



# **EUROGAS CORPORATION**

## **INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**AS AT AND FOR THE THREE MONTHS ENDED MARCH 31, 2011**

**EUROGAS CORPORATION**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**(unaudited)**

(expressed in thousands of Canadian dollars)

	Note	March 31, 2011	As at December 31, 2010	January 1, 2010
<b>ASSETS</b>				
<b>Current</b>				
Cash		\$ 2,068	\$ 1,524	\$ 77
Accounts receivable		3,836	4,202	626
Prepays		674	1,250	15
Inventory		1,258	902	-
Investments	7	814	775	76,430
Loan receivable	8	579	560	660
Taxes recoverable	18	30	30	91
		<u>9,259</u>	<u>9,243</u>	<u>77,899</u>
Property, plant and equipment	6, 9	152,151	155,450	79
Equity accounted investment in Escal	16	3,322	4,476	4,261
Deferred income taxes	18	2,290	1,535	305
		<u>\$ 167,022</u>	<u>\$ 170,704</u>	<u>\$ 82,544</u>
<b>LIABILITIES</b>				
<b>Current</b>				
Bank loan	10	\$ 60,333	\$ 62,371	\$ -
Accounts payable and accrued liabilities	12, 19	7,623	5,940	812
Decommissioning liability	6, 11	1,013	1,017	-
		<u>68,969</u>	<u>69,328</u>	<u>812</u>
Decommissioning liability	6, 11	30,445	30,943	-
		<u>99,414</u>	<u>100,271</u>	<u>812</u>
<b>SHAREHOLDERS' EQUITY</b>				
<b>Equity Attributable to Owners of the Parent</b>				
Share capital	13	97,746	97,746	97,746
Reserves	13	5,987	5,746	5,120
Deficit		(36,326)	(34,286)	(22,781)
Accumulated other comprehensive loss		(936)	(188)	-
		<u>66,471</u>	<u>69,018</u>	<u>80,085</u>
<b>Non-controlling interest</b>		<u>1,137</u>	<u>1,415</u>	<u>1,647</u>
		<u>67,608</u>	<u>70,433</u>	<u>81,732</u>
		<u>\$ 167,022</u>	<u>\$ 170,704</u>	<u>\$ 82,544</u>

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

**EUROGAS CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(unaudited)**

*(expressed in thousands of Canadian dollars except per share amounts)*

	Note	For the three months ended	
		March 31, 2011	March 31, 2010
<b>REVENUES</b>			
Oil and gas sales		\$ 9,569	\$ -
Royalties		(1,497)	-
Net sales		8,072	-
<b>EXPENSES</b>			
Production expenditures		2,898	-
Depreciation and depletion	9	3,459	5
General and administrative	14, 15, 19	1,918	490
Impairment		317	317
		8,592	812
<b>LOSS FROM OPERATIONS</b>			
		(520)	(812)
Interest and other income		385	416
Risk management loss	12	(1,391)	-
Interest expense		(1,084)	(1)
Foreign exchange loss		(56)	(95)
Share of earnings of equity accounted investment	16	5	6
Income tax recovery	18		
Current		-	-
Deferred		610	99
		610	99
<b>NET LOSS FOR THE PERIOD</b>		(2,051)	(387)
<b>NET LOSS ATTRIBUTABLE TO:</b>			
Owners of the parent		(2,040)	(322)
Non-controlling interest		(11)	(65)
		\$ (2,051)	\$ (387)
<b>BASIC AND DILUTED</b>			
<b>NET LOSS PER SHARE</b>	17	\$ (0.01)	\$ -

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

**EUROGAS CORPORATION**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**  
**(unaudited)**

*(expressed in thousands of Canadian dollars)*

	Note	For the three months ended	
		March 31, 2011	March 31, 2010
<b>NET LOSS FOR THE PERIOD</b>		\$ (2,051)	\$ (387)
Other comprehensive loss			
Share of other comprehensive loss of equity accounted investments	16	(1,160)	(119)
Less: Associated taxes		145	15
Other comprehensive loss for the period		(1,015)	(104)
<b>COMPREHENSIVE LOSS FOR THE PERIOD</b>		\$ (3,066)	\$ (491)
<b>COMPREHENSIVE LOSS ATTRIBUTABLE TO:</b>			
Owners of the parent		(2,788)	(399)
Non-controlling interest		(278)	(92)
		\$ (3,066)	\$ (491)

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

**EUROGAS CORPORATION**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**(unaudited)**

*(expressed in thousands of Canadian dollars)*

	Attributable to owners of the parent							Non-controlling Interest	Total
	Share Capital	Option Reserve	Deferred Share Unit Reserve	Deficit	Accumulated Other Comprehensive Loss				
Balance, January 1, 2010	\$ 97,746	\$ 4,719	\$ 401	\$ (22,781)	\$ -	\$ 1,647	\$	\$ 81,732	
<b>For the three months ended March 31, 2010</b>									
Net loss	-	-	-	(322)	-	(65)	-	(387)	
Stock based compensation	-	9	-	-	-	-	-	9	
Other comprehensive loss	-	-	-	-	(77)	(27)	-	(104)	
Balance, March 31, 2010	\$ 97,746	\$ 4,728	\$ 401	\$ (23,103)	\$ (77)	\$ 1,555	\$	\$ 81,250	
<b>From April 1, 2010 to December 31, 2010</b>									
Net loss	-	-	-	(11,183)	-	(100)	-	(11,283)	
Stock based compensation	-	617	-	-	-	-	-	617	
Other comprehensive loss	-	-	-	-	(111)	(40)	-	(151)	
Balance, December 31, 2010	\$ 97,746	\$ 5,345	\$ 401	\$ (34,286)	\$ (188)	\$ 1,415	\$	\$ 70,433	
<b>For the three months ended March 31, 2011</b>									
Net loss	-	-	-	(2,040)	-	(11)	-	(2,051)	
Stock based compensation	-	241	-	-	-	-	-	241	
Other comprehensive loss	-	-	-	-	(748)	(267)	-	(1,015)	
Balance, March 31, 2011	\$ 97,746	\$ 5,586	\$ 401	\$ (36,326)	\$ (936)	\$ 1,137	\$	\$ 67,608	

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**EUROGAS CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOW**  
**(unaudited)**

*(expressed in thousands of Canadian dollars)*

		For the three months ended	
		March 31, 2011	March 31, 2010
<b>OPERATING ACTIVITIES</b>			
Net loss for the period	\$	(2,051)	\$ (387)
Non-cash items in operations			
Share of earnings from equity accounted investment	16	(5)	(6)
Depreciation and depletion	9	3,459	5
Gains on investments		(39)	-
Impairment	7	317	317
Unrealized risk management losses	12	1,391	-
Deferred income taxes	18	(610)	(99)
Stock based compensation	13	241	9
Other		(78)	(261)
		2,625	(422)
Changes in:			
Accounts receivable		365	(106)
Accounts payable and accrued liabilities		292	(88)
Prepays		576	(7)
Inventory		(356)	-
		3,502	(623)
<b>FINANCING ACTIVITIES</b>			
Repayment under bank loan arrangements	10	(2,038)	-
		(2,038)	-
<b>INVESTING ACTIVITIES</b>			
Net proceeds from sales of investments		-	577
Investment in property, plant and equipment	9	(920)	(3)
		(920)	574
<b>INCREASE (DECREASE) IN CASH</b>		544	(49)
<b>CASH, BEGINNING OF PERIOD</b>		1,524	77
<b>CASH, END OF PERIOD</b>		\$ 2,068	\$ 28

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

# EUROGAS CORPORATION

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### (unaudited)

As at and for the three months ended March 31, 2011 and March 31, 2010 Tabular dollar amounts in thousands of Canadian dollars, except per share amounts
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#### 1. NATURE OF OPERATIONS

Eurogas Corporation (“Eurogas” or the “Corporation”) is an oil and natural gas company with a mandate to create long-term value through the exploration, development, production and marketing of oil and natural gas and other high impact energy projects. Eurogas is incorporated under the Canada Business Corporations Act. The Corporation’s head office is located at Dundee Place, 1 Adelaide Street East, Toronto, Ontario, Canada, M5C 2V9, and its registered office is located at Suite 250, 435 – 4<sup>th</sup> Avenue SW, Calgary, Alberta, Canada, T2P 3A8.

On February 2, 2011, Eurogas received approval for the listing of its common shares on the Toronto Stock Exchange (“TSX”) under the symbol “EUG” effective February 4, 2011. The Corporation’s common shares previously traded on the TSX Venture Exchange.

Eurogas’ operating interests include its 100% ownership interest in Dundee Energy Limited Partnership (“DELP”), a limited partnership involved in the exploration, development and production of oil and gas properties in southern Ontario, Canada, and a 73.7% interest in Castor UGS Limited Partnership (“CLP”), its principal asset being a 33% interest in Escal UGS S.L. (“Escal”), the owner of the Castor underground gas storage project located in Spain. The Corporation has also invested in preferred shares of Eurogas International Inc. (“Eurogas International” or “EII”), an oil and gas exploration company that holds a 45% working interest in the one million acre Sfax permit offshore Tunisia (the “Sfax Permit”).

#### 2. BASIS OF PREPARATION AND ADOPTION OF IFRS

In 2010, the Handbook of the Canadian Institute of Chartered Accountants (“CICA Handbook”) was revised to incorporate International Financial Reporting Standards (“IFRS”), and required publicly accountable enterprises to apply such standards for financial years beginning on or after January 1, 2011.

These interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including International Accounting Standard 34, “*Interim Financial Reporting*” (“IAS 34”) and IFRS 1, “*First-time Adoption of IFRS*” (“IFRS 1”). Subject to certain transition elections described in note 5, the Corporation has consistently applied the same accounting policies used to prepare its opening IFRS consolidated statement of financial position as at January 1, 2010 (the “Transition Date”) throughout all periods presented in these interim consolidated financial statements, as if these policies had always been in effect. Note 5 discloses the impact of the transition to IFRS on the Corporation’s reported consolidated financial position and its consolidated financial performance and cash flows, including a discussion of 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 accounting policies applied in these interim consolidated financial statements are based on IFRS as issued by the International Accounting Standards Board (“IASB”) and the IFRS Interpretations Committee, all issued and effective as at April 26, 2011, the date the Board of Directors authorized the issuance of these interim consolidated financial statements. Any subsequent changes to IFRS that are given effect in the Corporation’s annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these interim consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

These interim consolidated financial statements do not include all of the information required for full annual consolidated financial statements. Therefore, these interim consolidated financial statements should be read in conjunction with the Corporation's annual consolidated financial statements prepared in accordance with Canadian generally accepted accounting principles (Canadian "GAAP") for the year ended December 31, 2010.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted by the Corporation on transition to IFRS are set out below and, subject to certain transition elections as disclosed in note 5, the Corporation has consistently applied these accounting policies throughout all periods presented in these interim consolidated financial statements, as if these policies had always been in effect.

#### **Principles of Consolidation**

These interim consolidated financial statements include the accounts of the Corporation and its subsidiaries. All intercompany transactions have been eliminated in these interim consolidated financial statements.

Subsidiaries are those entities which Eurogas controls by having the power to govern the financial and operating policies of the entity. The existence and effect of potential voting rights that are currently exercisable are considered when assessing whether Eurogas controls another entity. Subsidiaries are fully consolidated from the date on which control is obtained by Eurogas and are subsequently deconsolidated from the consolidated financial statements on the date that control ceases.

#### **Non-controlling Interests**

Non-controlling interests represent equity interests in subsidiaries owned by outside parties. The share of net assets, net earnings and other comprehensive income ("OCI") of subsidiaries attributable to non-controlling interests is presented as a component of equity. Changes in the Corporation's interest in subsidiaries that do not result in a loss of control are accounted for as equity transactions.

#### **Equity Accounted Investments**

Equity accounted investments are investments over which the Corporation has significant influence, but not control. The financial results of the Corporation's equity accounted investments are included in the Corporation's consolidated financial statements using the equity method whereby the Corporation recognizes its proportionate share of earnings or losses and of OCI of the equity accounted investment in its own earnings or OCI, as applicable. Dilution gains and losses arising from changes in the Corporation's interest in equity accounted investments are recognized in earnings. The Corporation assesses at least annually whether there is objective evidence that its interests in equity accounted investments are impaired. If impaired, the carrying value of the Corporation's share of the underlying assets of equity accounted investments is written down to its estimated recoverable amount, with any difference charged to the statement of operations. At March 31, 2011 and at each of December 31, 2010 and January 1, 2010, the Corporation accounted for its investment in Escal as an equity accounted investment.

#### **Foreign Currency Translation**

##### *Functional and Presentation Currency*

These interim consolidated financial statements are presented in Canadian dollars, which is the Corporation's functional currency.

##### *Functional Currency of Subsidiaries and Equity Accounted Investments*

The financial statements of consolidated subsidiaries and equity accounted investments that have a functional currency that is different from that of the Corporation are translated into Canadian dollars using average rates for the period for items included in the consolidated statement of operations and OCI and the rates in effect at the dates of the consolidated statement of financial position for assets and liabilities. All resulting changes are recognized in OCI as cumulative translation adjustments. At March 31, 2011, the functional currency of the Corporation's equity accounted investment is the Euro.

When the Corporation disposes of its entire interest in foreign operations, or when it loses control or significant influence, the cumulative translation adjustment included in OCI related to the foreign operations are recognized in the statement of operations. If the Corporation's interest in foreign operations of a subsidiary is diluted, but the foreign operations remain a subsidiary, a pro rata portion of cumulative translation adjustments related to those foreign operations are reallocated between controlling and non-controlling interests.

#### *Transactions*

Foreign currency denominated transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Generally, foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation of period-end exchange rates of monetary assets and liabilities denominated in currencies other than the Corporation's functional currency, are recognized in the statement of operations.

#### **Inventories**

Inventories of oil and natural gas liquids are valued at the lower of cost and their net realizable value.

#### **Financial Instruments**

The Corporation's financial instruments include cash, accounts receivable, investments (including the Corporation's investment in preferred shares of Eurogas International), loan receivable, bank loan and accounts payable and accrued liabilities. The Corporation's financial instruments are classified as (i) financial assets and liabilities at fair value through profit or loss; (ii) loans and receivables; and (iii) financial liabilities at amortized cost. The Corporation does not classify its risk management contracts as derivative financial instruments as they are not designated as hedges. Classification of financial instruments depends on the purpose for which the financial instruments were acquired or incurred. Management determines the classification of financial instruments at initial recognition.

#### *Financial Assets and Liabilities at Fair Value through Profit and Loss*

A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing these financial instruments in the short-term. The Corporation's investments have been classified in this category. The Corporation's risk management contracts are also included in this category.

These financial instruments are measured at fair value with the exception of equity investments that do not have quoted market values in active markets. Non-quoted equity investments are carried at cost unless there is indication of impairment. The fair value of a financial instrument represents the Corporation's estimate of the price at which the instrument could be exchanged between knowledgeable and willing parties in an orderly arm's length transaction. Fair value is generally determined based on market value or, where market prices are not readily available, on quoted market prices for similar securities or other third party evidence.

Gains and losses arising from changes in fair value are generally presented in the statement of operations as "*interest and other income*" and on the statement of cash flow as "*gains on investments*", except for changes in the fair value of risk management contracts which is separately disclosed in the Corporation's interim consolidated financial statements.

#### *Risk Management Contracts*

The Corporation manages its exposure to changes in commodity prices and associated earnings volatility by periodically entering into derivative risk management contracts in accordance with its risk management policy. Risk management contracts are carried at fair value and are generally reported as accounts receivable in circumstances when they have a positive fair value and accounts payable and accrued liabilities when they have a negative fair value. Both realized and unrealized gains and losses from changes in fair value are recorded in the statement of operations. The estimated fair values of risk management contracts are based on valuation models that include discounted cash flows derived from expected future commodity prices as quoted on major commodity exchanges.

### *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 include cash, accounts receivable, the Corporation's preferred share investment in Eurogas International which has been included with other investments in the consolidated statement of financial position, and a loan receivable. Loans and receivables are initially recognized at the amount expected to be received, less when material, a discount to reduce the loans and receivables to fair value. Loans and receivables that have been discounted are subsequently measured at amortized cost using the effective interest rate method, less a provision for impairment.

### *Financial Liabilities at Amortized Cost*

Financial liabilities at amortized cost include accounts payable and accrued liabilities and outstanding bank loan amounts. These amounts are initially measured at the amount required to be paid, less, when material, a discount to reduce the liabilities to fair value. Subsequently, these financial liabilities are measured at amortized cost using the effective interest rate method.

### *Impairment of Financial Assets*

At each reporting date, the Corporation assesses whether there is objective evidence that financial assets carried at amortized cost are impaired. If such evidence exists, the Corporation recognizes an impairment loss equal to the difference between the carrying value of the financial assets and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. An impairment loss on financial assets carried at amortized costs is reversed in subsequent periods if the amount of the loss decreased and the decrease can be related objectively to an event occurring after the impairment was recognized.

## **Property, Plant and Equipment**

### *Oil and Gas Rights – Development and Production Costs, Southern Ontario*

The Corporation capitalizes all costs associated with its development and production expenditures in southern Ontario, including costs associated with its decommissioning liability. Capitalized costs include the acquisition of leases and oil and gas rights, geological and geophysical expenditures, equipment costs and that portion of general and administrative expenses directly attributable to these activities. Expenditures that improve the productive capacity or extend the life of a property are capitalized to the pool. Maintenance and repairs are generally expensed as incurred.

Capitalized costs associated with properties with proved reserves, adjusted for estimated future costs to be incurred in developing such proved reserves, are depleted over estimated proved reserves using the unit of production method. For purposes of these calculations, production and reserves of natural gas are converted to barrels on an energy equivalent basis at a ratio of 6,000 cubic feet ("Mcf") of natural gas to one barrel ("bbl") of oil. Depletion rates are updated annually unless there is a material change in circumstances, in which case they are updated more frequently. Acquisition costs of probable reserves are not depleted or depreciated while under active evaluation for commercial reserves. Costs are transferred to depletable costs as proved reserves are recognized.

Tangible assets used in the exploration, development and production of oil and gas properties are depreciated over the estimated economic life of the asset. Tangible assets also include the Corporation's inventory of supplies and spare parts, which are carried at the lower of their cost and net realizable value.

Asset Category	Depreciation Method	Depreciation Rate
Pipeline infrastructure	Unit of production	n/a
Machinery and equipment	Straight line	3% to 12%
Land and buildings	Straight line	2% to 5%
Office equipment, computer hardware and software	Declining balance	10% to 35%

#### *Impairment of Property, Plant and Equipment*

The Corporation evaluates the carrying value of its property, plant and equipment when events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount of an asset is the greater of an asset's fair value less costs to sell and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows ("cash generating units" or "CGUs"). If their carrying value is assessed not to be recoverable, an impairment loss is recognized. The Corporation evaluates impairment losses for potential reversals when events or circumstances warrant such consideration.

#### **Decommissioning Liability**

The Corporation recognizes the estimated liability associated with future abandonment and reclamation costs related to its oil and gas rights and its deferred exploration and evaluation properties in its consolidated financial statements. Costs are estimated in consultation with third parties and are based on current costs and technology. Both constructive and legal obligations must be assessed in determining the amount of the Corporation's decommissioning liability.

Decommissioning liabilities are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The effect of any changes to a decommissioning liability as a result of changes in market interest rates is added to or deducted from the cost of the related assets. The increase in the decommissioning liability due to the passage of time is recognized as interest expense.

#### **Revenue Recognition**

Revenue associated with the Corporation's production and sale of crude oil, natural gas, and natural gas liquids is recognized when title is transferred to the customer and delivery has taken place. A portion of the Corporation's production and sales activities are conducted jointly with others, and accordingly, these consolidated financial statements reflect only the proportionate interest of the Corporation in such activities.

Revenue from oil and gas sales is presented before royalty payments to third parties, including the government and other mineral interest owners. Royalties on production are recorded using rates in effect under the terms of contracts with such third parties at the time of production.

#### **Stock Based Compensation**

The Corporation may issue stock based compensation awards to directors, employees and consultants. These arrangements may include stock options and other stock based awards such as deferred share units ("DSUs").

The Corporation uses a fair value based method to account for stock based compensation. The fair value of stock based compensation, as at the date of grant, is measured using an option-pricing model and is recognized over the applicable vesting period as compensation expense, based on the number of stock based awards expected to vest, generally with a corresponding increase in reserves included in shareholders' equity. When stock options or other stock based compensation arrangements are exercised, the proceeds received, together with any amount in reserves are included in share capital. The number of options expected to vest is reviewed at least annually, with any impact being recognized immediately.

### **Income Taxes**

The Corporation follows the balance sheet method to provide for income taxes on all transactions recorded in its consolidated financial statements. The balance sheet method requires that income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their tax bases. Deferred income tax assets and liabilities are determined for each temporary difference and for unused losses, as applicable, at rates expected to be in effect when the asset is realized or the liability is settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the substantive enactment date. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered.

### **Per Share Information**

Basic earnings (loss) per common share is computed by dividing the net earnings (loss) attributable to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per common share, where applicable, is calculated to reflect the dilutive effect of exercising outstanding share based awards by applying the treasury stock method.

### **Accounting Standards, Interpretations and Amendments to Existing Standards not yet Effective**

#### *IFRS 9, "Financial Instruments"*

The IASB intends to replace IAS 39, "Financial Instruments: Recognition and Measurements", with IFRS 9, "Financial Instruments". IFRS 9 will be published in three phases. The first phase, which has already been published, addresses the accounting for financial assets and financial liabilities. The second phase will address impairment of financial instruments, while the third phase will address hedge accounting.

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, and replaces the multiple rules in IAS 39. The approach in IFRS 9 focuses on how an entity manages its financial instruments in the context of its business model, as well as the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods currently provided in IAS 39.

Although the classification criteria for financial liabilities will not change under IFRS 9, the fair value option may require different accounting for changes to the fair value of a financial liability resulting from changes to an entity's own credit risk. IFRS 9 is effective for annual periods beginning on or after January 1, 2013, with varying transitional arrangements dependent on the date of initial application. The Corporation is currently evaluating the impact that the application of this new standard may have on the presentation of its financial position and results of operations.

#### *IAS 32, "Financial Instruments: Presentation – Amendment Regarding Classification of Rights Issues"*

This amendment addresses the accounting for rights issues including rights, options and warrants that are denominated in a currency other than the functional currency of the issuer. In particular, rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency other than the entity's functional currency, would be equity instruments, provided that the entity offers the rights pro rata to all of its existing owners of the same class in its own non-derivative equity instrument. This amendment is effective for annual periods beginning on or after February 1, 2011. The Corporation does not currently have any rights, options or warrants issued that would be subject to this amendment and therefore, no impact is expected.

#### 4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of these interim consolidated financial statements in accordance with IFRS requires the Corporation to make assumptions, estimates and judgements that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities. The Corporation evaluates its estimates on an ongoing basis. Such estimates are based on historical experience and on various other assumptions that the Corporation believes are reasonable under the circumstances, and these estimates form the basis for making judgements about the carrying value of assets and liabilities and the reported amount of revenues and expenses that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Information about significant areas of estimation uncertainty considered by management in preparing the interim consolidated financial statements is as follows:

##### **Oil and Natural Gas Reserves**

The Corporation's oil, natural gas and natural gas liquids reserves are estimated by management and are evaluated and reported on by independent petroleum engineering consultants in accordance with Canadian Securities Administrators' National Instrument 51-101. The process of estimating reserves requires significant judgement in evaluating and assessing available geological, geophysical, engineering, and economic data, projected rates of production, estimated commodity price forecasts and the timing of future expenditures, all of which are, by their very nature, subject to interpretation and uncertainty. The evaluation of recoverable reserves is an ongoing process impacted by current production, continuing development activities and changing economic conditions. The aggregate of capitalized costs, net of certain costs related to unproved properties, and estimated future development costs are depleted using the unit of production method based on estimated proved reserves. Should the estimate relating to the volume of reserves be materially different than amounts subsequently determined, it could have a material impact on the Corporation's recorded amount of depletion and depreciation, and in the determination of impairment.

##### **Impairment**

Assets, excluding financial assets carried at fair value, are reviewed for impairment whenever events or changes in circumstances indicate that carrying amounts exceed recoverable amounts. Assessing recoverable amounts often requires estimates and assumptions such as discount rates, exchange rates, future production and recoveries, commodity prices, future capital requirements and future operating performance. Furthermore, impairment of exploration and evaluation properties is based on an assessment of certain factors including, but not limited to, the interpretation of geological, geophysical and seismic data, contractual issues with third-parties, the impact of government legislation, and the impact of current and expected future commodity prices.

Activities in Spain through the Corporation's equity accounted investment in Escal are in the pre-development phase. All pre-development costs relating to the Castor Exploration Permit in Spain are capitalized by Escal. The recovery of these costs is dependent upon the economic viability of the underground natural gas storage project and the remuneration program in place by the Spanish authorities.

##### **Decommissioning Liability**

The Corporation is required to provide for future abandonment and site restoration costs. The Corporation must estimate these costs in accordance with existing laws, contracts and other policies. The estimate of future removal and site restoration costs involves a number of estimates relating to timing of abandonment, costs associated with the abandonment and site restoration, and review of potential abandonment methods. Due to uncertainties concerning environmental remediation, the ultimate cost of future site reclamation could differ from amounts provided. The estimate of the total liability for future site reclamation costs is subject to change due to amendments to applicable laws and regulations and as new information concerning the Corporation's operations becomes available. The Corporation is not able to determine the impact on its financial position, if any, of environmental laws and regulations that may be enacted in the future due to the uncertainty surrounding the form and substance that these laws and regulations may take.

### **Income Tax**

The determination of the Corporation's income and other tax liabilities requires interpretation of complex laws and regulations, which can involve multiple Canadian and international jurisdictions. All tax filings are subject to audit and potential reassessment after a lapse of considerable time. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered. Deferred income tax assets and liabilities are booked using substantively enacted future income tax rates, which include rate reductions over several years. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded.

### **Fair Value of Financial Instruments**

Financial instruments are recorded on the consolidated balance sheet at values that are representative of or approximate fair value. Management uses judgement in its assessment of fair values and imprecision in determining fair value may affect the amount of net earnings recorded for a particular investment in a particular period. The Corporation believes that its estimates of fair value are reasonable and appropriate. The Corporation reviews assumptions relating to financial instruments on an ongoing basis to ensure that they continue to be appropriate.

## **5. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS**

The accounting policies set out in note 3 have been applied in preparing the interim consolidated financial statements for the three month period ended March 31, 2011, the comparative information presented in these interim consolidated financial statements for the three month period ended March 31, 2010, as of December 31, 2010 and March 31, 2010 and in the preparation of the opening IFRS consolidated statement of financial position as at the Transition Date. In preparing its opening IFRS consolidated statement of financial position, the Corporation has adjusted amounts previously reported in its financial statements prepared in accordance with Canadian GAAP. The effect of the Corporation's transition from Canadian GAAP to IFRS is set out in the following reconciliations and the footnotes that accompany such reconciliation.

### **IFRS 1: First-time Adoption of IFRS**

IFRS 1 provides the framework for the first-time adoption of IFRS and specifies that, in general, an entity shall apply the principles under IFRS retrospectively. IFRS 1 also specifies that the adjustments that arise on retrospective conversion to IFRS from Canadian GAAP should be directly recognized in retained earnings. Certain optional exemptions and mandatory exceptions to retrospective application are provided for under IFRS 1.

#### *Transition Elections upon Adoption*

The Corporation has applied the following transitional exemption to full retrospective application of IFRS:

- *Cumulative Translation Differences* – IFRS 1 permits cumulative translation gains and losses to be reset to zero at the Transition Date. The Corporation elected this exemption. This will result in the exclusion of translation differences that arose prior to the Transition Date from gains and losses on subsequent disposal of foreign operations.

#### *Mandatory Exceptions upon Adoption*

IFRS 1 also outlines specific guidelines that a first-time adopter must adhere to under certain circumstances. The Corporation has applied the following guidelines in the preparation of its opening consolidated statement of financial position as at the Transition Date:

- In accordance with IFRS 1, an entity's estimates under IFRS as at the Transition Date must be consistent with estimates made for the same date under previous GAAP, unless there is objective evidence that those estimates were in error. The Corporation's estimates as at the Transition Date are consistent with estimates made under Canadian GAAP as at the same date.

**Reconciliation of Equity as at December 31, 2010, March 31, 2010 and January 1, 2010 as previously reported under Canadian GAAP to IFRS**

As at	Ref:	December 31, 2010						March 31, 2010						January 1, 2010			
		Transition Date Adjustments			2010 IFRS Adjustments			Transition Date Adjustments			2010 IFRS Adjustments			Transition Date Adjustments			IFRS
		Canadian GAAP	Deconsolidation EII (i)	Other	Deconsolidation EII (i)	Other	IFRS	Canadian GAAP	Deconsolidation EII (i)	Other	Deconsolidation EII (i)	Other	IFRS	Canadian GAAP	Deconsolidation EII (i)	Other	
<b>ASSETS</b>																	
<b>Current</b>																	
Cash		\$ 2,578	\$ (186)	\$ -	\$ (868)	\$ -	\$ 1,524	\$ 129	\$ (186)	\$ -	\$ 85	\$ -	\$ 28	\$ 263	\$ (186)	\$ -	\$ 77
Accounts receivable		5,741	94	-	(1,633)	-	4,202	737	94	-	(99)	-	732	532	94	-	626
Prepays		1,295	(78)	-	33	-	1,250	124	(78)	-	(24)	-	22	93	(78)	-	15
Inventory		902	-	-	-	-	902	-	-	-	-	-	-	-	-	-	-
Investments		836						71,885						74,459			
			(4,005)		3,944				(4,005)		1,997				(4,005)		
	(ii, iii)		32,150	(26,174)		(5,976)			32,150	(26,174)				32,150	(26,174)		
	(ii, iii)		1,809	(1,809)			775		1,809	(1,809)		75,853		1,809	(1,809)		76,430
Loan receivable		560	-	-	-	-	560	604	-	-	-	-	604	660	-	-	660
Taxes recoverable		30	-	-	-	-	30	91	-	-	-	-	91	91	-	-	91
		11,942	29,784	(27,983)	1,476	(5,976)	9,243	73,570	29,784	(27,983)	1,959	-	77,330	76,098	29,784	(27,983)	77,899
Property, plant and equipment		144,445						77						79			
	(v)					(3,602)											
	(vi)					14,657											
	(viii)					(50)	155,450					77					79
Exploration and evaluation properties		21,470	(21,176)	-	(294)	-	-	22,401	(21,176)	-	(1,225)	-	-	21,176	(21,176)	-	-
Equity accounted investment in Escal		4,476	-	-	-	-	4,476	4,148	-	-	-	-	4,148	4,261	-	-	4,261
Deferred income taxes		615	-	-	-	920	1,535	419	-	-	-	-	419	305	-	-	305
		\$ 182,948	\$ 8,608	\$ (27,983)	\$ 1,182	\$ 5,949	\$ 170,704	\$ 100,615	\$ 8,608	\$ (27,983)	\$ 734	\$ -	\$ 81,974	\$ 101,919	\$ 8,608	\$ (27,983)	\$ 82,544
<b>LIABILITIES</b>																	
<b>Current</b>																	
Bank loan		\$ 62,371	\$ -	\$ -	\$ -	\$ -	\$ 62,371	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts payable and accrued liabilities		6,162	(555)	-	333	-	5,940	1,163	(555)	-	116	-	724	1,367	(555)	-	812
Decommissioning liability	(vii)	2,728	(1,603)	-	(92)	(16)	1,017	-	-	-	-	-	-	-	-	-	-
		71,261	(2,158)	-	241	(16)	69,328	1,163	(555)	-	116	-	724	1,367	(555)	-	812
Decommissioning liability	(vi, vii)	16,301	-	-	-	14,642	30,943	1,626	(1,603)	-	(23)	-	-	1,603	(1,603)	-	-
		87,562	(2,158)	-	241	14,626	100,271	2,789	(2,158)	-	93	-	724	2,970	(2,158)	-	812
<b>SHAREHOLDERS' EQUITY</b>																	
<b>Equity Attributable to Owners of the Parent</b>																	
Share capital		97,746	-	-	-	-	97,746	97,746	-	-	-	-	97,746	97,746	-	-	97,746
Reserves		5,746	-	-	-	-	5,746	5,129	-	-	-	-	5,129	5,120	-	-	5,120
Deficit		(9,612)	10,775		947			(6,801)	10,775		642		(5,837)	10,775			
	(iv)			264						264					264		
	(ii, iii)			(26,174)		(5,976)				(26,174)					(26,174)		
	(ii, iii)			(1,809)						(1,809)					(1,809)		
	(v)					(3,602)											
	(viii)					(50)											
	(vii)					31						(23,103)					(22,781)
	(ix)					920	(34,286)										
Accumulated other comprehensive income	(iv)	76	-	(264)	-	-	(188)	187	-	(264)	-	-	(77)	264	-	(264)	-
		93,956	10,775	(27,983)	947	(8,677)	69,018	96,261	10,775	(27,983)	642	-	79,695	97,293	10,775	(27,983)	80,085
Non-controlling interest		1,430	(9)	-	(6)	-	1,415	1,565	(9)	-	(1)	-	1,555	1,656	(9)	-	1,647
		95,386	10,766	(27,983)	941	(8,677)	70,433	97,826	10,766	(27,983)	641	-	81,250	98,949	10,766	(27,983)	81,732
		\$ 182,948	\$ 8,608	\$ (27,983)	\$ 1,182	\$ 5,949	\$ 170,704	\$ 100,615	\$ 8,608	\$ (27,983)	\$ 734	\$ -	\$ 81,974	\$ 101,919	\$ 8,608	\$ (27,983)	\$ 82,544

For illustrative purposes, amounts previously reported as “short term investments” in the Corporation’s interim consolidated financial statements prepared in accordance with Canadian GAAP have been reclassified to “investments” to conform to the presentation adopted at December 31, 2010. Additionally, amounts previously referred to as “asset retirement obligation” and “future income tax assets” have been renamed “decommissioning liability” and “deferred income taxes” to correspond to nomenclature appropriate under IFRS. Amounts included in contributed surplus under Canadian GAAP refer to provisions for stock based awards and have been renamed as “reserves” in accordance with IFRS based disclosure. Amounts attributed to non-controlling interests in the net assets of the Corporation have been included in equity. Under Canadian GAAP, these amounts were included as liabilities.

**Reconciliation of the Statement of Operations for the year ended December 31, 2010 and for the three months ended March 31, 2010 as previously reported under Canadian GAAP to IFRS**

	(i)	Year ended December 31, 2010						Three months ended March 31, 2010					
		Canadian GAAP	Transition Date Adjustments		2010 IFRS Adjustments		IFRS	Canadian GAAP	Transition Date Adjustments		2010 IFRS Adjustments		IFRS
			Deconsolidation	Other	Deconsolidation				Deconsolidation	Other			
					EII (i)	Other					EII (i)	Other	
<b>REVENUE</b>													
Oil and gas sales		\$ 19,520	\$ -	\$ -	\$ -	\$ -	\$ 19,520	\$ -	\$ -	\$ -	\$ -	\$ -	
Royalties		(3,040)	-	-	-	-	(3,040)	-	-	-	-	-	
Net sales		16,480	-	-	-	-	16,480	-	-	-	-	-	
<b>EXPENSES</b>													
Production expenditures		5,719	-	-	-	-	5,719	-	-	-	-	-	
Depreciation and depletion		7,310	-	-	(92)	(532)	28	-	-	(23)	-	-	
	(vii)					50						5	
	(viii)					6,736							
General and administrative		5,488	-	-	(789)	3,117	1,103	-	-	(613)	-	490	
Impairment	(iii)					1,286					317		
	(iii)					5,976						317	
		18,517	-	-	(881)	9,897	1,131	-	-	(636)	317	812	
<b>LOSS FROM OPERATIONS</b>		(2,037)	-	-	881	(9,897)	(1,131)	-	-	636	(317)	(812)	
Interest and other income	(iii)	352	-	-	(7)	1,286	102	-	-	(3)	317	416	
Risk management loss		(455)	-	-	-	-	(455)	-	-	-	-	-	
Interest expense		(2,160)	-	-	4	(501)	(2)	-	-	1	-	(1)	
	(vii)					(2,657)						(95)	
Foreign exchange loss		(414)	-	-	69	(345)	(103)	-	-	8	-	(95)	
Share of earnings of equity accounted investment		4	-	-	-	-	6	-	-	-	-	6	
Income tax recovery													
Current		11	-	-	-	-	-	-	-	-	-	-	
Deferred		759	-	-	-	(485)	99	-	-	-	-	99	
	(v)					920						-	
	(ix)					1,194						-	
		770	-	-	-	435	99	-	-	-	-	99	
<b>NET LOSS FOR THE PERIOD</b>		\$ (3,940)	\$ -	\$ -	\$ 947	\$ (8,677)	\$ (1,029)	\$ -	\$ -	\$ 642	\$ -	\$ (387)	
<b>NET LOSS ATTRIBUTABLE TO:</b>													
Owners of the parent		\$ (3,775)	\$ -	\$ -	\$ 947	\$ (8,677)	\$ (964)	\$ -	\$ -	\$ 642	\$ -	\$ (322)	
Non-controlling interest		(165)	-	-	-	(165)	(65)	-	-	-	-	(65)	
		\$ (3,940)	\$ -	\$ -	\$ 947	\$ (8,677)	\$ (1,029)	\$ -	\$ -	\$ 642	\$ -	\$ (387)	
<b>NET LOSS PER SHARE</b>													
Basic and diluted		\$ (0.02)				\$ (0.07)	\$ (0.01)					\$ -	

**Reconciliation of the Statement of Comprehensive Loss for the year ended December 31, 2010 and for the three months ended March 31, 2010 as previously reported under Canadian GAAP to IFRS**

	(i)	Year ended December 31, 2010						Three months ended March 31, 2010					
		Canadian GAAP	Transition Date Adjustments		2010 IFRS Adjustments		IFRS	Canadian GAAP	Transition Date Adjustments		2010 IFRS Adjustments		IFRS
			Deconsolidation	Other	Deconsolidation				Deconsolidation	Other			
					EII (i)	Other					EII (i)	Other	
<b>NET LOSS FOR THE PERIOD</b>		\$ (3,940)	\$ -	\$ -	\$ 947	\$ (8,677)	\$ (1,029)	\$ -	\$ -	\$ 642	\$ -	\$ (387)	
Other comprehensive loss													
Net foreign currency loss on equity accounted investment		(292)	-	-	-	-	(119)	-	-	-	-	(119)	
Less: Associated taxes		37	-	-	-	-	15	-	-	-	-	15	
Other comprehensive loss for the period		(255)	-	-	-	-	(104)	-	-	-	-	(104)	
<b>COMPREHENSIVE LOSS FOR THE PERIOD</b>		(4,195)	-	-	947	(8,677)	(1,133)	-	-	642	-	(491)	
<b>COMPREHENSIVE LOSS ATTRIBUTABLE TO:</b>													
Owners of the parent		(3,963)	-	-	947	(8,677)	(1,041)	-	-	642	-	(399)	
Non-controlling interest		(232)	-	-	-	(232)	(92)	-	-	-	-	(92)	
		\$ (4,195)	\$ -	\$ -	\$ 947	\$ (8,677)	\$ (1,133)	\$ -	\$ -	\$ 642	\$ -	\$ (491)	



## References to the IFRS Conversion Adjustments

### *IAS 27: Consolidated and Separate Financial Statements*

Canadian GAAP requires that an entity assess whether it should consolidate another entity using two different frameworks: the variable interest entity model and the voting control model. Under IFRS, the appropriateness of consolidating an entity is based on control, which is defined as the power to govern the financial and operating policies of an entity to obtain benefit. Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than one half of an entity's voting power, but also exists when the parent owns half or less of the voting power but has legal or contractual rights to control, or where it has de facto control.

- (i) Under Canadian GAAP, Eurogas International met the definition of a variable interest entity in which the Corporation was the primary beneficiary because of the nature of its preferred share holdings. Accordingly, under Canadian GAAP, the Corporation consolidated Eurogas International for financial reporting purposes. On transition to IFRS, the Corporation completed an assessment of whether its preferred share holding gives the Corporation the power to govern the financial and reporting policies of Eurogas International and it concluded that such control did not exist. Consequently, on the Transition Date, the Corporation retrospectively deconsolidated the accounts of Eurogas International.

### *IAS 39: Financial Instruments: Recognition and Measurement*

The Corporation recognizes its investment in preferred shares of Eurogas International as a financial asset under IFRS. The carrying value of the preferred shares in Eurogas International and the associated accrued dividends were eliminated as intercompany balances under Canadian GAAP. The Corporation has determined that the terms of the preferred shares result in their classification as a loan receivable. The preferred shares will therefore be included in the Corporation's consolidated financial statements at amortized cost, and will be subject to impairment testing in accordance with the provisions of IAS 39.

- (ii) IAS 39 requires an assessment of impairment, generally determined by comparing the carrying amount of the loan receivable against the discounted value of estimated future cash flows. The Corporation has determined that at January 1, 2010, the Corporation's preferred share investment in Eurogas International and the related dividend receivable are impaired and accordingly, the Corporation has recorded an impairment of \$26,174,000 against the face value of the preferred shares in Eurogas International and \$1,809,000 against the associated cumulative dividends receivable.
- (iii) During the year ended December 31, 2010 and following the declaration of Force Majeure by Eurogas International in early January 2011, the Corporation further provided \$5,976,000 against the face value of the preferred shares in Eurogas International (three months ended March 31, 2010 - \$nil) and \$1,286,000 (three months ended March 31, 2010 - \$317,000) against the associated cumulative dividends receivable.

### *IFRS 1: First-time Adoption of IFRS*

The Corporation elected to reset its cumulative translation adjustment relating to its equity accounted investment in Escal to zero at the Transition Date.

- (iv) The Corporation has accordingly recorded the cumulative translation gain of \$264,000 in its consolidated deficit account in its consolidated statement of financial position as at the Transition Date.

### *IFRS 3: Business Combinations*

Under Canadian GAAP, the acquisition of the assets in southern Ontario completed in June 2010 was accounted for as an asset acquisition with the aggregate purchase price paid, including related transaction costs, allocated to the net assets acquired based on an estimate of their underlying fair values.

The Corporation has concluded that the nature of the assets acquired in southern Ontario meets the definition of a business pursuant to IFRS 3 and, as such, the transaction is accounted for as a business combination under IFRS rather than as an asset acquisition as was appropriate under Canadian GAAP.

- (v) Under Canadian GAAP, transaction costs of \$3,602,000 associated with the acquisition of the assets in southern Ontario were included in the aggregate purchase price and allocated to the various assets acquired. Under IFRS, these amounts were expensed in the periods in which they were incurred.

### *IAS 37: Provisions, Contingent Liabilities and Contingent Assets*

Accounting for decommissioning liabilities pursuant to IFRS falls under IAS 37. IFRS requires the inclusion of both constructive and legal obligations in determining the amount of a decommissioning liability. While only legal obligations are required under Canadian GAAP, the Corporation has historically included both legal and constructive obligations in its estimate of its decommissioning liability.

Consistent with Canadian GAAP, decommissioning liabilities under IFRS are recorded in the consolidated financial statements on a discounted basis. However, discount rates used under IFRS should reflect the risks specific to the decommissioning liability, whereas under Canadian GAAP, discount rates for asset retirement obligations were based on the entity's credit-adjusted risk-free rate. At each period end, IFRS requires that the Corporation remeasure its decommissioning liability for market changes in the discount rate, whereas under Canadian GAAP, changes in discount rates alone do not result in a remeasurement of the asset retirement obligation.

- (vi) The Corporation has completed the calculation of its decommissioning liability at each period end using a market interest rate appropriate at each respective date. Accordingly, at December 31, 2010, the Corporation's decommissioning liability has increased by \$14,657,000. The related assets have increased by a corresponding amount.
- (vii) As a result of the remeasurement of the decommissioning liability, the Corporation's accretion expense has decreased by \$31,000 since the acquisition of the assets in June 2010. Furthermore, accretion charges under IFRS are classified as interest expense or financing charges. Under Canadian GAAP, these amounts were included with depreciation and depletion. As a result of the reclassification, the \$31,000 decrease in the accretion expense is reflected in the attached reconciliation of the consolidated statement of operations as a decrease in depreciation and depletion charges of \$532,000, offset by an increase in interest expense of \$501,000. The Corporation subsequently allocated the remeasurement of its decommissioning liability under IFRS between current and non-current, reducing the current portion by \$16,000 when compared to the current asset retirement obligation calculated under Canadian GAAP.

### *Other Implications of IFRS Adjustments*

- (viii) Under IFRS, the carrying value of the assets acquired in southern Ontario increased from the remeasurement of the decommissioning liability, offset by a decrease resulting from the expensing of transaction costs incurred on the acquisition. Accordingly, the Corporation has increased the depreciation and depletion of the related assets by \$50,000 since the acquisition of the assets in June 2010.
- (ix) Deferred income tax assets have increased by \$920,000 to give effect to the adjustments as described above.

## 6. ACQUISITION OF SOUTHERN ONTARIO OIL AND GAS PROPERTIES

On June 29, 2010, DELP acquired a 95% working interest in onshore oil properties and a 65% working interest in offshore gas properties, all located in southern Ontario. As part of the acquisition, DELP also acquired a 65% working interest in certain other tangible assets, including drilling and completion vessels, gas plants and compressor stations and a 100% interest in oil production facilities. The acquisition also provides for ownership of certain offshore and onshore seismic data. The assets were acquired for aggregate cash consideration of \$128,608,000. Aggregate transaction costs associated with the acquisition of the southern Ontario oil and gas properties were \$3,602,000 and were charged to the Corporation's consolidated statement of operations as incurred. During the three months ended March 31, 2011, the Corporation earned revenues of \$8,072,000 and incurred a net pre-tax comprehensive loss of \$1,756,000 as a result of the above-referenced transaction. A preliminary summary of the fair value of the net assets acquired is as follows:

<b>Net assets acquired</b>	
Property, plant and equipment*	\$ 157,851
Prepays	751
Inventory	758
Investment in Lake Erie Limited Partnership	300
Accounts receivable	150
	159,810
Decommissioning liability	(31,202)
	\$ 128,608
<b>Aggregate consideration transferred:</b>	
Cash	\$ 128,608

\*Includes capitalization of \$31,202,000 future abandonment and reclamation costs.

The purchase and sale agreement between DELP and the vendor provide DELP with the right to ascertain and verify any purchase price adjustments proposed by the vendor, through a formal audit or otherwise, prior to June 29, 2011. Accordingly, the aggregate consideration transferred may be subject to adjustment.

## 7. INVESTMENTS

	Carrying value of investments as at:		
	March 31, 2011	December 31, 2010	January 1, 2010
Short term investments	\$ -	\$ -	\$ 70,454
Publicly listed equity securities	514	475	-
Investment in Lake Erie Limited Partnership	300	300	-
Preferred shares of Eurogas International	32,150	32,150	32,150
Less impairment	(32,150)	(32,150)	(26,174)
	-	-	5,976
Accrued dividends on preferred share investment	3,412	3,095	1,809
Less impairment	(3,412)	(3,095)	(1,809)
	-	-	-
	\$ 814	\$ 775	\$ 76,430

At each of March 31, 2011, December 31, 2010 and January 1, 2010, the Corporation held 32,150,000 Series A Preference Shares of Eurogas International with an aggregate par value of \$32,150,000. The Series A Preference Shares earn cumulative dividends at a rate of 4% per annum. At March 31, 2011, accrued but unpaid dividends in respect of the Series A Preference Shares of Eurogas International were \$3,412,000 (December 31, 2010 - \$3,095,000; January 1, 2010 - \$1,809,000). The Corporation has determined that the par value of the Series A Preference Shares and the related accrued dividends thereon are impaired and accordingly, the Corporation has fully provided against its carrying value in these assets.

## 8. LOAN RECEIVABLE

Amounts advanced to Escal for utilization in the development of its underground gas storage project in Spain, are reflected in the Corporation's interim consolidated financial statements as a loan receivable. Amounts advanced are denominated in Euros. The loan receivable is non-interest bearing and has no fixed term to maturity.

	Canadian dollars		Euros
Balance, January 1, 2010	\$	660 €	441
<b>Transactions during the three months ended March 31, 2010</b>			
Foreign exchange loss		(56)	-
Balance, March 31, 2010	\$	604 €	441
<b>Transactions from April 1, 2010 to December 31, 2010</b>			
Received during the year ended December 31, 2010		(25)	(20)
Foreign exchange loss		(19)	-
Balance, December 31, 2010	\$	560 €	421
<b>Transactions during the three months ended March 31, 2011</b>			
Foreign exchange gain		19	-
Balance, March 31, 2011	\$	579 €	421

## 9. PROPERTY, PLANT AND EQUIPMENT

As at and for the three months ended March 31, 2011						
	Carrying Value, December 31, 2010		Net Additions	Other Adjustments*	Depreciation and Depletion	Carrying Value, March 31, 2011
Oil and natural gas rights	\$	101,978	\$ 272	\$ (760)	\$ (2,664)	\$ 98,826
Undeveloped properties		837	165	-	-	1,002
Pipeline infrastructure		22,482	1,227	-	(485)	23,224
Machinery and equipment		19,702	30	-	(275)	19,457
Land and buildings		4,513	-	-	(6)	4,507
Office equipment, computer hardware and software		317	96	-	(29)	384
Spare parts inventory		1,490	(9)	-	-	1,481
Work in progress		4,131	(861)	-	-	3,270
	\$	155,450	\$ 920	\$ (760)	\$ (3,459)	\$ 152,151

  

As at and for the year ended December 31, 2010						
	Carrying Value, January 1, 2010	Acquisitions (note 6)	Net Additions	Other Adjustments*	Depreciation and Depletion	Carrying Value, December 31, 2010
Oil and natural gas rights	\$ -	\$ 106,647	\$ 34	\$ 492	\$ (5,194)	\$ 101,978
Undeveloped properties	-	821	16	-	-	837
Pipeline infrastructure	-	23,408	-	-	(926)	22,482
Machinery and equipment	-	20,174	82	-	(554)	19,702
Land and buildings	-	4,525	-	-	(12)	4,513
Office equipment, computer hardware and software	79	5	283	-	(50)	317
Spare parts inventory	-	861	629	-	-	1,490
Work in progress	-	1,410	2,721	-	-	4,131
	\$ 79	\$ 157,851	\$ 3,765	\$ 492	\$ (6,736)	\$ 155,450

\* Adjustments result from remeasurement of decommissioning liability (note 11).

## 10. BANK LOAN

On June 29, 2010, DELP established a credit facility in the amount of \$80,000,000 with a syndicate comprised of certain Canadian chartered banks. The credit facility provides DELP with a revolving demand loan, subject to a tiered interest rate structure based on DELP's net debt to cash flow ratio, as defined in the credit facility. Based on DELP's current ratios, draws on the credit facility bear interest, at DELP's option, at either the bank's prime lending rate plus 3.0% for loans or letters of credit, or, for bankers' acceptances, at the bank's then prevailing bankers' acceptance rate plus 4.0%. DELP is subject to a standby fee of 0.55% on unused amounts under the credit facility.

At March 31, 2011, DELP had drawn \$63,603,000 (December 31, 2010 – \$65,641,000; January 1, 2010 - \$nil) pursuant to the credit facility, including \$3,270,000 (December 31, 2010 - \$3,270,000; January 1, 2010 - \$nil) issued in the form of a letter of credit. Of the total amount drawn, \$63,888,000 was in connection with the acquisition of the assets in southern Ontario (note 6), of which \$3,555,000 was subsequently repaid. Available credit under the credit facility at March 31, 2011 was \$16,397,000.

The credit facility is secured against all of the oil and natural gas properties owned by DELP. In addition, the Corporation has assigned a limited recourse guarantee of its units in DELP as further security pursuant to the credit facility. The credit facility is subject to certain covenants, including maintenance of minimum levels of working capital.

During the three months ended March 31, 2011, the Corporation incurred interest expense relating to the credit facility of \$825,000 (three months ended March 31, 2010 - \$nil).

## 11. DECOMMISSIONING LIABILITY

The carrying amount of the Corporation's decommissioning liability is comprised of the expected future abandonment and reclamation costs associated with the oil and gas properties acquired in southern Ontario (note 6). The Corporation has estimated its abandonment and reclamation costs based on the Corporation's net ownership in the wells and facilities acquired, the estimated cost to abandon and reclaim these wells and facilities and the estimated timing of the costs to be incurred in future periods.

	As at and for the period ended		
	March 31, 2011	December 31, 2010	January 1, 2010
Undiscounted future obligation, beginning of period	\$ 80,123	\$ -	\$ -
Acquisition (note 6)	-	80,358	-
Adjustments to estimates	(701)	-	-
Liabilities settled	-	(235)	-
Undiscounted future obligation, end of period	\$ 79,422	\$ 80,123	\$ -

The following reconciles the Corporation's decommissioning liability on a discounted basis:

	As at and for the period ended		
	March 31, 2011	December 31, 2010	January 1, 2010
<i>Discount rates applied to future obligation</i>	1.72% - 3.66%	1.68% - 3.51%	-
<i>Inflation rate</i>	2.00%	2.00%	-
Discounted future obligation, beginning of period	\$ 31,960	\$ -	\$ -
Acquisition (note 6)	-	31,202	-
Liabilities settled	-	(235)	-
Effect of remeasurement of discount rates	(760)	492	-
Accretion	258	501	-
Discounted future obligation, end of period	\$ 31,458	\$ 31,960	\$ -
Current	\$ 1,013	\$ 1,017	\$ -
Non-current	30,445	30,943	-
	\$ 31,458	\$ 31,960	\$ -

As required by statute, the Corporation has provided the Ontario Ministry of Natural Resources with a letter of credit in respect of future abandonment costs. At March 31, 2011 and December 31, 2010, the amount of the letter of credit was \$3,270,000 (note 10).

## 12. RISK MANAGEMENT CONTRACTS

At March 31, 2011, the Corporation had entered into certain risk management contracts as identified below:

Contract	Volume	Pricing Point	Strike Price CDNS/unit	Remaining Term
Fixed Price Swap - Crude oil	100 bbl/day	NYMEX	\$89.29	Apr 01/11 to Dec 31/11
Fixed Price Swap - Crude oil	100 bbl/day	NYMEX	\$89.60	Apr 01/11 to Dec 31/11
Fixed Price Swap - Crude oil	100 bbl/day	NYMEX	\$90.00	Apr 01/11 to Dec 31/11
Fixed Price Swap - Crude oil	50 bbl/day	NYMEX	\$95.00	Apr 01/11 to Dec 31/11
Fixed Price Swap - Crude oil	100 bbl/day	NYMEX	\$99.45	Apr 01/11 to Dec 31/11
Fixed Price Swap - Crude oil	100 bbl/day	NYMEX	\$100.00	Apr 01/11 to Dec 31/11
Fixed Price Swap - Natural Gas	6500 mbtu	NYMEX	\$4.66	Jun 01/11 to Feb 28/12

The fair value of the risk management contracts at March 31, 2011 resulted in a net liability of \$1,751,000, due principally to higher price forecasts for crude oil. The liability has been included in "accounts payable and accrued liabilities". The Corporation recognized a loss of \$1,391,000 in the three months ended March 31, 2011 (three months ended March 31, 2010 - \$nil) relating to these risk management contracts.

## 13. SHARE CAPITAL

### *Issued and Outstanding*

	Number of Common Shares Outstanding	Capital	Option Reserve	DSU Reserve
Outstanding, January 1, 2010	156,118,453	\$ 97,746	\$ 4,719	\$ 401
<b>Transactions during the three months ended March 31, 2010</b>				
Stock based compensation	-	-	9	-
Outstanding, March 31, 2010	156,118,453	\$ 97,746	\$ 4,728	\$ 401
<b>Transactions from April 1, 2010 to December 31, 2010</b>				
Stock based compensation	-	-	617	-
Outstanding, December 31, 2010	156,118,453	\$ 97,746	\$ 5,345	\$ 401
<b>Transactions during the three months ended March 31, 2011</b>				
Stock based compensation	-	-	241	-
Outstanding, March 31, 2011	156,118,453	\$ 97,746	\$ 5,586	\$ 401

## 14. STOCK BASED COMPENSATION

A detailed description of the Corporation's stock based compensation arrangements is provided in note 10 to the Corporation's audited annual consolidated financial statements as at and for the year ended December 31, 2010, which were prepared using Canadian GAAP.

During the three months ended March 31, 2011, the Corporation recognized stock based compensation expense of \$241,000 (three months ended March 31, 2010 - \$9,000).

**Stock Option Plan**

A summary of the status of the stock option plan as at and for the three months ended March 31, 2011 and as at and for the year ended December 31, 2010 is as follows:

	March 31, 2011		December 31, 2010	
	Stock Options	Weighted Average Exercise Price	Stock Options	Weighted Average Exercise Price
Opening	6,125,000	\$ 0.98	3,985,000	\$ 1.26
Granted	-	-	3,215,000	0.81
Exercised	-	-	-	-
Forfeited	-	-	(1,075,000)	1.54
Closing	6,125,000	\$ 0.98	6,125,000	\$ 0.98
Exercisable options	3,981,666	\$ 1.07	3,981,666	\$ 1.07

As at March 31, 2011

Option Price	Options Outstanding	Options Exercisable	Contractual Life Remaining (Years)
At \$0.54	200,000	200,000	2.55
At \$0.81	3,215,000	1,071,666	4.59
At \$1.12	2,250,000	2,250,000	1.13
At \$1.65	460,000	460,000	0.16

**Deferred Share Unit Plan**

During the three months ended March 31, 2011, the Corporation issued 53,354 DSUs with an aggregate fair value of \$45,000. The DSUs were issued in settlement of outstanding directors' fees payable.

	As at and for the three months ended March 31, 2011	As at and for the year ended December 31, 2010
Balance, beginning of period	355,000	355,000
Granted	53,354	-
Redemption	-	-
Balance, end of period	408,354	355,000

**15. GENERAL AND ADMINISTRATIVE EXPENSES BY NATURE**

	For the three months ended	
	March 31, 2011	March 31, 2010
Salary and salary-related	\$ 397	\$ 6
Stock based compensation	241	9
Corporate and professional fees	795	317
General office	485	158
	\$ 1,918	\$ 490

## 16. EQUITY ACCOUNTED INVESTMENT IN ESCAL

Carrying value, January 1, 2010	\$	4,261
<b>Transactions in the three months ended March 31, 2010</b>		
Share of earnings		6
Share of other comprehensive loss		(119)
Carrying value, March 31, 2010		4,148
<b>Transactions from April 1, 2010 to December 31, 2010</b>		
Transaction costs associated with Project Financing		500
New investment		3
Share of losses		(2)
Share of other comprehensive loss		(173)
Carrying value, December 31, 2010		4,476
<b>Transactions in the three months ended March 31, 2011</b>		
New investment		1
Share of earnings		5
Share of other comprehensive loss		(1,160)
Carrying value, March 31, 2011	\$	3,322

In the three months ended March 31, 2011, Escal issued 39 par value shares for €2,000 (year ended December 31, 2010 – 138 par value shares for €7,000). To maintain its proportionate interest in Escal, CLP acquired 13 (year ended December 31, 2010 – 46) of the newly issued shares at a cost of \$1,000 (€1,000) (year ended December 31, 2010 - \$3,000; €2,000). In addition and in order to comply with minimum equity to debt ratio requirements, the controlling shareholder also contributed an issuance premium on the newly issued shares of €5,774,382 (year ended December 31, 2010 – €20,429,000) and it issued €9,200,000 (year ended December 31, 2010 – €5,500,000) in subordinated loans. CLP has not recognized the benefit of its 33% interest in the issuance premium and subordinated loans as the ultimate realization and measurement of the benefit is subject to a significant number of risks and uncertainties, including but not limited to, execution risk associated with the construction of the project, the availability and terms of future financing arrangements and the 50-year life span of the project.

## 17. NET LOSS PER SHARE

	For the three months ended	
	March 31, 2011	March 31, 2010
Net loss for the period attributable to owners of the parent	\$ (2,040)	\$ (322)
Weighted average number of common shares outstanding	156,118,453	156,118,453
Basic and diluted net loss per common share	\$ (0.01)	\$ -

## 18. INCOME TAXES

The reconciliation of the expected combined federal and provincial statutory income tax rate of 28% (three months ended March 31, 2010 – 28%) to the effective tax rate on pre-tax losses of \$2,661,000 (three months ended March 31, 2010 - \$486,000) is as follows:

	For the three months ended	
	March 31, 2011	March 31, 2010
Computed expected recovery of income taxes	\$ (752)	\$ (136)
Effect on taxes of:		
Non-deductible expenses	70	26
Other differences	72	11
Income tax recovery	\$ (610)	\$ (99)

As at March 31, 2011, the Corporation had operating loss carry forwards of \$2,292,000 (three months ended March 31, 2010 - \$2,243,000). There are no loss carry forwards expiring prior to 2016.

The Corporation's net deferred income tax assets are comprised of the following:

	March 31, 2011	December 31, 2010	January 1, 2010
<b>Future income tax assets</b>			
Loss carry forwards	\$ 601	\$ 588	\$ 38
Property, plant and equipment	627	886	49
Decommissioning liability	565	363	-
Cumulative eligible capital	190	193	221
Share issue costs	80	92	127
Other	548	101	15
Total future income tax assets	2,611	2,223	450
<b>Future income tax liabilities</b>			
Partnership deferred income	235	587	9
Equity accounted investment	86	86	85
Other	-	15	51
Total future income tax liabilities	321	688	145
Net future income tax assets	\$ 2,290	\$ 1,535	\$ 305

## 19. RELATED PARTY TRANSACTIONS

### *Services Arrangement with Dundee Resources Limited*

Dundee Resources Limited, a wholly owned subsidiary of the Corporation's parent, Dundee Corporation, provides the Corporation with administrative support services as well as geophysical, geological and engineering consultation with regard to the Corporation's activities. During the three months ended March 31, 2011, the Corporation incurred costs of \$247,000 (three months ended March 31, 2010 - \$95,000) in respect of these arrangements.

### *Accounts Payable and Accrued Liabilities*

Accounts payable and accrued liabilities include amounts due to Dundee Corporation and certain subsidiaries of Dundee Corporation. At March 31, 2011, these amounts totalled \$2,324,000 (December 31, 2010 – \$1,926,000; January 1, 2010 – \$437,000).

## 20. FINANCIAL INSTRUMENTS

A detailed description of the Corporation's financial assets and financial liabilities and its associated risk management in respect thereof are provided in note 17 to the Corporation's audited annual financial statements as at and for the year ended December 31, 2010, which were prepared using Canadian GAAP. There were no significant changes to the description of the Corporation's financial assets and financial liabilities and its associated risk management arising out of the transition to IFRS (note 5), other than in respect of the recognition of the Corporation's investment in preferred shares of Eurogas International and the associated accrued dividends thereon (note 7).

## 21. GEOGRAPHIC SEGMENTED INFORMATION

The Corporation defines its reportable segments based on the geographic location of its oil and gas properties. Items that are not directly attributable to specific geographic locations have been allocated to the corporate segment.

For the three months ended	Southern Ontario		Spain			Corporate			TOTAL	
	31-Mar-11	31-Mar-10	31-Mar-11	31-Mar-10		31-Mar-11	31-Mar-10	31-Mar-11	31-Mar-10	
<b>REVENUES</b>										
Oil and gas sales	\$ 9,569	\$ -	\$ -	\$ -		\$ -	\$ -	\$ 9,569	\$ -	
Royalties	(1,497)	-	-	-		-	-	(1,497)	-	
Net sales	8,072	-	-	-		-	-	8,072	-	
<b>EXPENSES</b>										
Production expenditures	2,898	-	-	-		-	-	2,898	-	
Depreciation and depletion	3,456	-	-	-		3	5	3,459	5	
General and administrative	937	-	81	160		900	330	1,918	490	
Impairment	-	-	-	-		317	317	317	317	
	7,291	-	81	160		1,220	652	8,592	812	
<b>LOSS FROM OPERATIONS</b>	781	-	(81)	(160)		(1,220)	(652)	(520)	(812)	
Interest and other income	28	-	-	-		357	416	385	416	
Risk management loss	(1,391)	-	-	-		-	-	(1,391)	-	
Interest expense	(1,084)	-	-	-		-	(1)	(1,084)	(1)	
Foreign exchange (loss) gain	(90)	-	34	(95)		-	-	(56)	(95)	
Equity earnings	-	-	5	6		-	-	5	6	
Income tax recovery	-	-	-	-		610	99	610	99	
<b>NET LOSS FOR THE PERIOD</b>	\$ (1,756)	\$ -	\$ (42)	\$ (249)		\$ (253)	\$ (138)	\$ (2,051)	\$ (387)	
<b>NET LOSS ATTRIBUTABLE TO:</b>										
Owners of the parent	\$ (1,756)	\$ -	\$ (31)	\$ (184)		\$ (253)	\$ (138)	\$ (2,040)	\$ (322)	
Non-controlling interest	-	-	(11)	(65)		-	-	(11)	(65)	
	\$ (1,756)	\$ -	\$ (42)	\$ (249)		\$ (253)	\$ (138)	\$ (2,051)	\$ (387)	

  

As at	Southern Ontario			Spain			Corporate			TOTAL		
	31-Mar-11	31-Dec-10	1-Jan-10	31-Mar-11	31-Dec-10	1-Jan-10	31-Mar-11	31-Dec-10	1-Jan-10	31-Mar-11	31-Dec-10	1-Jan-10
Segmented assets	\$ 159,437	\$ 162,356	\$ -	\$ 4,347	\$ 5,470	\$ 5,401	\$ 3,238	\$ 2,878	\$ 77,143	\$ 167,022	\$ 170,704	\$ 82,544
Segmented liabilities	96,057	97,251	-	550	529	50	2,807	2,491	762	99,414	100,271	812
<b>SEGMENTED NET ASSETS</b>	\$ 63,380	\$ 65,105	\$ -	\$ 3,797	\$ 4,941	\$ 5,351	\$ 431	\$ 387	\$ 76,381	\$ 67,608	\$ 70,433	\$ 81,732