised of trade receivables, 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 any required 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 any provision for impairment.

Financial liabilities at amortized cost

Financial liabilities at amortized cost include accounts payable and accrued liabilities. Trade payables are initially recognized at the amount required to be paid less any required discount to reduce the payables to fair value.

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

Compound instruments

Compound instruments are separated into their liability and equity components using the effective interest method. The liability component accretes up to the principal balance at maturity. The equity component will be reclassified to share capital upon conversion.

Deferred income taxes

Deferred tax is recognized in respect of 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. 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 income 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.

3. Significant accounting policies (continued)

Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. 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.

Non-financial assets

The carrying amounts of the Corporation's non-financial assets, other than E&E assets and deferred tax 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. E&E assets are assessed for impairment when they are reclassified to property, plant and equipment, as oil and natural gas interests, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For the purpose of impairment testing, assets are grouped together into CGU's. 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 defined as 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.

E&E assets are allocated to specific 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 (oil and natural gas interests in property, plant and equipment).

3. Significant accounting policies (continued)

Impairment (continued)

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 profit or loss. Impairment losses recognized in respect of CGU's are allocated first to reduce the carrying amount, if any, of 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.

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.

Net finance expenditure

Finance expense is comprised of interest expense on borrowings, accretion on the discount of decommissioning obligations and accretion on the convertible Class B shares liability.

Per share amounts

Basic earnings per share is computed by dividing earnings by the weighted average number of Class A shares outstanding during the period after giving effect to the conversion of Class B shares to Class A shares based on the conversion ratio of 10 to the greater of $1 and the market price of the Class A shares on the last day of the period for which the consolidated financial statements relate and the Corporation also gives effect to the conversion of the Subsidiary Class A shares to the parent Corporation's Class A shares on a 1:1 ratio. Diluted per share amounts reflect the potential dilution that could occur if in the money stock options or warrants to purchase common shares were exercised and converted to common shares. The treasury stock method of calculating diluted per share amounts is used whereby any proceeds from the exercise of stock options or warrants are assumed to be used to purchase common shares of the Corporation at the average market price during the period.

Recent accounting pronouncements

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for accounting periods beginning after January 1, 2010 or later periods. The standards impacted that are applicable to the Company are as follows:

a) IFRS 9, 'Financial Instruments' was issued in November 2009 as the first step in its project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets that must be applied starting January 1, 2013, with early adoption permitted. The IASB intends to expand IFRS 9 during the intervening period to add new requirements for classifying and measuring financial liabilities, de-recognition of financial instruments, impairment and hedge accounting. The Company is currently assessing the impact of this standard.

3. Significant accounting policies (continued)

Recent accounting pronouncements (continued)

b) IFRS 10, 'Consolidated Financial Statements' was issued in May 2011 and will supersede the consolidation requirements in SIC-12 'Consolidation – Special Purpose Entities' and IAS 27 'Consolidated and Separate Financial Statements' effective for annual periods beginning on or after January 1, 2013, with early application permitted. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard also provides additional guidance to assist in the determination of control where this is difficult to assess. The Corporation is currently assessing the impact of this standard.

c) IFRS 11, 'Joint Arrangements' was issued in May 2011 and will supersede existing IAS 31, 'Joint Ventures' effective for annual period beginning on or after January 1, 2013, with early application permitted. IFRS 11 provides for the accounting of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard also eliminates the option to account for jointly controlled entities using the proportionate consolidation method. The Corporation is currently assessing the impact of this standard.

d) IFRS 12, 'Disclosure of Interests in Other Entities' was issued in May 2011 and is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Corporation is currently assessing the impact of this standard.

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

4. Exploration and evaluation assets

	September 30, 2011 $	December 31, 2010 $
Balance, beginning of year	1,451,912	1,762,353
Capital expenditures	192,976	-
Dispositions	(195,802)	(310,441)
Balance, end of year	1,449,086	1,451,912

4. Exploration and evaluation assets (continued)

Exploration and evaluation assets consist of the Corporation's exploration projects which are pending the determination of proven or probable reserves or additional expenditures in which to bring the projects to production. Additions represent the Corporation's expenditures on undeveloped land, engineering, geological and geophysical costs associated with exploration projects, and seismic expenditures.

Dispositions represent various assets sold to third parties as settlement of accounts payable and cash and land dispositions sold during the year for proceeds and removal of the related decommissioning obligations.

5. Property and equipment

	September 30, 2011 $	December 31, 2010 $
Balance, beginning of year	216,528	143,903
Capital expenditures	12,667	37,264
Decommissioning additions and revisions	24,954	35,361
Balance, end of year	254,149	216,528
Less: Accumulated depletion and depreciation	(54,735)	(25,012)
	199,414	191,516

The Corporation expensed $11,519 and $29,723 (2010 - $4,643 and $16,549) of depletion and depreciation during the three and nine month periods ended September 30, 2011 and 2010.

6. Decommissioning obligations

The total future decommissioning obligation was estimated based on the Corporation's net ownership interest in all wells and facilities, the estimated cost to abandon and reclaim the wells and facilities and the estimated timing of the cost to be incurred in future periods. The Corporation estimates the total undiscounted cash flows required to settle its decommissioning obligations is approximately $760,000 (December 31, 2010 - $1,257,000), which will be incurred over the next 8 years. A risk free rate of 2.23% and an inflation rate of 3% (December 31, 2010 3.13% and 3% respectively) were used to calculate the fair value of the decommissioning obligations. The decommissioning obligation is comprised of:

	September 30, 2011 $	December 31, 2010 $
Balance, Beginning of year	743,102	881,159
Add (deduct)		
Accretion expense	15,254	27,365
Reduction on disposal of assets	(135,952)	(200,783)
Revisions to previously recorded liabilities	24,954	35,361
Balance, End of year	647,358	743,102

7. Subsidiary convertible shares

On October 16, 2007, the Corporation closed a private placement of 2,142,857 non-voting, non-cumulative dividend bearing, preferred shares of a wholly owned subsidiary of the Corporation at a price of $0.70 per share, for gross proceeds of approximately $1,500,000. Each preferred share was convertible into one Class A share of the Corporation, at the option of the subscriber, at any time prior to 36 months following the closing of the offering (the "Maturity Date") and, has been converted on the Maturity Date of October 16, 2010 into 2,142,857 Class A shares of the Corporation – see note 9.

8. Convertible Class B shares

The Class B Shares are convertible, at the option of the Corporation, at any time after June 1, 2009, and before May 31, 2011, into Class A Shares upon five days prior notice to holders of Class B Shares. The number of Class A Shares obtained upon conversion of each Class B Share will be equal to $10 divided by the greater of $1 and the then Current Market Price of the Class A Shares. If the Corporation fails to exercise the conversion option by the close of business on May 31, 2011, the Class B Shares shall be convertible at the option of the shareholder, at any time after June 1, 2011, and before June 30, 2011, into Class A Shares pursuant to the conversion formula described above. Any Class B Shares not converted by the close of business on June 30, 2011, will be automatically converted to Class A Shares pursuant to the conversion formula described above.

On June 30, 2011, 922,500 Class B shares were automatically converted into 9,225,000 Class A shares of the Corporation.

The Class B shares were determined to be compound instruments. As the Class B shares are convertible into Class A common shares, based on the conversion formula above, the number of Class A shares is unknown, and therefore presented as a liability. The Class B share liability is accreted using the effective interest rate method at an interest rate of 7% over the term of the Class B shares, such that the carrying amount of the financial liability will be equal to the principal balance of $9,225,000 at maturity.

The following table indicates the convertible Class B shares activities:

	September 30, 2011 $	December 31, 2010 $
Balance, beginning of year	8,915,551	8,332,291
Accretion on convertible Class B share liability	309,449	583,260
	9,225,000	8,915,551
Conversion to Class A shares	(9,225,000)	-
Balance, end of period	-	8,915,551

9. Share capital

Authorized
Unlimited number of voting Class A shares with no par value
Unlimited number of voting Class B shares with no par value

Class A shares continuity	September 30, 2011 Shares #	Amount $	December 31, 2010 Shares #	Amount $
Balance, beginning of the year	29,424,179	13,563,486	25,035,834	11,973,938
Shares issued for accounts payable	1,613,276	96,797	1,245,488	124,548
Shares issued for property and equipment	598,532	59,853	-	-
Private placements	11,058,333	663,500	1,000,000	100,000
Conversion of subsidiary convertible shares	-	-	2,142,857	1,395,000
Conversion of Class B shares	9,225,000	9,225,000	-	-
Less value assigned to warrants	-	-	-	(30,000)
Balance, end of the year	51,919,320	23,608,636	29,424,179	13,563,486

a) On May 28, 2010, the Corporation completed a private placement of 1,000,000 units issued at a price of $0.10 per unit for total proceeds of $100,000 to a director of the Corporation. Each unit consisted of one Class A share and one half of one Class A share purchase warrant with each full warrant entitling the holder to acquire one Class A share at an exercise price of $0.10 for a period of 12 months. A total of 500,000 Class A warrants exercisable until May 2011 were issued and were valued in accordance with the residual value method that resulted in $30,000 assigned to the value of the warrants.

b) During fiscal 2010, the Corporation issued a total of 1,245,488 Class A shares at $0.10 per share to various creditors to settle the accounts payable in the total amount of $124,548. During fiscal 2011, the Corporation issued a total of 1,613,276 Class A shares at $0.06 per share to settle accounts payable in the total amount of $96,797.

c) During the period ended September 30, 2011, the Corporation issued 598,532 Class A shares at $0.10 per share to a creditor in settlement of a $59,853 royalty obligation on its oil and gas properties.

d) During fiscal 2011, the Corporation completed private placements totaling 11,058,333 Class A shares at $0.06 per share for total gross proceeds of $663,500.

Share option plan

The Corporation has a share option plan (the "Plan") pursuant to which options to purchase Class A shares may be granted by the board of directors to directors, officers, employees of, and consultants to, the Corporation. The Plan has reserved for issuance a number of Class A Shares equal to 10% of the Class A Shares issued and outstanding from time to time and no one optionee is permitted to hold options entitling such optionee to purchase more than 5% of the issued and outstanding Class A Shares. Options granted under the Plan will have an exercise price which is not less than the price allowed by regulatory authorities, will be non-transferable and will be exercisable for a period not to exceed five years.

9. Share capital (continued)

Options granted under the plan will terminate upon the date which is 30 days from the termination of an optionee's employment or, from the date such optionee ceased to be a director of the Corporation, unless the directors of the Corporation otherwise determine, or, provided the optionee has died and was an employee or director for at least one year following the grant of the options, shall terminate twelve months following the death of the optionee. The options will vest as to one-third on each of the first, second and third anniversaries of the date of the grant.

The Corporation has granted share options to certain directors, officers, employees and consultants of the Corporation as follows:

	September 30, 2011		December 31, 2010	
	Number of options	**Weighted average exercise price**	**Number of options**	**Weighted average exercise price**
Balance, beginning of the year	**2,330,000**	**$0.34**	**2,314,998**	**$0.47**
Options granted	2,250,000	0.10	600,000	0.10
Options forfeited	(250,000)	0.35	(584,998)	0.64
Balance, end of the year	**4,330,000**	**$0.21**	**2,330,000**	**$0.34**

On May 28, 2010, the Corporation granted 200,000 options to a director, on October 15 and November 9, 2010, an additional 200,000 options respectively were granted to an officer, director and consultant of the Corporation. On September 30, 2011, the Corporation granted 2,250,000 to directors of the Corporation. All option grants in fiscal 2010 and 2011 were done at an exercise price of $0.10 per option. Each grant of options were for a five year term with the options vesting equally over three years beginning one year after the grant date.

During the period ended September 30, 2011, nil (December 31, 2010 – 331,666) unvested options and 250,000 (December 31, 2010 – 253,332) vested options were forfeited and or cancelled due to the resignations of officers, director and consultant.

The fair value of options granted was estimated at the date of grant and the Corporation recognized a non-cash stock-based compensation expense for the three and nine month period ended September 30, 2011 of $10,840 and $32,520 (September 30, 2010 - $7,309 and $56,495), using the Black-Scholes Option Pricing Model based on the following assumptions: weighted average fair value per option of between $0.04 and $1.19; risk free interest rates of 1.24%-2.98%, dividend yield of 0%, forfeiture rate of 25%, volatility factors of the market place of the Corporation's Class A shares of 75%-205%, and an average expected life of the options of 3.5 years.

A remaining unamortized balance of $192,093 as of September 30, 2011 remains for unvested stock options, which will be expensed over the remaining vesting period.

9. Share capital (continued)

Options outstanding				Options Exercisable	
Exercise Price $	Number Outstanding	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price $	Number Exercisable	Weighted Average Exercise Price $
0.10	2,250,000	5.0	0.10	Nil	N/A
0.10	200,000	4.1	0.10	Nil	N/A
0.10	200,000	4.0	0.10	Nil	N/A
0.10	100,000	3.2	0.10	33,333	0.10
0.10	1,085,000	3.0	0.10	723,333	0.10
0.11	160,000	2.1	0.11	106,667	0.11
1.35	80,000	1.5	1.35	80,000	1.35
1.63	255,000	1.2	1.63	255,000	1.63
	4,330,000	**4.0**	**$0.21**	**1,198,333**	**$0.51**

As at September 30, 2011, the Corporation had 861,932 Class A share options available to be granted.

Warrants

	September 30, 2011	**December 31, 2010**
	$	**$**
Balance, beginning of year	162,300	132,000
Issued with private placements	-	30,000
Expiry of warrants	(162,300)	-
Balance, end of year	-	162,300

The Corporation's 2,205,000 Class A warrants expired as follows; 2,050,000 on July 23, 2011 and 155,000 on August 10, 2011 at an exercise price of $0.10 per warrant into one common share respectively.

10. Per share amounts

Per share amounts have been calculated on the weighted average number of shares outstanding after giving effect to the conversion of Class B shares into Class A shares at a conversion ratio of 10:1 and giving effect to the conversion of the Subsidiary Class A shares to the parent Corporation's Class A shares on a 1:1 ratio. The average number of Class A shares outstanding was not increased for outstanding stock options as the effect would be anti-dilutive.

11. Contributed surplus

	September 30, 2011 $	December 31, 2010 $
Contributed surplus – beginning of year	1,251,040	1,189,980
Add (deduct)		
Amortization of stock based compensation	32,520	61,060
Expiry of warrants	162,300	-
Contributed surplus – end of year	1,445,860	1,251,040

12. Capital management

The Corporation's total capital resources as at September 30, 2011, were $539,410 (December 31, 2010 - $(89,581)) with this amount comprised entirely of shareholders' deficiency plus convertible Class B shares. Consistent with prior periods, the Corporation's goal is to maintain a strong capital base to meet its objectives of ensuring financial flexibility while optimizing the cost of capital, maintaining the Corporation's ability to fulfill its financial obligations and financing internally generated growth and potential acquisitions.

The Corporation manages its capital structure and makes adjustments to it in response to changes in general industry conditions and its petroleum and natural gas assets. The Corporation may choose to issue equity or debt, revise its capital expenditure program and sell assets. Access to equity markets is currently very limited due to recent weakening of the global economy and low commodity prices. Financing decisions for the foreseeable future will be governed largely by the goal to reduce debt, based on the extent and timing of expected operating cash flows and capital outlays.

The Corporation's capital management objectives, evaluation measures and targets have remained unchanged over the periods presented. Net working capital was still negative as of September 30, 2011 as a result of large capital expenditures incurred during prior fiscal years. With the drop in commodity prices the Corporation's oil and natural gas revenues declined, decreasing its cash flow from operations available to meet financial obligations.

13. Related Party Transactions

The Corporation incurred $nil and $nil (2010 - $nil and $11,954) for the three and nine month periods ended September 30, 2011 for legal services to the law firm in which a former director of the Corporation is a Partner. During fiscal 2010, the Corporation issued 728,888 shares to the related party at a deemed price of $0.10 in full satisfaction of the amount owing of $72,888 which has been recorded as an increase to share capital. The director resigned from the Corporation September 2010.

These fees were incurred in the normal course of business.

14. Changes in Non-Cash Working Capital

The change in non-cash working capital is comprised of:

	Three months ended		Nine months ended	
	Sept 30, 2011 $	Sept 30, 2010 $	Sept 30, 2011 $	Sept 30, 2010 $
Operating				
Receivables, prepaid expenses and other	(5,519)	3,056	(1,351)	21,011
Accounts payable and accrued liabilities	20,611	201,122	(4,057)	322,709
	15,092	204,178	(5,408)	343,720
Investing				
Deposits	(354,715)	-	(354,715)	-
Accounts payable and accrued liabilities	-	(29,768)	-	(29,720)
	(354,715)	(29,768)	(354,715)	(29,720)

Amounts actually paid during the year:

	Three months ended		Nine months ended	
	Sept 30, 2011 $	Sept 30, 2010 $	Sept 30, 2011 $	Sept 30, 2010 $
Interest	-	-	-	-
Income taxes	-	-	-	-

15. Financial Instruments

Fair values

The Corporation's financial instruments recognized on the statement of financial position include cash, accounts receivable, and accounts payable and accrued liabilities. The fair values of these financial instruments approximate their carrying amounts due to their short-term nature, except for the accounts payable and accrued liabilities. The fair values of the account payable and accrued liabilities may be significantly less than the carrying amounts due to the credit risk of the Corporation.

Risk management

The Corporation is exposed to financial risks arising from its financial assets and liabilities. The financial risks include market risk, credit risk and liquidity risk.

(i) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. In the normal course of operations, the Corporation is exposed to market risks resulting from fluctuations in commodity prices, foreign currency exchange rates and interest rates.

15. Financial Instruments (continued)

Commodity price risk
Commodity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by the relationship between the Canadian and US dollar as well as world economic events dictating the levels of supply and demand. The Corporation did not have any financial instruments in place to manage commodity prices during the period ended September 30, 2011.

Foreign currency exchange rate risk
Foreign currency exchange rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign exchange rates. Although all of the Corporation's revenues are denominated in Canadian dollars, realized petroleum and, to a certain extent, natural gas prices are based upon reference prices denominated in US dollars and are therefore impacted by changes in the exchange rate between the Canadian and US dollar. A strengthening of the Canadian dollar in comparison to the US dollar will decrease revenues received by the Corporation from the sale of its production. Correspondingly, a decrease in the value of the Canadian dollar relative to the US dollar will increase the revenues received. The impact of such exchange rate fluctuations cannot be accurately quantified. The Corporation did not have any forward exchange rate contracts in place for the three and nine month periods ended September 30, 2011 and, no financial instruments were denominated in foreign currency.

(ii) Credit risk
Credit risk is the risk that the counterparty to a financial asset will default, resulting in a financial loss to the Corporation. A significant portion of the Corporation's accounts receivable are due from customers in the petroleum and natural gas sector and are subject to normal industry credit risk.

As is common in the petroleum and natural gas industry in Western Canada, receivables relating to the sale of petroleum and natural gas are received on or about the 25th day of the following month. The Corporation sells the majority of its production to two petroleum and natural gas marketers and is therefore subject to concentration risk. The Corporation attempts to mitigate credit risk associated with these balances by establishing marketing relationships with large purchasers. No collection issues have been incurred to date with the Corporation's petroleum and natural gas marketers.

(iii) Liquidity risk
Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they are due. The Corporation regularly monitors liquidity related to obligations by evaluating forecasted cash flows, capital spending activity, working capital requirements and other potential cash expenditures. This continual financial assessment process further enables the Corporation to mitigate liquidity risk.

With the drop in commodity prices, the Corporation's oil and natural gas revenues declined, decreasing its cash flow from operations available to meet financial obligations. As a result, the Corporation expects some of its liabilities to be paid later than when they are required to be paid. Suppliers may elect to charge interest expense, refuse to provide future services or pursue legal action as a result which may have an effect on the Corporation's going concern – note 1. The Corporation has settled much of the accounts payable during 2009 and 2010 and continues to look to settling the remaining accounts payable – note 9.

16. Comparative figures

Certain prior year comparative figures have been reclassified to conform to current year's presentation.

17. Effect of transition to IFRS

The condensed interim financial statements for the period ended March 31, 2011, June 30, 2011, and September 30, 2011 are the Corporation's first sets of financial statements prepared under IFRS. For all accounting periods prior to this, the Corporation prepared its financial statements under Canadian GAAP. In accordance with IFRS 1 'First time adoption of IFRS', certain disclosures relating to the transition to IFRS are given in this note. These disclosures are prepared under IFRS as set out in the basis of preparation in Note 2.

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

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

IAS 2 – Share-based payments ("IAS 2")
The Corporation has elected to apply the exemption from full retrospective application of shares as allowed under IFRS 1 to any share options and other instruments that were granted prior to January 1, 2010 and had fully vested. As such, the Corporation has not re-measured any of the outstanding equity instruments as of January 1, 2010 that was fully vested.

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

17. Effect of transition to IFRS (continued)

Other than the information presented below, there were no other material changes to the statement of financial position, statement of comprehensive loss and statement of cash flows as previously presented under Canadian GAAP as of January 1, 2010, September 30, 2010, December 31, 2010 and for the periods then ended.

Reconciliation of statement of loss under Canadian GAAP to IFRS:

For the three and nine month period ended September 30, 2010	Three months	Nine months
Loss as previously reported under Canadian GAAP	$ (171,922)	$ (471,818)
Adjust for:		
Depletion and depreciation	15,018	55,021
Finance expense – decommissioning obligations	7,010	17,325
Finance expense – convertible Class B shares	(145,814)	(437,443)
Loss and comprehensive loss under IFRS	$ (295,708)	$ (836,915)

For the year ended December 31, 2010	
Loss as previously reported under Canadian GAAP	$ (690,076)
Adjust for:	
Depletion and depreciation	71,024
Finance expense – decommissioning obligations	20,708
Finance expense – convertible Class B shares	(583,260)
Loss and comprehensive loss under IFRS	$(1,181,604)

17. Effect of transition to IFRS (continued)

January 1, 2010

	Canadian GAAP	Effect of transition to IFRS: Oil and gas properties (note 1)	ARO (note 2)	Flow-through shares (note 3)	Convertible Class B shares (note 4)	IFRS
ASSETS						
Current assets						
Accounts receivables	$ 11,198	$ -	$ -	$ -	$ -	$ 11,198
Prepaid expenses and deposits	23,206	-	-	-	-	23,206
	34,404	-	-	-	-	34,404
Exploration and evaluation assets	-	1,762,353	-	-	-	1,762,353
Property and equipment	1,906,256	(1,762,353)	-	-	-	143,903
Total Assets	$ 1,940,660	$ -	$ -	$ -	$ -	$ 1,940,660
LIABILITIES						
Current liabilities						
Cheques issued in excess of funds on deposit	$ 103,769	$ -	$ -	$ -	$ -	$ 103,769
Accounts payable and accrued liabilities	732,577	-	-	-	-	732,577
	836,346	-	-	-	-	836,346
Decommissioning liabilities	631,912	-	249,247	-	-	881,159
Convertible class B shares	-	-	-	-	8,332,291	8,332,291
	1,468,258	-	249,247	-	8,332,291	10,049,796
SHAREHOLDERS' EQUITY						
Subsidiary convertible shares	1,395,000	-	-	-	-	1,395,000
Share capital	16,927,688	-	-	4,271,250	(9,225,000)	11,973,938
Warrants	132,300	-	-	-	-	132,300
Contributed surplus	764,980	-	-	-	425,000	1,189,980
Deficit	(18,747,566)	-	(249,247)	(4,271,250)	467,709	(22,800,354)
	472,402	-	(249,247)	-	(8,332,291)	(8,109,136)
Total Liabilities and Shareholders' Equity	$ 1,940,660	$ -	$ -	$ -	$ -	$ 1,940,660

BNP Resources Inc.

Notes to Interim Consolidated Financial Statements
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17. Effect of transition to IFRS (continued)

September 30, 2010

	Canadian GAAP	Effect of transition to IFRS: Oil and gas properties (note 1)	ARO (note 2)	Flow-through shares (note 3)	Convertible Class B shares (note 4)	IFRS
ASSETS						
Current assets						
Accounts receivables	$ 10,151	$ -	$ -	$ -	$ -	$ 10,151
Prepaid expenses and deposits	3,242	-	-	-	-	3,242
	13,393	-	-	-	-	13,393
Exploration and evaluation assets	-	1,646,597	-	-	-	1,646,597
Property and equipment	1,737,045	(1,591,576)	36,354	-	-	181,823
Total Assets	$ 1,750,438	$ 55,021	$ 36,354	$ -	$ -	$ 1,841,813
LIABILITIES						
Current liabilities						
Cheques issued in excess of funds on deposit	$ 4,782	$ -	$ -	$ -	$ -	$ 4,782
Accounts payable and accrued liabilities	868,950	-	-	-	-	868,950
	873,732	-	-	-	-	873,732
Decommissioning liabilities	667,967	-	268,276	-	-	936,243
Convertible class B shares	-	-	-	-	8,769,734	8,769,734
	1,541,699	-	268,276	-	8,769,734	10,579,709
SHAREHOLDERS' EQUITY						
Subsidiary convertible shares	1,395,000	-	-	-	-	1,395,000
Share capital	17,049,348	-	-	4,271,250	(9,225,000)	12,095,598
Warrants	162,300	-	-	-	-	162,300
Contributed surplus	821,475	-	-	-	425,000	1,246,475
Deficit	(19,219,384)	55,021	(231,922)	(4,271,250)	30,266	(23,637,269)
	208,739	55,021	(231,922)	-	(8,769,734)	(8,737,896)
Total Liabilities and Shareholders' Equity	$ 1,750,438	$ 55,021	$ 36,354	$ -	$ -	$ 1,841,813

17. Effect of transition to IFRS (continued)

December 31, 2010

	Canadian GAAP	Effect of transition to IFRS: Oil and gas properties (note 1)	ARO (note 2)	Flow-through shares (note 3)	Convertible Class B shares (note 4)	IFRS
ASSETS						
Current assets						
Accounts receivables	$ 12,946	$ -	$ -	$ -	$ -	$ 12,946
Prepaid expenses and deposits	3,242	-	-	-	-	3,242
	16,188	-	-	-	-	16,188
Exploration and evaluation assets	-	1,451,912	-	-	-	1,451,912
Property and equipment	1,592,442	(1,380,888)	(20,038)	-	-	191,516
Total Assets	$ 1,608,630	$ 71,024	$ (20,038)	$ -	$ -	$ 1,659,616
LIABILITIES						
Current liabilities						
Cheques issued in excess of funds on deposit	$ 7,469	$ -	$ -	$ -	$ -	$ 7,469
Accounts payable and accrued liabilities	998,626	-	-	-	-	998,626
	1,006,095	-	-	-	-	1,006,095
Decommissioning liabilities	534,601	-	208,501	-	-	743,102
Convertible class B shares	-	-	-	-	8,915,551	8,915,551
	1,540,696		208,501	-	8,915,551	10,664,748
SHAREHOLDERS' EQUITY						
Subsidiary convertible shares	-	-	-	-	-	-
Share capital	18,517,236	-	-	4,271,250	(9,225,000)	13,563,486
Warrants	162,300	-	-	-	-	162,300
Contributed surplus	826,040	-	-	-	425,000	1,251,040
Deficit	(19,437,642)	71,024	(228,539)	(4,271,250)	(115,551)	(23,981,958)
	67,934	71,024	(228,539)	-	(8,915,551)	(9,005,132)
Total Liabilities and Shareholders' Equity	$ 1,608,630	$ 71,024	$ (20,038)	$ -	$ -	$ 1,659,616

17. Effect of transition to IFRS (continued)

Note 1 – Exploration and evaluation assets

Under Canadian GAAP, property and equipment included certain E&E expenditures incurred within established geographic areas. Under IFRS, E&E costs related to each license/prospect are initially capitalized within exploration and evaluation assets. The costs are accumulated in cost centers by well, field or exploration area pending determination of technical feasibility and commercial viability. In addition, costs incurred prior to obtaining the legal right for exploration are expensed in the period in which they are incurred. The Corporation does not deplete E&E assets.

The asset will be transferred to property and equipment if technical and economic feasibility have been established by proved reserve assignment. The asset will be expensed if it has been determined there is no future value.

As required under IFRS 6, properties in the E&E phase are presented separately from property, and equipment. Upon transition this resulted in $1,762,353 of expenditures previously capitalized as property, and equipment to be reclassified as E&E assets; as at September 30, 2010 and December 31, 2010 the Corporation reclassified $1,646,597 and $1,451,912, respectively, to E&E assets.

Depletion

The Corporation depletes its development and production assets using unit of production under both IFRS and Canadian GAAP. However, due to the adjustments described above, the carrying value of the development and production assets has decreased under IFRS, which has resulted in a reduction in the depletion for the three and nine month periods ended September 30, 2010 and year ended December 31, 2010.

Note 2 – Decommissioning liability ("ARO")

Under Canadian GAAP, future cash flows related to funding the Corporation's asset retirement obligation in relation to petroleum and natural gas properties is discounted using a risk-adjusted rate.

Under IFRS, the future cashed flows are discounted using a to a pre-tax risk free rate that reflects current market assessments of the time value of money and the risks specific to the obligation. This has resulted in an increase in the asset retirement obligation at the date of transition to IFRS, which can be recognized through deficit under the IFRS 1 exemption, and for the three and nine month periods ended September 30, 2010, and year ended December 31, 2010 which is recognised through the Statement of Comprehensive Loss for that year. Unlike Canadian GAAP, the accretion expense is classified as finance expense under IFRS.

17. Effect of transaction to IFRS (continued)

Note 3 - Flow-through Shares
Under Canadian GAAP, the Corporation would increase share capital with the full proceeds received on the issuance of flow-through shares. On renouncement of the related resource expenditures a future income tax liability would be recognized and the stated value of the share capital is reduced accordingly

Under IFRS, the Corporation allocated the proceeds from issuance between share capital and a liability representing the sale of tax benefits. The liability is reversed when tax benefits are renounced and a deferred tax liability is recognized at that time. The reversal of the liability and the recognition of deferred tax are recognized in the statement of comprehensive income (loss). As the Corporation last issued flow-through shares in the year ended December 31, 2007, the adjustment on adoption of IFRS on January 1, 2010 resulted in an increase to share capital and to deficit.

Note 4 – Class B shares
Under Canadian GAAP, the Corporation's convertible Class B shares are presented as equity. Under IFRS, the Class B shares do not qualify for equity presentation and must be presented as a liability, due to the number of Class A shares issued on conversion, based on the conversion formula (note 7), not being certain until the Corporation exercises conversion. As such, the Corporation has retrospectively adjusted the presentation of its $10,250,000 Initial Public Offering ("IPO") on July 22, 2006, which included the convertible Class B shares. It was determined that the face value of convertible Class B shares is $9.225 million ($10.00 per Class B share). Using a 7 percent discount rate and a term of 4.94 years, the Corporation calculated a present value of $6.6 million on issuance, which will accrete to the $9.225 million face value on June 30, 2011, the expiration date of the Corporation's conversion option. A deferred tax liability of $828,000 was recognised on issuance relating to the difference between the face value and present value of the Class B shares, tax effected at 29 percent. This deferred tax liability was reversed in full by the transition date of January 1, 2010 due to the available future tax assets as of December 31, 2009. A put option premium of $425,000 was recorded recognising the value of the Corporation's lower limit of $1.00 per Class A share in the Class B to Class A conversion formula. This has been included in contributed surplus for financial statement presentation.