



(A Development Stage Company)

**CONDENSED INTERIM FINANCIAL STATEMENTS**

**March 31, 2011**

**NOTICE OF NO AUDITOR REVIEW**

The accompanying unaudited interim financial statements have been prepared by management.

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

**Rallyemont Energy Inc.**  
**Condensed Interim Statement of Financial Position**  
(unaudited)

	March 31 2011	December 31 2010 (Note 13)	January 1, 2010 (Note 13)
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	\$ 7,248,225	\$ 11,993,413	\$ 1,142,948
GST receivable	235,052	83,445	15,008
Prepays	63,671	6,121	106,897
	<b>7,546,948</b>	<b>12,082,979</b>	<b>1,264,853</b>
<b>Non-current assets</b>			
Exploration and evaluation assets (Note 3)	13,345,181	7,872,578	1,970,682
Property, plant and equipment (Note 4)	15,140	16,248	-
Deferred income tax assets (Note 5)	-	397,700	82,975
<b>Total assets</b>	<b>\$ 20,907,269</b>	<b>\$ 20,369,505</b>	<b>\$ 3,318,510</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	\$ 1,626,924	\$ 859,018	\$ 252,911
Other liabilities (Note 6)	-	1,240,069	175,277
	<b>1,626,924</b>	<b>2,099,087</b>	<b>428,188</b>
<b>Non-current liabilities</b>			
Deferred income tax liability (Note 5)	2,018,851	-	-
Decommissioning liabilities (Note 7)	388,379	26,514	-
<b>Total liabilities</b>	<b>4,034,154</b>	<b>2,125,601</b>	<b>428,188</b>
<b>EQUITY</b>			
Common shares (Note 8)	18,111,791	18,111,791	2,693,741
Contributed surplus (Note 8)	1,325,710	1,174,862	410,584
Deficit	(2,564,386)	(1,042,749)	(214,003)
	<b>16,873,115</b>	<b>18,243,904</b>	<b>2,890,322</b>
<b>Total liabilities and equity</b>	<b>\$ 20,907,269</b>	<b>\$ 20,369,505</b>	<b>\$ 3,318,510</b>

**Rallyemont Energy Inc.**  
**Condensed Interim Statement of Loss and Comprehensive Loss**  
(unaudited)

For the three month period ended	March 31 2011	March 31 2010 (Note 13)
<b>Expenses</b>		
Consulting fees (Note 10)	117,927	66,931
Professional fees	51,993	10,661
Office and other	22,404	8,374
Insurance	3,730	2,061
Travel	16,758	17,765
Share-based compensation	150,848	43,211
Accretion of decommissioning liabilities	340	-
Depreciation	1,108	-
	<b>365,108</b>	<b>149,003</b>
<b>Other income (expense)</b>		
Interest income	19,953	351
	<b>(345,155)</b>	<b>(148,652)</b>
Deferred income tax	1,176,482	97,516
	<b>\$ (1,521,637)</b>	<b>\$ (246,168)</b>
	<b>\$ (0.03)</b>	<b>\$ (0.01)</b>

**Rallyemont Energy Inc.**  
**Condensed Interim Statement of Changes in Equity**  
(unaudited)

	<b>Common Shares</b>	<b>Share Capital</b>	<b>Contributed Surplus</b>	<b>Deficit</b>	<b>Total Equity</b>
<b>Balance, January 1, 2010</b>	<b>15,842,879</b>	<b>\$ 2,693,741</b>	<b>\$ 410,584</b>	<b>\$ (214,003)</b>	<b>\$ 2,890,322</b>
Acquisition of subsidiary	4,323,820	1,513,337	-	-	1,513,337
Share issuance	8,357,812	2,925,234	-	-	2,925,234
Share issue costs	-	(399,022)	-	-	(399,022)
Vesting of options and warrants	-	-	139,379	-	139,379
Net loss and comprehensive loss	-	-	-	(246,168)	(246,168)
<b>Balance, March 31, 2010</b>	<b>28,524,511</b>	<b>\$ 6,733,290</b>	<b>\$ 549,963</b>	<b>\$ (460,171)</b>	<b>\$ 6,823,082</b>

	<b>Common Shares</b>	<b>Share Capital</b>	<b>Contributed Surplus</b>	<b>Deficit</b>	<b>Equity Attributable to Shareholders</b>
<b>Balance, January 1, 2011</b>	<b>48,636,469</b>	<b>\$ 18,111,791</b>	<b>\$ 1,174,862</b>	<b>\$ (1,042,749)</b>	<b>\$ 18,243,904</b>
Vesting of options and warrants	-	-	150,848	-	150,848
Net loss and comprehensive loss	-	-	-	(1,521,637)	(1,521,637)
<b>Balance, March 31, 2011</b>	<b>48,636,469</b>	<b>\$ 18,111,791</b>	<b>\$ 1,325,710</b>	<b>\$ (2,564,386)</b>	<b>\$ 16,873,115</b>

**Rallyemont Energy Inc.**  
**Condensed Interim Statement of Cash Flows**  
(unaudited)

For the three month period ended	March 31 2011	March 31 2010
<b>Cash flows from Operating Activities</b>		
Net loss	\$ (1,521,637)	\$ (246,168)
Items not affecting cash		
Share-based compensation	150,848	43,211
Deferred income taxes	1,176,482	97,516
Depreciation and accretion	1,448	-
Net changes in non-cash working capital items related to operations:		
GST receivable	(151,607)	(60,736)
Prepaid expenses	(57,550)	66,580
Accounts payable and accrued liabilities	(20,554)	(3,483)
	<b>(422,570)</b>	<b>(103,080)</b>
<b>Cash flows from Investing Activities</b>		
Expenditures on exploration and evaluation assets	(5,111,078)	(2,723,140)
Change in non-cash working capital	1,248,370	232,263
	<b>(3,862,708)</b>	<b>(2,490,877)</b>
<b>Cash flows from Financing Activities</b>		
Proceeds from issuance of common shares (net of issue costs)	-	4,041,379
Share issue costs	(459,910)	-
	<b>(459,910)</b>	<b>4,041,379</b>
<b>Net increase (decrease) in cash during the year</b>	<b>(4,745,188)</b>	<b>1,447,422</b>
Cash, beginning of period	11,993,413	1,142,948
Cash, end of period	<b>\$ 7,248,225</b>	<b>\$ 2,590,370</b>

**Rallyemont Energy Inc.**  
**Notes to the Condensed Interim Financial Statements**  
(unaudited)

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**1. Description of business**

Rallyemont Energy Inc. (“Rallyemont” or the “Company”) was incorporated under the Business Corporations Act (Saskatchewan) on July 29, 2009. On March 4, 2010 the Company acquired all of the issued and outstanding shares of 101154728 Saskatchewan Ltd. in exchange for 4,323,280 shares. The two companies amalgamated immediately thereafter.

The Company seeks to acquire heavy oil resource properties, delineate the resource and introduce enhanced oil recovery technologies to access petroleum reserves. The Company is in the development stage and its ability to continue as a going concern is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete exploration and development, and future production or proceeds from the disposition thereof.

**2. Significant accounting policies**

The significant accounting policies used in the presentation of these unaudited interim financial statements are set out below. These policies have been consistently applied to all periods presented.

**Statement of compliance**

These interim financial statements are unaudited and have been prepared in accordance with IAS 34, Interim Financial Reporting (“IAS 34”) issued by the International Accounting Standards Board (“IASB”) using accounting policies consistent with International Financial Reporting Standards (“IFRS”) which the Company expects to adopt in its annual financial statements as at and for the year ended December 31, 2011.

These are the Company’s first IFRS unaudited interim financial statements for part of the period covered by the Company’s first IFRS annual financial statements for the year ending December 31, 2011. Previously, the Company prepared its annual and interim financial statements in accordance with Canadian Generally Accepted Accounting Principles (“CGAAP”).

As these are the Company’s first interim financial statements in accordance with IFRS, the Company’s disclosures exceed the minimum requirements under IAS 34. The Company has elected to exceed the minimum requirements in order to present the Company’s accounting policies in accordance with IFRS and the additional disclosures required under IFRS, which also highlight the changes from the Company’s 2010 annual financial statements prepared in accordance with CGAAP.

In fiscal 2012 and beyond, the Company may not provide the same amount of disclosure in the Company’s interim financial statements under IFRS as the reader will be able to rely on the annual financial statements which will be prepared in accordance with IFRS.

The disclosures that accompany these interim financial statements are limited to the significant accounting policies applied and significant judgements and estimates applicable to the preparation of the financial statements and the other disclosure requirements of IFRS 1, First Time Adoption of International Financial Reporting Standards relevant to the financial statements (see Note 13).

**Basis of preparation**

These condensed interim financial statements have been prepared on a historical cost basis except for certain financial instruments which have been measured at fair value. These interim financial statements are prepared in Canadian dollars, which is the Corporation’s functional currency. Certain of the comparative figures have been reclassified to conform with the current period presentation.

**Rallyemont Energy Inc.**  
**Notes to the Condensed Interim Financial Statements**  
(unaudited)

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**2. Significant accounting policies (continued)**

**Exploration and evaluation assets**

**Pre-license costs**

Pre-license costs are costs incurred before the legal rights to explore a specific area have been obtained. These costs are expensed in the period in which they are incurred as exploration and evaluation expense.

**Exploration and evaluation ("E&E") costs**

Once the legal right to explore has been acquired, costs directly associated with the exploration project are capitalized as either tangible or intangible exploration and evaluation assets according to the nature of the asset acquired. Such E&E costs may include undeveloped land acquisition, geological, geophysical and seismic, exploratory drilling and completion, testing, decommissioning and directly attributable internal costs. E&E costs are not depleted and are carried forward until technical feasibility and commercial viability of extracting a mineral resource is considered to be determined. The technical feasibility and commercial viability of a mineral resource is considered to be established when proved and/or probable reserves are determined to exist. All such carried costs are subject to technical, commercial and management review at least once a year to confirm the continued intent to develop or otherwise extract value from the exploratory activity. When this is no longer the case, impairment costs are charged to exploration and evaluation expense. Upon determination of proved and/or probable reserves, E&E assets attributed to those reserves are first tested for impairment and then reclassified to development and production assets within property, plant and equipment, net of any impairment. Expired land costs are also expensed to exploration and evaluation expense as they occur.

E&E assets are assessed for impairment if facts and circumstances suggest that the carrying amount exceeds the recoverable amount, and upon transfer to property, plant and equipment whereby they are allocated to cash-generating units based on geographical proximity and other factors.

**Property, plant and equipment ("PP&E")**

Property, plant and equipment include the costs, in any, of development and production that are not E&E assets, and costs for corporate (office) assets. PP&E is recorded at cost less accumulated depletion and depreciation and accumulated impairment losses, net of recovered impairment losses.

**Oil and gas development and production assets**

Development and production assets are capitalized on an area-by-area basis and include all costs associated with the development and production of oil and natural gas reserves. These costs may include proved property acquisitions, development drilling (including unsuccessful or delineation wells), completion, gathering and infrastructure, decommissioning costs, amounts transferred from E&E assets and directly attributable internal costs. Borrowing costs are capitalized during the construction phase of qualifying assets.

Any gains or losses from the divestiture of development and production assets are recognized in earnings. Accumulated costs are depleted using the unit-of-production method based on estimated proved plus probable reserves. Costs subject to depletion include estimated future costs to be incurred in developing proved plus probable reserves and exclude residual amounts. Depletion is calculated based on individual components (i.e. fields or combinations thereof and other major components with different useful lives).

**Other assets**

Property, plant and equipment consist of leasehold improvements and are stated at cost less accumulated amortization. Amortization is calculated using the straight-line method over the term of the lease.

**Rallyemont Energy Inc.**  
**Notes to the Condensed Interim Financial Statements**  
(unaudited)

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**2. Significant accounting policies** (continued)

**Impairment of non-current assets**

The carrying amounts of the Corporation's property, plant and equipment are reviewed at each reporting date for indicators of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the amount of the impairment, if any. The recoverable amount of an asset is evaluated at the Cash Generating Unit ("CGU") level, which is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

The recoverable amount of a CGU is the greater of its fair value less costs to sell and its value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties, less the costs of disposal. 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. An impairment loss is recognized in earnings for the period to the extent that the carrying amount of the asset (or CGU) exceeds the recoverable amount.

Impairment losses recognized in prior periods are assessed at each reporting date for any indication that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimate used to determine the recoverable amount. An impairment loss is reversed only to the extent that the carrying amount of the asset (or CGU) does not exceed the carrying amount that would have been determined, net of depletion and depreciation, had no impairment loss been recognized for the asset (or CGU). A reversal of an impairment loss is recognized immediately in earnings.

E&E assets are assessed for impairment when they are reclassified to property, plant and equipment, or if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

**Provisions**

Provisions are recorded when the Corporation has a present obligation as a result of a past event, it is probable that an outflow of resources will be required and a reliable estimate can be made of the amount of the obligation. Provisions are measured based on the discounted expected cash flows.

Decommissioning liabilities are recognized for the future legal or constructive obligation to abandon and reclaim the Corporation's oil and natural gas properties. The amount of the decommissioning liabilities represents the net present value of the estimated future expenditures required to abandon and reclaim the Corporation's net ownership in wells and facilities determined in accordance with local conditions, current technology and current requirements. The liabilities are calculated using currently estimated abandonment and reclamation costs inflated to the estimated decommissioning date and then discounted using a risk free discount rate. A liability is recorded in the period in which an obligation arises with a corresponding decommissioning cost added to the carrying amount of the related asset. The liability is progressively accreted over time as the effect of discounting unwinds, creating an accretion expense which is recognized as part of finance expense. The related decommissioning cost capitalized in property, plant and equipment is depreciated in a manner consistent with the depletion and depreciation of the underlying asset.

Changes in the estimated liability resulting from revisions to estimated timing of decommissioning, expected amount of cash flows or changes in the discount rate are recognized as a change in the decommissioning liability and the related decommissioning cost. Actual decommissioning expenditures incurred are charged against the accumulated liability to the extent recorded.

**Rallyemont Energy Inc.**  
**Notes to the Condensed Interim Financial Statements**  
(unaudited)

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**2. Significant accounting policies (continued)**

**Deferred income taxes**

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the liability method. 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 can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, and when they relate to income taxes levied by the same taxation authority and the Corporation intends to settle its current tax assets and liabilities on a net basis.

The recognition of deferred income tax assets is limited to the amount that is considered to be probable to be realized. The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on income tax rates and income tax laws that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred income tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Corporation expects to recover or settle the carrying amount of its assets and liabilities.

**Share capital**

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a reduction of equity, net of any tax effects.

**Share based payments**

Options and warrants granted are accounted for using the fair value method. Under this method, the fair value of stock options and warrants granted are measured at estimated fair value at the grant date and recognized over the vesting period. Consideration received on the exercise of stock options is recorded as share capital and the related contributed surplus on options granted is transferred to share capital.

The Corporation uses the Black-Scholes option-pricing method to determine the fair value of these incentives taking into consideration terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

**Earnings per share**

Basic per share amounts are calculated using the weighted average number of shares outstanding during the period. Diluted per share amounts are calculated based on the “treasury-stock” method for stock options and warrants, which assumes that any proceeds received on exercise of options, or conversion of debentures would be used to purchase common shares at the average market price during the period. The weighted average number of shares outstanding is then adjusted by the net change.

**Rallyemont Energy Inc.**  
**Notes to the Condensed Interim Financial Statements**  
(unaudited)

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**2. Significant accounting policies (continued)**

**Significant accounting judgments, estimates and assumptions**

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period.

Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates. The information about significant areas of estimation uncertainty considered by management in preparing the consolidated financial statements are:

- the determination of useful lives, units of production and residual values of property, plant and equipment;
- the fair value of stock-based compensation determined using the Black-Scholes option pricing model using estimates for expected forfeitures, useful life and stock volatility;
- the provision for deferred income taxes based on estimated tax bases using substantively enacted tax rates expected to apply to taxable income during the years in which the differences are expected to be recovered or settled;
- amounts recorded for decommissioning liabilities including estimates around timing and amount of expenditures required to settle liabilities and the risk free discount rate used;

**Future accounting pronouncements**

The following are new and revised accounting pronouncements that have been issued but are not yet effective:

- IFRS 9 – “Financial Instruments”
- IFRS 7 – “Disclosures – Transfers of Financial Assets”
- IAS 12 – “Income Taxes”
- IFRS 10 – “Consolidated Financial Instruments”
- IFRS 11 – “Joint Arrangements”
- IFRS 12 – “Disclosure of Interests in other Entities”
- IFRS 13 – “Fair Value Measurement”
- IAS 27 – “Separate Financial Statements”
- IAS 28 – “Investments in Associates and Joint Ventures”

The Corporation is currently evaluating the impact of the above standards on its financial performance and financial statement disclosures but expects that such impact will not be material.

**Rallyemont Energy Inc.**  
**Notes to the Condensed Interim Financial Statements**  
(unaudited)

**3. Exploration and evaluation assets**

	<b>Total</b>
<b>Balance, January 1, 2010</b>	<b>\$ 1,970,682</b>
Geological and exploration drilling	5,875,382
Decommissioning	26,514
<b>Balance, December 31, 2010</b>	<b>\$ 7,872,578</b>
Geological and exploration drilling	5,111,078
Decommissioning	361,525
<b>Balance, March 31, 2011</b>	<b>\$ 13,345,181</b>

The Company has acquired a 100% interest in the mineral rights relating to approximately 50 sections of land in Saskatchewan for the purpose of exploration and development of heavy oil resources. All costs to date have been excluded from the depletion calculations because they relate to unproven properties.

The Company has provided a letter of credit in the amount of \$22,200 in favour of the Saskatchewan Ministry of Energy and Resources to secure future well abandonment costs.

**4. Property, plant and equipment**

	<b>Leasehold improvements</b>
<b>Cost:</b>	
<b>Balance at January 1, 2010</b>	-
Additions	18,833
Dispositions	-
<b>Balance at December 31, 2010</b>	<b>18,833</b>
Additions	-
Dispositions	-
<b>Balance at March 31, 2011</b>	<b>18,833</b>
<b>Accumulated depreciation</b>	
Balance at January 1, 2010	-
Depreciation expense	2,585
<b>Balance at December 31, 2010</b>	<b>2,585</b>
Depreciation expense	1,108
<b>Balance at March 31, 2011</b>	<b>3,693</b>
<b>Total balance at March 31, 2011</b>	<b>15,140</b>

**Rallyemont Energy Inc.**  
**Notes to the Condensed Interim Financial Statements**  
(unaudited)

**5. Deferred income tax**

Deferred income tax reflects the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Corporation's future assets and liabilities are as follows:

	<b>March 31</b>	<b>December 31</b>
	<b>2011</b>	<b>2010</b>
Non-capital loss carryforwards	\$ 415,692	\$ 317,027
Deferred share issue costs	373,471	399,133
Exploration & evaluation assets	(2,808,589)	(318,735)
Property and equipment	575	275
<b>Deferred income tax</b>	<b>\$ (2,018,851)</b>	<b>\$ 397,700</b>

**6. Other liabilities**

Other liabilities relates to the premium that was paid by shareholders for flow-through shares. It will be recognized as proceeds on sale of tax assets once the amounts are renounced to the shareholders

**7. Decommissioning liabilities**

	<b>March 31</b>	<b>December 31</b>
	<b>2011</b>	<b>2010</b>
<b>Balance, beginning of period</b>	<b>\$ 26,514</b>	<b>\$ -</b>
Liabilities incurred	361,525	26,514
Accretion expense	340	-
<b>Balance, end of period</b>	<b>\$ 388,379</b>	<b>\$ 26,514</b>

Future asset retirement obligations are estimated based on the Company's net ownership interest in all wells and facilities, the estimated costs to reclaim and abandon the wells and facilities and the estimated timing of the costs to be incurred in future periods. Management of the Company has estimated the total undiscounted cash flows required to settle the obligations will be \$450,000. The obligations have been discounted using a credit adjusted risk free rate of 2% - 4.07% and an inflation rate of 2% per year. A portion of these obligations will be paid in late 2011 and the rest are not expected to be paid until approximately 20 years in the future and will be funded from general Company funds at that time.

**Rallyemont Energy Inc.**  
**Notes to the Condensed Interim Financial Statements**  
(unaudited)

**8. Common shares and contributed surplus**

**Common shares authorized**

An unlimited number of Class A, Class B and Class C common shares without par value.

**Common shares issued**

	<b>Class A Shares</b>	<b>Share Capital</b>
<b>Balance, January 1, 2010</b>	<b>15,842,879</b>	<b>\$ 2,693,741</b>
Private placement	16,069,080	7,718,422
Flow-through private placement	12,400,690	7,874,323
Issued to acquire 101154728 Saskatchewan Ltd.	4,323,820	1,513,337
Share issue costs	-	(1,688,032)
<b>Balance, December 31, 2010 and March 31, 2011</b>	<b>48,636,469</b>	<b>\$18,111,791</b>

In February 2010, the Company completed an offering of Class A shares, issuing 8,357,812 shares at \$0.35 per share, for gross proceeds of \$2,925,234.

On March 4, 2010, the Company acquired all of the outstanding shares of 101154728 Saskatchewan Ltd. in exchange for 4,323,820 Class A shares. Immediately thereafter the two companies were amalgamated.

In May 2010, the Company issued 190,000 Class A shares at \$0.35, for gross proceeds of \$66,500.

In July 2010, the Company completed a brokered offering of 4,030,800 Class A shares on a flow-through basis at \$0.60 per share, and 2,691,000 Class A shares on a non-flow through basis at \$0.50 per share for gross proceeds of \$3,763,980.

In December 2010, the Company completed a brokered offering of 2,972,750 Class A shares on a flow-through basis at \$0.80 per share, and 2,406,838 Class A shares on a non-flow through basis at \$0.70 per share for gross proceeds of \$4,062,987.

Also in December 2010, the Company issued 5,397,140 Class A shares on a flow-through basis at \$0.80 per share, and 2,423,430 Class A shares on a non-flow through basis at \$0.70 per share for gross proceeds of \$6,014,113.

**Stock option plan**

Options granted are non-transferable, vest 25% upon grant and 25% per year for the next three years, and will expire the earlier of ten years after issuance, the 90th day after holder ceases to be a director, officer or consultant of the Company, or one year after death of the holder. The maximum number of shares issuable under the plan shall not exceed 10% of the total shares issued and outstanding from time to time.

**Rallyemont Energy Inc.**  
**Notes to the Condensed Interim Financial Statements**  
(unaudited)

**8. Common shares and contributed surplus (continued)**

A summary of the status of the Corporation's stock option plan and changes during the year is presented below.

	March 31, 2011		December 31, 2010	
	Options	Price	Options	Price
<b>Outstanding, beginning of period</b>	3,457,581	0.32	1,437,581	0.20
Options granted	960,000	0.70	1,250,000	0.35
Options granted	-	-	770,000	0.50
<b>Outstanding, end of period</b>	<b>4,417,581</b>	<b>\$ 0.40</b>	<b>3,457,581</b>	<b>\$ 0.32</b>

Options Price Per Share	Number Outstanding	Weighted Average Remaining Life
\$0.10	574,425	8.53
0.20	205,812	8.63
0.30	657,344	8.71
0.35	1,250,000	9.05
0.50	770,000	9.30
0.70	960,000	9.98
	<b>4,417,581</b>	<b>9.16</b>

The fair value of stock options issued in 2010 was estimated using the Black-Scholes option-pricing model, with the following assumptions: risk free rate of 1.37% - 2.42%, volatility of 85%, dividend yield of nil and expected term of 2.3 - 2.7 years. All options have a term of ten years from the date of issue.

The value of the options and performance warrants that vested during the period, using the Black-Scholes option-pricing model, was \$150,848 (December 31, 2010 - \$268,309), which was allocated to stock-based compensation expense with a corresponding increase in contributed surplus.

**Share purchase and broker warrants**

On certain issues of common shares, the Company grants broker warrants as partial consideration to the agent for services associated with the share issuance. Each broker warrant entitles the agent to acquire one common share of the Company at a price of \$0.30 - \$0.70 a share for a period of two to three years from closing. The broker warrants issued in 2010 were determined to have a fair value of \$495,969. The fair value of the warrants was determined using the Black-Scholes option-pricing model with the following assumptions: volatility of 85%, risk free rate of return of 1.56% - 1.73% expected dividend of nil and expected term of 2 - 2.9 years. A continuity schedule for share purchase warrants and broker warrants is as follows:

	March 31, 2011		December 31, 2010	
	Warrants	Price	Warrants	Price
<b>Outstanding, beginning of period</b>	4,003,293	\$ 0.62	2,161,840	\$ 0.67
Warrants granted	-	-	1,841,453	0.55
<b>Outstanding, end of period</b>	<b>4,003,293</b>	<b>\$ 0.62</b>	<b>4,003,293</b>	<b>\$ 0.62</b>

**Rallyemont Energy Inc.**  
**Notes to the Condensed Interim Financial Statements**  
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**8. Common shares and contributed surplus (continued)**

**Performance warrants**

During 2009, the Company approved the grant of 1,555,212 performance warrants to certain officers and consultants of the Company. One-third of these warrants are exercisable at \$0.10 and vested immediately. One-third of these warrants are exercisable at \$0.30 and vested on January 2, 2010. One-third of these warrants are exercisable at \$0.50 and will vest on January 2, 2011.

The performance warrants issued in 2009 were determined to have a fair value of \$57,491. The fair value of the warrants was determined using the Black-Scholes option-pricing model with the following assumptions: volatility of 85%, risk free rate of return of 1.95% expected dividend of nil, and expected term of 3.2 years.

**Contributed surplus**

The fair values of certain stock options and broker warrants have been valued using the Black-Scholes option-pricing model. The fair value on the grant of these securities is added to contributed surplus. Upon exercise, the corresponding amount of contributed surplus related to the security is removed from contributed surplus and added to share capital. A summary of the contributed surplus activity is as follows:

	<b>March 31</b>	<b>December 31</b>
	<b>2011</b>	<b>2010</b>
Balance, beginning of period	\$ 1,174,862	\$ 410,584
Fair value of stock options vested	150,848	268,309
Fair value of warrants vested	-	495,969
Balance, end of period	<b>\$ 1,325,710</b>	<b>\$ 1,174,862</b>

**9. Acquisition**

On March 4, 2010 the Company acquired all of the issued and outstanding shares of 101154728 Saskatchewan Ltd. ("101154728") pursuant to an amalgamation. The purchase price paid by Rallyemont for all of 101154728's shares, pursuant to the amalgamation, was \$1,513,337, which was satisfied by the issuance of 4,323,820 shares. The following table summarizes the fair value of the assets acquired and liabilities assumed at the date of amalgamation.

**Net assets acquired**

Cash and accounts receivable	\$ 1,516,388
Other assets	<u>11,947</u>
	<b>1,528,335</b>
Liabilities	<u>14,998</u>
	<b><u>\$ 1,513,337</u></b>
<b><u>Consideration</u></b>	
Common shares	<b><u>\$ 1,513,337</u></b>

**Rallyemont Energy Inc.**  
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**10. Related party transactions**

Compensation of key executive personnel

	<b>March 31</b>		<b>March 31</b>		<b>December 31</b>
	<b>2011</b>		<b>2010</b>		<b>2010</b>
Consulting fees	\$ 117,927	\$	66,931	\$	395,915
Stock based compensation to directors and officers	148,506		43,211		257,648
	<u>\$ 266,433</u>	\$	<u>110,142</u>	\$	<u>653,563</u>

These transactions are in the normal course of operations and are recorded at the exchange amounts agreed to by the parties.

**11. Capital disclosure**

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders. The Company considers the items included in shareholder's equity as capital. The Company manages the capital structure and makes adjustments to it in response to changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares, or acquire or dispose of assets.

In order to maximize ongoing exploration efforts, the Company does not pay out dividends. The Company's investment policy is to invest its cash in highly-rated, liquid short-term interest-bearing investments, with an initial term to maturity of 12 months or less.

The Company is not subject to externally-imposed capital requirements, except as disclosed.

**12. Financial instruments**

Fair value of financial instruments

The carrying amounts of cash, accounts receivable, accounts payable and accrued liabilities approximate their fair values due to the short-term maturity of those instruments.

Commodity price risk

Price risk is the risk that the value of petroleum and natural gas properties will fluctuate due to changes in market prices of the underlying commodities. A change in the price may have a direct effect on the value of the underlying petroleum and natural gas properties.

**Rallyemont Energy Inc.**  
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**13. First time adoption of International Financial Reporting Standards**

As disclosed in note 2, these are the Company's first financial statements prepared in accordance with IFRS. The Company's annual financial statements for the year ending December 31, 2011 will be the first annual financial statements that comply fully with IFRS. The Company's transition date is January 1, 2010 and the Company has prepared its first statement of financial position at that date.

The accounting policies set out in note 2 have been applied in preparing the financial statements for the period ended March 31, 2011, the comparative information presented in these financial statements for the period ended March 31, 2010 and December 31, 2010 and the preparation of the opening IFRS statement of financial position at January 1, 2010. The Company will ultimately prepare its opening statement of financial position and financial statements for 2010 and 2011 by applying existing IFRS effective as at December 31, 2011. Accordingly, the opening statement of financial position and financial statements for 2010 and 2011 may differ from these financial statements.

In preparing its opening IFRS statement of financial position, the Company has adjusted amounts reported previously in financial statements prepared in accordance with CGAAP. An explanation of how the transition from CGAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in a number of reconciliation tables including the accompanying notes.

Under IFRS 1 "First time adoption of International Financial Reporting Standards", the IFRS standards are applied retrospectively at the transition date with all adjustments to assets and liabilities as stated under CGAAP taken to retained earnings, with IFRS 1 providing certain optional exemptions and exceptions from full retrospective application of IFRS. The Company has elected not to use any of the optional exemptions.

**Rallyemont Energy Inc.**  
**Notes to the Condensed Interim Financial Statements**  
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**13. First time adoption of International Financial Reporting Standards (continued)**  
**Reconciliation of Assets, Liabilities and Equity**  
**January 1, 2010**

	Note	CGAAP	IFRS Adjustment	IFRS
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents		\$ 1,142,948	-	\$ 1,142,948
GST receivable		15,008	-	15,008
Prepaid expenses		106,897	-	106,897
		<b>1,264,853</b>	<b>-</b>	<b>1,264,853</b>
<b>Non-current assets</b>				
Deferred income tax asset		82,975	-	82,975
Exploration & evaluation assets		1,970,682	-	1,970,682
<b>Total assets</b>		<b>\$ 3,318,510</b>	<b>-</b>	<b>\$ 3,318,510</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Accounts payable and accrued liabilities		\$ 252,911	\$ -	\$ 252,911
Other liabilities	<b>1</b>	-	175,277	175,277
<b>Total liabilities</b>		<b>252,911</b>	<b>175,277</b>	<b>428,188</b>
<b>EQUITY</b>				
Common shares	<b>1, 2</b>	3,114,373	(420,632)	2,693,741
Contributed surplus	<b>2</b>	22,984	387,600	410,584
Retained earnings (deficit)	<b>2</b>	(71,758)	(142,245)	(214,003)
		<b>3,065,599</b>	<b>(175,277)</b>	<b>2,890,322</b>
<b>Total liabilities and equity</b>		<b>\$ 3,318,510</b>	<b>\$ -</b>	<b>\$ 3,318,510</b>

**Rallyemont Energy Inc.**  
**Notes to the Condensed Interim Financial Statements**  
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**13. First time adoption of International Financial Reporting Standards (continued)**  
**Reconciliation of Assets, Liabilities and Equity**  
**March 31, 2010**

	Note	CGAAP	IFRS Adjustment	IFRS
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents		\$ 2,590,370	-	\$ 2,590,370
GST receivable		75,744	-	75,744
Prepaid expenses		40,317	-	40,317
		<b>2,706,431</b>	<b>-</b>	<b>2,706,431</b>
<b>Non-current assets</b>				
Exploration & evaluation assets		4,693,822	-	4,693,822
<b>Total assets</b>		<b>\$ 7,400,253</b>	<b>-</b>	<b>\$ 7,400,253</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Accounts payable and accrued liabilities		\$ 481,691	-	\$ 481,691
Other liabilities		-	-	-
		<b>481,691</b>	<b>-</b>	<b>481,691</b>
<b>Non-current assets</b>				
Deferred income tax liability		82,223	-	82,223
Decommissioning liabilities		13,257	-	13,257
<b>Total liabilities</b>		<b>\$ 577,171</b>	<b>\$ -</b>	<b>\$ 577,171</b>
<b>EQUITY</b>				
Common shares	1, 2	6,933,095	(199,805)	6,733,290
Contributed surplus	2	42,280	507,683	549,963
Deficit	1, 2	(152,293)	(307,878)	(460,171)
		<b>6,823,082</b>	<b>-</b>	<b>6,823,082</b>
<b>Total liabilities and equity</b>		<b>\$ 7,400,253</b>	<b>\$ -</b>	<b>\$ 7,400,253</b>

**Rallyemont Energy Inc.**  
**Notes to the Condensed Interim Financial Statements**  
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**13. First time adoption of International Financial Reporting Standards (continued)**  
**Reconciliation of Net Loss**  
**March 31, 2010**

	Note	CGAAP	IFRS Adjustment	IFRS
<b>Expenses</b>				
Consulting fees		\$ 66,931	-	\$ 66,931
Professional fees		10,661	-	10,661
Office and other		8,374	-	8,374
Insurance		2,061	-	2,061
Travel		17,765	-	17,765
Share based compensation	2	2,245	40,966	43,211
		<b>108,037</b>	<b>40,966</b>	<b>149,003</b>
<b>Other income (expense)</b>				
Interest income		351		351
<b>Income before income taxes</b>		<b>(107,686)</b>	<b>(40,966)</b>	<b>(148,652)</b>
Deferred income tax	1	(27,151)	124,667	97,516
<b>Net loss</b>		<b>(80,535)</b>	<b>(165,633)</b>	<b>(246,168)</b>
Deficit, beginning of year	2	(71,758)	(142,245)	(214,003)
<b>Deficit, end of year</b>	1, 2	<b>\$ (152,293)</b>	<b>\$ (307,878)</b>	<b>\$ (460,171)</b>
<b>Basic and diluted loss per share</b>		<b>\$ (0.00)</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>
<b>Weighted average number of shares outstanding</b>		<b>22,042,777</b>	<b>22,042,777</b>	<b>22,042,777</b>

**Rallyemont Energy Inc.**  
**Notes to the Condensed Interim Financial Statements**  
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**13. First time adoption of International Financial Reporting Standards (continued)**  
**Reconciliation of Assets, Liabilities and Equity**  
**December 31, 2010**

	Note	CGAAP	IFRS Adjustment	IFRS
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents		\$ 11,993,413	-	\$ 11,993,413
GST receivable		83,445	-	83,445
Prepaid expenses		6,121	-	6,121
		<b>12,082,979</b>	<b>-</b>	<b>12,082,979</b>
<b>Non-current assets</b>				
Exploration & evaluation assets		7,872,578	-	7,872,578
Property, plant and equipment		16,248	-	16,248
Deferred income tax assets		397,700	-	397,700
<b>Total assets</b>		<b>\$ 20,369,505</b>	<b>-</b>	<b>\$ 20,369,505</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Accounts payable and accrued liabilities		\$ 859,018	\$ -	\$ 859,018
Other liabilities	2	-	1,240,069	1,240,069
		<b>859,018</b>	<b>1,240,069</b>	<b>2,099,087</b>
<b>Non-current assets</b>				
Decommissioning liabilities		26,514	-	26,514
<b>Total liabilities</b>		<b>\$ 885,532</b>	<b>\$ 1,240,069</b>	<b>\$ 2,125,601</b>
<b>EQUITY</b>				
Common shares	1, 2	19,893,554	(1,781,763)	18,111,791
Contributed surplus	1	166,931	1,007,931	1,174,862
Retained earnings (deficit)	1, 2	(576,512)	(466,237)	(1,042,749)
		<b>19,483,973</b>	<b>(1,240,069)</b>	<b>18,243,904</b>
<b>Total liabilities and equity</b>		<b>\$ 20,369,505</b>	<b>\$ -</b>	<b>\$ 20,369,505</b>

**Rallyemont Energy Inc.**  
**Notes to the Condensed Interim Financial Statements**  
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**13. First time adoption of International Financial Reporting Standards (continued)**  
**Reconciliation of Net Loss**  
**December 31, 2010**

	Note	CGAAP	IFRS Adjustment	IFRS
<b>Expenses</b>				
Consulting fees		395,915	-	395,915
Professional fees		74,901	-	74,901
Office and other		81,117	-	81,117
Insurance		12,544	-	12,544
Travel		40,583	-	40,583
Share based compensation	2	68,984	199,325	268,309
Depreciation		2,585	-	2,585
		<b>676,629</b>	<b>199,325</b>	<b>875,954</b>
<b>Other income (expense)</b>				
Interest income		13,138		13,138
<b>Income (loss) before income taxes</b>		<b>(663,491)</b>	<b>(199,325)</b>	<b>(862,816)</b>
Future income tax (recovery)		158,737	66,832	225,569
<b>Net loss</b>		<b>(504,754)</b>	<b>(132,493)</b>	<b>(637,247)</b>
Deficit, beginning of year	1, 2	(71,758)	(142,245)	(214,003)
<b>Retained earnings (deficit), end of year</b>	1, 2	<b>\$ (576,512)</b>	<b>\$ (274,738)</b>	<b>\$ (851,250)</b>
<b>Basic and diluted loss per share</b>		<b>\$ (0.02)</b>	<b>\$ (0.00)</b>	<b>\$ (0.02)</b>
<b>Weighted average number of shares outstanding</b>		<b>30,473,626</b>	<b>30,473,626</b>	<b>30,473,626</b>

**Rallyemont Energy Inc.**  
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**13. First time adoption of International Financial Reporting Standards (continued)**

1. Share-based payments

Under IFRS each tranche of an award with different vesting dates is considered a separate grant for the calculation of fair value, and the resulting fair value would be amortized over the vesting period of the respective tranches. Forfeiture estimates are recognized in the period they are estimated and revised for actual forfeitures in subsequent periods. Under CGAAP the fair value of an award with graded vesting was calculated as a single grant and the resulting fair value is recognized on a straight-line basis over the vesting period.

2. Flow-through shares

Under IFRS, the sale of flow-through shares results in a liability being recognized for the excess of the purchase price paid by the investor over the fair value of common shares without the flow-through feature (the “premium”) and the fair value of the shares is recorded as equity. The premiums are recognized in earnings when the Company has the ability and intention of renouncing the tax pools. As such, once the Company fulfills its exploration expenditure requirements for the flow-through, the premium and a future income tax liability and expense are recognized. If the Company has unrecognized tax assets that are not expected to expire, the Company would recognize those previously unrecognized assets to eliminate the future tax expense. The net result of the difference on the Company’s financial statements is to reduce share capital by the premium as opposed to the full amount of the future tax liability and recognize the premium and future income tax expense in earnings in the period the Company intended to renounce the expenditures to the investors. Under CGAAP, the issuance of flow-through shares caused share capital to be reduced for share issue costs by an amount that was recognized as a future income tax liability related to the renunciation of flow-through share expenditures at the time of renunciation.

3. Asset retirement obligation

Under IFRS, the assumptions used in calculating the asset retirement obligation are to be analyzed at each balance sheet date and updated to reflect current market conditions where appropriate. Under CGAAP there was no such analysis needed. There has been no change in this obligation due to the implementation of IFRS.

The transition from CGAAP to IFRS had no material impact on the net cash flows of the Company.

**14. Comparative figures**

Certain comparative figures have been reclassified to conform to the current period presentation