

COBRA VENTURE CORPORATION

FINANCIAL STATEMENTS

NOVEMBER 30, 2010

Auditors' Report

**To the Shareholders of
Cobra Venture Corporation**

We have audited the balance sheets of Cobra Venture Corporation as at November 30, 2010 and 2009, and the statements of operations and deficit, comprehensive income and accumulated comprehensive income, and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in these financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at November 30, 2010, and 2009, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Vancouver, Canada

March 3, 2011

"MacKay LLP"

Chartered Accountants

COBRA VENTURE CORPORATION
BALANCE SHEETS
AS AT NOVEMBER 30

	2010	2009
ASSETS		
Current		
Cash and cash equivalents (Note 2)	\$ 2,914,709	\$ 1,027,611
Receivables	338,297	311,197
Prepaid expenses	<u>27,037</u>	<u>28,535</u>
	3,280,043	1,367,343
Investment (Note 3)	2,247,500	250,000
Equipment (Note 4)	3,185	2,922
Petroleum and natural gas interests (Note 5)	<u>623,804</u>	<u>1,261,191</u>
	<u>\$ 6,154,532</u>	<u>\$ 2,881,456</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (Note 9)	\$ 219,362	\$ 120,137
Income taxes payable	<u>387,557</u>	<u>29,779</u>
	606,919	149,916
Asset retirement obligation (Note 6)	26,495	18,476
Future income taxes (Note 10)	<u>387,706</u>	<u>300,500</u>
	<u>1,021,120</u>	<u>468,892</u>
Shareholders' equity		
Capital stock (Note 7)	4,026,292	3,616,027
Contributed surplus (Note 7)	381,977	307,704
Accumulated other comprehensive income	1,747,812	-
Deficit	<u>(1,022,669)</u>	<u>(1,511,167)</u>
	<u>5,133,412</u>	<u>2,412,564</u>
	<u>\$ 6,154,532</u>	<u>\$ 2,881,456</u>

Nature and continuance of operations (Note 1)

Commitment (Note 15)

Subsequent events (Note 16)

On behalf of the Board:

"Daniel B Evans"

Director

"Cyrus Driver"

Director

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

COBRA VENTURE CORPORATION
STATEMENTS OF OPERATIONS AND DEFICIT
YEARS ENDED NOVEMBER 30

	2010	2009
OIL AND GAS REVENUES		
Production revenue	\$ 124,442	\$ 56,602
Royalty revenue	<u>1,849,931</u>	<u>747,351</u>
	<u>1,974,373</u>	<u>803,953</u>
DIRECT COSTS		
Production and operation costs	50,169	23,383
Royalties	13,476	9,338
Depletion	240,188	122,598
Accretion expense (Note 6)	<u>1,843</u>	<u>1,676</u>
	<u>305,676</u>	<u>156,995</u>
Gross profit	<u>1,668,697</u>	<u>646,958</u>
EXPENSES		
Amortization	1,077	1,252
Consulting fees	63,563	32,117
Corporate services	15,600	13,200
Management fees	378,000	183,000
Media and website	18,578	35,960
Office and miscellaneous	24,672	32,197
Professional fees	203,504	200,419
Rent	58,690	61,389
Stock-based compensation (Note 8)	116,631	106,085
Transfer agent and regulatory fees	18,151	10,541
Travel and promotion	<u>13,033</u>	<u>13,453</u>
	<u>(911,499)</u>	<u>(689,613)</u>
Income (loss) before other items	<u>757,198</u>	<u>(42,655)</u>
OTHER ITEMS		
Lease income	1,096	766
Interest income	<u>8,235</u>	<u>16,843</u>
	<u>9,331</u>	<u>17,619</u>
Income (loss) before income taxes	766,529	(25,036)
Income tax recovery (expense) (Note 10)		
Future income tax recovery	160,118	74,800
Income tax expense	<u>(438,149)</u>	<u>(45,745)</u>
	<u>(278,031)</u>	<u>29,055</u>
Income for the year	488,498	4,019
Deficit, beginning of year	<u>(1,511,167)</u>	<u>(1,515,186)</u>
Deficit, end of year	<u>\$ (1,022,669)</u>	<u>\$ (1,511,167)</u>

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

COBRA VENTURE CORPORATION
STATEMENTS OF OPERATIONS AND DEFICIT
YEARS ENDED NOVEMBER 30

	2010	2009
<i>Continued...</i>		
Basic income per share	\$ 0.03	\$ 0.00
Diluted income per share	0.03	0.00
Weighted average number of shares outstanding	<u>15,795,544</u>	<u>14,940,750</u>
Plus incremental shares from assumed conversions		
Stock options	<u>364,286</u>	<u>-</u>
Dilutive potential common shares	<u>364,286</u>	<u>-</u>
Adjusted weighted average shares	<u>16,159,830</u>	<u>14,940,750</u>

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

COBRA VENTURE CORPORATION
STATEMENTS COMPREHENSIVE INCOME AND ACCUMULATED OTHER COMPREHENSIVE INCOME
YEARS ENDED NOVEMBER 30

	2010	2009
Income for the year before other comprehensive income	\$ 488,498	\$ 4,019
Other Comprehensive income		
Unrealized gain on available for sale investments, net of tax \$249,688	<u>1,747,812</u>	<u>-</u>
Comprehensive Income	\$ 2,236,310	\$ 4,019
Accumulated other comprehensive income, beginning of year	\$ -	\$ -
Other comprehensive income for the year, net of tax \$249,688	<u>1,747,812</u>	<u>-</u>
Accumulated other comprehensive income, end of year	\$ 1,747,812	\$ -

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

COBRA VENTURE CORPORATION
STATEMENTS OF CASH FLOWS
YEARS ENDED NOVEMBER 30

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Income for the year	\$ 488,498	\$ 4,019
Items not involving cash:		
Accretion	1,843	1,676
Amortization	1,077	1,252
Depletion	240,188	122,598
Stock-based compensation	116,631	106,085
Future income tax expense (recovery)	(160,118)	(74,800)
Changes in non-cash working capital items:		
Increase in receivables	(27,100)	(48,819)
(Increase) decrease in prepaid expenses	1,498	(2,915)
Decrease in accounts payable and accrued liabilities	97,717	(11,448)
Increase in income tax payable	357,778	29,779
Decrease in income tax receivable	-	62,907
Cash provided by operating activities	<u>1,118,012</u>	<u>190,334</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Petroleum and natural gas recovery	460,000	-
Petroleum and natural gas expenditures	(55,117)	(947,623)
Purchase of equipment	<u>(1,340)</u>	<u>-</u>
Cash provided by (used in) investing activities	<u>403,543</u>	<u>(947,623)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Common shares issued for cash net of share issue costs	<u>365,543</u>	<u>-</u>
Cash provided by financing activities	<u>365,543</u>	<u>-</u>
Change in cash and cash equivalents	1,887,098	(757,289)
Cash and cash equivalents, beginning of year	<u>1,027,611</u>	<u>1,784,900</u>
Cash and cash equivalents, end of year	<u>\$ 2,914,709</u>	<u>\$ 1,027,611</u>
Cash and cash equivalents consists of:		
Cash	\$ 1,164,709	\$ 527,611
Cash equivalents (Note 2)	<u>1,750,000</u>	<u>500,000</u>
	<u>\$ 2,914,709</u>	<u>\$ 1,027,611</u>
Cash paid for interest	\$ -	\$ -
Cash paid for income taxes	<u>77,923</u>	<u>47,054</u>

Supplemental disclosure with respect to cash flows (Note 11)

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

1. NATURE AND CONTINUANCE OF OPERATIONS

The Company was incorporated under the Business Corporation Act (Alberta) on August 18, 1999 and its principal business activity is the exploration and development of petroleum and natural gas interests.

2. SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

Cash and cash equivalents include cash on deposit and Canadian guaranteed investment certificates ("GIC's") that are both with a major Canadian banking institution. As at November 30, 2010, cash equivalents are cashable GIC's at an interest rate between prime less 1.75% and prime less 1.95%, maturing between January 26, 2011 and July 29, 2011 (2009 - cashable GIC's, at an interest rate between prime less 2%, matured January 27, 2010).

Financial instruments

Section 3855 requires that all financial assets and financial liabilities (including derivatives) be measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods depends on whether the financial asset or liability has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables or other liabilities.

The Company has designated its cash and cash equivalents as held-for-trading, which is measured at fair value. Receivables are classified as loans and receivables, which are measured at amortized cost. Investments are classified as available-for-sale. Accounts payable and accrued liabilities, and asset retirement obligations are classified as other financial liabilities, which are measured at amortized cost.

Financial instruments classified as held-for-trading are measured at fair value and unrealized gains and losses are included in net income in the period in which they arise.

Available-for-sale assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as held-for-trading, held-to-maturity, or loans and receivables. Available-for-sale assets are measured at fair value on initial recognition with unrealized gains and losses recorded in other comprehensive income until realized, at which time they will be recognized in net income.

Other accounting implications arising upon the adoption of Section 3855 include the use of the effective interest method ("EIM") for any transaction costs or financing fees earned or incurred for financial instruments measured at amortized cost, and the recognition of the fair value of the obligation undertaken in issuing a guarantee that meets the definition of a guarantee pursuant to Accounting Guidelines 14, Disclosure of Guarantees (AcG 14). No subsequent re-measurement at fair value is required unless the financial guarantee qualifies as a derivative. If the financial guarantee meets the definition of a derivative, it is re-measured at fair value at each balance sheet date.

Transaction costs incurred in relation to the acquisition of a financial asset or liability which is classified as held-for-trading are immediately expensed by the Company.

Measurement uncertainty and estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the possible impairment of long-lived assets, asset retirement obligations and useful lives for depletion and amortization, stock-based compensation, the fair value of financial instruments, and future income taxes. Financial results as determined by actual events could significantly differ from those estimates.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Financing costs

Costs directly identifiable with the raising of capital will be charged against the related capital stock. Costs related to shares not yet issued are recorded as deferred financing costs. These costs will be deferred until the issuance of the shares to which the costs relate, at which time the costs will be charged against the related capital stock or charged to operations if the shares are not issued.

Equipment

Equipment is recorded at cost less accumulated amortization. Amortization is recorded using the declining balance method over the estimated useful life of the equipment at the following annual rates, commencing when the related asset is available for use:

Computer hardware	30%
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Petroleum and natural gas interests

The Company follows the full cost method of accounting for petroleum and natural gas interests, whereby all costs of exploring for and developing petroleum and natural gas reserves are capitalized and accumulated in cost centres on a country-by-country basis. Costs include land acquisition costs, geological and geophysical charges, carrying charges on non-productive properties and costs of drilling both productive and non-productive wells. General and administrative costs are not capitalized other than to the extent of the Company's working interest in operated capital expenditure programs on which operator's fees have been charged equivalent to standard industry operating agreements.

The costs in each cost centre, including the costs of well equipment, are depleted and amortized using the unit-of-production method based on the estimated proved reserves before royalties. Natural gas reserves and production are converted to equivalent barrels of crude oil based on relative energy content. The costs of acquiring and evaluating significant unproved properties are initially excluded from depletion calculations. These unevaluated properties are assessed periodically to ascertain whether impairment has occurred. When proved reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion.

The net carrying value of the Company's petroleum and natural gas properties is limited to an ultimate recoverable amount. The Company tests impairment against undiscounted future net revenue from proved reserves using expected future prices and costs as well as the income tax in effect at the period end. Impairment is recognized when the carrying value of the assets is greater than the undiscounted future net revenues, in which case the assets are written down to the fair value of proved plus probable reserves plus the cost of unproved properties, net of impairment allowances. Fair value is determined based on discounted future net cash flows calculated using expected future prices and costs as well as the income tax legislation in effect at the period end. The discounted rate used is a risk free interest rate.

Certain of the Company's exploration and production activities are conducted jointly with others and, accordingly, the accounts reflect only the Company's proportionate interest in such activities.

Proceeds from the sale of petroleum and natural gas properties are applied against capitalized costs, with no gain or loss recognized unless such a sale significantly alters the rate of depletion by greater than 20%.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Asset retirement obligations

The Company recognizes the fair value of liabilities related to legal obligations related to an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability.

Changes in the liability for an asset retirement obligation due to the passage of time will be measured by applying an interest method of allocation. The amount will be recognized as an increase in the liability and an accretion expense in the statement of operations. Changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease in the carrying amount of the liability and the related long-lived asset.

Flow-through common shares

Canadian tax legislation permits a company to issue flow-through shares whereby the deduction for tax purposes relating to qualified resource expenditures is claimed by the investors rather than the Company. Capitalizing these expenditures for accounting purposes gives rise to taxable temporary differences. The Company records a reduction in capital stock for the tax benefits transferred to shareholders.

Effective March 19, 2004, the Emerging Issues Committee of the Canadian Institute of Chartered Accountants requires that, when flow-through expenditures are renounced, a portion of the future income tax assets that were not recognized in previous years, due to the recording of a valuation allowance, be recognized as a recovery of income taxes in the statement of operations and comprehensive income (loss).

Valuation of equity units issued in private placements

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component.

The fair value of the common shares issued in the private placements was determined to be the more easily measurable component and were valued at their fair value, as determined by the closing quoted bid price on the announcement date. The balance, if any, was allocated to the attached warrants. Any fair value attributed to the warrants is recorded as contributed surplus.

Stock-based compensation

The Company accounts for stock options granted to directors, officers, employees and non-employees using the fair value method of accounting. Accordingly, the fair value of the options at the date of the grant is determined using the Black-Scholes option pricing model and stock-based compensation is accrued and charged to operations, with an offsetting credit to contributed surplus, over the vesting periods. The fair value of stock options granted to non-employees is re-measured at the earlier of each financial reporting or vesting date, and any adjustment is charged or credited to operations upon remeasurement. If and when the stock options are exercised, the applicable amounts of contributed surplus are transferred to share capital. The Company has not incorporated an estimated forfeiture rate for stock options that will not vest; rather the Company accounts for actual forfeitures as they occur.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Valuation of equity units issued in private placements

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component.

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Earnings (loss) per share

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on earnings per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the year.

Basic earnings (loss) per share is calculated using the weighted-average number of shares outstanding during the year.

Future income taxes

Future income taxes are recorded using the asset and liability method whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and for the benefit of losses available to be carried forward for tax purposes that are more likely than not to be realized. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in operations in the year that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

Royalties, lease and fee simple revenue

Revenue and royalties from petroleum and natural gas operations are recognized at the time the oil is sold or natural gas is delivered, and collectability is reasonably assured.

Revenue from petroleum and natural gas leases is recognized over the term of the lease on a straight-line basis. Payments received in advance are recorded as deferred revenue.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Comparative figures

Certain comparative figures have been re-classified to conform with the current fiscal year's presentation.

Recent accounting pronouncements

International financial reporting standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of December 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended November 30, 2011. The Company is currently evaluating the impact of the conversion on the Company's financial statements and is considering accounting policy choices under IFRS.

Business combinations / Consolidated financial statements / Non-controlling interests

In January 2009, the CICA issued Handbook Sections 1582 "Business Combinations", 1601 "Consolidated Financial Statements" and 1602 "Non-Controlling Interests", which replace CICA Handbook Sections 1581 "Business Combinations" and 1600 "Consolidated Financial Statements". Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under IFRS. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. These sections are applicable for the Company's interim and annual financial statements for its fiscal year beginning on or after January 1, 2011. Early adoption of these Sections is permitted, although all three Sections must be adopted concurrently. At this point, the Company doesn't anticipate adopting these sections prior to the adoption of IFRS and therefore does not expect any impact on the financial statements.

COBRA VENTURE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
NOVEMBER 30, 2010

3. INVESTMENT

	2010	2009
Shares in Zodiac Exploration Corp.	\$ 2,247,500	\$ 250,000

At November 30, 2009, the Company held 2,500,000 shares of a private company representing a 3.2% interest in that company, which is related by virtue of a common director. The shares were being carried at cost because, without an active market for shares of a private company, fair value could not be measured reliably.

During the year ended November 30, 2010, the above mentioned private company underwent an amalgamation with a wholly owned subsidiary of Peninsula Resources Ltd. and the 2,500,000 common shares held by the Company were exchanged for 3,625,000 common shares of Zodiac Exploration Corp. The new shares are to be released over a period of 15 months. As of November 30, 2010, the Company has received 1,087,500 shares and the balance of 2,537,500 shares remain in escrow. The Company recorded an unrealized gain of \$1,997,500 (2009 - \$Nil) to adjust the shares to market value, net of tax \$249,688 as other comprehensive income.

4. EQUIPMENT

	2010			2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer hardware	\$ 14,976	\$ 11,791	\$ 3,185	\$ 13,636	\$ 10,714	\$ 2,922

5. PETROLEUM AND NATURAL GAS INTERESTS

Petroleum and natural gas interests consist of the following:

November 30, 2010	Cost	Accumulated Depletion	Net Book Value
Oil and gas properties			
Proven properties (Note 5 i))	\$ 803,728	\$ (424,025)	\$ 379,703
Unproven properties (Note 5 ii))	<u>244,102</u>	<u>-</u>	<u>244,102</u>
	\$ 1,047,830	\$ (424,025)	\$ 623,805

November 30, 2009	Cost	Accumulated Depletion	Net Book Value
Oil and gas properties			
Proven properties (Note 5 i))	\$ 452,663	\$ (183,837)	\$ 268,826
Unproven properties not subject to depletion (Note 5 ii))	<u>992,365</u>	<u>-</u>	<u>992,365</u>
	\$ 1,445,028	\$ (183,837)	\$ 1,261,191

COBRA VENTURE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
NOVEMBER 30, 2010

5. PETROLEUM AND NATURAL GAS INTERESTS (cont'd...)

	2010	2009
i) Proven properties		
Acquisition costs		
Carrying value beginning of year	\$ (442,171)	\$ (442,171)
Mineral leases	2,263	-
Option payments	(460,000)	-
Transfer from unproven properties (Note 5 ii)	<u>179,265</u>	<u>-</u>
	<u>(720,643)</u>	<u>(442,171)</u>
Exploration costs		
Carrying value beginning of year	894,834	894,834
Drilling costs	12,365	-
Other	6,645	-
ARO	6,176	-
Transfer from unproven properties (Note 5 ii)	<u>604,351</u>	<u>-</u>
	<u>1,524,371</u>	<u>894,834</u>
	<u>\$ 803,728</u>	<u>\$ 452,663</u>
ii) Unproven properties		
Acquisition costs		
Carrying value beginning of year	\$ 357,616	\$ 352,892
Land	-	4,455
Mineral leases	-	269
Option payments	26,250	-
Transfer to proven properties (Note 5 i))	<u>(179,265)</u>	<u>-</u>
	<u>204,601</u>	<u>357,616</u>
Exploration costs		
Carrying value beginning of year	634,749	590,248
Engineering, geological and consulting	-	6,114
Drilling costs	-	37,658
Other	9,103	729
Transfer to proven properties (Note 5 i))	<u>(604,351)</u>	<u>-</u>
	<u>39,501</u>	<u>634,749</u>
	<u>\$ 244,102</u>	<u>\$ 992,365</u>

The Company's reserves are estimated and assessed by a qualified, independent petroleum engineer. No general and administrative costs were capitalized during the year (2009 - \$Nil). The Company applied the ceiling test to its capitalized assets at November 30, 2010 and determined that no write-down of capitalized costs was required.

5. PETROLEUM AND NATURAL GAS INTERESTS (cont'd...)

The following table outlines the benchmark prices used in the impairment test at November 30, 2010:

Year	Crude Oil \$/ BBL	Natural Gas \$/ MCF
2011	88.96	3.94
2012	91.16	4.67
2013	91.89	5.20
2014	93.43	6.81
2015	95.03	6.92

Benchmark prices escalated at 1.50 % per year thereafter.

Viewfield area, Saskatchewan

On October 10, 2002, the Company completed an agreement for the purchase of petroleum and natural gas assets (“Assets”) from Charter Oil Corporation (“Charter”). The petroleum and natural gas assets consisted of an approximate 90% net working interest in 2,880 freehold acres in the Viewfield region of southeast Saskatchewan. In consideration of the acquisition of the Assets from Charter, the Company paid cash consideration of \$150,000, issued 400,000 common shares valued at \$240,000 and issued 830,000 Participating Redeemable Series “A” Preferred Shares at an agreed value of \$830,000, for total consideration of \$1,220,000.

The Company entered into several leases on portions of the Company’s freehold acreage in the Viewfield area, Saskatchewan. These leases have terms varying from six months to two years and are in good standing. The Company is currently receiving fee simple royalty and rental revenue from 3 wells drilled in 2004.

On May 27, 2005, the Company entered into a sale agreement, for the sale of non-producing acres situated in the Province of Saskatchewan for a total purchase price of \$1.45 million. The transaction closed June 6, 2005, and the Company received the funds on July 15, 2005. The sale of the freehold properties represented approximately 39 percent of the Company’s non-producing Saskatchewan landholdings.

During the year ended November 30, 2007, the Company entered into a multi-well farmout with a privately owned, Calgary based oil exploration company Acero Energy Inc. (“Acero”). The Company has negotiated a gross overriding royalty of 16% with no deductions on all production achieved on the subject lands (at varying working interest in the combined lands).

During the year ended November 30, 2008, the Company sold 480 acres of 640 acres in the Province of Saskatchewan for a total purchase price of \$790,000, resulting in a gain of \$330,737.

During the year ended November 30, 2009, two horizontal wells were completed and the Company has retained a 20% overriding royalty interest in these wells.

During the year ended November 30, 2010, four horizontal wells were completed and the Company has retained a 20% overriding royalty interest in these wells. Additional horizontal wells are possible and would be completed under the terms of the same agreement.

During the year ended November 30, 2010, the Company received \$1,844,165 (2009 - \$747,351) in royalty revenue.

5. PETROLEUM AND NATURAL GAS INTERESTS (cont'd...)

Pembina area, Alberta

On November 14, 2005, the Company entered into a Participation Agreement with an operating industry partner to participate in the drilling of an initial three exploration wells and earn a working interest in the Pembina area of Alberta. The Company had the right to earn a 27% net working interest by paying 45% of all costs associated with the drilling program and to earn a 40% net working interest in the prospect area comprised of seven sections or approximately 4,480 acres. Currently there are 4 sections of land under active mineral leases.

The Company issued 100,000 shares as a finder's fee valued at \$15,000 during the year ended November 30, 2006.

The Company has earned a 27% in one natural gas well and a 6.67% working interests in another and is receiving production revenue from both wells. The Company also has a 40% net working interest in additional areas within the Pembina property where an additional 10-12 drill targets have been identified and are being evaluated for future development.

On July 26, 2010, the Company amended the participation agreement dated February 21, 2006 for a reduction of the original 3% Gross Overriding Royalty ("GOR") to 2.5%.

During the year ended November 30, 2010, the Company received \$35,924 (2009 - \$56,602) in production revenue.

Willesden Green area, Alberta

During the year ended November 30, 2007, the Company acquired a 40% net working interest in 160 acres of land in Central Alberta for \$18,570.

During the year ended November 30, 2008, the Company acquired a 80% working interest in an oil well located in the Willesden Green area which is subject to applicable royalties, by incurring all costs, risk and expenses associated with completing the test well.

During the year ended November 30, 2009, The Company has entered into an arrangement with a private oil and gas operator in the area and the operator has agreed to perform some remedial work in the well and equip and tie-in the well to earn 50% of the Company's interest being a 40% working interest.

During the year ended November 30, 2010, the operator completed its obligations, paid the Company \$460,000 based on a BOE/day calculation and earned its 40% working interest.

During the year ended November 30, 2010, the Company received \$5,766 (2009 - \$Nil) in royalty revenue and \$88,518 (2009 - \$Nil) in production revenue.

Alderson area, Alberta

During the year ended November 30, 2007, the Company acquired a 50% net working interest in 320 acres of land in Central Alberta for \$77,215.

5. PETROLEUM AND NATURAL GAS INTERESTS (cont'd...)

Iosegun area, Alberta

During the year ended November 30, 2007, the Company acquired a 20% net working interest in 160 acres of land in Central Alberta for \$15,543.

Morinville area, Alberta

During the year ended November 30, 2008, the Company acquired a 40% net working interest in a 5 year crown lease for \$73,675 and annual rental fees. The lease is for one section of land in Central Alberta.

Inga area N.E. British Columbia

During the year ended November 30, 2006, the Company acquired a 5 year crown lease of one section of land in Northeastern British Columbia for annual rental fees. The Company's net working interest is 75%.

During the year ended November 30, 2010, the Company determined the property to be impaired and the cost of the property became subject to depletion.

Davey Lake area, Alberta

During the year ended November 30, 2010, the Company entered into an agreement with RNM Services Ltd. ("RNM") to earn a 13.5% working interest in a well located in the Davey Lake area by incurring all RNM's costs to drill, case, complete and equip and tie-in (or abandon) the well. The Company paid RNM a one-time fee of \$26,250 to enter into this agreement.

6. ASSET RETIREMENT OBLIGATION

	2010	2009
Balance, beginning of year	\$ 18,476	\$ 16,800
Adjustment	6,176	-
Accretion	<u>1,843</u>	<u>1,676</u>
Balance, end of year	<u>\$ 26,495</u>	<u>\$ 18,476</u>

The total future asset retirement obligations were estimated by management based on the Company's interests in all wells, estimated costs to reclaim and abandon wells, and the estimated timing of costs to be incurred in future periods. The undiscounted amount of the estimated cash flows required to settle the obligation is approximately \$59,121. The estimated cash flow has been discounted using a credit-adjusted risk free rate of 10%. The estimated settlement ranges to a maximum of thirteen years.

COBRA VENTURE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
NOVEMBER 30, 2010

7. CAPITAL STOCK AND CONTRIBUTED SURPLUS

Authorized:

Unlimited number of common voting shares
 Unlimited number of preferred shares, issuable in series

Issued:

	2010			2009		
	Shares	Amounts	Contributed Surplus	Shares	Amounts	Contributed Surplus
Balance, beginning of year	14,940,750	\$ 3,616,027	\$ 307,704	14,94,750	\$ 3,616,027	\$ 201,619
Private placement	1,999,998	300,000	-	-	-	-
Stock options exercised	500,000	75,000	-	-	-	-
Ascribed value of options exercised	-	42,358	(42,358)	-	-	-
Stock-based compensation	-	-	116,631	-	-	106,085
Share issuance costs, net of tax \$2,364	-	(7,093)	-	-	-	-
Balance, end of year	17,440,748	\$4,026,292	\$ 381,977	14,940,750	\$3,616,027	\$ 307,704

During the year ended November 30, 2010, the Company:

- a) completed a non-brokered private placement of 1,999,998 common shares in the capital of the Company issued on a "flow-through basis" (the "FT Shares") at a price of \$0.15 per FT Share, for gross proceeds of \$300,000; and
- b) issued 500,000 common shares from the exercise of stock options for gross proceeds of \$75,000.

8. STOCK OPTIONS AND WARRANTS

The Company has a stock option plan in place under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 20% of the issued and outstanding common stock of the Company. Under the plan, the exercise price of each option equals the market price of the Company's stock as calculated on the date of grant. Options vest as determined by the board of directors. The options can be granted for a maximum term of 5 years.

As at November 30, 2010, the following incentive stock options are outstanding:

	Number of Shares	Exercise Price	Expiry Date
Options	300,000 *	0.20	December 9, 2010
	5,000 **	0.27	June 19, 2012
	500,000 **	0.34	December 18, 2012
	1,050,000	0.16	April 3, 2014
	600,000	0.175	May 27, 2015

* subsequently exercised

** not included in the calculation of dilutive potential common shares as their inclusion is anti-dilutive.

COBRA VENTURE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
NOVEMBER 30, 2010

8. STOCK OPTIONS AND WARRANTS (cont'd...)

Stock option transactions are as follows:

	Number of Options	Weighted Average Exercise Price
Balance outstanding, November 30, 2008	1,405,000	\$ 0.23
Options granted	1,050,000	0.16
Options expired	<u>(100,000)</u>	(0.23)
Balance, November 30, 2009	2,355,000	0.20
Options granted	600,000	0.175
Options exercised	<u>(500,000)</u>	(0.15)
Balance, November 30, 2010	2,455,000	\$ 0.21
Vested and exercisable	2,155,000	\$ 0.21

Stock-based compensation

During the year ended November 30, 2010, the Company:

- a) granted 600,000 (2009 – 1,050,000) stock options, which were valued at \$82,826 (2009 - \$134,705) using the Black-Scholes option pricing model. The options vest 25% on each of the following dates: on grant, 6 months, 12 months and 18 months. The fair value per option granted during the year was \$0.14 (2009 - \$0.13).
- b) recorded \$116,631 (2009 - \$106,085) as stock-based compensation expense for options vested during the year.

The following weighted average assumptions were used for the Black-Scholes valuation of stock options granted during the year ended:

	2010	2009
Risk-free interest rate	2.71 %	1.88 %
Expected life of options	5 years	5 years
Annualized volatility	108%	113 %
Dividend rate	0 %	0 %

COBRA VENTURE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
NOVEMBER 30, 2010

8. STOCK OPTIONS AND WARRANTS (cont'd...)

Warrants

The following is a summary of warrant transactions during the period:

	Number of Shares	Weighted Average Exercise Price
Outstanding at November 30, 2008 and 2009	1,000,000	\$ 0.35
Expired	<u>(1,000,000)</u>	<u>(0.35)</u>
Outstanding November 30, 2010	-	\$ -

9. RELATED PARTY TRANSACTIONS

The fair value of the amounts due to or from related parties is not determinable as they have no fixed terms of repayment, do not bear interest and are unsecured.

During the year ended November 30, 2010, the Company paid or accrued:

- i) \$58,690 (2009 - \$58,277) in rent to a company in which a director and officer holds an interest.
- ii) \$307,000 (2009 - \$169,000) in management fees to a company owned by a director and officer of the Company.
- iii) \$71,000 (2009 - \$14,000) in directors fees, disclosed as management fees, to directors and officers of the Company.
- iv) \$33,752 (2009 - \$14,118) in professional fees to a firm in which an officer of the Company is a partner.
- v) \$144,475 (2009 - \$146,555) in professional fees to a firm in which a director of the Company is a partner.

Included in accounts payable is:

- i) \$38,904 (2009 - \$40,543) due to a firm in which director of the Company is a partner.
- ii) \$117,000 (2009 - \$Nil) due to directors and officers.
- iii) \$Nil (2009 - \$5,099) due to a company in which a director is a partial owner.

These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

COBRA VENTURE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
NOVEMBER 30, 2010

10. INCOME TAXES

A reconciliation of income taxes (recovery) for the year ended November 30, 2010 at statutory rates with reported taxes is as follows:

	2010	2009
Income (loss) before income taxes	\$ 766,529	\$ (25,036)
Combined federal and provincial tax rate	28.92%	30.042%
Income tax expense (recovery) at statutory rates	\$ 221,680	\$ (7,521)
Effect of tax rate change	(24,335)	(79,684)
Non-deductible items	34,502	32,103
Amounts recognized for tax	46,184	26,047
Total income tax expense (recovery) provision	\$ 278,031	\$ (29,055)

The significant components of the Company's future income liabilities are as follows:

	2010	2009
Future income tax assets (liabilities):		
Investments	\$ (249,688)	\$ -
Share issuance costs and cumulative eligible cost	2,510	1,300
Petroleum and natural gas interests	(149,327)	(313,500)
Equipment	8,799	11,700
Net future income liabilities	\$ (387,706)	\$ (300,500)

11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

For the year ended November 30, 2010, the Company had included:

- a) \$7,658 (2009 - \$6,150) of petroleum and natural gas expenditures in accounts payable and accrued liabilities.
- b) \$42,358 (2009 - \$Nil) fair value transferred from contributed surplus to share capital upon exercise of 500,000 stock options.

COBRA VENTURE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
NOVEMBER 30, 2010

12. FINANCIAL INSTRUMENTS AND RISK

Fair value

The carrying value of receivables and accounts payable and accrued liabilities approximated their fair value because of the short-term nature of these instruments.

Financial instruments measured at fair value on the balance sheet are summarized in levels of fair value hierarchy as follows:

	2010			2009		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 2,914,709	\$ -	\$ -	\$ 1,027,611	\$ -	\$ -
Investment	\$ 2,247,500	\$ -	\$ -	\$ -	\$ -	\$ -

Financial risk factors

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

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to accounts receivable and cash and cash equivalents. Management believes that the credit risk concentration with respect to accounts receivable is not significant and cash and cash equivalents is remote as it maintains accounts with highly-rated financial institutions.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at November, 2010, the Company had a cash and cash equivalents balance of \$2,914,709 (2009 - \$1,027,611) to settle current liabilities of \$606,919 (2009 - \$149,916). All of the Company's financial liabilities have contractual maturities of 30 days or due on demand and are subject to normal trade terms.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

(a) Interest rate risk

The Company has cash balances and cashable GIC's (November 30, 2010 - \$1,750,000) at an interest rate between prime less 1.75% and prime less 1.95%. Since the GIC's are cashable anytime, the Company believes it is not exposed to significant interest rate risk.

(b) Foreign currency risk

The Company conducts its activities in Canada with Canadian dollars. Therefore, the Company believes it is not exposed to foreign currency risk.

12. FINANCIAL INSTRUMENTS AND RISK (cont'd...)

Financial risk factors (cont'd...)

(c) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of petroleum and natural gas, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company. The Company's price risk is primarily attributable to investments. Management believes that the price risk concentration with respect to investments is high, and that a 1% change in investments would result in an increase/decrease of \$22,475 in other comprehensive income before taxes.

13. SEGMENTED INFORMATION

The Company operates in one business segment, being the exploration and development of petroleum and natural gas interests, in Canada.

14. CAPITAL MANAGEMENT

The Company's objective when managing capital is to safeguard the entity's ability to continue as a going concern.

In the management of capital, the Company monitors its adjusted capital which comprises all components of equity (ie share capital, contributed surplus, accumulated other comprehensive income and deficit).

The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in the light of 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 common shares through private placements. The Company is not exposed to any externally imposed capital requirements.

The Company's overall strategy remains unchanged from 2009.

15. COMMITMENT

During the year ended November 30, 2010, the Company issued 1,999,998 common shares on a flow-through basis for gross proceeds of \$300,000. The flow-through agreements require the Company to renounce certain tax deductions for Canadian exploration expenditures incurred on the Company's oil and gas interest. As of November 30, 2010, the Company has spent a cumulative of \$35,179, the balance of \$264,821 remains to be spent and renounced in the 2011 fiscal year.

16. SUBSEQUENT EVENTS

Subsequent to November 30, 2010:

- a) 300,000 stock options were exercised at \$0.20 for gross proceeds of \$60,000.
- b) the Company bought back 70,000 of its own shares for \$17,884.
- c) the Company spent and renounced the remaining \$264,821 exploration expenditure commitment (Note 15) it had due to issuance of flow-through shares.