Consolidated Financial Statements of

ARSENAL ENERGY INC.

Years ended December 31, 2013 and 2012

MANAGEMENT'S REPORT

Management, in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board, has prepared the accompanying consolidated financial statements of Arsenal Energy Inc. (the "Company"). Financial and operating information presented throughout this report is consistent with that shown in the consolidated financial statements. The consolidated financial statements have been prepared in accordance with the accounting policies detailed in the notes thereto.

Management is responsible for the integrity of the financial statements by selecting and training qualified personnel and by ensuring that the organizational structure provides appropriate delegation of authority and segregation and division of responsibilities and authority. Internal control systems are designed and maintained to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for financial reporting purposes.

KPMG LLP was appointed by the Company's shareholders to conduct an audit of the consolidated financial statements so as to express an opinion on the consolidated financial statements. Their examination included such tests and procedures, as they considered necessary, to provide reasonable assurance that the financial statements are presented fairly in accordance with IFRS.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises this responsibility through the Audit Committee, with assistance from the Reserve Committee regarding the annual evaluation of our petroleum and natural gas reserves. The Audit Committee, which is composed of completely independent directors all of which have financial expertise, meets regularly with management and the independent auditors to ensure that management's responsibilities are properly discharged, to review the consolidated financial statements and recommend that the consolidated financial statements be presented to the Board of Directors for approval. The Audit Committee also considers the independence of the external auditors and reviews their fees. The external auditors have access to the Audit Committee without the presence of management.

Signed "Tony van Winkoop"	*Signed "J. Paul Lawrence"*
President and Chief Executive Officer	Vice President Finance and Chief Financial Officer

March 10, 2014

Independent Auditors' Report

To the Shareholders of Arsenal Energy Inc.

We have audited the accompanying consolidated financial statements of Arsenal Energy Inc., which comprise the consolidated statements of financial position as at December 31, 2013 and December 31, 2012, the consolidated statements of loss and other comprehensive loss, changes in shareholder's equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Arsenal Energy Inc. as at December 31, 2013 and December 31, 2012, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants
March 10, 2014
Calgary, Canada

Arsenal Energy Inc.

Consolidated Statements of Financial Position

(thousands of $Cdn)		December 31, 2013		December 31, 2012
Assets				
Current assets:				
Cash	$	1,219	$	-
Accounts receivable		10,611		10,610
Other receivable (note 6)		1,875		-
Inventory		364		508
Risk management contracts (note 12)		-		718
Prepaid expenses and deposits		772		804
		14,841		12,640
Reclamation deposit		160		149
Exploration and evaluation assets (note 6)		10,259		10,754
Property, plant and equipment (notes 7 and 8)		166,662		157,139
Deferred taxes (note 14)		-		1,775
	$	191,922	$	182,457
Liabilities and Shareholders' Equity				
Current liabilities:				
Accounts payable and accrued liabilities	$	13,991	$	17,966
Current tax payable		325		-
Current portion of decommissioning obligations (note 10)		1,000		-
Flow-through share premium		38		-
Incentive compensation liability (note 11(b))		809		-
Risk management contracts (note 12)		3,710		-
		19,873		17,966
Bank loan (note 9)		69,100		62,447
Risk management contracts (note 12)		194		500
Decommissioning obligations (note 10)		35,321		37,373
Deferred taxes (note 14)		14,562		9,144
		139,050		127,430
Shareholders' Equity:				
Common shares (note 11(a))		137,705		135,646
Contributed surplus		10,940		11,646
Accumulated other comprehensive income (loss)		802		(332)
Deficit		(96,575)		(91,933)
		52,872		55,027
	$	191,922	$	182,457

Segmented information (note 16)
Commitments and contingencies (note 17)

Approved by the Board of Directors:

"signed" William Hews
Chair of the Audit Committee and Director

"signed" R. Neil MacKay
Chairman of the Board of Directors and Director

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

Arsenal Energy Inc.

Consolidated Statements of Loss

For the years ended December 31,

(thousands of $Cdn, except per share amounts)		**2013**		**2012**
Revenue				
Oil and natural gas	$	97,811	$	82,168
Royalties		(21,067)		(17,064)
		76,744		65,104
Realized gain (loss) on risk management contracts (note 12(a))		(3,214)		93
Unrealized gain (loss) on risk management contracts (note 12(a))		(4,091)		3,993
		69,439		69,190
Expenses				
Operating and transportation		28,711		27,630
General and administrative		4,180		4,133
Exploration and evaluation expenses (note 6)		257		902
Property, plant and equipment impairment (note 7)		1,000		1,950
Exploration and evaluation impairment (note 6)		2,228		-
Depletion and depreciation (note 7)		25,906		24,552
Share-based compensation (note 11 (b))		656		1,078
Loss (gain) on sale of property (note 7)		(157)		662
		62,781		60,907
Income from operations		6,658		8,283
Financing items				
Interest and other financing charges		2,576		2,282
Accretion (note 10)		1,705		930
Transaction costs		134		1,132
Foreign exchange loss (gain)		(1,588)		267
		2,827		4,611
Income before income tax		3,831		3,672
Provision for income taxes (note 14)				
Current		325		-
Deferred		6,220		3,784
		6,545		3,784
Net loss for the year	$	(2,714)	$	(112)
	$			
Loss per share (note 11 (c))				
Basic and diluted	$	(0.17)	$	(0.01)
Net loss for the year	$	(2,714)	$	(112)
Translation gain (loss) on foreign operations		1,134		(179)
Comprehensive loss	$	(1,580)	$	(291)

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

Arsenal Energy Inc.

Consolidated Statements of Changes in Shareholders' Equity

(thousands)	Number of Shares	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total Shareholders' equity
Balance December 31, 2012	15,595	$135,646	$11,646	$(332)	$(91,933)	$55,027
Net loss for the year	-	-	-	-	(2,714)	(2,714)
Issue of shares net of costs	635	2,725	-	-	-	2,725
Share-based compensation expensed	-	-	656	-	-	656
Share-based compensation capitalized	-	-	159	-	-	159
Transfer of share-based compensation on exercise of options (note 11 (a))	-	961	(961)	-	-	-
Issued on exercise of options (note 11 (b))	75	166	-	-	-	166
Purchase of puts	-	-	(409)	-	-	(409)
Repurchase of shares (note 11 (d))	(207)	(1,793)	658	-	-	(1,135)
Adjustment to record cash settled equity instruments	-	-	(809)	-	-	(809)
Dividends	-	-	-	-	(1,928)	(1,928)
Cancelled on expiration of amalgamation exchange provision	(18)	-	-	-	-	-
Translation gain on foreign operations	-	-	-	1,134	-	1,134
Balance December 31, 2013	16,080	$137,705	$10,940	$802	(96,575)	$52,872
Balance December 31, 2011	15,728		(9,987)	(153	(91,821)	54,873
Net loss for the year	-	-	-	-	(112)	(112)
Share-based compensation expensed	-	-	1,079	-	-	1,079
Share-based compensation capitalized	-	-	286	-	-	286
Transfer of share-based compensation on exercise of options (note 11 (a))	-	100	(100)	-	-	-
Issued on exercise of options (note 11 (b))	31	121	-	-	-	121
Repurchase of shares (note 11 (d))	(164)	(1,435)	394	-	-	(1,041)
Translation gain on foreign operations	-	-	-	(179)	-	(179)
Balance December 31, 2012	15,595	135,646	11,646	(332)	(91,933)	55,027

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

Arsenal Energy Inc.

Consolidated Statements of Cash flows

For the years ended December 31,

(thousands of $Cdn)		**2013**		**2012**
Operating Activities:				
Net loss for the year	$	(2,714)	$	(112)
Items not affecting cash:				
Unrealized (gain) loss on risk management contracts		4,091		(3,993)
Depletion and depreciation		25,906		24,552
Accretion of decommissioning obligations (note 10)		1,705		930
Deferred tax expense		6,220		3,784
Property, plant and equipment impairment (note 6, 7, 8)		3,228		1,950
Share-based compensation expensed(note 11(b))		656		1,078
Unrealized foreign exchange (gain) loss		1,467		234
Loss (gain) on sale of property and equipment		(157)		662
Exploration and evaluation expense		-		4
Decommissioning obligations settled (note 10)		(1,039)		(477)
Net change in non-cash working capital (note 15)		(1,116)		1,088
Net cash from operating activities		35,313		29,700
Financing Activities:				
Bank loan advances		6,380		10,565
Issue of shares for cash, net of share issue costs		2,950		-
Dividends paid		(1,928)		-
Issue of shares on exercise of stock options		166		121
Purchase of put options		(409)		-
Repurchase of shares		(1,135)		(1,041)
Net change in non-cash working capital items (note 15)		(522)		542
Net cash from financing activities		5,502		10,187
Investing Activities:				
Property, plant and equipment		(33,475)		(36,091)
Exploration and evaluation asset expenditures		(6,268)		(6,590)
Acquisition of property, plant and equipment		-		-
Disposition of property, plant and equipment		4,230		1,928
Net change in non-cash working capital items (note 15)		(3,798)		108
Net cash (used in) investing activities		(39,310)		(40,645)
Foreign exchange gain (loss) on cash held in foreign currency		(286)		132
Change in cash during the year		1,219		(626)
Cash, beginning of year		-		626
Cash, end of year	$	1,219	$	-
The following are included in cash flow from operating activities:				
Interest paid in cash	$	2,387	$	1,980

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

1. Reporting entity:

Arsenal Energy Inc. ("Arsenal" or the "Company") is an oil and gas exploration, development and production Company based in Calgary, Alberta, Canada. The Company conducts its operations in the Western Canadian Sedimentary basin in Canada and the Williston basin in the United States. The condensed interim consolidated financial statements of the Company as at December 31, 2013 comprise the Company and its wholly owned subsidiaries, Arsenal Energy USA Ltd. and Arsenal Energy Holdings Ltd.; which were incorporated in the USA and Canada respectively. Arsenal's principle place of business is located at Suite 1900, 639 – 5th Avenue SW, Calgary Alberta, Canada, T2P 0M9.

2. Basis of preparation:

(a) Statement of compliance:

These consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and were prepared using accounting policies consistent with IFRS.

The consolidated financial statements were authorized for issue by the Board of Directors on March 10, 2014.

(b) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis except for the derivative financial instruments, short term incentive compensation liability and decommissioning obligations which are measured at fair value. The methods used to measure fair value are discussed in notes 5 and 12.

(c) Functional and presentation currency:

These consolidated financial statements are presented in Canadian dollars, which is the parent company's functional currency. Arsenal's subsidiary Arsenal Energy USA Ltd. has a U.S. dollar functional currency.

(d) Use of estimates, judgments and assumptions:

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts regarding assets, liabilities, revenue, and expenses. Actual results may differ from estimated amounts as future confirming events occur.

Reserve estimates including production profiles, future development costs, and discount rates are a critical part of many of the estimated amounts and calculations contained in the financial statements. These estimates are verified by third party professional engineers, who work with information provided by the Company to establish reserve determinations. These determinations are updated at least on an annual basis.

2. Basis of preparation: *(continued)*

Significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognized in the consolidated financial statements include:

- Impairment testing – estimates of reserves, future commodity prices, future costs, production profiles, discount rates, market value of land.
- Depletion and depreciation - oil and natural gas reserves, including future prices, costs and reserve base to use on calculation of depletion.
- Decommissioning obligations – estimates relating to amounts, likelihood, timing, inflation and discount rates.
- Short-term incentive compensation – forfeiture rates and volatility.
- Risk management contracts – expected future oil and natural gas prices and expected volatility in these prices.
- Deferred tax – estimates of reversal of temporary differences, tax rates substantively enacted, and likelihood of assets being realized.
- Determinations of cash generating units (“CGU’s”).
- Determining the status and viability of exploration and evaluation assets.

3. Significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by the Company and its subsidiaries. Certain comparative amounts have been reclassified to conform with the current year’s presentation.

(a) Basis of consolidation:

(i) *Subsidiaries:*
Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) *Jointly controlled operations and jointly controlled assets:*
Many of the Company’s oil and natural gas activities involve jointly controlled assets. The consolidated financial statements include the Company’s share of these jointly controlled assets and a proportionate share of the relevant revenue and related costs.

(iii) *Transactions eliminated on consolidation:*
Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

(b) Foreign currency:

(i) Transactions in foreign currencies are generally translated to Canadian dollars at the average exchange rate for the period. Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the period end exchange rate. Foreign currency differences arising on translation are recognized in earnings in the period in which they arise.

(ii) Assets and liabilities of Arsenal’s U.S. operations are translated into Canadian dollars at period end exchange rates while revenues and expenses are translated using average rates for the period. Gains and losses from the translation are deferred and included in accumulated other comprehensive income (‘‘AOCI’’).

3. Significant accounting policies: *(continued)*

(c) Financial instruments:

(i) Non-derivative financial instruments:

Non-derivative financial instruments comprise account receivable, cash and cash equivalents, bank loans, and accounts payables and accrued liabilities. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash and cash equivalents comprise cash on hand, term deposits held with banks, other short-term highly liquid investments with original maturities of three months or less.

Financial assets at fair value through profit or loss:

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's risk management or investment strategy. Upon initial recognition attributable transaction costs are recognized in profit or loss when incurred. Financial instruments are measured at fair value and changes therein are recognized in profit or loss.

Other non-derivative financial instruments, such as cash and cash equivalents, accounts receivable, bank loans, accounts payables and accrued liabilities, are measured at amortized cost using the effective interest method, less any impairment losses.

(ii) Derivative financial instruments:

The Company has entered into certain financial derivative contracts in order to manage the exposure to market risks from fluctuations in commodity prices. These instruments are not used for trading or speculative purposes. The Company has not designated its financial derivative contracts as effective accounting hedges, and thus not applied hedge accounting, even though the Company considers all commodity contracts to be economic hedges. As a result, all financial derivative contracts are classified as fair value through profit or loss and are recorded on the balance sheet at fair value. Transaction costs are recognized in earnings when incurred.

The Company accounts for any forward physical delivery sales contracts, which are entered into and continue to be held for the purpose of receipt or delivery of non-financial items in accordance with its expected purchase, sale or usage requirements as executory contracts. As such, these contracts are not considered to be derivative financial instruments and are not recorded at fair value on the balance sheet. Settlements on these physical sales contracts are recognized in oil and natural gas revenue.

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

(iii) Share capital:

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any deferred taxes.

3. Significant accounting policies: *(continued)*

(d) Property, plant and equipment and intangible exploration and evaluation assets:

(i) Recognition and measurement:

Exploration and evaluation expenditures:

Pre-license costs, dry holes, seismic and lease rentals are recognized in the statement of operations as incurred.

Exploration and evaluation costs, include costs of land and exploratory drilling and testing, are capitalized as exploration and evaluation assets according to the expenditure. Tangible assets acquired which are consumed in developing an intangible exploration and evaluation asset are recorded as part of the costs of the exploration and evaluation asset.

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

The technical feasibility and commercial viability is considered to be determinable when proved and or probable reserves are determined to exist. A review is carried out, at least annually, to ascertain whether proved and or probable reserves have been discovered. Upon determination of proved and or probable reserves, exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from exploration and evaluation assets to a separate category within tangible assets referred to as property, plant and equipment.

Development and production costs:

Items of property, plant and equipment, which include oil and gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment. Development and production assets are grouped into Cash Generating Units ("CGU's") for impairment testing. When significant parts of an item of property, plant and equipment, including oil and natural gas interests, have different useful lives, they are accounted for as separate items (major components).

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

(ii) Subsequent costs:

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property, plant and equipment are recognized as oil and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in earnings as incurred. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the periodic servicing of property, plant and equipment are recognized in earnings as incurred.

(iii) Depletion and depreciation:

The net carrying value of development or production assets is depleted using the unit of production method by reference to the ratio of production in the period to the related proved and probable reserves, taking into account estimated future development and decommissioning costs necessary to bring those reserves into production. Future development and decommissioning costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers at least annually.

3. Significant accounting policies: *(continued)*

(d) Property, plant and equipment and intangible exploration and evaluation assets: *(continued)*

Proved and probable reserves are estimated using independent reserve engineer reports, in accordance with Canadian Securities Regulation National Instrument 51-101, and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible.

For depletion purposes, relative volumes of petroleum and natural gas production and reserves are converted at the energy equivalent conversion rate of six thousand cubic feet of natural gas to one barrel of crude oil.

The estimated useful lives for certain production assets for the current and comparative years are as follows:

Pipeline facilities	Unit of production
Turnaround and work over costs	Expensed as incurred

For other assets, depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment.

Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for other assets for the current and comparative years are as follows:

Office equipment	5 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(e) Leased assets:

Leases where the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between the finance expenses and the reduction of the outstanding liability. The finance expenses are allocated to each year during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Other leases are operating leases, which are not recognized on the Company's statement of financial position.

Payments made under operating leases are recognized in earnings on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

3. Significant accounting policies: *(continued)*

(f) Business combinations:

The acquisition method of accounting is used to account for acquisitions of subsidiaries and assets that meet the definition of a business under IFRS. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. The recognized amount of identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured mostly at fair value at the acquisition date. The excess of the cost of acquisition over the recognized amount of identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of acquisition is less than the recognized amount of the net assets of the subsidiary acquired, the difference is recognized immediately in earnings.

(g) Inventory:

Crude oil inventory consists of amounts produced and in storage tanks or in transit, and is recorded at the lower of the average cost of production and estimated net realizable value. Net realizable value is the estimated selling price in the normal course of business less applicable selling expenses.

(h) Impairment:

(i) *Financial assets:*

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at its net book value is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in earnings.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in earnings.

(ii) *Non-financial assets:*

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

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. Geological formation, product type, geography and internal management are key factors considered when grouping the Company’s oil and natural gas assets into CGU’s. The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

3. Significant accounting policies: *(continued)*

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

E&E assets are allocated to related CGU's when they are assessed for impairment, both at the time of any triggering facts and circumstances as well as upon their eventual reclassification to property, plant and equipment.

An impairment loss is recognized if the carrying amount of an asset or its CGU net of decommissioning obligations exceeds its estimated recoverable amount. Impairment losses are recognized in earnings.

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

(i) Share based payments:

The Company has the right, but not the obligation to settle options in cash upon the exercise of options. Prior to December 31, 2013, the Company accounted for options as equity-settled, where by the grant date fair value of options granted to employees was recognized as compensation expense over the period that the employees became entitled to the awards. Amounts charged were included in profit or loss as stock-based compensation expense with a corresponding increase in contributed surplus.

At December 31, 2013 the Company determined that it would cash settle options outstanding in certain circumstances. Upon determination of the change in classification of options from equity-settled to cash-settled, the Company adopted a policy whereby the fair value of options, to the extent vested, were recorded as a liability with a corresponding charge to equity. No gain or loss was recorded on the date of classification change. Obligations are accrued over the vesting period and the share-based compensation liability is remeasured at fair value, which is estimated using the Black-Scholes option pricing model, at the end of each reporting period. Changes in fair value are recognized in earnings. When options are surrendered for cash, the share-based compensation liability is reduced. When options are exercised for shares, the accrued liability is transferred to share capital.

In both situations, a forfeiture rate is estimated on grant date and is adjusted to reflect the actual number of options that vest.

(j) Provisions:

Decommissioning obligations:

The Company's activities give rise to dismantling, decommissioning and site disturbance re-mediation activities. A provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

Decommissioning obligations are measured at the present value of the expected expenditures required to settle the present obligation at the balance sheet date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows and discount rate underlying the obligation. The increase in the provision due to the passage of time is recognized as finance expense whereas increases/decreases due to changes in the estimated future cash flows and discount rate are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

3. Significant accounting policies: *(continued)*

(k) Revenue:

Revenue from the sale of oil and natural gas is recorded when the significant risks and rewards of ownership of the product is transferred to the buyer which is usually when legal title passes to the external party. This is generally at the time the product enters the pipeline.

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

(l) Finance income and expenses:

Finance expense comprises interest expense on borrowings, accretion of the discount on provisions and transaction costs.

Borrowing costs incurred for the construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the assets for their intended use or sale. All other borrowing costs are recognized in profit or loss using the effective interest method.

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

(m) Income tax:

Income tax expense comprises current and deferred tax. Deferred tax expense is recognized in earnings except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

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

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(n) Per share amounts:

Basic earnings per share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as options granted to employees. The calculation assumes that the proceeds on exercise of options are used to repurchase shares at the current market price.

3. Significant accounting policies: *(continued)*

(o) Flow-through shares:

The resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with tax legislation. On issuance the premium received on the flow-through shares, being the difference in price over a common share with no tax attributes is recognized on the statement of financial position. As expenditures are incurred the deferred tax liability associated with the renounced tax deductions are recognized through profit and loss along with a pro-rata portion of the deferred premium.

4. Future accounting policies:

The Company has reviewed the following new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Company's financial statements:

(a) IFRS-9 Financial Instruments:

The IASB has undertaken a three-phase project to replace IAS 39 "Financial Instruments: Recognition and Measurement" with IFRS 9 "Financial Instruments." In November 2009, the IASB issued the first phase of IFRS 9, which details the classification and measurement requirements for financial assets. Requirements for financial liabilities were added to the standard in October 2010. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value.

In November 2013, the IASB issued the third phase of IFRS 9 which details the new general hedge accounting model. Hedge accounting remains optional and the new model is intended to allow reporters to better reflect risk management activities in the financial statements and provide more opportunities to apply hedge accounting. The Company does not employ hedge accounting for its risk management contracts currently in place. In July 2013, the IASB deferred the mandatory effective date of IFRS 9 and has left this date open pending the finalization of the impairment and classification and measurement requirements. IFRS 9 is still available for early adoption. The full impact of the standard on the Company's financial statements will not be known until the project is complete.

(b) Impairment of Assets

In May 2013, the IASB issued amendments to IAS 36 "Impairment of Assets" which reduce the circumstances in which the recoverable amount of CGUs is required to be disclosed and clarify the disclosures required when an impairment loss has been recognized or reversed in the period. The amendments are required to be adopted retrospectively for fiscal years beginning January 1, 2014, with earlier adoption permitted. These amendments will be applied on January 1, 2014 and the adoption will only impact disclosures in the notes to the financial statements in periods when an impairment loss or impairment reversal is recognized.

(c) Levies

In May 2013, the IASB issued IFRIC 21 "Levies," which was developed by the IFRS Interpretations Committee ("IFRIC"). IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. The interpretation also clarifies that no liability should be recognized before the specified minimum threshold to trigger that levy is reached. IFRIC 21 is required to be adopted retrospectively for fiscal years beginning January 1, 2014, with earlier adoption permitted. IFRIC 21 will be applied on January 1, 2014 and the adoption may have an impact on accounting for production and similar taxes, which do not meet the definition of an income tax in IAS 12 "Income Taxes." The Company is currently assessing and quantifying the effect on its financial statements.

5. Determination of fair values:

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

(i) Property, plant and equipment and exploration and evaluation assets:

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

(ii) Cash and cash equivalents, accounts receivables, bank loans and accounts payables:

The fair value of cash and cash equivalents, accounts receivables, bank loans and accounts payable is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At December 31, 2013 and December 31, 2012, the fair value of these balances approximated their carrying value due to their short term to maturity. Bank loans bear a floating rate of interest therefore carrying value approximates fair value.

(iii) Derivatives:

The fair value of forward contracts and swaps is determined by discounting the difference between the contracted prices and published forward price curves as at the statement of financial position date, using the remaining contracted oil and natural gas volumes and a risk-free interest rate (based on published government rates). The fair value of options and costless collars is based on option models that use published information with respect to volatility, prices and interest rates.

(i) Stock options:

The fair value of employee stock options is measured using a Black Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behavior), expected dividends and the risk-free interest rate (based on government bonds).

(Tabular amounts in thousands except per share amounts)

6. Exploration and evaluation assets:

Cost or deemed cost		Total
Balance at December 31, 2011	$	9,100
Additions		6,590
Transfer to property, plant and equipment		(4,936)
Balance at December 31, 2012	$	10,754
Additions		6,268
Divestitures		(3,856)
Impairment		(2,228)
Transfer to property, plant and equipment		(679)
Balance at December 31, 2013	$	10,259

The Company's exploration and evaluation assets are located in Canada.

On April 18, 2013, the Company sold 50% of its interest in its Columbia deep basin exploration prospect area for $3.9 million. Half of the proceeds from the sale were received in April and half ($1.9 million) in January 2014.

In Q2 2013, due to operational issues impeding the Company's ability to evaluate and drill on exploratory lands acquired in 2011, the Company recognized an impairment of $1.3 million related to a portion of the affected lands. In Q4 2013, due to the Company electing not to drill on certain lands purchased in prior years, the Company recognized an impairment on these lands of $947,493.

(Tabular amounts in thousands except per share amounts)

7. Property, plant and equipment:

Cost or deemed cost		Total
Balance at December 31, 2011	$	182,824
Additions		35,376
Transfer from exploration and evaluation assets		4,936
Divestitures		(5,125)
Capitalized share-based compensation		286
Capitalized general and administration		715
Decommissioning obligations acquired and incurred		317
Change in decommissioning obligations		978
Change in translation of foreign operations		(1,094)
Balance at December 31, 2012	$	219,213
Additions		32,905
Transfer from exploration and evaluation assets		679
Divestitures		(329)
Capitalized share-based compensation		159
Capitalized general and administration		570
Decommissioning obligations incurred		602
Impairment		(1,000)
Change in decommissioning obligations		(2,503)
Changes in translation of foreign operations		5,482
Balance at December 31, 2013	$	255,778

Accumulated depreciation		Total
Balance at December 31, 2011	$	36,629
Depletion and depreciation expense		24,560
Divestitures		(925)
Impairment		1,950
Change in translation of foreign operations		(140)
Balance at December 31, 2012	$	62,074
Depletion and depreciation expense		25,834
Divestitures		(85)
Changes in translation of foreign operations		1,293
Balance at December 31, 2013	$	89,116

NBV		Total
Balance, at December 31, 2012	$	157,139
Balance, at December 31, 2013	$	166,662

(Tabular amounts in thousands except per share amounts)

7. Property, plant and equipment: *(continued)*

The calculation of depletion for the year ended December 31, 2013 included estimated future development and decommissioning costs of $98.7 million (December 31, 2012 - $127.6 million) associated with the development and decommissioning of the Company's proved plus probable reserves and excludes salvage value of $11.0 million (December 31, 2012 - $11.5 million).

During 2013, the Company disposed of certain non-core properties for proceeds of $4.2 million December 31, 2012 - $1.9 million), this resulted in a gain of $156,603 (December 31, 2012 loss of $662,090).

8. Impairment loss:

As at December 31, 2012, as a result of depressed gas prices and downward revisions of oil reserves, the Company tested certain natural gas and oil CGU's for impairment. The recoverable amount was determined using value in use, net of decommissioning expenditures, based on discounted cash flows of proved plus probable reserves as estimated by the Company's independent reserve evaluators using forecast prices and costs and discount rates of between 10% and 20%. In determining the appropriate discount rate the Company considered the acquisition metrics of recent transactions completed with assets similar to those in the specific CGU's. As a result of depressed gas prices, during the three months ended March 31, 2012 it was determined that the net book value of certain CGU's exceeded the recoverable amount and an impairment of $1.95 million was recognized.

As at December 31, 2013, an impairment test on one of the Company's oil properties indicated the based on declining production and increased operating expenses, the carrying value exceeded the estimated recoverable amount and accordingly, an impairment provision of $1.0 million was recognized. The following estimates were used in determining whether an impairment to the carrying value of the CGU's existed at December 31, 2013

Benchmark reference price forecast	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
WTI ($US/bbl)	95.00	91.80	91.55	91.25	92.00	93.85	95.70	97.65
Edmonton Par ($CDN/bbl)	95.75	92.30	95.20	94.80	95.60	97.50	99.45	101.45
Bow River Hardisty ($CDN/bbl)	80.00	76.30	77.35	76.80	75.65	76.50	78.45	79.45
AECO-C ($CDN/mcf)	3.45	3.70	3.85	4.05	4.30	4.60	5.00	5.45
Edmonton Butanes ($CDN/bbl)	76.60	73.85	76.15	75.85	76.50	78.00	79.55	81.15
Edmonton Pentanes ($CDN/bbl)	105.35	101.55	104.70	104.30	105.15	107.25	109.40	111.60
Exchange rate ($CDN/$US)	0.94	0.94	0.94	0.94	0.94	0.94	0.94	0.94

After 2021 the price forecast escalates at 2% per year to the end of the reserve life and the exchange rate remains constant at 0.94.

9. Bank loan:

In January 2013, the Company's syndicate of bankers, based on internal engineering data, increased the credit facility from $75 million to $85 million. On May 31, 2013 the syndicate of bankers conducted a review based on year end information and further increased the credit facility to $90 million with all terms and conditions relating to the facility remaining unchanged. The $90 million facility was reviewed at November 30, 2013 and all terms and conditions were renewed and confirmed. The next review date is May 31, 2014.

The credit facility has a revolving period of 364 days plus one year and is extendible annually. If not extended, the credit facility will automatically convert to a one year non-revolving term loan and all obligations under the credit facility shall be repaid or paid at the end of the one year period.

(Tabular amounts in thousands except per share amounts)

9. Bank loan: *(continued)*

The credit facility is secured by an unlimited liability guarantee to the lenders, a ISDA Master Agreement, a demand debenture in the amount of $300 million granting a first priority security interest over all present and after acquired personal property and a first floating charge over all present and after acquired petroleum and natural gas interests and mortgages creating specific fixed charges on some of the oil and gas properties of the Company in North Dakota.

The credit facility is also subject to certain positive and negative covenants including a covenant not to dispose of assets or property having an aggregate fair value exceeding 5% of the borrowing base without the review and approval of the borrowing base and the facility and not to make distributions (as defined to include dividends) in excess of $5 million annually. The credit facility is subject to a semiannual borrowing base review based on an independent reserve evaluation in May and on an internally generated engineering evaluation and operational update in November.

At December 31, 2013, debt under the credit facility amounted to $69.1 million (December 31, 2012 – $62.5 million). At December 31, 2013 there were no US dollar denominated borrowings under the credit facility (December 31, 2012 – $11.0 million).

The Company’s credit facility has a financial covenant that, without the written consent of the lenders, would result in a breach of the agreement. The Company cannot permit:

> The adjusted working capital ratio (as defined in the agreement to include the unutilized portion of the facility and to exclude the value of any risk management contracts) to fall to below 1:1.

At December 31, 2013, the Company was in compliance with its working capital covenant.

10. Decommissioning obligations:

		Year ended December 31, 2013		Year ended December 31, 2012
Beginning of year	$	37,373	$	37,326
Obligations settled		(1,039)		(477)
Obligations disposed		(32)		(1,629)
Obligations incurred		602		317
Change in estimates		(2,503)		978
Foreign currency translation		215		(72)
Accretion expense		1,705		930
End of year	$	36,321	$	37,373
Expected to be incurred within one year	$	1,000	$	-
Expected to be incurred beyond one year	$	35,321	$	37,373

The Company’s decommissioning obligations result from its ownership interest in oil and natural gas assets including well sites, facilities and gathering systems. The total decommissioning obligations are estimated based on the Company’s net ownership interest in all wells facilities and pipelines, estimated costs to reclaim and abandon these wells, facilities and pipelines and the estimated timing of the costs to be incurred in future years. The Company has estimated the net present value of the decommissioning obligations to be $36.3 million as at December 31, 2013 (December 31, 2012 - $37.4 million) based on an undiscounted inflation adjusted total future liability of $53.0 million (December 31, 2012 - $51.5 million). These payments are expected to be made over the next 25 years with the majority of costs to be incurred between 2014 and 2025. The discount factor, being the risk free rate related to the liability, is 3.0% for Canadian operations and 3.5% for U.S. operations (December 31, 2012 - 2.4% for both Canadian and U.S. obligations).

(Tabular amounts in thousands except per share amounts)

11. Share capital:

At December 31, 2013, the Company was authorized to issue an unlimited number of common shares with the holders of common shares being entitled to one vote per share.

(a) Issued

	Year ended December 31, 2013		Year ended December 31, 2012	
	Number of Shares	Share capital	Number of Shares	Share Capital
Balance, beginning of year	15,595	$135,646	15,728	$136,860
Issue of shares, net of costs	635	2,725	-	-
Transfer from contribute surplus on exercise of options	-	961	-	100
Issued on exercise of options	75	166	31	121
Repurchase of shares	(207)	(1,793)	(164)	(1,435)
Cancelled on expiration of exchange provision	(18)	-	-	-
Balance, end of year	16,080	$137,705	15,595	$135,646

Common shares

On March 13, 2013, the Company completed a private placement and issued 260,417 common shares at $4.80 per share for gross proceeds of $1,250,000.

On August 6, 2013, the common shares of the Company were consolidated on a ten for one basis. After giving effect to the consolidation, the Company had 16,069,586 common shares outstanding. The share consolidation was treated retroactively for common shares and stock options.

Flow-through Shares

On May 8, 2013, the Company completed a bought deal private placement and issued 375,000 flow-through common shares at $5.40 per flow-through share for gross proceeds of $2,025,000. The terms of the flow-through share issue require the Company to incur and renounce to investors Canadian Exploration Expenses in the amount of $2,025,000 by December 31, 2013. As at December 31, 2013, approximately $1.5 million has been incurred.

Dividends

The Company's Board of Directors initiated a dividend policy in August 2013. During the year ended December 31, 2013, the Company declared two quarterly dividends totaling $0.12 per share ($0.24 annualized) that resulted in dividend payments of $964,175 on August 30, 2013 and of $964,175 on November 29, 2013 (December 31, 2012 - $ nil). As at December 31, 2013, there were no dividends payable to shareholders (December 31, 2012 - $ nil).

At the Company's Board of Directors meeting on February 10, 2014, the Directors declared a quarterly dividend of $0.06 per common share ($0.24 annualized) to shareholders of record on February 21, 2014 resulting in a payment of $965,407 on February 28, 2014.

(Tabular amounts in thousands except per share amounts)

11. Share capital: *(continued)*

(b) Share based payments

The Company has a stock option plan under which the Company may grant options to its directors, officers, employees and consultants for up to 10% of its outstanding common shares. Under the plan, the exercise price of each option granted shall not be less than the market price of the Company's common shares on the date the option is granted and the contractual term of each option is not to exceed five years. All options vest over a period as determined by the Board of Directors. Stock options are granted periodically throughout the year.

The following table summarizes the status of the Company's stock option plan as follows:

	Number of options	Weighted average exercise price
Balance, December 31, 2011	1,469	$ 6.40
Granted	131	5.20
Exercised	(31)	3.90
Expired	(40)	7.20
Balance, December 31, 2012	1,529	$ 6.35
Granted	286	4.03
Exercised	(75)	2.23
Cancelled – cash settled	(237)	3.88
Expired	(235)	7.04
Balance, December 31, 2013	1,268	$ 6.41

The following table summarizes information about the stock options outstanding and exercisable at December 31, 2013:

	Options outstanding				Options exercisable		
Range of exercise prices	Number of options		Weighted average exercise price	Weighted average remaining life (years)	Number of options		Weighted average exercise price
$2.04 to $3.50	10	$	2.05	0.01	10	$	2.05
$3.51 to $5.00	440		4.24	3.57	110		4.47
$5.01 to $7.00	364		6.30	2.56	229		6.30
$7.01 to $10.00	454		8.68	1.64	416		8.70
Total	1,268	$	6.41	2.56	765	$	7.29

(Tabular amounts in thousands except per share amounts)

11. Share capital: *(continued)*

Options granted to employees are accounted for using the fair value method. The fair value of stock options was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Year ended December 31, 2013	Year ended December 31, 2012
Risk free interest rate	1.33 – 1.81%	1.15 – 1.51%
Expected life	4 years	4 years
Expected volatility	64 - 175%	82-85%
Expected dividend	nil	Nil
Expected forfeitures	5%	5%
Weighted average fair value per share	$1.96 – 4.24	$3.20

As a result of the conversion of the option plan from an equity settled plan to a cash settled plan, the obligation associated with the cash settled vested options is recorded as a liability. The fair value of the liability is measured at the reporting date using the Black-Scholes option pricing model based on the closing price of the Company's common shares at period end and assumptions for the expected life of the option, market volatility, the expected dividend, expected forfeitures and the risk free interest rate. Any changes in the fair value over the reporting periods is recognized in net income for the period.

At December 31, 2013 as a result of the Company exercising its option to accept "puts" on a number of stock options exercised, the stock option plan has been accounted for on a cash settled basis based on the fair value of the options at December 31, 2013. The fair value required to settle options that have either vested or for which services have been provided of $809,216 has been recorded as a current liability with an offset to contributed surplus. The fair value of the liability was determined at December 31, 2013 using the closing price of the common shares using the Black Scholes option pricing model with the following assumption:

	Year ended December 31, 2013	Year ended December 31, 2012
Risk free interest rate	1.07 - 1.51%	-
Expected life	4 years	-
Expected volatility	57 – 60%	-
Expected dividend	0.24	-
Weighted average fair value per option	$0.88	-

Changes to the fair value at the end of each reporting period will be recorded as stock based compensation over the period. The intrinsic value of vested options at December 31, 2013 was $100,183 which was determined based on the difference between the estimated fair value of the Company's common shares and the exercise price of vested in-the money options.

At a Board meeting on March 10, 2014, the Company approved a full-value award plan pursuant to which restricted awards and performance awards may be granted to directors, officers and employees of the Company. The maximum number of common shares issuable under this plan (and any other long-term incentive plans of the Company) shall not exceed 4.5% of the issued and outstanding common shares.

(Tabular amounts in thousands except per share amounts)

11. Share capital: *(continued)*

(c) Loss per share

As result of the Company recording stock options on a cash settled or fair value method, there is no dilution to the weighted average number of common shares outstanding during the year.

The following table shows the weighted average number of common and diluted shares.

	Year ended December 31, 2013	Year ended December 31, 2012
Basic and diluted:		
Loss per share basic and diluted	$ (0.17)	$ (0.01)
Weighted average shares outstanding:		
Basic and diluted	15,956	15,639

In computing diluted loss per share for the year ended December 31, 2013, 1,267,600 (2012- 1,529,400) options were excluded from the dilution calculations as they were anti-dilutive.

(d) Normal course issuer bid:

On June 16, 2011, the Company announced its intention to make a normal course issuer bid (“NCIB”) that commenced June 20, 2011 and ended June 19, 2012. In 2012, the Company purchased 114,150 additional common shares at a cost of $768,280 or $6.73 per share plus expenses. The stated value of these shares exceeded the cost by $225,900 and has been recorded to contributed surplus.

On July 5, 2012, the Company announced its intention to make a normal course issuer bid (“NCIB”) that commenced July 9, 2012 and ended July 8, 2013. A total of 780,970 common shares may have been acquired under the bid representing 5% of the 15,619,409 common shares outstanding as of July 4, 2012. To December 31, 2012, the Company had purchased 50,650 common shares at a cost of $272,350 or $5.38 per share plus expenses. The stated value of these shares exceeded the cost by $168,329 and has been recorded to contributed surplus. For the year ended December 31, 2013, the Company purchased an additional 206,500 common shares at a cost of $1,134,591 or $5.49 per share plus expenses. The stated value of these shares exceeded the cost by $658,385 and has been recorded to contributed surplus.

12. Risk management and financial instruments:

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

- market risk
- credit risk
- liquidity risk

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

The Board of Directors oversees managements’ establishment and execution of the Company’s risk management framework. Management has implemented and monitors compliance with risk management policies. The Company’s risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company’s activities.

(Tabular amounts in thousands except per share amounts)

12. Risk management and financial instruments: *(continued)*

a) Market Risk:

Foreign currency exchange rate risk

Foreign currency exchange rate risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. Canadian commodity prices are influenced by fluctuations in the Canadian to U.S. dollar exchange rate. As at December 31, 2013, the Company does not have any foreign currency exchange contracts in place. A $0.01 change in the CAD/US dollar exchange rate is estimated to result in a change to the 2013 net loss by $209,556.

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate fluctuations on its bank loan which bears a floating rate of interest. Average bank debt outstanding during the year ended December 31, 2013 was $65.3 million (2012 - $57.4 million). For the year ended December 31, 2013, a 1.0 percent change to the effective interest rate would have a $653,031 impact on net loss (2012 - $574,000).

For the year ended December 31, 2013, the Company has attempted to mitigate the impact of future fluctuations in interest rates on its outstanding debt by entering into a swap contract fixing the base interest rate on $20 million of banker's acceptance borrowings as outlined below. These rates are, under the Company's credit facility, subject to additional stamping fees from 2.00% to 3.50% depending on the debt to cash flow ratio, as defined, and as calculated based on the Company's two most recent quarter ends. For the year ended December 31, 2013, the Company recorded a realized interest rate loss of $51,099 (2012 - $45,531 loss) and an unrealized interest rate loss of $16,805 (2012 - $38,012 loss).

Subject of Contract	Remaining Term	National Quantity	Reference	Strike Price	Option Traded	Fair Value
30 day BA rate	January 1, 2014- – February 13, 2015	$20,000,000	CAD- – BA- – CDOR	1.50%	Swap	(55)

Commodity price risk

Commodity price risk is the risk that future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by the relationship between the Canadian and U.S. dollar as well as global economic events that dictate the levels of supply and demand. The Company has attempted to mitigate a portion of the commodity price risk through the use of commodity price contracts.

As at December 31, 2013, the Company had seven crude oil swaps in-place fixing the price of future production for a specific period of time. Three of the risk management contracts are denominated in Canadian dollars and four are denominated in U.S. dollars. For the year ended December 31, 2013, the Company recorded a realized commodity contract loss of $3.2 million (December 31, 2012 - $138,708 million gain) and an unrealized commodity contract loss of $4.1 million (December 31, 2012 - $4.0 million gain).

(Tabular amounts in thousands except per share amounts)

12. Risk management and financial instruments: *(continued)*

The following table details the mark-to–market risk management contract presentation of commodity price contracts in the financial statements at the dates indicated:

(thousands $Cdn.)	December 31, 2013	December 31, 2012
Total fair value consists of the following:		
Fair value, end of year – current portion	(3,655)	721
Fair value, end of year – long-term portion	(194)	(465)
Total fair value, end of year	(3,849)	256

The following table reconciles the changes in the fair value of commodity price risk management contracts outstanding at the dates indicated:

(thousands $Cdn.)	December 31, 2013	December 31, 2012
Fair value, beginning of year	256	(3,776)
Changes in fair value	(7,267)	4,170
Settlement paid (received)	3,162	(138)
Fair value, end of year	(3,849)	256

The Company had the following commodity risk management contracts outstanding as at December 31, 2013.

($Cdn. unless otherwise noted)

Commodity Sold	Volume Sold	Remaining Term	Pricing	Fair Value
Oil	300 bbl per day	January 1, 2014 – December 31, 2014	$92.75 per bbl	(1,023)
Oil	200 bbl per day	January 1, 2014 – December 31, 2014	$93.80 per bbl	(606)
Oil	200 bbl per day	January 1, 2014 – December 31, 2014	$89.80 USD per bbl	(448)
Oil	300 bbl per day	January 1, 2014 – December 31, 2014	$90.00 USD per bbl	(650)
Oil	300 bbl per day	January 1, 2014 – December 31, 2014	$90.00 USD per bbl	(650)
Oil	200 bbl per day	January 1, 2014 – December 31, 2014	$92.00 USD per bbl	(278)
Oil	600 bbl per day	January 1, 2015 – March 31, 2015	$93.40 per bbl	(194)
				(3,849)

Commodity price sensitivity:

Commodity Price		
Oil production sold under risk management contract (barrels)		601,500
Price Change (Cdn. per bbl)	$	1.00
Sensitivity – change before income tax	$	579,674

(Tabular amounts in thousands except per share amounts)

12. Risk management and financial instruments: *(continued)*

Offsetting financial assets and liabilities:

The following table shows the Company's net risk management assets and liabilities:

	December 31, 2013			December 31. 2012		
	Gross Amount	Offset	Net Amount	Gross Amount	Offset	Net Amount
Risk Management Assets						
Current Asset	$ -	$ -	$ -	$ 1,038	$ (320)	$ 718
Long-Term Asset	-	-	-	-	-	-
	-	-	-	1,038	(320)	718
Risk Management Liabilities						
Current Liability	3,710	-	3,710	320	(320)	-
Long-Term Liability	194	-	194	500	-	500
	3,904	-	3,904	820	(320)	500
Net Risk Management Asset (Liability)	$ (3,904)	$ -	$ (3,904)	$ 218	$ -	$ 218

Fair value of financial instruments:

The Company's exposure under its financial instruments is limited to financial assets and liabilities, all of which are included in these financial statements. Financial instruments include cash, accounts receivable, accounts payable and accrued liabilities, risk management contracts and bank debt. The fair values of financial assets and liabilities that are included in the balance sheet approximate their carrying amounts. Certain of these financial instruments including risk management contracts are measured in the financial statements at fair value. These financial instruments require disclosure about how fair value was determined based on significant levels of inputs described in the following hierarchy:

Level 1: Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and value to provide pricing information on an ongoing basis.

Level 2 Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3: Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Risk management assets and liabilities are recorded at their estimated fair value based on the difference between the contracted price and the period end forward price for the same commodity, using quoted market prices (Level 2).

(Tabular amounts in thousands except per share amounts)

12. Risk management and financial instruments: *(continued)*

b) Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meets its contractual obligations, and arises principally from the Company's receivables from joint interest partners and petroleum and natural gas marketers. The maximum exposure to credit risk at year end is as follows:

		December 31, 2013		December 31, 2012
Accounts and other receivables	$	$12,486	$	$10,610

A substantial portion of the Company's accounts receivable are with customers and joint interest partners in the oil and gas industry and are subject to normal market and industry credit risks.

As at December 31, 2013 the Company's receivables consisted of $5.1 million (2012 - $3.1 million) from joint interest partners the majority of which has either been collected or is expected to be collected within the next 60 days, $7.3 million (2012 - $7.3 million) of receivables from petroleum and natural gas marketers, which have been collected and $0.1 million (2012 - $0.2 million) of other receivables. At December 31, 2013, Arsenal had approximately $0.2 million (2012 - $0.4 million) of receivables that are considered past due and collection efforts, including the taking of production and consideration and taking of legal action have commenced.

Receivables from petroleum and natural gas marketers are normally collected on the 20th day of the month following production in the U.S. and on the 25th day of the month following production in Canada. The Company's policy is to mitigate credit risk associated with these balances by establishing marketing relationships with large creditworthy purchasers. The Company historically has not experienced any collection issues with its petroleum and natural gas marketers. The Company currently transacts all of its risk management contracts with schedule A banks. Payments under these contracts are typically remitted on the 25th of the month following production. Joint interest receivables are typically collected within one to three months of the joint interest bill being issued to the partner. The Company attempts to mitigate the risk from joint interest receivables by obtaining partner approval of significant capital expenditures and payment of cash advances prior to expenditures. However, the receivables are from participants in the petroleum and natural gas sector, and collection of the outstanding balances are dependent on industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. In addition, further risk exists with joint interest partners as disagreements occasionally arise that increase the potential for non-collection. The Company does not typically obtain collateral from petroleum and natural gas marketers or joint interest partners; however the Company does have the ability to request deposits and to withhold production from joint interest partners in the event of non-payment.

c) Liquidity risk:

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with the financial liabilities. The Company's financial liabilities consist of accounts payable, financial instruments and the bank loan. Accounts payable consists of invoices payable to trade suppliers for office, field operating activities and capital expenditures. The Company processes invoices within a normal payment period. The Company maintains a revolving credit facility, as outlined in note 9, that is based on proved and producing reserves and is subject to review semi-annually by the lenders. The Company also maintains and monitors a certain level of cash flow which is used to partially finance all operating expenses, capital expenditures and the payment of dividends.

13. Capital management:

A strong capital base results in increased market confidence, an essential factor in maintaining existing shareholders and in attracting new investors. The Company is committed to establishing and maintaining a strong capital base to ensure the Company can sustain and possibly increase its dividend and has access to the equity and debt markets when deemed advisable. The Company continually monitors its ability to pay its dividend, the risk reward profile of its exploration and development projects and the economic indicators in the market including commodity prices, interest rates and foreign exchange rates. It then determines increases or decreases to its capital budget and what, if any, additional initiatives may need to be implemented.

The Company considers shareholder's equity, its credit facility and working capital (excess or deficiency) as components of its capital base. The Company can access or increase its capital base through the issuance of shares and through bank borrowings that are based on reserves. The Company can safeguard its capital base by stabilizing its funds from operations, by fixing, or reviewing the advisability of fixing, interest rates and commodity prices on a portion of the Company's debt and production, by closely monitoring expenses and by closely monitoring and scrutinizing the results of its capital expenditure program and adjusting capital expenditures as required based on economic conditions and drilling results.

The Company monitors its capital base based primarily on its debt to annualized funds flow ratio and its debt to equity ratio. Debt includes bank borrowings, plus or minus working capital and excludes long term decommissioning obligations and risk management contracts whether an asset or an obligation and whether current or long term. Annualized funds flow is calculated as cash flow from operations, before changes in non-cash working capital, seismic expenses, transaction costs and decommissioning obligations settled, from the Company's most recent quarter multiplied by four adjusted, if required, by increasing or decreasing commodity price expectations, future production profiles, the Company's risk management position and other non-recurring operational items.

The Company's target debt to cash flow ratio is 1.50:1 but the ratio can and will fluctuate based on the timing of property transactions, commodity prices and on the mix of exploratory and development drilling and the timing to bring these projects to the production stage. During periods of extreme commodity price declines, (low WTO prices or wide differentials), high drilling activity or after large property or corporate acquisitions, it is expected that the ratio would increase and during periods of high commodity prices and low activity levels, it is expected that the ratio would decrease. The Company's focus in these instances and any other instance when the ratio is not within the target range is to concentrate on bringing the ratio back into the target range. The ratio represents the time period it would take to pay off the debt if no further capital expenditures were incurred and if funds from operations remained constant. The Company prepares an annual operating and capital expenditure budget. The budget is updated quarterly when actual results are realized and compared to budget and when critical factors change. Critical factors include economic factors such as the state of equity markets, changes to commodity prices, interest rates and foreign exchange rates and non-economic factors such as drilling results and production profiles. The Company's board of directors approves the budget and reviews changes thereto. The Company has targeted a debt to equity ratio of 0.5:1. This ratio will also fluctuate over time depending on the state of equity markets and the results of operations.

There were no changes in the Company's approach to capital management during the year.

(Tabular amounts in thousands except per share amounts)

13. Capital management: *(continued)*

Net debt		**2013**		2012
Cash	$	1,219	$	-
Accounts receivable, prepaids and inventory		13,622		11,922
Accounts payable and other liabilities		(16,163)		(17,966)
Working capital deficiency	$	(1,322)	$	(6,045)
Bank loan		(69,100)		(62,447)
Net debt [4]		(70,422)	$	(68,492)
Annualized funds flow [1,2,3]	$	36,054	$	39,999
Net debt to annualized funds flow ratio [5]		1.95		1.71
Shareholders' equity	$	52,872	$	55,027
Debt to equity		1.33		1.24

[1] Excludes significant realized gains and losses on commodity contracts and exploration and evaluation expenses.
[2] Based on the last quarter's funds from operations annualized.
[3] Management uses funds flow from operations before changes in non-cash working capital ("funds flow"), funds flow per common share and annualized funds flow to analyze operating performance and leverage. Funds flow as presented does not have any standardized meaning prescribed by IFRS and therefore it may not be comparable to the calculation of similar measures for other entities. Funds flow as presented is not intended to represent operating cash flow or operating profits for the period nor should it be viewed as an alternative to cash flow provided by operating activities, net earnings or loss or other measures of financial performance calculated in accordance with IFRS.
[4] Net debt is used by Management to analyze leverage. Net debt does not have any standardized meaning prescribed by IFRS and therefore these terms may not be comparable with the calculation of similar measures for other entities.
[5] Net debt to annualized funds flow ratio is not comparable with the calculation of the Corporations ratios of twelve months trailing earnings before interest, taxes and depletions and depreciation to consolidated debt

14. Income tax expense:

The tax provision differs from the amount computed by applying the combined Canadian federal and provincial income tax statutory rates to loss before income taxes as follows:

		2013		2012
Income before income tax	$	3,831	$	3,672
Combined federal and provincial tax rate		25.0%		25.0%
Expected tax provision		958		918
Increase (decrease) in taxes resulting from:				
Share-based compensation		165		270
Tax impact of foreign jurisdictions		1,761		1,294
Flow through shares		187		-
Rate and other		(26)		(96)
Unrecognized deferred tax asset		3,500		1,398
	$	6,545	$	3,784

(Tabular amounts in thousands except per share amounts)

14. Income tax expense: *(continued)*

For the year ended December 31, 2013, the Company has recorded income tax expense of $6.5 million (December 31, 2012 – $3.8 million). In the US, the Company has recorded an income tax provision of $4.9 million of which $325,000 represents a current payable relating to Alternate Minimum Tax (“AMT” see below). In Canada, the Company has recorded income tax of $1.6 million of which $1.8 million is the reversal of a deferred tax asset that was derecognized in the year and a reduction of $186,800 relating to tax credits recognized on expenditures incurred under the issuance of flow-through shares.

In the US, the Company became subject to AMT in 2013 and expects to be subject to AMT in 2014 and onwards. The AMT attempts to ensure that corporations that benefit from certain deductions (such as intangible drilling costs, accelerated depreciation and non-capital losses) pay at least a minimum tax. In calculating the AMT, these deductions are reduced from the amounts allowed under the calculation of regular income tax. The tax credit for AMT payments can be used to offset future regular tax liability.

The components of the deferred income tax asset and liability are as follows:

	December 31, 2013	
	Canadian Operations	US Operations
Deferred tax assets:		
Non-capital losses	$ 542	$ 55,748
Decommissioning obligation	8,323	1,160
Other	-	1,162
Deferred tax liabilities:		
Property, plant and equipment	(7,827)	(22,632)
Other	(1,038)	-
	$ -	$ (14,562)

	December 31, 2012	
	Canadian Operations	US Operations
Deferred tax assets:		
Non-capital losses	$ -	$ 8,142
Decommissioning obligation	8,228	1,153
Deferred tax liabilities:		
Property, plant and equipment	(5,605)	(18,416)
Other	(848)	(23)
	$ 1,775	$ (9,144)

As a result of continued losses from Canadian operations and having Canadian tax pools in excess of $110 million, the Company determined that it was no longer probable that the Canadian entity will have sufficient profits to offset the deferred tax asset. The deferred tax asset was derecognized and recorded in the Statement of Income for the year ended December 31, 2013.

(Tabular amounts in thousands except per share amounts)

14. Income tax expense: *(continued)*

The Company's assets have a tax basis of $136.9 million at December 31, 2013 (December 31, 2012 - $137.1 million) available for deduction against future taxable income. The non-capital loss carry forwards in Canada of $29.9 million (December 31, 2012 - $14.4 million) expire between 2024 and 2030.30. The following table summarizes the tax pools:

	December 31, 2013	
	Canada	US
Cumulative Canadian Oil and Gas Property Expense	$ 26,006	$ -
Cumulative Canadian Development Expense	14,394	-
Cumulative Canadian Exploration Expense	10,811	-
Undepreciated Capital Cost	23,678	11,679
Share Issue Costs	1,245	-
Non-capital Losses	29,871	15,009
Capital Losses and Other	4,159	-
	$ 110,164	$ 26,688

The following table summarizes the unrecognized temporary differences for which no tax asset has been recorded:

	December 31, 2013	December 31, 2012
Non-capital losses	$ 27,700	$ 14,356
Share issue costs	1,245	1,767
Capital losses	3,837	3,581
Other	2,042	347
	$ 34,824	$ 20,051

The following tables provide a continuity of the deferred income tax asset (liability):

	December 31, 2011	Recognized in profit and loss	Recognized in equity and other	December 31, 2012
Decommissioning obligation	$ 9,844	$ (463)	$ -	$ 9,381
Non-capital losses	7,207	935	-	8,142
Property, plant and equipment	(19,972)	(4,049)	-	(24,021)
Other	(800)	(207)	136	(871)
	$ (3,721)	$(3,784)	$136	$ (7,369)

	December 31, 2012	Recognized in profit and loss	Recognized in equity and other	December 31, 2013
Decommissioning obligation	$ 9,381	$ 24	$ 78	$ 9,483
Non-capital losses	8,142	(2,136)	284	6,290
Property, plant and equipment	(24,021)	(5,073)	(1,365)	(30,459)
Other	(871)	965	30	124
	$ (7,369)	$(6,220)	$(973)	$ (14,562)

(Tabular amounts in thousands except per share amounts)

15. Supplemental cash flow information:

	December 31, 2013	December 31, 2012
Change in non-cash working capital items:		
Accounts receivable	$ (1,561)	$ 1,067
Prepaid expenses and deposits	31	174
Inventory	59	(17)
Accounts payable and accrued liabilities	(3,965)	514
	(5,436)	1,738
Amounts relating to operating activities	(1,116)	1,088
Amounts relating to financing activities	(522)	542
Amounts relating to investing activities	(3,798)	108
	$ (5,436)	$ 1,738

16. Segmented information:

A portion of the Company's assets and revenues are earned in the United States and Canada, and are monitored as an identifiable reporting segment by management. Business risks and economic indicators are similar across both geographical regions.

Year ended December 31, 2013 (000's Cdn. $)	Canada	U.S.	Total
Oil and gas revenue	47,215	50,597	97,811
Operating income (1)	15,845	32,188	48,033
Funds from operations (2)	11,770	26,089	37,859
Income (loss) before income taxes	(9,411)	13,242	3,831
Income (loss) after income taxes	(11,000)	8,286	(2,714)
Exploration and evaluation assets (as at December 31, 2013)	10,259	-	10,259
Property, plant and equipment (as at December 31, 2013)	95,892	70,770	166,662
Property, plant and equipment expenditures	13,403	20,072	33,475
Exploration and evaluation expenditures	6,268	-	6,268
Property dispositions	(4,230)	-	(4,230)

Year ended December 31, 2012 (000's Cdn. $)	Canada	U.S.	Total
Oil and gas revenue	46,963	35,205	82,168
Operating income (1)	16,279	21,195	37,474
Funds from operations (2)	12,909	18,210	31,119
Income (loss) before income taxes	(5,961)	9,633	3,672
Income (loss) after income taxes	(5,961)	5,850	(111)
Exploration and evaluation assets (as at December 31, 2012)	10,754	-	10,754
Property, plant and equipment (as at December 31, 2012)	99,109	58,030	157,139
Property, plant and equipment expenditures	6,484	29,606	36,091
Exploration and evaluation expenditures	6,590	-	6,590
Property dispositions	(1,928)	-	(1,928)

(1) Defined as oil and gas revenues less royalties, operating costs and transportation. Operating income does not have any standardized meaning prescribed by IFRS and therefore this term may not be comparable with the calculation of for other entities.
(2) Defined as operating income less general and administrative expenses, interest and financing, plus or minus realized foreign exchange gains or losses expenses. Funds from operations does not have any standardized meaning prescribed by IFRS and therefore this terms may not be comparable with the calculation for other entities.

(Tabular amounts in thousands except per share amounts)

17. Commitments and contingencies:

a) Office premises, equipment leases and firm service transportation:

The Company leases its office premises, computer and office equipment and field vehicles through operating leases for accounting purposes.

The total estimated operating lease commitments are summarized as follows:

(000's Cdn. $)	2014	2015	2016	2017	2018	2019
Flow-through share committments	500	-	-	-	-	-
Lease of office premises	542	542	542	316	-	-
Computer equipment and support lease	114	114	86	-	-	-
Other equipment leases and software licenses	56	33	9	-	-	-
Total	1,212	689	637	316	-	-

b) Outstanding lawsuits:

Various lawsuits have been filed against the Company for incidents which arose in the ordinary course of business. In the opinion of management, the outcome of any of the lawsuits, now pending, are not determinable and in total not material to the Company's operations. Should any loss result from the resolution of these claims, such loss will be charged to earnings in the year of resolution.

18. Personnel expenses:

The aggregate payroll expense of employees and executive management was as follows:

	2013	2012
Salaries, wages and benefits	$ 4,250	$ 3,800
Director fees	93	68
Share based payments (i)	656	1,078
Total employee remuneration	4,999	4,946
Capitalized portion of total remuneration	728	715
	$ 5,727	$ 5,661

Personnel expenses directly attributed to capital activities have been capitalized and included in property, plant and equipment and intangible exploration assets.

The Company has determined that the key management personnel consist of its officers and directors. Key management personnel compensation is comprised of the following:

	2013	2012
Salaries, wages and benefits	$ 1,606	$ 1,576
Director fees	93	68
Termination benefits	1,854	1,611
Share-based payments (i)	321	733
	$ 3,874	$ 3,988

(i) Represents the amortization of share based compensation associated with options granted to executive officers as recorded in the financial statements.