Questfire Energy Corp.

Condensed Interim Financial Statements

For the nine months ended September 30, 2011

(amounts in Canadian dollars)

(unaudited)

Questfire Energy Corp.
Condensed Balance Sheets
(amounts in Canadian dollars) (unaudited)

	Notes	September 30, 2011	December 31, 2010
Assets			
Current assets			
Cash and cash equivalents	12	$ 633,203	$ 1,501,562
Accounts receivable	5(b)	4,782	5,556
Deposits and prepaid expenses		28,897	8,272
Total current assets		666,882	1,515,390
Non-current assets			
Property and equipment	10	20,656	26,456
Intangible exploration and evaluation assets	11	865,702	331,339
Deferred financing charges	17	243,268	-
Total non-current assets		1,129,626	357,795
Total assets		$ 1,796,508	$ 1,873,185
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	5(c)	$ 371,552	$ 37,738
Flow-through share premium	13(c)	287,047	318,461
Total current liabilities		658,599	356,199
Total liabilities		658,599	356,199
Equity			
Share capital	13(b)	1,623,679	1,573,679
Deficit		(485,770)	(56,693)
Total equity attributable to equity holders of the Corporation		1,137,909	1,516,986
Total liabilities and equity		$ 1,796,508	$ 1,873,185

Commitments (note 16)

Subsequent events (note 17)

See accompanying notes to the condensed interim financial statements.

(Signed) "Richard H. Dahl", Director

(Signed) "Roger MacLeod", Director

Questfire Energy Corp.

Condensed Statements of Loss and Comprehensive Loss

(*amounts in Canadian dollars) (unaudited)*

	Notes	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Expenses					
Exploration and evaluation expenditures		$ 72,527	$ -	$ 97,215	$ -
General and administrative expenses		218,249	922	355,482	20,480
Depreciation		1,900	-	5,800	-
		292,676	922	458,497	20,480
Finance income	7	2,522	-	10,407	-
Finance expense	7	(5,818)	-	(12,401)	-
Net finance expense		(3,296)	-	(1,994)	-
Loss before income taxes		(295,972)	(922)	(460,491)	(20,480)
Deferred income tax (recovery)	9	(31,414)	-	(31,414)	-
		(31,414)	-	(31,414)	-
Loss and comprehensive loss for the period		$ (264,558)	$ (922)	$ (429,077)	$ (20,480)
Loss per share					
Basic and diluted	13(d)	$ (0.03)	$ (922)	$ (0.05)	$ (20,480)

See accompanying notes to the condensed interim financial statements.

Questfire Energy Corp.

Condensed Statements of Changes in Equity

(amounts in Canadian dollars) (unaudited)

	Notes	Number of Common Shares	Common Share capital stated value	Total Share capital stated value	Deficit	Total equity
Balance at January 15, 2010		-	$ -	$ -	$ -	$ -
Issue of Common Shares	13	1	1	1	-	1
Loss for the period		-	-	-	(20,480)	(20,480)
Balance at September 30, 2010		1	1	1	(20,480)	(20,479)
Issue of flow-through Common Shares	13	9,475,000	1,576,539	1,576,539	-	1,576,539
Share issue costs	13	-	(2,861)	(2,861)	-	(2,861)
Loss for the period		-	-	-	(36,213)	(36,213)
Balance at December 31, 2010		9,475,001	1,573,679	1,573,679	(56,693)	1,516,986
Issue of Common Shares	13	250,000	50,000	50,000	-	50,000
Loss for the period		-	-	-	(429,077)	(429,077)
Balance at September 30, 2011		9,725,001	$ 1,623,679	$ 1,623,679	$ (485,770)	$ 1,137,909

See accompanying notes to the condensed interim financial statements.

Questfire Energy Corp.

Condensed Statements of Cash Flows

(*amounts in Canadian dollars) (unaudited)*

	Notes	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Cash and cash equivalents provided by (used in):					
Cash flows from operating activities					
Loss for the period		$ (264,558)	$ (922)	$ (429,077)	$ (20,480)
Adjustments for:					
Depreciation		1,900	-	5,800	-
Deferred income tax recovery		(31,414)	-	(31,414)	-
Net finance expense	7	3,296	-	1,994	-
Changes in non-cash working capital	8	36,821	922	582	20,480
Net cash used in operating activities		(253,955)	-	(452,115)	-
Cash flows from investing activities					
Additions to intangible exploration and evaluation assets		(258,669)	-	(534,363)	-
Interest received	7	2,522	-	10,407	-
Change in non-cash working capital	8	104,175	-	92,325	-
Net cash used in investing activities		(151,972)	-	(431,631)	-
Cash flows from financing activities					
Interest paid		(5,818)	-	(12,401)	-
Deferred financing charges		(243,268)	-	(243,268)	-
Proceeds from issuance of share capital		50,000	-	50,000	1
Change in non-cash working capital		215,473	-	221,056	-
Net cash from investing activities		16,387	-	15,387	1
Change in cash and cash equivalents		(389,540)	-	(868,359)	1
Cash and cash equivalents, beginning of period		1,022,743	1	1,501,562	-
Cash and cash equivalents, end of period		$ 633,203	$ 1	$ 633,203	$ 1

See accompanying notes to the condensed interim financial statements.

1. General business description

Questfire Energy Corp. ("Questfire" or the "Corporation") was incorporated under the laws of Alberta on January 15, 2010. The Corporation is engaged in the exploration for and development and production of oil and natural gas and conducts many of its activities jointly with others; these financial statements reflect only the Corporation's proportionate interest in such activities. As at September 30, 2011 the Corporation has drilled no wells and has no oil or natural gas production. The address, and principal place of business, of the Corporation is Suite 400, 703 – 6th Ave SW, Calgary, AB, T2P 0T9.

2. Basis of preparation

(a) Statement of compliance

These condensed interim financial statements present Questfire's results of operations and financial position as at and for the three and nine months ended September 30, 2011, including 2010 comparative periods. As a result, they have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting". These condensed interim financial statements do not include all the necessary annual disclosures in accordance with International Financial Reporting Standards ("IFRS"). A summary of Questfire's significant accounting policies under IFRS is presented in note 3. The condensed interim financial statements should be read in conjunction with Questfire's annual audited financial statements for the year ended December 31, 2010. The financial statements were authorized for issuance by the Board of Directors on November 22, 2011.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following:

(i) derivative financial instruments are measured at fair value; and

(ii) held for trading financial assets are measured at fair value with changes in fair value recorded in earnings.

The methods used to measure fair values are discussed in note 4.

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting estimates will, by definition, seldom equal the actual results. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected.

The following discussion sets forth management's most critical estimates and assumptions in determining the value of assets, liabilities and equity:

Valuation of intangible exploration and evaluation assets

The value of intangible exploration and evaluation assets depends on the discovery of economically recoverable reserves which in turn depends on future oil and natural gas prices, future capital expenditures and environmental and regulatory restrictions.

Valuation of accounts receivable

The valuation of accounts receivable is based on management's best estimate of the provision for doubtful accounts.

Income taxes

The amounts recorded for deferred income taxes are based on estimates as to the timing of the reversal of temporary differences and tax rates currently substantively enacted. They are also based on estimates of the probability of the Corporation utilizing certain tax pools and assets which, in turn, depends on estimates of proved and probable reserves, production rates, future petroleum and natural gas prices and changes in legislation, tax rates and interpretations by taxation authorities. The availability of tax pools is subject to audit and interpretation by taxation authorities.

3. Significant accounting policies

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

(a) Jointly controlled assets

Many of the Corporation's oil and natural gas activities involve jointly controlled assets. The financial statements include the Corporation's share of these jointly controlled assets and a proportionate share of the relevant revenue and related costs.

(b) Cash and cash equivalents

Cash and cash equivalents consist of amounts on deposit with banks, term deposits held with banks and other short-term highly liquid investments with maturities of 90 days or less at the date of issue. Bank overdrafts that are repayable on demand and form an integral part of the Corporation's cash management, whereby management has the ability and intent to net bank overdrafts against cash, are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(c) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

(i) *Financial assets*

Financial assets include accounts receivable and cash and cash equivalents. Purchases and sales of financial assets are recognized on the settlement date, which is the date on which the asset is delivered to or by the Corporation. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or were transferred and the Corporation has transferred substantially all risks and rewards of ownership. Financial assets are classified in the following categories at the time of initial recognition based on the purpose for which the financial assets were acquired:

Financial assets at fair value through profit or loss

Classification

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term or if so designated by management and its performance is evaluated on a fair value basis, in accordance with the Corporation's documented risk management or investment strategy. The Corporation has designated cash and cash equivalents as held for trading. Derivatives are also categorized as held for trading unless they are designated as hedges.

Recognition and measurement

Financial assets carried at fair value through profit or loss are initially recognized, and subsequently carried, at fair value, with changes recognized in the income statement. Transaction costs are expensed when incurred.

Loans and receivables

Classification

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Assets in this category include accounts receivable and are classified as current assets in the balance sheet.

Recognition and measurement

Loans and receivables are initially recognized at fair value plus transaction costs and subsequently carried at amortized cost using the effective interest method, less any impairment losses. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They consist of investments in equity securities and certain other debt securities. They are included in other non-current financial assets unless management intends to dispose of the investment within 12 months of the balance sheet date. The Corporation has not designated any financial assets as available-for-sale.

Reclassification of financial assets

Reclassification is only permitted in rare circumstances and where the asset is no longer held for the purpose of selling in the short-term. In all cases, reclassifications of financial assets are limited to debt instruments. Reclassifications are accounted for at the fair value of the financial asset at the date of reclassification.

(ii) *Financial liabilities*

Financial liabilities primarily consist of accounts payables and accrued liabilities and bank indebtedness (if any). Financial liabilities are initially measured at fair value and subsequently measured at amortized cost for liabilities that are not hedged, and fair value for liabilities that are hedged. Non-performance risk, including the Corporation's own credit risk for financial liabilities, is considered when determining the fair value of financial assets or liabilities, including derivative liabilities.

(iii) *Derivative financial instruments*

The Corporation may enter into, from time to time, certain financial derivative contracts in order to manage the exposure to market risks from fluctuations in commodity prices. These instruments are not used for trading or speculative purposes. The Corporation has not designated its financial derivative contracts as effective accounting hedges, and thus not applied hedge accounting, even though the Corporation considers all commodity contracts to be economic hedges. As a result, all financial derivative contracts are classified as fair value through profit or loss and are recorded on the balance sheet at fair value with changes in fair value recorded in the income statement. Transaction costs are recognized in the income statement as incurred. Proceeds and costs realized from holding these financial instruments are recognized in profit or loss at the time each transaction under a contract is settled.

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

(iv) *Equity instruments*

Common Shares are classified as equity. Incremental costs directly attributable to the issue of Common Shares and stock options are recognized as a deduction from equity, net of any tax effects.

(v) *Impairment*

The Corporation assesses at each balance sheet date whether there is objective evidence that a financial asset, other than those classified as fair value through profit or loss, or a group of financial assets is impaired. When an impairment has occurred, the cumulative loss is recognized in profit or loss.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. For receivables that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Corporation's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of accounts receivable, where the carrying amount is reduced through the use of an allowance account. When an accounts receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of available-for-sale equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income.

(d) Property and equipment

(i) Recognition and measurement

Exploration and evaluation expenditures

Pre-license seismic and other costs are expensed in income as incurred.

Exploration and evaluation costs, including the costs of acquiring licenses and exploratory drilling are capitalized as either tangible or intangible exploration and evaluation assets according to the nature of the assets acquired. The costs are accumulated in cost centres by well, field or exploration area pending determination of technical feasibility and commercial viability.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units.

The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proved and or 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 or probable reserves have been discovered. Upon determination of proved and or probable reserves, exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from exploration and evaluation assets to a separate category within property and equipment referred to as oil and natural gas interests.

For exchanges (swaps or farm-ins) or parts of exchanges that involve only capitalized exploration and evaluation costs, the exchange is accounted for at cost.

Development and production costs

Items of property and equipment referred to as oil and natural gas interests, which include oil and gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Development and production assets are grouped into cash-generating units for impairment testing. When significant parts of an item of property and equipment, including oil and natural gas interests, have different useful lives, they are accounted for as separate items (major components).

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

Exchanges of development and production assets (swaps or farm-ins) are measured at fair value unless the exchange transaction lacks commercial substance or the fair value of neither the asset received nor the asset given up is reliably measurable. The cost of the acquired asset is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. Where fair value is not used, the cost of the acquired asset is measured at the carrying amount of the asset given up. Any gain or loss on derecognition of the asset given up is recognized in profit or loss.

(ii) 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 oil and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in income as incurred. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing on or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in income as incurred.

(iii) Depletion and depreciation

The net carrying value of development or production assets is depleted using the unit of production method by reference to the ratio of production in the year to the related proved and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves.

For other assets, cumulatively referred to as corporate and other, depreciation is recognized in profit or loss on a declining balance basis at rates approximating their estimated useful lives.

The estimated annual rates for other assets are as follows:

Furniture and fixtures	20 %
Office equipment	20 %
Computer hardware	30 %
Computer software	50 %

(e) Impairment

Non-financial assets

The carrying amounts of the Corporation's non-financial assets, other than exploration and evaluation assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Exploration and evaluation assets are assessed for impairment when they are reclassified to property and equipment, as oil and natural gas interests, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell. Fair value is determined to be the amount for which the asset could be sold in an arm's-length transaction between knowledgeable and willing parties. Fair value less costs to sell may be determined using discounted future net cash flows of proved and probable reserves using forecast prices and costs and including future development costs. These cash flows are discounted at an appropriate discount rate which would be applied by a market participant.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proved and probable reserves.

The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to the CGU's that are expected to benefit from the synergies of the combination. Exploration and evaluation assets are allocated to related CGU's when they are assessed for impairment, both at the time of any triggering facts and circumstances as well as upon their eventual reclassification to producing assets (oil and natural gas interests in property and equipment).

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGU's are allocated first to reduce the carrying amount of any goodwill allocated to the CGU's and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized.

(f) Stock-based compensation

The Corporation may grant stock options, or similar instruments, to directors, officers, employees and consultants of the Corporation. Consultants are classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

The fair value of stock options, or similar instruments, will be recognized as stock-based compensation expense, with a corresponding increase in contributed surplus over the vesting period. The fair value is measured at grant date and each tranche is recognized on a graded-vesting basis over the period during which the options vest. The fair value of the stock options, or similar instruments, granted are measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest. When stock options, or similar instruments, are exercised, the cash proceeds together with the amount previously recorded as contributed surplus is recorded as share capital.

(g) Earnings per share

Basic earnings per share is calculated by dividing net and comprehensive income or loss by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated by adjusting the net income attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments. The Corporation computes the dilutive impact of common shares assuming the proceeds received from the exercise of in-the-money share options and warrants plus the unamortized portion of stock-based compensation are used to purchase common shares at the average market prices for the period.

(h) Decommissioning provisions

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration, development or ongoing production of oil and gas properties.

A decommissioning provision is recognized as a liability for obligations associated with the abandonment of petroleum and natural gas wells, related facilities, compressors and plants, removal of equipment from leased acreage and returning such land to its original condition as set by standards of environmental regulations.

The Corporation records the fair value of each decommissioning obligation in the period a well or related asset is drilled, constructed or acquired. Decommissioning obligations are measured at the present value of management's best estimate of expenditure required to settle the present obligation at the balance sheet date. Provisions are determined by discounting the expected future cash flows at a pre-tax risk-free rate. The expected future cash flows reflect current market assessments and the risks specific to the liability.

The obligation is reviewed regularly by the Corporation's management based on current regulations, costs, technologies and industry standards. The discounted obligation is initially capitalized as part of the carrying amount of the related property and equipment, and a corresponding liability is recognized. The increase in oil and natural gas interests is depleted and depreciated on the same basis as the related oil and natural gas component, while the liability is accreted to income until it is settled or sold.

Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the decommissioning provisions are charged against the provision to the extent the provision was established.

(i) Flow-through shares

From time to time, the Corporation finances a portion of its exploration and development activities through the issuance of flow-through shares. Under the terms of the flow-through share agreements, the tax attributes of the related expenditures are renounced to subscribers. The stated capital recorded on flow-through share issuances is equal to the estimated fair value of the Common Shares, exclusive of the flow-through component, on the date of issue. The difference between the gross proceeds received on the issuance of the flow-through shares and the estimated fair value of the common shares is recorded as a liability ("the flow-through share premium") until qualifying expenditures are incurred. When the expenditures are incurred the deferred tax liability is recorded through a charge to income tax expense less the reversal of the flow-through share premium previously reported.

(j) Revenue

Revenue from the sale of oil and natural gas is recognized based on volumes delivered to customers at contractual delivery points and rates.

The costs associated with the delivery, including operating and maintenance costs, transportation and production-based royalty expenses are recognized in the same period in which the related revenue is earned and recorded. Transportation costs are presented as a separate expense in the statement of income.

Royalty income is recognized as it accrues in accordance with the terms of the overriding royalty agreements.

(k) Finance income and expenses

Finance income, consisting of interest income, is recognized as it accrues in profit or loss, using the effective interest method.

Finance expense comprises interest expense on borrowings, accretion of the discount on decommissioning provisions and impairment losses recognized on financial assets.

Borrowing costs incurred for the construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the assets for their intended use or sale.

Where funds are borrowed specifically to finance a project, the amount capitalized represents the actual borrowing costs incurred. Where the funds used to finance a project form part of general borrowings, the amount capitalized is calculated using a weighted average of rates applicable to relevant general borrowings of the Corporation during the period.

All other borrowing costs are recognized in profit or loss using the effective interest method.

(l) Income taxes

Income tax expense (recovery) comprises current and deferred tax. Income tax expense (recovery) is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences, and the carry forward of non-capital losses, can be utilized.

Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same taxation authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future profit will allow the deferred tax asset to be recovered and/or the carrying value of temporary differences exceed their tax basis.

(m) Provisions and contingent liabilities

Provisions and contingent liabilities are recognized when there is a present legal or constructive obligation arising as a result of a past event for which it is probable that an outflow of economic benefits will be required to settle the obligation and where a reliable estimate can be made of the amount of the obligation. Provisions and contingent liabilities are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(n) Recent accounting pronouncements

Future Accounting Changes

The following pronouncements from the IASB will become effective for financial reporting periods beginning on, or after, January 1, 2013 and have not yet been adopted by the Corporation. All of these new or revised standards permit early adoption with transitional arrangements, depending upon the date of initial application:

IFRS 9 – “Financial Instruments” addresses the classification and measurement of financial assets.

IFRS 10 – “Consolidated Financial Statements” builds on existing principles and standards and identifies the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company.

IFRS 11 – “Joint Arrangements” establishes the principles for financial reporting by entities when they have an interest in arrangements that are jointly controlled.

IFRS 12 – “Disclosure of Interest in Other Entities” provides the disclosure requirements for interests held in other entities, including joint arrangements, associates, special purpose entities and other off balance sheet entities.

IFRS 13 – “Fair Value Measurement” defines fair value, requires disclosure about fair value measurements and provides a framework for measuring fair value when it is required or permitted within the IFRS standards.

IAS 27 – “Separate Financial Statements” revises the existing standard which addresses the presentation of parent company financial statements that are not consolidated financial statements.

IAS 28 – "Investments in Associate and Joint Ventures" revises the existing standard and prescribes the accounting for investments and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

The Corporation has not completed its evaluation of the effect of adopting these standards on its financial statements.

4. Determination of fair values

A number of the Corporation's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Property and equipment and intangible exploration and evaluation assets

The fair value of property and equipment recognized in a business combination, is based on market values. The market value of property and equipment is the estimated amount for which property and equipment could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of oil and natural gas interests (included in property and equipment) and intangible exploration and evaluation assets is estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on third party and management prepared reserve reports.

The market value of other items of property and equipment is based on the quoted market prices for similar items.

(ii) Cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities.

The fair value of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximates their carrying value due to their short term to maturity.

(iii) Derivatives

The fair value of forward contracts, collars and swaps is determined by discounting the difference between the contracted prices and published forward price curves as at the balance sheet date, using the remaining contracted oil and natural gas volumes and a risk-free interest rate (based on published government rates) adjusted for the Corporation's non-performance risk and the non-performance risk of the counterparty.

(iv) Stock options and similar instruments

The fair value of stock options and similar instruments are measured using the Black-Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility of similar sized companies based on publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on Government of Canada bonds).

The significance of inputs used in making fair value measurements are examined and classified according to a fair value hierarchy. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly and are based on valuation models and techniques where the inputs are derived from a quoted indices. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement.

Cash and cash equivalents are measured at fair value based on a Level 1 designation.

5. Financial risk management

(a) Overview

The Corporation's activities expose it to a variety of financial risks that arise as a result of its exploration, development, production, and financing activities such as:

- credit risk;
- liquidity risk; and
- market risk.

This note presents information about the Corporation's exposure to each of the above risks, the Corporation's objectives, policies and processes for measuring and managing risk, and the Corporation's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Corporation employs risk management strategies and polices to ensure that any exposure to risk are in compliance with the Corporation's business objectives and risk tolerance levels. While the Board of Directors has the overall responsibility for the establishment and oversight of the Corporation's risk management framework, management has the responsibility to administer and monitor these risks.

(b) Credit risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Substantially all of the Corporation's accounts receivable are due from joint venture partners and government agencies and are subject to normal credit risk. The Corporation will also have receivables from petroleum and natural gas marketers once production of its oil and natural gas interests commence. The maximum exposure to credit risk at September 30, 2011 and December 31, 2010 is as follows:

	Carrying amount	
	September 30, 2011	**December 31, 2010**
Cash and cash equivalents	$ 633,203	$ 1,501,562
Accounts receivable	4,782	5,556
	$ 637,985	$ 1,507,118

Accounts receivable

As at September 30, 2011 and December 31, 2010, the majority of accounts receivable relates to input tax credits for GST and interest and management expects to collect these receivables. In the future the Corporation expects the majority of accounts receivable will relate to amounts due from marketers of the Corporation's oil and natural gas and amounts due from joint venture partners.

All of the Corporation's operations will be conducted in Canada. The Corporation's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Significant changes in industry conditions and risks that negatively impact partners' ability to generate cash flow will increase the risk of not collecting receivables. Management believes the risk will be mitigated by the size and reputation of the companies they plan to extend credit.

The Corporation will market its petroleum and natural gas to primarily one oil and natural gas marketer. Due to the small size of the Corporation, it is efficient to market all of its petroleum and natural gas to one marketer. Management will monitor the credit rating with its marketer to ensure no collection issues arise. Receivables from oil and natural gas marketers are normally collected on the 25th day of the month following production.

Joint venture receivables are typically collected within one to three months of the joint venture bill being issued to the partner. The Corporation will attempt to reduce the risk from joint venture receivables by obtaining partner approval of significant capital and operating expenditures prior to expenditure and issuing cash calls to partners for capital projects before they commence. The Corporation does not plan to typically obtain collateral or letters of credit from petroleum and natural gas marketers or joint venture partners; however the Corporation does have the ability to withhold production from joint venture partners in the event of non-payment. However, the receivables are from participants in the oil and natural gas sector, and collection of the outstanding balances is dependent on industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. In addition, further risk exists with joint venturers; as disagreements occasionally arise that increase the potential for non-collection. Amounts recorded from joint venture partners are based on the Corporation's interpretation of underlying agreements and may be subject to joint approval. The Corporation will record balances due from its joint venture partners based on costs incurred and its interpretation of allowable expenditures. Any adjustment required as a result of joint venture audits are recorded in the period of settlement with joint venture partners.

The Corporation does not have an allowance for doubtful accounts as at September 30, 2011 and December 31, 2010 and did not provide for any doubtful accounts nor was it required to write-off any receivables during the periods ended September 30, 2011 and December 31, 2010. When determining whether past due accounts are collectible, the Corporation factors in the past credit history of the counterparties. The Corporation considers all amounts greater than 90 days as past due.

As at September 30, 2011 and December 31, 2010, the Corporation's accounts receivable were comprised of the following:

	Carrying amount	
	September 30, 2011	**December 31, 2010**
GST	$ 3,982	$ 3,997
Other	800	1,559
	$ 4,782	$ 5,556

As at September 30, 2011 and December 31, 2010, the Corporation's estimates its accounts receivables to be aged as follows:

	September 30, 2011	December 31, 2010
Current (0 - 30 days)	$ 4,782	$ 4,638
31 to 60 days	-	-
61 to 90 days	-	6
Past due (greater than 90 days)	-	912
Total accounts receivable	$ 4,782	$ 5,556

Cash and cash equivalents

Cash and cash equivalents, when held, consist of cash bank balances and short term deposits maturing in less than 90 days, at inception. The Corporation manages the credit exposure related to cash and cash equivalents by selecting financial institutions with high credit ratings and monitors all short term deposits to ensure an adequate rate of return. Given these credit ratings, management does not expect any counterparty to fail to meet its obligations.

(c) Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they are due. The Corporation's approach to managing liquidity is to ensure it will have sufficient liquidity to meet its liabilities when due. The Corporation's ongoing liquidity is impacted by various external events and conditions, including commodity price fluctuations and the global economy. The Corporation's financial liabilities consist of accounts payable and accrued liabilities. Accounts payable consists of invoices payable to trade suppliers for professional fees, office expenses and capital expenditures and are paid within one year. Accounts payable will also consist of royalties and field operating activities once production of the Corporation's oil and gas interests commence. By nature, the oil and gas industry is very capital intensive. As a result, the Corporation prepares annual capital expenditure budgets and utilizes authorizations for expenditures to manage capital expenditures. Refer to note 5(e) for further disclosure on the management of capital.

The Corporation's financial liabilities as at September 30, 2011 and December 31, 2010 are aged as follows:

	September 30, 2011	December 31, 2010
0 - 30 days	$ 371,552	$ 20,240
31 to 60 days	-	17,498
61 to 90 days	-	-
Greater than 90 days	-	-
Total accounts payable and accrued liabilities	$ 371,552	$ 37,738

The Corporation expects to satisfy its obligations under accounts payable and accrued liabilities within the next year.

The Corporation is also subject to future commitments as disclosed in note 17.

(d) Market risk

Market risk is the risk that changes in market prices, such as commodity prices, interest rates and foreign exchange rates will affect the Corporation's net earnings or the value of financial instruments. The objective of the Corporation is to manage and mitigate market risk exposures within acceptable limits, while maximizing returns.

Foreign currency risk

Prices for oil are determined in global markets and generally denominated in United States dollars. Natural gas prices obtained by the Corporation will be influenced by both US and Canadian demand and the corresponding North American supply, and recently, by imports of liquefied natural gas. As of September 30, 2011, the Corporation had no forward exchange rate contracts in place nor any working capital items denominated in foreign currencies. An increase in the value of the Canadian dollar relative to the U.S. dollar will decrease the revenues received from the sale of oil and gas commodities. Correspondingly, a decrease in the value of the Canadian dollar relative to the U.S. dollar will increase the revenues received from the sale of oil and gas commodities. The impact of such exchange rate fluctuations cannot be accurately quantified.

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. As the Corporation does not have any interest bearing debt, and its cash is held in a general bank account bearing nominal interest, the Corporation is not exposed to interest rate risk. However, inherently, changes in interest rates may affect the general economy. The Corporation had no interest rate swaps or financial contracts in place as at or during the period ended September 30, 2011.

Commodity price risk

The nature of the Corporation's planned operations will result in exposure to fluctuations in commodity prices. Commodity prices for petroleum and natural gas are impacted by global economic events that dictate the levels of supply and demand. Management continuously monitors commodity prices and may consider instruments to manage exposure to these risks when it deems appropriate. The Corporation currently does not have any derivative financial contracts. The Corporation does not utilize derivative financial instruments for speculative purposes.

Once the Corporation's oil and natural gas interests start producing revenue, the Corporation may economically hedge some petroleum and natural gas sales through the use of various financial derivative forward sales contracts and physical sales contracts when deemed appropriate. The Corporation does not apply hedge accounting for these contracts. The Corporation's production is usually sold using "spot" or near term contracts, with prices fixed at the time of transfer of custody or on the basis of a monthly average market price. The Corporation, however, may give consideration in certain circumstances to the appropriateness of entering into long term, fixed price marketing contracts.

(e) Capital management

The Corporation's capital management policy is to maintain a strong capital base that optimizes the Corporation's ability to grow, maintain investor and creditor confidence and to provide a platform to create value for its shareholders. The Corporation maintains a flexible capital structure to maximize its ability to pursue oil and gas exploration opportunities which considers the Corporation's early stage of development and the requirement to sustain future development of the business.

The Corporation manages its capital structure and makes changes to it in the light of changes in economic conditions and the risk characteristics of the underlying petroleum and natural gas assets. The Corporation considers its capital structure to include shareholders' equity (deficiency) and bank debt, if any. In order to maintain or adjust the capital structure, the Corporation may from time to time issue shares, seek debt financing and adjust its capital spending to manage its current and projected capital structure.

The Corporation currently has no debt outstanding and it monitors capital based on its current working capital, projected cash flow from operating activities and anticipated capital expenditures. In order to manage its capital structure, the Corporation prepares annual capital expenditure and operating budgets, which are updated as necessary depending on varying factors including current and forecast crude oil and natural gas prices, capital deployment and general industry conditions. The annual and updated budgets are prepared by the Corporation's management and approved by the Corporation's Board of Directors. The budget results are regularly reviewed and updated as required.

The Corporation has no externally imposed capital requirements and has not paid or declared any dividends since the date of incorporation and, at this time, does not contemplate doing so in the foreseeable future. There were no changes in the Corporation's approach to capital management during the period ended September 30, 2011.

6. Personnel expenses

The aggregate payroll expense of employees, officers and directors was $187,500 for the period ended September 30, 2011.

As at September 30, 2011, the Corporation has not capitalized any general and administrative expenses.

Key management personnel include executive officers and non-executive directors. Executive officers were paid a salary commencing in July 2011 and will participate in the Corporation's stock option program. The executive officers are the Chief Executive Officer, Chief Financial Officer, Vice President, Land, Vice President, Engineering & Operations, Vice President, Exploration and the Vice President, Exploitation. Non-executive directors will also participate in the Corporation's stock option program. Key management personnel compensation was $187,500 for the three and nine month periods ended September 30, 2011 with $62,500 charged to exploration and evaluation expenditures and $125,000 charged to general and administrative expenses.

7. Finance income and expense

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Finance income				
Interest income on cash and cash equivalents	$ 2,522	$ -	$ 10,407	$ -
Finance expense				
Part XII.6 tax on flow-through share expenditures	(5,818)	-	(12,401)	-
Net finance expense recognized in profit or loss	$ (3,296)	$ -	$ (1,994)	$ -

8. Supplemental cash flows information

Changes in non-cash working capital is comprised of:

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Source/(use) of cash:				
Accounts receivable	$ 6,592	$ -	$ 774	$ -
Prepaid expenses and deposits	7,109	-	(20,625)	-
Accounts payable and accrued liabilities	342,768	922	333,814	20,480
	$ 356,469	$ 922	$ 313,963	$ 20,480
Related to operating activities	$ 36,821	$ 922	$ 582	$ 20,480
Related to investing activities	104,175	-	92,325	-
Related to financing activities	215,473	-	221,056	-
Changes in non-cash working capital	$ 356,469	$ 922	$ 313,963	$ 20,480

9. Income tax expense

Reconciliation of effective tax rate:

	September 30, 2011	September 30, 2010
Loss before income tax	$ (460,491)	$ (20,480)
Statutory tax rate	26.5%	28.0%
Expected income tax recovery	(122,030)	(5,734)
Non-deductible expenses	401	-
Statutory rate changes and other	6,461	-
Reversal of flow-through share premium	(31,414)	-
Flow-through expenditures incurred	46,719	-
Deferred tax assets not recognized	68,449	5,734
Total income tax recovery	$ (31,414)	$ -

10. Property and equipment

	Oil and natural gas interests	Corporate and other	Processing and other equipment	Total
Cost				
Balance at January 15, 2010	$ -	$ -	$ -	$ -
Additions	-	30,856	-	30,856
Balance at December 31, 2010 and September 30, 2011	$ -	$ 30,856	$ -	$ 30,856
Depletion, depreciation and impairment losses				
Balance at January 15, 2010	$ -	$ -	$ -	$ -
Depletion and depreciation for the period	-	4,400	-	4,400
Balance at December 31, 2010	-	4,400	-	4,400
Depletion and depreciation for the period	-	5,800	-	5,800
Balance at September 30, 2011	$ -	$ 10,200	$ -	$ 10,200

	Oil and natural gas Interests	Corporate and other	Processing and other equipment	Total
Net book value:				
At January 15, 2010	$ -	$ -	$ -	$ -
At December 31, 2010	$ -	$ 26,456	$ -	$ 26,456
At September 30, 2011	$ -	$ 20,656	$ -	$ 20,656

(a) Depletion and depreciation charge

The depletion, depreciation and impairment of property and equipment, and any eventual reversal thereof, are recognized in depletion and depreciation in the income statement (see also note 3(d)(iii)).

(b) Contingencies

Although the Corporation believes that it has title to its oil and natural gas interests, it cannot control or completely protect itself against the risk of title disputes or challenges.

(c) Capitalized general and administrative and financing costs

To September 30, 2011, the Corporation has not capitalized any general and administrative expenses to property and equipment. No interest has been capitalized.

11. Intangible exploration and evaluation assets

	E&E Assets
Balance at January 15, 2010	$ -
Additions	331,339
Balance at December 31, 2010	331,339
Additions	534,363
Balance at September 30, 2011	$ 865,702

Intangible exploration and evaluation assets consist of the Corporation's exploration projects which are pending the determination of proved and or probable reserves. Additions represent the Corporation's share of costs incurred on intangible exploration and evaluation assets during the period.

12. Cash and cash equivalents

	September 30, 2011	**December 31, 2010**
Bank balances	$ 633,203	$ 1,501,562
Term deposits	-	-
Cash and cash equivalents in the statement of cash flows	$ 633,203	$ 1,501,562

13. Share capital

(a) Authorization

At September 30, 2011, the Corporation was authorized to issue the following:

Unlimited number of voting Class A shares,

Unlimited number of preferred shares, issuable in series,

Unlimited number of voting Class B shares, convertible (at the option of the Corporation) at any time after September 30, 2014 and on or before November 30, 2016 into Class A shares. The number of Class A shares to be issued upon conversion of one Class B share is calculated by dividing $10 by the greater of $1 and the then-current market price of the Class A shares. If conversion has not occurred by the close of business on November 30, 2016, the Class B shares become convertible (at the option of the shareholder) into Class A shares on the same basis. Effective at the close of business on December 31, 2016, all remaining Class B shares will be automatically converted into Class A shares.

(b) Issued

Class A Shares	**Number of shares**	**Amount**
Issued for cash as initial private capital	1	$ 1
Issued as flow-through shares for cash pursuant to private placement (note 13(c))	9,475,000	1,576,539
Share issue costs		(2,861)
Balance, December 31, 2010	9,475,001	1,573,679
Issued for cash pursuant to private placement (note 13(d))	250,000	50,000
Balance, September 30, 2011	9,725,001	$ 1,623,679

(c) During 2010, the Corporation issued 9,475,000 Class A Shares, on a flow through basis, at $0.20 per share for total proceeds of $1,895,000. The Corporation estimates that Class A Shares issued without a flow through provision would have been issued at a 16.8% discount to the flow through price and therefore, the flow through premium of $318,461 has been recorded as a liability with the remainder of $1,576,539 recorded as share capital.

(d) On August 18, 2011 the Corporation issued 250,000 Class A shares at $0.20 per share for total proceeds of $50,000.

(e) Basic loss per share has been calculated based on the weighted average common shares outstanding during the period of 9,593,133 and 9,514,378 for the three and nine month periods ending September 30, 2011 respectively and 1 for the three and nine month periods ending September 30, 2010.

(f) Shares in escrow

At September 30, 2011, 8,195,001 Class A shares were held in escrow pursuant to the requirements of the TSX Venture Exchange (“TSX-V”) with 819,501 Class A shares being released from escrow on October 25, 2011. One-sixth of the remaining shares will be released from escrow in six-month intervals over a 30-month period, commencing April 25, 2012. The above escrow release schedule is subject to acceleration in accordance with National Policy 46-201 - "Escrow for Initial Public Offerings" and the policies of the TSX-V in the event that the Corporation subsequently meets certain listing requirements.

14. Stock-based compensation

Stock options

On August 30, 2011 the Corporation adopted a stock option plan under which it is authorized to issue stock options to employees, officers, directors and consultants for up to 10 percent of the total issued and outstanding number of Class A shares and Class B shares. Options under the stock option plan cannot have an exercise price less than the closing market price on the day immediately preceding the date of grant and will expire a maximum of ten years from the date of grant. It is the Corporation’s intention that options granted will generally vest as to one-third on each of the first, second and third anniversaries of the date of grant and expire ten years from the date of grant.

As at September 30, 2011 NIL options had been granted.

15. Related Party Transactions

At September 30, 2011, $96,081 is included in accounts payable and accrued liabilities related to legal fees to a legal firm of which a partner is also a director of Questfire. Of this amount, $96,081 is included in deferred financing charges and $nil was charged to general and administrative expenses.

16. Commitments

(a) Office lease

The Corporation is committed under a lease on its office premises expiring December 30, 2011 for future minimum rental payments including estimated operating costs of $22,050.

(b) Software license

The Corporation is committed under a software license agreement expiring January 1, 2014 for future minimum payments estimated as follows:

2011	$ 13,297
2012	53,187
2013	53,187
	$ 119,671

(c) Flow-through share commitments

On November 25, 2010, the Corporation issued 9,475,000 Common Shares, on a flow-through basis, at a price of $0.20 per share for gross proceeds of $1,895,000. In accordance with the terms of the offering, the Corporation is required to expend $1,895,000 on qualifying exploration activities no later than December 31, 2011. The Corporation renounced the tax benefit to subscribers effective December 31, 2010. The Corporation has incurred $186,874 of related exploratory expenditures as at September 30, 2011.

17. Subsequent events

(a) Share issuance

The Corporation entered into an Agency Agreement, whereby a syndicate of agents agreed to offer for sale, on a commercially reasonable efforts basis, a minimum of 6,000 Units and a maximum of 10,000 Units of the Corporation at a price of $1,000 per Unit (the "Offering"). Each Unit consists of 500 flow-through Class A Shares and 90 flow-through Class B Shares with a stated value of $0.20 per share and $10.00 per share, respectively. The agent will receive a commission equal to 6% of the gross proceeds of the Offering. In accordance with the terms of the Offering, the Corporation agreed to renounce for income tax purposes to subscribers of the Class A Shares and Class B Shares, effective December 31, 2011, exploration expenditures incurred by the Corporation.

On October 18, 2011 the Corporation closed its initial public offering and issued 3,088,000 Class A shares at $0.20 per share and 555,840 Class B shares at $10.00 per share, both on a flow through basis, raising total gross proceeds of $6,176,000. The Corporation incurred financing charges (excluding the agent's commission) up to September 30, 2011 of $243,268 and has recorded the amount as deferred financing charges. The deferred financing charges will be charged to share capital upon closing the share issuance.

(b) Stock Options

On October 18, 2011 the Corporation granted 1,281,000 stock options at an exercise price of $0.20 per Class A share. The options will vest one-third on each of the first, second and third anniversaries of the date of grant and will expire ten years from the date of grant.

(c) Office Lease

On October 21, 2011 the Corporation committed under a lease on its office premises commencing on January 1, 2012 and expiring August 31, 2013 for future minimum rental payments excluding estimated operating costs of $68,220 for 2012 and $45,480 for 2013.