



(A Development Stage Company)

CONDENSED INTERIM FINANCIAL STATEMENTS

September 30, 2011

(Unaudited – Prepared by Management)

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)

	September 30	December 31
	2011	2010
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,862,222	\$11,993,413
GST receivable	83,674	83,445
Prepays	10,071	6,121
	2,955,967	12,082,979
Non-current assets		
Exploration and evaluation assets (Note 3)	16,278,087	7,872,578
Property, plant and equipment (Note 4)	12,925	16,248
Deferred income tax assets (Note 5)	-	397,700
Total assets	\$ 19,246,979	\$ 20,369,505
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 290,066	\$ 859,018
Other liabilities (Note 6)	-	1,240,069
	290,066	2,099,087
Non-current liabilities		
Deferred income tax liability (Note 5)	1,956,803	-
Decommissioning liabilities (Note 7)	467,735	26,514
Total liabilities	2,714,604	2,125,601
EQUITY		
Common shares (Note 8)	18,111,791	18,111,791
Contributed surplus (Note 8)	1,476,472	1,174,862
Deficit	(3,055,888)	(1,042,749)
	16,532,375	18,243,904
Total liabilities and equity	\$ 19,246,979	\$ 20,369,505

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

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
		(Note 13)		(Note 13)
Expenses				
Consulting fees (Note 10)	\$ 102,636	\$ 132,637	\$ 325,236	\$ 277,031
Professional fees	58,268	19,123	148,695	55,995
Office and other	38,609	34,300	90,848	64,322
Insurance	7,067	3,499	17,863	9,045
Travel	15,841	12,638	44,361	40,244
Share-based compensation	75,744	102,997	301,610	205,201
Accretion of decommissioning liabilities	2,916	-	5,802	-
Depreciation	1,108	1,108	3,323	1,477
	302,189	306,302	937,738	653,315
Other income (expense)				
Interest income	7,160	4,781	39,033	6,066
Income (loss) before income taxes	(295,029)	(301,521)	(898,705)	(647,249)
Deferred income tax (recovery)	(53,457)	(53,326)	1,114,434	7,115
Net loss and comprehensive loss	\$ (241,572)	\$ (248,195)	\$ (2,013,139)	\$ (654,364)
Basic and diluted loss per share	\$ (0.00)	\$ (0.01)	\$ (0.04)	\$ (0.02)

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

	Common Shares	Share Capital	Contributed Surplus	Deficit	Total Equity
Balance, January 1, 2010	15,842,879	\$ 2,693,741	\$ 410,584	\$ (214,003)	\$ 2,890,322
Acquisition of Subsidiary	4,323,820	1,513,337	-	-	1,513,337
Share issuance	15,269,612	6,352,634	-	-	6,352,634
Share issue costs	-	(803,290)	-	-	(803,290)
Vesting of options and warrants	-	-	417,515	-	417,515
Net loss and comprehensive loss	-	-	-	(654,364)	(654,364)
Balance, September 30, 2010	35,436,311	\$ 9,756,422	\$ 828,099	\$ (868,367)	\$ 9,716,154

	Common Shares	Share Capital	Contributed Surplus	Deficit	Total Equity
Balance, January 1, 2011	48,636,469	\$ 18,111,791	\$ 1,174,862	\$ (1,042,749)	\$ 18,243,904
Vesting of options and warrants	-	-	301,610	-	301,610
Net loss and comprehensive loss	-	-	-	(2,013,139)	(2,013,139)
Balance, September 30, 2011	48,636,469	\$ 18,111,791	\$ 1,476,472	\$ (3,055,888)	\$ 16,532,375

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

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Cash flows from Operating Activities				
Net loss	\$ (241,572)	\$ (248,195)	\$ (2,013,139)	\$ (654,364)
Items not affecting cash				
Share-based compensation	75,744	102,997	301,610	205,201
Deferred income taxes	(53,457)	(53,326)	1,114,434	7,115
Depreciation and accretion	4,024	1,108	9,125	1,477
Net changes in non-cash working capital items related to operations:				
GST receivable	(4,162)	4,681	(229)	(35,516)
Prepaid expenses	7,066	20,910	(3,950)	233
Accounts payable and accrued liabilities	36,412	22,025	3,708	(143)
	(175,945)	(149,800)	(588,441)	(475,997)
Cash flows from Investing Activities				
Expenditures on exploration and evaluation assets	(1,443,505)	(854,637)	(7,970,090)	(4,409,420)
Expenditures on property, plant and equipment	-	-	-	(18,833)
Change in non-cash working capital	64,544	186,880	(112,750)	206,967
	(1,378,961)	(667,757)	(8,082,840)	(4,221,286)
Cash flows from Financing Activities				
Proceeds from issuance of common shares (net of issue costs)	-	918,057	-	7,463,915
Share issue costs	-	-	(459,910)	
	-	918,057	(459,910)	7,463,915
Net increase (decrease) in cash during the year	(1,554,906)	100,500	(9,131,191)	2,766,632
Cash, beginning of period	4,417,128	3,809,080	11,993,413	1,142,948
Cash, end of period	\$ 2,862,222	\$ 3,909,580	\$ 2,862,222	\$ 3,909,580

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

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. Previously, the Company prepared its annual and interim financial statements in accordance with Canadian Generally Accepted Accounting Principles (“CGAAP”).

The policies applied in these interim financial statements are based on IFRS issued and outstanding as of November 10, 2011. Any subsequent changes to IFRS that are given effect in the Company’s annual financial statements for the year ending December 31, 2011 could result in restatement of these interim financial statements.

The interim financial statements should be read in conjunction with the CGAAP audited financial statements for the year ended December 31, 2010.

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)

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)

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)

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)

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

	Total
Balance, January 1, 2010	\$ 1,970,682
Geological and exploration drilling	5,875,382
Decommissioning	26,514
Balance, December 31, 2010	\$ 7,872,578
Geological and exploration drilling	7,970,090
Decommissioning	435,419
Balance, September 30, 2011	\$ 16,278,087

The Company has acquired a 100% interest in the mineral rights relating to approximately 83 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 \$413,475 in favour of the Saskatchewan Ministry of Energy and Resources to secure future well abandonment costs.

4. Property, plant and equipment

	Leasehold improvements
Cost:	
Balance at January 1, 2010	\$ -
Additions	18,833
Dispositions	-
Balance at December 31, 2010	18,833
Additions	-
Dispositions	-
Balance at September 30, 2011	\$ 18,833
Accumulated depreciation:	
Balance at January 1, 2010	\$ -
Depreciation expense	2,585
Balance at December 31, 2010	2,585
Depreciation expense	3,323
Balance at September 30, 2011	5,908
Total balance at September 30, 2011	\$ 12,925

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:

	September 30	December 31
	2011	2010
Non-capital loss carryforwards	\$ 524,671	\$ 317,027
Deferred share issue costs	322,147	399,133
Exploration & evaluation assets	(2,804,794)	(318,735)
Property and equipment	1,173	275
Deferred income tax	\$ (1,956,803)	\$ 397,700

6. Other liabilities

Other liabilities as of December 31, 2010 relate to the premium that was paid by shareholders for flow-through shares. It was recognized as proceeds on sale of tax assets when the amounts were renounced to the shareholders in March 2011.

7. Decommissioning liabilities

	September 30	December 31
	2011	2010
Balance, beginning of period	\$ 26,514	\$ -
Liabilities incurred	435,419	26,514
Accretion expense	5,802	-
Balance, end of period	\$ 467,735	\$ 26,514

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 has estimated the total undiscounted cash flows required to settle the obligations will be \$525,000. 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

	Class A Shares	Share Capital
Balance, January 1, 2010	15,842,879	\$ 2,693,741
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)
Balance, December 31, 2010 and September 30, 2011	48,636,469	\$18,111,791

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 Company's stock option plan and changes during the year is presented below.

	June 30, 2011		December 31, 2010	
	Options	Price	Options	Price
Outstanding, beginning of period	3,457,581	0.32	1,437,581	0.20
Options granted	1,000,000	0.70	1,250,000	0.35
Options granted	-	-	770,000	0.50

Outstanding, end of period	4,457,581	\$ 0.41	3,457,581	\$ 0.32
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Options Price Per Share	Number Outstanding	Weighted Average Remaining Life
\$0.10	574,425	8.03
0.20	205,812	8.13
0.30	657,344	8.21
0.35	1,250,000	8.55
0.50	770,000	8.80
0.70	1,000,000	9.50
	4,457,581	8.67

The fair value of stock options was estimated using the Black-Scholes option-pricing model, with the following assumptions: risk free rate of 0.89% - 1.67% (2010: 1.37% - 2.42%), volatility of 85%, dividend yield of nil and expected term of 1.3 - 1.8 years (2010: 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 \$301,610 (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% - 1.93% 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:

	September 30, 2011		December 31, 2010	
	Warrants	Price	Warrants	Price
Outstanding, beginning of period	4,003,293	\$ 0.62	2,161,840	\$ 0.67
Warrants granted	-	-	1,841,453	0.55
Outstanding, end of period	4,003,293	\$ 0.62	4,003,293	\$ 0.62

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

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:

	September 30	December 31
	2011	2010
Balance, beginning of period	\$ 1,174,862	\$ 410,584
Fair value of stock options vested	301,610	268,309
Fair value of warrants vested	-	495,969
Balance, end of period	\$ 1,476,472	\$ 1,174,862

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>

1,528,335

Liabilities	<u>14,998</u>
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\$ 1,513,337

Consideration

Common shares	<u>\$ 1,513,337</u>
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Rallyemont Energy Inc.
Notes to the Condensed Interim Financial Statements
(unaudited)

10. Related party transactions

Compensation of key executive personnel

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Consulting fees	\$ 102,636	\$ 132,637	\$ 325,636	\$ 277,031
Share-based compensation to directors and officers	69,890	101,688	291,073	199,237
	\$ 172,526	\$ 234,325	\$ 616,709	\$ 476,268

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. Reconciliation of CGAAP to IFRS

As disclosed in note 2, the Company now prepares its financial statements in accordance with IFRS. The Company's transition date is January 1, 2010 and the accounting policies set out in note 2 have been applied in preparing the financial statements for the period ended September 30, 2011 and the comparative information for the period ended September 30, 2010.

In preparing these interim financial statements, the Company has adjusted amounts previously reported in accordance with CGAAP. These adjustments are set out in the following tables

**Reconciliation of Assets, Liabilities and Equity
September 30, 2010**

	Note	CGAAP	IFRS Adjustment	IFRS
ASSETS				
Current assets				
Cash and cash equivalents		\$ 3,909,580	-	\$ 3,909,580
GST receivable		48,567	-	48,567
Prepaid expenses		6,232	-	6,232
		3,964,379	-	3,964,379
Non-current assets				
Exploration & evaluation assets		6,406,616	-	6,406,616
Property, plant and equipment		17,356	-	17,356
Deferred income tax assets		114,743	-	114,743
Total assets		\$ 10,503,094	-	\$ 10,503,094
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities		\$ 357,346	-	\$ 357,346
Other liabilities		-	403,080	403,080
		357,346	403,080	760,426
Non-current liabilities				
Deferred income tax liability		-	-	-
Decommissioning liabilities		26,514	-	26,514
Total liabilities		\$ 383,860	403,080	\$ 786,940
EQUITY				
Common shares	1, 2	10,455,317	(698,895)	9,756,422
Contributed surplus	2	101,883	726,216	828,099
Deficit	1, 2	(437,966)	(430,401)	(868,367)
		10,119,234	(403,080)	9,716,154
Total liabilities and equity		\$ 10,503,094	-	\$ 10,503,094

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13. Reconciliation of CGAAP to IFRS (continued)

Reconciliation of Net Loss

For the periods ended September 30, 2010

	Three months			Nine months			
	Note	IFRS		IFRS			
		CGAAP	Adjustment	IFRS	CGAAP	Adjustment	IFRS
Expenses							
Consulting fees		132,637	-	\$ 132,637	277,031	-	\$ 277,031
Professional fees		19,123	-	19,123	55,995	-	55,995
Office and other		34,300	-	34,300	64,322	-	64,322
Insurance		3,499	-	3,499	9,045	-	9,045
Travel		12,638	-	12,638	40,244	-	40,244
Share based compensation	2	26,054	76,943	102,997	41,713	163,488	205,201
Accretion of decommissioning liabilities				-			-
Depreciation		1,108	-	1,108	1,477	-	1,477
		229,359	76,943	306,302	489,827	163,488	653,315
Other income (expense)							
Interest income		4,781	-	4,781	6,066	-	6,066
Income (loss) before income taxes		(224,578)	(76,943)	(301,521)	(483,761)	(163,488)	(647,249)
Deferred income tax (recovery)		(53,326)	-	(53,326)	(117,552)	124,667	7,115
Net loss		(171,252)	(76,943)	\$ (248,195)	(366,209)	(288,155)	\$ (654,364)

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

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.

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