TERRACE ENERGY CORP
(formerly Terrace Resources Inc.)

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(unaudited – prepared by management)
(Expressed in Canadian dollars, unless otherwise stated)

NINE MONTHS ENDED OCTOBER 31, 2011 AND 2010

TERRACE ENERGY CORP.
(formerly Terrace Resources Inc.)

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited condensed interim consolidated financial statements of Terrace Energy Corp. (the "Company") have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Vancouver, Canada

December 29, 2011

TERRACE ENERGY CORP
(formerly Terrace Resources Inc.)
CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS
(unaudited – prepared by management)

	October 31 2011	January 31 2011	February 1 2010
ASSETS			
Current			
Cash	$ 2,953,592	$ 219,701	$ 290,796
Receivables	5,709	1,232	-
	2,959,301	220,933	290,796
Long Term			
Deferred project investigation costs	12,370	-	-
Oil and gas properties (Note 3)	360,959	-	-
Restricted cash	-	2,523,771	2,502,262
	$ 3,332,630	$ 2,744,704	$ 2,793,058
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities	$ 182,806	$ 18,953	$ 6,098
Shareholders' Equity			
Capital stock (Note 4)	3,333,046	2,880,589	2,880,589
Reserves (Note 4)	702,974	87,950	87,950
Deficit	(886,196)	(242,788)	(181,579)
	3,149,824	2,725,751	2,786,960
	$ 3,332,630	$ 2,744,704	$ 2,793,058

Nature and continuance of operations (Note 1)
Subsequent events (Note 8)

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

TERRACE ENERGY CORP
(formerly Terrace Resources Inc.)
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPRHENSIVE LOSS
(unaudited – prepared by management)
FOR THE NINE AND THREE MONTHS ENDED OCTOBER 31

	For the Nine Months Ended October 31 2011	For the Nine Months Ended October 31 2010	For the Three Months Ended October 31 2011	For the Three Months Ended October 31 2010
EXPENSES				
Administrative	$ 56,429	11,497	$ 51,582	$ 1,550
Professional	121,179	28,574	6,458	-
Transfer agent and filing fees	42,929	16,640	3,841	(215)
Project investigation costs	77,949	-	77,949	-
Consulting	75,031	-	75,031	-
Travel	8,823	-	8,823	-
Business investigation costs	93,557	5,983	17,875	-
Stock-based compensation	181,794	-	8,095	-
Loss before other items	657,691	62,694	249,654	1,335
OTHER ITEM				
Interest income	(10,745)	(15,914)	-	(5,361)
Foreign exchange (gain) loss	(3,538)	-	1,654	-
	(14,283)	(15,914)	1,654	(5,361)
Net loss and comprehensive (income) loss for the period	$ 643,408	$ 46,780	$ 251,308	$ (4,026)
Basic earnings (loss) per share	$ (0.02)	$ (0.01)	$ (0.01)	$ 0.00
Weighted average number of shares outstanding	35,733,673	30,881,821	40,881,821	30,881,821

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

TERRACE ENERGY CORP
(formerly Terrace Resources Inc.)
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(unaudited – prepared by management)

	Capital Stock				
	Shares	Amount	Reserves	Deficit	Total Shareholders' Equity
Balance, February 1, 2010	30,881,821	$ 2,880,589	$ 87,950	$ (181,579)	$ 2,786,960
Loss and comprehensive loss		-	-	(24,760)	(24,760)
Balance, April 30, 2010	30,881,821	2,880,589	$ 87,950	$ (206,339)	2,762,200
Loss and comprehensive loss		-	-	(26,046)	(26,046)
Balance, July 31, 2010	30,881,821	2,880,589	87,950	(232,385)	2,736,154
Loss and comprehensive loss		-	-	4,026	4,026
Balance, October 31, 2010	30,881,821	2,880,589	$ 87,950	(228,359)	2,740,180
Loss and comprehensive loss		-	-	(14,429)	(14,429)
Balance, January 31, 2011	30,881,821	2,880,589	87,950	(242,788)	2,725,751
Loss and comprehensive loss		-	-	(145,455)	(145,455)
Balance, April 30, 2011	30,881,821	2,880,589	87,950	(388,243)	2,580,296
Private placement	10,000,000	466,770	433,230	-	900,000
Share issue costs		(14,313)	-	-	(14,313)
Stock-based compensation		-	173,699	-	173,699
Loss and comprehensive loss		-	-	(250,869)	(250,869)
Balance, July 31, 2011	40,881,821	3,333,046	694,879	(639,112)	$ 3,388,813
Stock-based compensation		-	8,095	-	8,095
Loss and comprehensive loss		-	-	(247,084)	(251,308)
Balance, October 31, 2011	40,881,821	$ 3,333,046	$ 702,974	$ (886,196)	$ 3,149,824

The accompanying notes are an integral part of these financial statements

TERRACE ENERGY CORP
(formerly Terrace Resources Inc.)
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited – prepared by management)
FOR THE NINE MONTHS ENDED OCTOBER 31

	For the Nine Months Ended October 31 2011	For the Nine Months Ended October 31 2010
CASH FLOW FROM OPERTAING ACTIVITIES		
Net loss for the period	$ (643,408)	$ (46,780)
Stock-based compensation	181,794	-
Changes in non-cash working capital items:		
Increase in accounts receivable	(4,477)	(399)
Increase (decrease) in accounts payable and accrued liabilities	163,853	(3,247)
Net cash used in operating activities	(302,238)	(50,426)
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) Restricted cash	2,523,771	(15,914)
Deferred project investigation costs	(12,370)	-
Oil and gas properties	(360,959)	-
Net cash provided by investing activities	2,150,442	(15,914)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the issuance of shares	900,000	-
Share issue costs	(14,313)	-
Net cash provided by financing activities	885,687	-
Change in cash for the period	2,733,891	(66,340)
Cash, beginning of period	219,701	290,796
Cash, end of period	$ 2,953,592	$ 224,456
Cash paid during the period for interest	$ -	$ -
Cash paid during the period for taxes	$ -	$ -

Non-cash financing activities:

During the nine months ended October 31, 2011, the Company issued 10,000,000 warrants with a fair value of $433,230 in connection with a private placement. The fair value of the warrants has be recorded as non-cash share issuance costs, resulting in reduction to share capital

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

1. NATURE AND CONTINUANCE OF OPERATIONS

Terrace Energy Corp. (the "Company") was incorporated on July 6, 2006 under the Business Corporations Act (British Columbia) and previously named Terrace Resources Inc.

The Company was classified as a capital pool corporation ("CPC") as defined in TSX Venture Exchange (the "Exchange") Policy 2.4. In June 2009, the Company completed a transaction whereby four other CPCs purchased common shares of the Company and distributed them to their respective shareholders upon dissolution. At the particular time, the Company was required to place $2,500,000 into a segregated account, which could not be accessed without Exchange approval

In June, 2011 the Company's subsidiary Terrace Operating, LLC ("TOL") and Eagle Energy Development Company ("EEDC"), entered into a farmout agreement, whereby TOL acquired an 87.5% working interest and a 65.1875% net revenue interest in certain leases and farmout lands by funding all costs associated with and acting as operator on the re-entry and fracture stimulation and completion of an existing well or a substitute well. EEDC is at arm's length to the Company. The farmout agreement constituted the Company's "qualifying transaction" and the Exchange approved access to the $2,500,000 segregated funds. The Company is now a Tier 2 Oil and Gas issuer and its common shares trade on the Exchange under the symbol "TZR".

These condensed interim consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business The Company has no history of revenues or operating cash flows. The continuing operations of the Company are therefore dependent upon its ability to raise additional capital as required and future profitable operations, neither of which is assured. These financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

The Company's head office is located at 270 – 666 Burrard Street, Vancouver, Canada.

The financial statements of the Company are presented in Canadian dollars, unless otherwise stated, which is the functional currency.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These consolidated financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB"). The policies applied in these interim financial statements are based on International Financial Reporting Standards ("IFRS") issued and outstanding as at December 29, 2011, the date the Board of Directors approved these interim financial statements for issue. Any subsequent changes to IFRS that are issued and effective as at January 31, 2012, could result in a restatement of these interim financial statements.

This is the first year in which the Company's interim financial statements are prepared in accordance with IFRS and, as a result, IFRS 1, "First-time Adoption of International Financial Reporting Standards," has been applied. Prior to the adoption of IFRS, the Company's financial statements were prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). As this is the first year in which the Company's interim financial

2. SIGNIFICANT ACCOUNTING POLICIES (Continued

statements are prepared in accordance with IFRS, disclosure of the elected transition exemptions and reconciliation and explanation of accounting policy differences compared to Canadian GAAP have been provided in Note 7.

These condensed interim financial statements should be read in conjunction with the Company's January 31, 2011 annual financial statements, which were prepared in accordance with Canadian GAAP, and the Company's interim financial statements as at and for the three months ended April 30, 2011, which include additional disclosures on the transition to IFRS and the IFRS disclosures included in Note 7.

Use of judgments and estimates

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported expenses during the period. Actual results could differ from these estimates.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

i) The inputs used in calculating the fair value for stock-based compensation expense included in operations.
ii) The inputs used in calculating the fair value of warrants included in units issued in private placements.
iii) The valuation of shares issued in non-cash transactions.

Principles of consolidation

The consolidated financial statements include the financial statements of the Company and its controlled subsidiary, Terrace Operating LLC. Control is achieved when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

All inter-company transactions, balances, income and expenses are eliminated in full on consolidation.

Financial instruments

All financial instruments are classified as one of the following: held-to-maturity, loans and receivables, available-for-sale or other financial liabilities. Financial assets and liabilities are classified fair value through profit or loss, are measured at fair value with gains and losses recognized in net income. Financial assets held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) and reported in shareholders' equity.

Transaction costs that are directly attributable to the acquisition or issue of financial instruments that are classified as other than fair value through profit or loss, which are expensed as incurred, are included in the initial carrying value of such instruments.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Oil and Gas Properties

Pre-exploration expenditures

Expenditures made by the Company before acquiring the legal right to explore in a specific area do not meet the definition of an asset and therefore are expensed by the Company as incurred.

Exploration and evaluation expenditures

Costs incurred once legal right to explore has been acquired are capitalized as exploration and evaluation assets. These assets include, but are not limited to, exploration license expenditures, leasehold property acquisition costs, evaluation costs, including drilling costs directly attributable to an identifiable well and directly attributable general and administrative costs. These coasts are accumulated in cost centers by property and are not subject to depletion until technical feasibility and commercial viability has been determined.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, exploration and evaluation assets are grouped together with developing and producing assets and are tested at an aggregated cash-generating unit (“CGU”) level.

The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proved and probable reserves are determined to exist. A review of each exploration license or field is carried out, at least annually, to ascertain whether proved and probable reserves have been discovered. Upon determination proved and probable reserves, exploration and evaluation assets attributable to these reserves are tested for impairment and reclassified from exploration and evaluation assets to petroleum and natural gas properties’\.

Development and production costs

Items of property and equipment, which include; petroleum and natural gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Development and production assets are grouped in CGU’s for impairment testing. A CGU’s recoverable amount is higher of its fair value less costs to sell and its value in use. Where the carrying amount to a CGU exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount.

Gains and losses on disposal of an item of property and equipment, including petroleum and natural gas properties, are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized net within the Statement of Comprehensive income.

Subsequent costs

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property and equipment are recognized as petroleum and natural gas properties 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 petroleum and natural gas properties generally represent costs incurred in developing proved and/or probable reserves and binging in or enhancing production from such reserves, and are accumulated on field or geotechnical area basis. The carrying amount of a replaced or sold component is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Asset retirement obligations

The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability. Changes in the liability for an asset retirement obligation due to the passage of time will be measured by applying an interest method of allocation. The amount will be recognized as an increase in the liability and an accretion expense in the statement of operations. Changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease to the carrying amount of the liability and the related long-lived asset.

As of October 31, 2011 and 2010, the Company does not have any asset retirement obligations.

Comprehensive income

Comprehensive income is the overall change in the net assets of the Company for a period, other than changes attributable to transactions with shareholders. It is made up of net income and other comprehensive income. Other comprehensive income includes gains or losses that Canadian generally accepted accounting principles requires to be recognized in the period but are excluded from net income for that period.

Stock-based compensation

The Company accounts for stock-based compensation using a fair value based method with respect to all stock-based payments to directors, employees and non-employees. For directors and employees, the fair value of the options is measured at the date of grant. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is completed or the date the performance commitment is reached or the date at which the equity instruments are granted if they are fully vested and non-forfeitable. The fair value of the options is accrued and charged to operations, with the offset credit to reserves. For directors and employees the options are recognized over the vesting period, and for non-employees the options are recognized over the related service period. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to capital stock.

Income taxes

The Company uses the asset and liability method for accounting for income taxes. Under this method of tax allocation, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax basis (temporary differences). Future income tax assets and liabilities are measured using the tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in operations in the period in which the change is enacted or substantially assured. The amount of future income tax assets recognized is limited to the amount of the benefit that is more likely than not to be realized.

Basic and diluted loss per share

Basic loss per share is calculated using the weighted average number of common shares outstanding during the year. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on loss per share is calculated presuming the exercise of outstanding options, warrants and similar instruments.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

It assumes that the proceeds of such exercise would be used to repurchase common shares at the average market price during the year. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

Shares held in escrow, other than where their release is subject to the passage of time, are not included in the calculation of the weighted average number of common shares outstanding.

Revenue recognition

Interest income is recognized as earned at the stated interest rate in the instrument.

New accounting pronouncements

Certain new accounting standards and interpretations have been published that are not mandatory for the October 31, 2011 reporting period. The following standards are assessed not to have any impact on the Company's financial statements:

- IFRS 9, Financial Instruments: effective for accounting periods commencing on or after January 1, 2013.

New accounting pronouncements

- Amendments to IFRS 7, *Financial Instruments: Disclosures* are effective for annual periods beginning on or after July 1, 2011 and introduce enhanced disclosure around transfer of financial assets and associated risks. These amendments are not anticipated to impact the disclosures made by the Company.

- Amendments to IAS 1, *Presentation of Financial Statements* (effective for annual periods beginning on or after July 1, 2012) require that elements of other comprehensive income that may subsequently be reclassified through profit and loss be differentiated from those items that will not be reclassified.

- IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements,* IFRS 12 *Disclosure of Interests in Other Entities*, and consequential revisions to IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (all effective January 1, 2013) provide revised guidance on the accounting treatment and associated disclosure requirements for joint arrangements and associates, and a revised definition of 'control' for identifying entities which are to be consolidated.

- IFRS 13 *Fair Value Measurement* (effective January 1, 2013) provides new guidance on fair value measurement and disclosure requirements.

- The Company is currently evaluating the impact of these new and amended standards on its financial statements.

3. OIL AND GAS PROPERTIES

In June, 2011 the Company's subsidiary, TOL, and EEDC entered into a farmout agreement, whereby TOL acquired an 87.5% working interest and a 65.1875% net revenue interest in certain leases and farmout lands located in Wharton County, Texas by funding all costs associated with and acting as operator on the re-entry, fracture stimulation and completion of an existing well.

Balance, January 31, 2011	$ -
Exploration	366,668
Incidental gas sales	(5,709)
Balance, October 31, 2011	$ 360,959

4. CAPITAL STOCK

On October 31, 2011, the Company had unlimited authorized common shares, without par value and 40,881,821 shares outstanding.

Share issues

On July 21, 2011, the Company completed a private placement of 10,000,000 Units at a purchase price of $0.09 per Unit for gross proceeds of $900,000. Each Unit consisted of one common share and one common share purchase warrant which entitles the holder to acquire one additional common share for a period of five years at an exercise price of $0.18 per share.

The Company allocated $466,770 of the subscription proceeds to share capital and $433,230 to contributed surplus representing the estimated value of the share purchase warrants. The valuation of the warrants was estimated using the Black-Scholes valuation model with a weighted expected volatility of 100%, risk free interest rate of 2.15%, expected life of 5 years and a dividend yield of 0%.

There were no warrants outstanding as at January 31, 2011.

Stock options

The Company has an incentive stock option plan which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with TSX-V requirements, grant to directors, officers, employees and technical consultants to the Company, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares. The number of commons share reserves for issuance pursuant to options granted to all technical consultants will not exceed 2% of the issued and outstanding common shares. The number of options granted to any one person cannot exceed 5% of the issued and outstanding common shares. Such options will be exercisable for a period of up to 10 years from the date of grant. Vesting terms will be determined at the time of grant by the Board of Directors.

Stock-based compensation

The Company uses the Black-Scholes option pricing model to determine the fair value of options granted. During the nine months ended October 31, 2011, the Company granted stock options to purchase 2,700,000 shares with a weighted average fair value ranging from $0.09 -$0.19 per option which is being recognized over the vesting period. The estimated fair value of the options was $181,784 and was recognized in the Consolidated Statement of Operations. The stock-based compensation was calculated using an expected volatility of 100%, risk-free rate of 2.23%, expected life 5 years and a nil dividend yield

4. CAPITAL STOCK (continued)

Escrow shares and warrants

Of the common shares issued, 22,143,693 are subject to an escrow agreement and may not be transferred without the consent of the Exchange. The escrow agreement provides, among other things, that a total of 3,690,605 common shares will be released from escrow on December 23, 2011 and every six months thereafter.

Of the 10,000,000 common shares underlying the outstanding warrants, 5,400,000 would be subject to an escrow agreement and could not be transferred without the consent of the Exchange and 3,600,000 are subject to a voluntary pooling agreement. The escrow and voluntary pooling agreements provide, among other things, that warrants to purchase a total of 1,500,000 common shares at $0.18 each will be released from trading restrictions on December 23, 2011 and every six months thereafter

Outstanding Stock Options and Warrants

Stock option transactions and the number of stock options outstanding are summarized as follows:

	Number	Weighted Average Exercise Price
Balance, February 1, 2011	-	$ -
Granted	2,700,000	0.14
Balance, October 31, 2011	2,700,000	$ 0.14
Options exercisable, October 31, 2011	2,025,000	$ 0.13

The following stock options were outstanding as at October 31, 2011:

Number of options	Number of options exercisable	Exercise Price	Expiry date
1,950,000	1,950,000	$ 0.12	June 21, 2016
250,000	25,000	0.19	July 15, 2016
250,000	25,000	0.21	September 6, 2016
250,000	25,000	0.19	October 18, 2016
2,700,000	2,025,000		

4. CAPITAL STOCK (continued)

Warrant transactions and the number of warrants outstanding are summarized as follows

	Number of Warrants	Weighted Average Exercise Price	Expiry Date
Balance, January 31, 2011	-	-	-
Granted	10,000,000	0.18	June 21, 2016
Balance, October 31, 2011	10,000,000	$ 0.18	

5. FINANCIAL INSTRUMENTS

The Company has classified its financial instruments as follows:

- Cash and restricted cash - as fair value through profit and loss; and
- Accounts payable and accrued liabilities - as other financial liabilities.

The Company's risk exposure and the impact on the Company's financial instruments are summarized below:

Fair value
The carrying values of cash, restricted cash, and accounts payable and accrued liabilities approximate their fair values because of the short-term maturity of these financial instruments.

Credit risk
Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations.

The Company's credit risk is primarily attributable to its cash and cash equivalents, and receivables. The Company manages exposure to credit risk on liquid financial assets through maintaining its cash with major Canadian financial institutions, for which management believes the risk of loss to be minimal.

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 the market prices. Market risk is comprised of three types of risk: interest rate risk, foreign currency risk and other price risk..

(i) Interest rate risk

The Company's cash and restricted cash consist of cash held in a bank account that earns interest at variable interest rates. Due to the short-term nature of these financial instruments, fluctuations in interest rates will not have a significant impact on the fair value or cash flows of the Company.

5. FINANCIAL INSTRUMENTS (Continued)

(ii) Foreign currency risk

The Company's principal asset is located in the United States. As at the date of this report, the majority of the Company's cash was held in Canadian dollars and was therefore subject to fluctuation against the United States dollar. Based on the balances as at the date of this report, if the U.S. dollar had weakened (strengthened) against the Canadian dollar, with all other variables held constant, by 1%, net loss would be approximately $1,000. There would be no effect on other comprehensive loss. The Company does not use derivatives or similar instruments to manage currency risk.

(iii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market prices, other than those arising from interest rate risk or foreign currency risk. The Company is not exposed to significant other price risk.

Liquidity risk
Liquidity risk is the risk that the Company will encounter difficulty in satisfying financial obligations as they become due. The Company manages liquidity risk through maintaining sufficient cash on hand to meet its obligations as they become due. As at October 31, 2011, the Company had cash of $2,953,592 and accounts payable and accrued liabilities of $182,806 due within three months of the period-end.

6. RELATED PARY TRANSACTIONS

During the period ended October 31, 2011, the Company paid or accrued consulting fees of $75,031 (2010 - $Nil); to a director of the Company

The transactions with related parties were in the normal course of operations and were measured at the exchange value, which represented the amount of consideration established and agreed to by the parties.

7. TRANSITION TO IFRS

As stated in Note 2, these are the Company's third condensed interim financial statements for the period covered by the first annual financial statements prepared in accordance with IFRS. There are no differences between Canadian GAAP and IFRS that are applicable to the measurement of the Company's assets and liabilities (i) at the transition date of February 1, 2010; (ii) at January 31, 2011; and (iii) at October 31, 2011. There is no impact on net loss and comprehensive loss for any period presented. Further, there has been no application of any of the exceptions available under IFRS 1 - First Time Adoption of IFRS.

The accounting policies set out in Note 2 have been applied in preparing the financial statements for the period ended October 31, 2011, the comparative information presented in these financial statements for the period ended October 31, 2010, and in the preparation of an opening IFRS balance sheet as February 1, 2010.

8. SUBSEQUENT EVENTS

Subsequent to this October 31, 2011

1) The Company issued: 9,000,000 common shares for gross proceeds of $2,250,000; 350,000 common shares on the exercise of share purchase warrants for gross proceeds of $63,000; and 100,000 incentive stock options exercisable at $0.53 each, expiring November 25, 2016

2) The Company entered into an agreement with Lightning Oil Company, of San Antonio Texas, under which the Company was granted the right to earn an 18.75% net revenue interest in certain oil, gas and mineral leases covering 3,395 net acres in the Dimmit and LaSalle Counties, Texas. The Company advanced US$536,416 for expenses incurred as required under the terms of the agreement.

3) The Company entered into an agreement with Whittier Energy Company of Houston, Texas to purchase all of Whittier's leasehold interest in approximately 14,400 gross acres (3875 net acres) in LaSalle and McMullen Counties, Texas. Whittier's interests to be acquired by the Company vary slightly across the acreage, averaging a 26.88% Working Interest and a 20.16% net revenue interest.

   The purchase price was US$ 1.0 million, which was paid subsequent to October 31, 2011. The operator of the project proposed an initial test well of the Olmos formation at an estimated net cost to the Company of US$ 1.2 million, of which US$ 1.06 million was also advanced to the operator subsequent to October 31, 2011 as required under the joint operating agreement.