

**NOTICE OF NO AUDITOR REVIEW OF
INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Corporation have been prepared by and are the responsibility of the Corporation's management.

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

Date: June 29, 2011

"James G. Long" (signed)

James G. Long
President, CEO and acting CFO

STATEMENTS OF FINANCIAL POSITION

	Note	March 31, 2011	December 31, 2010	January 1, 2010
ASSETS				
Current assets				
Cash		\$ 418,097	\$ 48,136	\$ 29,215
Accounts receivable		563,649	393,556	268,093
Deposits and prepaid expenses		15,801	11,747	19,851
Total current assets		997,547	453,439	317,159
Non-current assets				
Reclamation deposits		84,239	47,271	15,460
Exploration & evaluation properties	7	65,000	65,000	127,072
Property, plant and equipment	8	3,442,609	3,462,538	3,493,800
Total non-current assets		3,591,848	3,574,809	3,636,332
TOTAL ASSETS		\$ 4,589,395	\$ 4,028,248	\$ 3,953,491
LIABILITIES AND SHAREHOLDERS' DEFICIENCY				
Current liabilities				
Accounts payable and accrued liabilities		\$ 2,326,547	\$ 1,978,838	\$ 1,920,063
Due to related parties		212,170	200,775	115,783
Loan - related parties	10	2,560,000	2,560,000	2,440,000
Total current liabilities		5,098,717	4,739,613	4,475,846
Non current liabilities				
Decommissioning liabilities	11	766,210	750,460	621,550
Total non-current liabilities		766,210	750,460	621,550
TOTAL LIABILITIES		5,864,927	5,490,073	5,097,396
SHAREHOLDERS' DEFICIENCY				
Common shares	12	5,590,968	5,114,975	4,694,403
Warrants	12	93,750	212,393	185,093
Contributed surplus	12	754,466	716,716	583,699
Accumulated losses		(7,714,716)	(7,505,909)	(6,607,100)
TOTAL DEFICIENCY		(1,275,532)	(1,461,825)	(1,143,905)
TOTAL LIABILITIES AND DEFICIENCY		\$ 4,589,395	\$ 4,028,248	\$ 3,953,491

The notes are an integral part of these financial statements

Approved on behalf of the board of directors

"James G. Long"

James G. Long

"Douglas F. Robinson"

Douglas F. Robinson

STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

Note	March 31, 2011	March 31, 2010
REVENUES		
Petroleum and natural gas sales	\$ 116,690	\$ 140,845
Royalties	(13,614)	(9,458)
Other income	18,264	6,018
Gain on debt settlements	41,815	-
	163,155	137,405
EXPENSES		
Production	104,455	101,336
Exploration and evaluation	-	-
General and administrative	119,044	132,345
Depletion, depreciation and amortization	50,627	90,496
	274,126	324,177
Results from operating activities	(110,971)	(186,772)
Finance expenses 6	97,836	157,978
Net loss and comprehensive loss for the period	(208,807)	(344,750)
Net loss per share		
Basic and diluted	\$ (0.01)	\$ (0.01)

The notes are an integral part of these financial statements

CONDENSED STATEMENTS OF SHAREHOLDERS' DEFICIENCY

	Note	Common shares	Warrants	Contributed surplus	Accumulated losses	Total
Balance at January 1, 2010	12	\$ 4,694,403	\$ 185,093	\$ 583,699	\$ (6,607,100)	\$ (1,143,905)
Issuance of common shares		187,500	112,500	-	-	300,000
Net loss for the period		-	-	-	(344,752)	(344,752)
Balance at March 31, 2010		4,881,903	297,593	583,699	(6,951,852)	(1,188,657)
Balance at January 1, 2011		\$ 5,114,975	\$ 212,393	\$ 716,716	\$ (7,505,909)	\$ (1,461,825)
Exercise of warrants		447,929	(70,429)	-	-	377,500
Exercise of options		28,064		(10,464)		17,600
Expiry of warrants		-	(48,214)	48,214		-
Net loss for the period		-	-	-	(208,807)	(208,807)
Balance at March 31, 2011		5,590,968	93,750	754,466	(7,714,716)	(1,275,532)

The notes are an integral part of these financial statements

Desmarais

Energy Corporation

First Quarter Report 2011

STATEMENTS OF CASH FLOW

Note	Three months ended March 31, 2011	Three months ended March 31, 2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the period	\$ (208,806)	\$ (344,750)
Adjustments for:		
Depletion, depreciation and amortization	50,627	90,496
Finance expenses	97,836	157,978
Interest paid	(24,701)	(45,606)
Change in non-cash working capital	(53,766)	(42,441)
	(138,810)	(184,323)
Financing activities:		
Issue of common shares: private placement	-	300,000
Issue of common shares: warrant exercises	377,500	-
Issue of common shares: option exercises	17,600	-
Change in non-cash working capital	-	(2,000)
	395,100	298,000
Investing activities:		
Deposits	(36,968)	(73,925)
Additions to property and equipment	(19,578)	(3,018)
Change in non-cash working capital	170,218	25,694
	113,672	(51,249)
Increase in cash	369,961	62,428
Cash, beginning of period	48,136	29,215
Cash, end of period	\$ 418,097	\$ 91,643

The notes are an integral part of these financial statements

Desmarais Energy Corporation

Notes to the Financial Statements

(Unaudited)

For the period ended March 31, 2011

1. REPORTING ENTITY

Desmarais Energy Corporation (the “Company” or “Desmarais”) was incorporated under the Business Corporations Act (Alberta) on June 24, 1994. The Company is listed on the TSX Venture Exchange, under the symbol “DES”. The Company is engaged in the exploration, development, production and acquisition of oil and gas reserves in Western Canada.

The interim financial statements of the Company are as at and for the three months ended March 31, 2011. The Company conducts many of its activities jointly with others; these financial statements reflect only the Company’s proportionate interest in such activities.

2. BASIS OF PRESENTATION

(a) Going concern uncertainty

The Company’s interim financial statements have been prepared on a going concern basis, which assumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. The Company has experienced consecutive losses and has accumulated losses of \$7,714,715 as at March 31, 2011.

As such, there is significant uncertainty regarding the Company’s ability to continue as a going concern, which is dependent upon achieving on-going cash flow from operating activities and receiving additional support from its creditors and investors.

The Company is experiencing negative cash flow from operating activities. There is no certainty as to when the Company will have positive cash flow. The Company will be solely dependent upon outside sources and third party financings to obtain the necessary capital to implement a plan to explore and develop its properties or acquire further properties or restructure the Company and continue as a going concern. The Company does not have access to short term bank financing. If the Company is unable to secure sufficient financing, delays or postponement of future development or production of the Company’s properties may result.

There can be no assurance that the additional capital required or other types of financing will be available if needed or even if available, the terms of such financing will be acceptable to the Company. Failure to obtain suitable financing would, in all likelihood, lead to the liquidation of the Company’s assets.

These financial statements do not contain any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue in business.

(b) Statement of compliance:

These interim financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34, “Interim Financial Reporting”. These are the Company’s first IFRS interim financial statements for part of the period covered by the first IFRS annual financial statements and IFRS 1, “First-time Adoption of International Financial Reporting Standards” has been applied. The interim financial statements do not include all the information required for full annual financial statements.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in note 16. This note includes reconciliations of equity and total comprehensive income for comparative periods and of equity at the date of transition reported under Canadian GAAP (“previous GAAP”) to those reported for those periods and at the date of transition to IFRS.

These interim financial statements were authorized for issue by the Board of Directors on June 29th, 2011.

(c) Basis of measurement:

The interim financial statements have been prepared on the historical cost basis.

(d) Functional and presentation currency:

These interim financial statements are presented in Canadian dollars, which is the Company’s functional currency.

Desmarais Energy Corporation

Notes to the Financial Statements

(Unaudited)

For the period ended March 31, 2011

2. BASIS OF PRESENTATION (CONTINUED)

(e) Use of estimates and judgments:

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

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. Significant areas of estimation, uncertainty and critical judgments in applying accounting policies that impact the amounts recognized in the interim 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.
- Stock-based compensation – forfeiture rates and volatility.
- Derivatives – expected future oil and natural gas prices and expected volatility in these prices; expected interest rates; expected future foreign exchange rates.
- Deferred tax – estimates of reversal of temporary differences, tax rates substantively enacted, and likelihood of assets being realized.
- Provisions and contingencies – estimates relating to onerous contracts, including discount rates associated with long term contracts.

3. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Jointly controlled operations and jointly controlled assets:

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

(b) Financial instruments:

(i) Non-derivative financial instruments:

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, bank loans, and trade and other payables. 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 all non-derivative financial instruments are measured at amortized cost using the effective interest method, less any impairment losses. The fair value of these non-derivative financial instruments approximates their carrying value except current liabilities where the fair value is less than the carrying value due to the credit risk of the Company.

Cash and cash equivalents:

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. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management, whereby management has the ability and intent to net bank overdrafts against cash, are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Desmarais Energy Corporation

Notes to the Financial Statements

(Unaudited)

For the period ended March 31, 2011

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Financial instruments (continued):

(i) Non-derivative financial instruments (continued):

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 at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. The Company has designated cash and cash equivalents at fair value.

Other non-derivative financial instruments, such as trade and other receivables, loans and borrowings, and trade and other payables, are measured at amortized cost using the effective interest method, less any impairment losses.

(ii) 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 tax effects.

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

(i) Recognition and measurement.

Pre-license costs are recognized in the statement of income as incurred.

Exploration and evaluation expenditures:

Exploration and evaluation ("E&E") costs, including the costs of acquiring licenses and directly attributable general and administrative costs, initially are capitalized as either tangible or intangible E&E assets according to the nature of the assets acquired. The costs are accumulated in cost centres by well, field or exploration area pending determination of technical feasibility and commercial viability.

E&E 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, E&E assets are allocated to a cash generating unit ("CGU").

The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when total proved plus probable reserves are determined to exist. A review of each exploration license or field is carried out, at least annually, to ascertain whether proved plus probable reserves have been discovered. Upon determination of total proved plus probable reserves, intangible E&E assets attributable to those reserves are first tested for impairment and then reclassified from E&E assets to a separate category within tangible assets referred to as oil and natural gas interests.

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 losses. Development and production assets are grouped into CGU's for impairment testing. The Company has only one CGU for development and production assets being undeveloped lands at Medicine Hat. 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 net within "other income" or "other expenses" in profit or loss.

Desmarais Energy Corporation

Notes to the Financial Statements

(Unaudited)

For the period ended March 31, 2011

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Property, plant and equipment and exploration and evaluation assets (continued):

(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 profit or loss 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 day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

(iii) Depletion and depreciation:

The net carrying value of development or production assets is depleted using the unit of production method by reference to the ratio of production in the year to the related proven and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers on an annual basis at the minimum.

Proven and probable reserves are estimated using independent reserve engineer reports 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. There should be a 50 percent statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as proven and probable and a 50 percent statistical probability that it will be less. The equivalent statistical probabilities for the proven component of proven and probable reserves are 90 percent and 10 percent, respectively.

Such reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon:

- a reasonable assessment of the future economics of such production;
- a reasonable expectation that there is a market for all or substantially all the expected oil and natural gas production; and
- evidence that the necessary production, transmission and transportation facilities are available or can be made available.

Reserves may only be considered proven and probable if producibility is supported by either actual production or a conclusive formation test. The area of reservoir considered proven includes (a) that portion delineated by drilling and defined by gas-oil and/or oil-water contacts, if any, or both, and (b) the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geophysical, geological and engineering data. In the absence of information on fluid contacts, the lowest known structural occurrence of oil and natural gas controls the lower proved limit of the reservoir.

Reserves which can be produced economically through application of improved recovery techniques (such as fluid injection) are only included in the proven and probable classification when successful testing by a pilot project, the operation of an installed program in the reservoir, or other reasonable evidence (such as, experience of the same techniques on similar reservoirs or reservoir simulation studies) provides support for the engineering analysis on which the project or program was based.

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

Processing and other equipment	Based on CGU reserve life
Turnaround costs	2 years

Desmarais Energy Corporation

Notes to the Financial Statements

(Unaudited)

For the period ended March 31, 2011

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Property, plant and equipment and exploration and evaluation assets (continued):

(iii) Depletion and depreciation (continued):

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.

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

Office equipment, furniture and fixtures	5 years
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Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(d) Goodwill:

Goodwill arises on the acquisition of businesses, subsidiaries, associates and joint ventures. Goodwill is measured at cost less accumulated impairment losses. Goodwill represents the excess of the cost of the acquisition over the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative, it is recognized immediately in profit or loss.

(e) 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 amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original 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 profit or loss.

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 profit or loss.

(ii) Non-financial assets:

The carrying amounts of the Company's non-financial assets, 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. For goodwill and other intangible assets that have indefinite lives or that are not yet available for use an impairment test is completed each year. 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 Company of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

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 proven and probable reserves.

Desmarais Energy Corporation

Notes to the Financial Statements

(Unaudited)

For the period ended March 31, 2011

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Impairment (continued):

(ii) Non-financial assets (continued):

The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to the CGU's that are expected to benefit from the synergies of the combination. 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 producing assets (oil and natural gas interests in property, plant and equipment).

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

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

(f) Share-based payments:

The grant date fair value of options granted to employees is recognized as compensation expense, within general and administrative expenses, with a corresponding increase in contributed surplus over the vesting period.

(g) Provisions:

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

(h) Decommissioning liabilities:

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

Decommissioning liabilities are measured at the present value of management's best estimate of expenditure 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 underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the decommissioning liabilities are charged against the provision to the extent the provision was established.

(i) 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 product enters the pipeline.

(j) Finance income and expenses:

Finance expense comprises interest expense on borrowings, accretion of the discount on provisions, fair value losses on financial instruments at fair value through profit and loss, and impairment losses recognized on financial assets. Borrowing costs incurred for the construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the assets for their intended use or sale. All other borrowing costs are recognized in profit or loss using the effective interest method. The capitalization rate used to determine the amount of borrowing costs to be capitalized is the weighted average interest rate applicable to the Company's outstanding borrowings during the period.

Finance income comprises fair value gains on financial instruments at fair value through profit and loss.

Desmarais Energy Corporation

Notes to the Financial Statements

(Unaudited)

For the period ended March 31, 2011

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Income tax:

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous 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. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same 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.

(l) Earnings per share:

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.

(m) Recent accounting pronouncements:

The IASB intends to replace IAS 39, "Financial Instruments: Recognition and Measurements" ("IAS39") with IFRS 9, "Financial Instruments" ("IFRS 9"). IFRS 9 will be published in three phases, of which the first phase has been published.

The first phase addresses the accounting for financial assets and financial liabilities. The second phase will address the impairment of financial instruments, and the third phase will address hedge accounting.

For financial assets, IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, and replaces the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. For financial liabilities, although the classification criteria for financial liabilities will not change under IFRS 9, the approach to the fair value option for financial liabilities may require different accounting for changes to the fair value of a financial liability as a result of changes to an entity's own credit risk.

IFRS 9 is effective for annual periods beginning on or after January 1, 2013 with different transitional arrangements depending on the date of initial application. The Company is currently evaluating the impact of adopting IFRS 9 on our financial statements.

4. 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.

Desmarais Energy Corporation

Notes to the Financial Statements

(Unaudited)

For the period ended March 31, 2011

4. DETERMINATION OF FAIR VALUES (CONTINUED)

- (a) 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 market values. The market 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 market 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, being 10% for the three months ended March 31, 2011.

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

- (b) Cash and cash equivalents, trade and other receivables, and trade and other payables:

The fair value of cash and cash equivalents, trade and other receivables, and trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At March 31, 2011, the fair value of these balances approximated their carrying value due to their short term to maturity.

- (c) Share options:

The fair value of employee share 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 behaviour), expected dividends, and the risk-free interest rate (based on government bonds).

5. FINANCIAL RISK MANAGEMENT

- (a) Overview:

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:

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

- (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 meet its contractual obligations, and arises principally from the Company's receivables from joint venture partners and oil and natural gas marketers.

Trade and other receivables

All of the Company's operations are conducted in Canada. The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

Credit risk is primarily related to the Company's receivables from joint venture partners and petroleum and natural gas marketers and the risk of financial loss if a customer, partner or counterparty to a financial instrument fails to meet its contractual obligations. A substantial portion of the Company's accounts receivable is with partners in the energy industry and is subject to normal industry credit risk. The Company generally grants unsecured credit but routinely assesses the financial strength of its partners.

Desmarais Energy Corporation

Notes to the Financial Statements

(Unaudited)

For the period ended March 31, 2011

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued):

Receivables from petroleum and natural gas marketers are normally collected on the 25th day of the month following production. The Company sells the majority of its production to a single petroleum and natural gas marketer and, therefore, is subject to concentration risk which is mitigated by management's policies and practices related to credit risk, as discussed above. The Company historically has not experienced any collection issues with its petroleum and natural gas marketers. However, the receivables are from participants in the petroleum and natural gas sector, and collection of the outstanding balances is dependent on industry factors such as commodity price fluctuations, escalating costs, the risk of unsuccessful drilling and occasional disagreements between parties.

The Company attempts to mitigate the risk from joint venture receivables by obtaining partner approval of significant capital expenditures prior to expenditure.

The Company does not typically obtain collateral from petroleum and natural gas marketers or joint venture partners; however in certain circumstances, it may cash call a partner in advance of the work. As well, the Company does have the ability to withhold production from joint venture partners in the event of non-payment.

The Company establishes an allowance for doubtful accounts as determined by management based on their assessment of collection and, therefore the carrying amount of accounts receivable generally represents the maximum credit exposure.

(c) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due (see note 2). The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on both operated and non operated projects to further manage capital expenditure. The Company also attempts to match its payment cycle with collection of oil and natural gas revenue on the 25th of each month. To facilitate the capital expenditure program, the Company relies on working capital and cash flows from operations (see note 2).

(d) Market risk:

Market risk is the risk that changes in market prices, such as commodity prices, foreign exchange rates and interest rates will affect the Company's income or the value of the financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Company utilizes commodity price contracts to manage market risks relevant to commodity prices. All such transactions are conducted in accordance with the risk management policy that has been approved by the Board of Directors.

Currency risk

Prices for oil are determined in global markets and generally denominated in United States dollars. Natural gas prices obtained by the Company are influenced by both US and Canadian demand and the corresponding North American supply, and recently, by imports of liquefied natural gas. The exchange rate effect cannot be quantified but generally an increase in the value of the \$CDN as compared to the \$US will reduce the prices received by the Company for its petroleum and natural gas sales.

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 has only fixed rate loans or borrowings at March 31, 2011 and, accordingly, has minimal exposure to interest rate risk.

Commodity price risk

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas are impacted by not only the relationship between the Canadian and United States dollar but also world economic events that dictate the levels of supply and demand

Desmarais Energy Corporation

Notes to the Financial Statements

(Unaudited)

For the period ended March 31, 2011

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risk (continued):

It is the Company's policy to economically hedge some oil and natural gas sales through the use of various financial derivative forward sales contracts and physical sales contracts. The Company does not apply hedge accounting for these contracts. The Company's production is usually sold using "spot" or near term contracts, with prices fixed at the time of transfer of custody or on the basis of a monthly average market price. The Company, however, may give consideration in certain circumstances to the appropriateness of entering into long term, fixed price marketing contracts. The Company does not enter into commodity contracts other than to meet the Company's expected sale requirements.

As at March 31, 2011 and December 31, 2010, the Company did not have any outstanding commodity contracts.

(e) Capital management:

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying oil and natural gas assets. The Company considers its capital structure to include shareholders' equity and working capital. In order to maintain or adjust the capital structure, the Company may issue shares and adjust its capital spending to manage current and projected debt levels.

The Company prepares annual capital expenditure budgets, which are updated as necessary depending on varying factors including current and forecast prices, successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

The Company has not paid or declared any dividends since the date of incorporation.

6. FINANCE EXPENSES

	Three months ended March 31,	
	2011	2010
	\$	\$
Interest – loan – related parties	93,206	60,164
Interest – other	-	79,514
Accretion of decommissioning liabilities	4,630	18,300
Finance expenses	97,836	157,978

7. EXPLORATION AND EVALUATION ASSETS

	Exploration and evaluation assets \$
Cost:	
At January 1, 2010	127,072
Additions	5,996
Impairments	(68,068)
Balance, December 31, 2010	65,000
Balance, March 31, 2011	65,000

Exploration and evaluation (E&E) assets consist of the Company's exploration projects which are pending the determination of proven or probable reserves. Additions represent the Company's share of costs incurred on E&E assets during the period. As at March 31, 2011, \$65,000 (December 31, 2010 - \$65,000) remains in exploration and evaluation assets in respect of the undeveloped lands at Medicine Hat.

(a) Amortization and impairment charge:

The impairment of exploration and evaluation assets, and any eventual reversal thereof, is recognized as additional depletion and depreciation expense in the statement of loss and comprehensive loss. The impairment of other intangible assets and goodwill, and any eventual reversal thereof (excluding goodwill), is recognized as amortization expense in the statement of loss and comprehensive loss.

Desmarais Energy Corporation

Notes to the Financial Statements

(Unaudited)

For the period ended March 31, 2011

7. EXPLORATION AND EVALUATION ASSETS (CONTINUED)

(b) Recoverability of exploration and evaluation assets:

The Company assesses the recoverability of exploration and evaluation assets, before and at the moment of reclassification to property, plant and equipment, using CGU's. The CGU includes both the E&E CGU and CGU's related to oil and natural gas interests for that area, but not larger than a segment.

8. PROPERTY, PLANT AND EQUIPMENT

Amortization and impairment charge:

The depletion, depreciation and impairment of property, plant and equipment, and any eventual reversal thereof, are recognized in depletion, depreciation and amortization in the statement of loss and comprehensive loss.

The calculation of depletion expense for the three months ended March 31, 2011 included estimated future development costs of \$467,000 (December 31, 2010 - \$467,000) associated with the development of the Company's non-impaired proved plus probable reserves.

In the periods ended March 31, 2010 and December 31, 2010, the Company did not capitalize any general and administrative expenses or share-based compensation expenses.

	Property, plant and equipment \$
Cost:	
January 1, 2010	3,493,800
Additions	284,418
Divestitures	(62,060)
Change in decommissioning liabilities	30,117
December 31, 2010	3,746,275
Change in decommissioning liabilities	11,120
March 31, 2011	3,757,395
Accumulated depletion, depreciation and impairment losses:	
January 1, 2010	-
Depletion and depreciation expense	(125,007)
Impairment losses	(158,730)
December 31, 2010	(283,737)
Depletion and depreciation expense	(31,049)
March 31, 2011	(314,786)
Carrying amount:	
January 1, 2010	\$ 3,493,800
December 31, 2010	\$ 3,462,538
March 31, 2011	\$ 3,442,609

9. IMPAIRMENTS LOSSES

During the year ended December 31, 2010, the Company recorded an impairment loss of \$158,730 on its development and production oil and gas properties due to declining natural gas prices.

The Company also evaluated its E&E Medicine Hat CGU for impairment at December 31, 2010. As a result, the Company recorded an impairment loss of \$68,080 on its E&E assets as due to a land license expiry on this property.

Desmarais Energy Corporation

Notes to the Financial Statements

(Unaudited)

For the period ended March 31, 2011

10. DUE TO RELATED PARTY

This facility is collateralized by a \$10,000,000 Floating Charge Demand Debenture over the Company's assets. There are no fixed terms for review or covenants on this facility.

11. DECOMMISSIONING LIABILITIES

The Company's decommissioning liabilities result from its ownership interest in oil and natural gas assets including well sites and gathering systems. The total decommissioning liabilities is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years. The Company has estimated the net present value of the decommissioning liabilities to be \$766,210 as at March 31, 2011 (December 31, 2010: \$750,460) based on an undiscounted total future liability of \$880,500 (December 31, 2010 - \$865,350). These payments are expected to be made over the next 15 years. The discount factor, being the risk-adjusted rate related to the liability, is 3.75% (December 31, 2010: 4.1 %).

Decommissioning liabilities	\$
Balance, January 1, 2010	621,550
Adjustments to assumptions	(21,700)
Liabilities incurred	(18,750)
Accretion expense	39,140
Acquisition of abandonment liability	130,220
<hr/>	
Balance, December 31, 2010	750,460
Adjustments to assumptions	11,120
Accretion expense	4,630
Balance, March 31, 2011	766,210

12. CAPITAL STOCK

- (a) Authorized:
 Unlimited common shares without par value
 Unlimited preferred shares without par value
- (b) Common shares issued and outstanding:

	Number of Common Shares	\$
Balance, January 1, 2010	17,490,900	4,694,403
Private placement – common shares (i)	6,000,000	300,000
Fair value of warrants issued (i)	-	(112,500)
Shares issued on settlement of debt (ii)	371,235	55,684
Ascribed value of warrants exercised	1,234,700	177,388
Balance, December 31, 2010	25,096,835	5,114,975
Ascribed value of warrants exercised	1,825,000	447,929
Ascribed value of options exercised	110,000	28,064
Balance, March 31, 2011	27,031,835	5,590,968

Desmarais Energy Corporation

Notes to the Financial Statements

(Unaudited)

For the period ended March 31, 2011

12. CAPITAL STOCK (CONTINUED)

(b) Common shares issued and outstanding (continued):

(i) The Company issued 6,000,000 units of the Company at a price of \$0.05 per unit ("Unit") for total gross proceeds of \$300,000. Each Unit will be comprised of one common share and one share purchase warrant, with each share purchase warrant entitling the holder thereof to acquire one Desmarais common share at a price of \$0.10 at any time prior to February 18, 2012. The fair value of the warrants was estimated using the Black-Scholes option model with the following assumptions: expected dividend yield of 0%; expected volatility 154%; risk-free interest rate of 3.1%; and an expected life of 24 months.

(ii) On July 15, 2010, 371,235 common shares were issued as partial consideration for payment of outstanding accounts payable balances. These shares had a deemed value of \$0.15 per common share and were subject to a four month hold period from the date of issuance.

(c) Warrants issued and outstanding:

	Number of warrants	\$
Balance, January 1, 2010	4,450,000	185,093
Granted, private placements	6,000,000	112,500
Exercised	(1,234,700)	(32,183)
Expired	(1,215,300)	(53,017)
Balance, December 31, 2010	8,000,000	212,393
Exercised	(1,825,000)	(70,429)
Expired	(1,175,000)	(48,214)
Balance, March 31, 2011	5,000,000	93,750

A total of 5,000,000 warrants are exercisable on or before February 18, 2012 at an exercise price of \$0.10 per share.

(d) Contributed surplus:

	\$
Balance, January 1, 2010	583,699
Stock-based compensation expense	80,000
Expired warrants	53,017
Balance, December 31, 2010	716,716
Stock-based compensation – option exercises	(10,464)
Expired warrants	48,214
Balance, March 31, 2011	754,466

(e) Stock option plan:

The Company grants stock options to employees, officers, directors and consultants of the Company pursuant to an incentive plan. Under this plan, the exercise price of options granted cannot be less than the closing market price for the Company's common shares on the date of grant. Options vest immediately and expire three years from the date of grant.

Desmarais Energy Corporation

Notes to the Financial Statements

(Unaudited)

For the period ended March 31, 2011

12. CAPITAL STOCK (CONTINUED)

- (e) Stock option plan (continued):

The following table summarizes stock option transactions:

	Number of options	Weighted average exercise price (\$)
Balance, January 1, 2010	1,625,500	0.16
Granted	800,000	0.125
Forfeited	(100,000)	0.16
Balance, December 31, 2010	2,325,500	0.15
Exercised	(110,000)	0.16
Balance, March 31, 2011	2,215,500	0.147

The following table reflects the stock options outstanding as at March 31, 2011:

Exercise Price (\$)	Options Outstanding	Remaining Life (Years)	Options Exercisable
0.160	885,500	0.4	885,500
0.160	530,000	1.3	530,000
0.125	800,000	2.2	800,000
0.147	2,215,500	1.3	2,215,500

- (f) Loss per share:

The number of shares used to calculate the diluted net loss per share for the periods ended March 31, 2011 included the weighted average number of Desmarais common shares outstanding of 23,704,151 for the year plus nil shares related to the dilutive effect of the conversion of stock options and warrants (2010 – 20,224,233 for the year plus nil shares) as the stock options and warrants would be anti-dilutive.

13. COMMITMENTS AND CONTINGENCIES

- (a) Claims and Litigation

The Company is involved in various claims and potential litigation arising during the normal course of business. The outcome of these matters is uncertain and there can be no assurance that such matters will be resolved in the Company's favour. If the outcome is unfavourable, it could have a materially adverse impact on the Company's financial position and/or results of operations.

- (b) Office Lease

Desmarais has a sublease for office premises with a term to September 30, 2011. The Company is committed to pay \$21,000 in 2011 over the remaining term of this lease.

- (c) Employment Contract

Desmarais has an employment contract with the President and Chief Executive Officer that provides for payment of a lump sum payment of 2 years salary, currently \$150,000 per annum, and 20% in lieu of benefits along with any outstanding holiday pay in the event of a change in control or dismissal without cause.

The Company has guarantees and other commitments in the normal course of business which would not have a material adverse effect on the Company's liquidity, financial condition or results of operations.

Desmarais Energy Corporation

Notes to the Financial Statements

(Unaudited)

For the period ended March 31, 2011

14. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital balances are comprised of the following as at March 31:

	2011	2010
	\$	\$
Accounts receivable	(170,094)	(18,953)
Deposits and prepaid expenses	(4,054)	6,313
Accounts payable and accrued liabilities	290,599	87,965
	116,451	75,325
Attributable to operating activities	(53,766)	51,631
Attributable to financing activities	-	(2,000)
Attributable to investing activities	170,218	25,694

15. RELATED PARTY TRANSACTIONS

Except as disclosed elsewhere in these financial statements, the Company has undertaken transactions with entities which are considered related parties. Transactions in the normal course of operations are measured at the exchange amount equaling the consideration established and agreed to by the related parties.

The Corporate Secretary is a Partner in a legal firm. During the three months ending March 31, 2011, legal fees totalling \$2,500 (2010 - \$4,319) with this firm were recorded. At March 31, 2011, a balance of \$34,325 remains outstanding (December 31, 2010 - \$38,825).

A director has ownership in private companies that are sublease tenants of Desmarais. During the three months ending March 31, 2011, Desmarais received office space and related service fees of \$4,500 (2010 - \$4,500). At both March 31, 2011 and December 31, 2010 \$nil was due to Desmarais from these companies.

A director is the President of a company that advanced \$2,560,000 under a demand facility to Desmarais. At March 31, 2011, interest totaling \$63,123 (2010 - \$60,164) was recorded by Desmarais to this company. At March 31, 2011, \$96,721 (December 31, 2010 - \$58,298) was due to this company from Desmarais.

The President and Chief Executive Officer is an employee of the Company with an employment contract that provides for an annual salary of \$150,000 payable in semi-monthly instalments. By mutual agreement, he has agreed to defer a portion of these payments. As a result, the Company is in arrears a total of \$53,000 as at March 31, 2010 (December 31, 2010 - \$71,250).

The President and Chief Executive Officer has partial ownership in a company that exchanged assets with Desmarais in January 2010 and is an ongoing joint venture partner in the Barrhead area. At March 31, 2011, a total of \$5,010 is due to this company (December 31, 2010 - \$5,895).

In January 2009, Desmarais entered into an arrangement for corporate development services with a company controlled by a significant shareholder. In 2011, \$nil was incurred (2010 - \$15,000) of which \$15,750 remains outstanding at March 31, 2011 (December 31, 2010 - \$15,750).

Desmarais has an arrangement to pay gross overriding royalties to a company controlled by a significant shareholder on properties developed as a direct result of their fund raising initiatives. For the three months ended March 31, 2011, the total of these royalties was \$1,299 (2010 - \$1,828) of which a balance of \$6,112 remained outstanding at March 31, 2011 (December 31, 2010 - \$5,841).

In 2011, Desmarais has entered into joint venture agreements with a companies controlled by a director. For the three months ended March 31, 2011, net revenues from these ventures totaled \$1,998, which remains outstanding at March 31, 2011. All amounts relating to capital activities were invoiced and paid in full as at March 31, 2011.

All related party transactions are in the normal course of business and have been measured at the agreed to exchange amounts, which are the amounts of consideration established and agreed to by the related parties and which are similar to those negotiated with third parties.

Desmarais Energy Corporation

Notes to the Financial Statements

(Unaudited)

For the period ended March 31, 2011

16. FIRST TIME ADOPTION OF IFRS

These interim financial statements are the Company's first under IFRS.

The adoption of IFRS requires the application of IFRS 1. IFRS 1 generally requires that an entity retrospectively apply all IFRS effective at the end of its first IFRS reporting period; however IFRS 1 provides certain mandatory exceptions and permits limited optional exemptions. Certain IFRS 1 optional exemptions have been applied including:

- Deemed cost exemption for full cost oil and gas entities whereby exploration and evaluation assets were classified from the full cost pool to intangible exploration assets at the amount that was recorded under previous GAAP and the remaining full cost pool was allocated to the development assets and components pro rata using reserve values.
- Decommissioning liabilities exemption that allows any changes in decommissioning liabilities on transition to IFRS to be adjusted through opening deficit.
- Share-based compensation exemption that allows a company to only have to evaluate share-based compensation awards that were unvested as of the date of transition and that were issued subsequent to November 7, 2002.
- Business combinations exemption that allows a company to not have to restate any business combinations that occurred prior to the date of transition.

The accounting policies in note 3 have been applied in preparing the interim financial statements for the three months ended March 31, 2011, the comparative information for the three months ended March 31, 2010, the financial statements for the year ended December 31, 2010 and the preparation of the opening IFRS statement of financial position at January 1, 2010, the Company's date of transition to IFRS. In preparing its opening IFRS statement of financial position, comparative information for the three months ended March 31, 2010 and financial statements for the year ended December 31, 2010, the Company adjusted amounts previously reported in financial statements prepared in accordance with former previous GAAP.

An explanation of how the transition from former previous GAAP to IFRS has affected the Company's financial position and financial performance is set out in the following tables and the notes accompanying the tables.

As the transition from former previous GAAP had no significant impact on the cash flows generated by the Company, no comparative table has been prepared.

Desmarais Energy Corporation

Notes to the Financial Statements

(Unaudited)

For the period ended March 31, 2011

16. FIRST TIME ADOPTION OF IFRS (CONTINUED)

(a) Reconciliation of statement of financial position from previous GAAP to IFRS:

At the date of IFRS transition – January 1, 2010:

	Note 16 (d)	Previous GAAP	Effect of transition to IFRS	IFRS
ASSETS				
Current assets				
Cash		\$ 29,215	\$ -	\$ 29,215
Accounts receivable		268,093	-	268,093
Deposits and prepaids		19,851	-	19,851
Total current assets		317,159	-	317,159
Non-current assets				
Reclamation deposits		15,460	-	15,460
Exploration and evaluation	(i)	-	127,072	127,072
Property, plant and equipment	(ii)	3,856,986	(363,186)	3,493,800
Total non-current assets		3,872,446	(236,114)	3,636,332
TOTAL ASSETS		\$ 4,189,605	\$ (236,114)	\$ 3,953,491
LIABILITIES AND SHAREHOLDERS' DEFICIENCY				
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities		\$ 1,920,063	\$ -	\$ 1,920,063
Due to related parties		115,783	-	115,783
Loan – related parties		2,440,000	-	2,440,000
Total current liabilities		4,475,846	-	4,475,846
Non-current liabilities				
Decommissioning liabilities	(iii)	584,941	36,609	621,550
Total non-current liabilities		584,941	36,609	621,550
TOTAL LIABILITIES		5,060,787	36,609	5,097,396
SHAREHOLDERS' DEFICIENCY				
Common shares		4,694,403	-	4,694,403
Warrants		185,093	-	185,093
Contributed surplus		583,699	-	583,699
Accumulated losses	(vii)	(6,334,377)	(272,723)	(6,607,100)
TOTAL DEFICIENCY		(871,182)	(272,723)	(1,143,905)
TOTAL LIABILITIES AND DEFICIENCY		\$ 4,189,605	\$ (236,114)	\$ 3,953,491

Desmarais Energy Corporation

Notes to the Financial Statements

(Unaudited)

For the period ended March 31, 2011

16. FIRST TIME ADOPTION OF IFRS (CONTINUED)

(a) Reconciliation of statement of financial position from previous GAAP to IFRS (continued):

At March 31, 2010:

	Note 16 (d)	Previous GAAP	Effect of transition to IFRS	IFRS
ASSETS				
Current assets				
Cash		\$ 91,643	\$ -	\$ 91,643
Accounts receivable		287,046	-	287,046
Deposits and prepaids		13,538	-	13,538
Total current assets		392,227	-	392,227
Non-current assets				
Reclamation deposits		89,384	-	89,384
Exploration and evaluation	(i)	-	127,968	127,968
Property, plant and equipment	(ii)	3,857,919	(343,974)	3,513,945
Total non-current assets		3,947,303	(216,006)	3,731,297
TOTAL ASSETS		\$ 4,339,530	\$ (216,006)	\$ 4,123,524
LIABILITIES AND SHAREHOLDERS' DEFICIENCY				
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities		\$ 2,002,506	\$ -	\$ 2,002,506
Due to related parties		121,305	-	121,305
Loan – related parties		2,440,000	-	2,440,000
Total current liabilities		4,563,811	-	4,563,811
Non-current liabilities				
Decommissioning liabilities	(iii)	690,203	58,167	748,370
Total non-current liabilities		690,203	58,167	748,370
TOTAL LIABILITIES		5,254,014	58,167	5,312,181
SHAREHOLDERS' DEFICIENCY				
Common shares		4,881,903	-	4,881,903
Warrants		297,593	-	297,593
Contributed surplus		583,699	-	583,699
Accumulated losses	(vii)	(6,677,679)	(274,173)	(6,951,852)
TOTAL DEFICIENCY		(914,484)	(274,173)	(1,188,657)
TOTAL LIABILITIES AND DEFICIENCY		\$ 4,339,530	\$ (216,006)	\$ 4,123,524

Desmarais Energy Corporation

Notes to the Financial Statements

(Unaudited)

For the period ended March 31, 2011

16. FIRST TIME ADOPTION OF IFRS (CONTINUED)

(a) Reconciliation of statement of financial position from previous GAAP to IFRS (continued):

At the end of the last reporting year under previous GAAP – December 31, 2010:

	Note 16 (d)	Previous GAAP	Effect of transition to IFRS	IFRS
ASSETS				
Current assets				
Cash		\$ 48,136	\$ -	\$ 48,136
Accounts receivable		393,556	-	393,556
Deposits and prepaids		11,747	-	11,747
Total current assets		453,439	-	453,439
Non-current assets				
Reclamation deposits		47,271	-	47,271
Exploration and evaluation	(i)	-	65,000	65,000
Property, plant and equipment	(ii)	3,852,764	(390,226)	3,462,538
Total non-current assets		3,900,035	(325,226)	3,574,809
TOTAL ASSETS		\$ 4,353,474	\$ (325,226)	\$ 4,028,248
LIABILITIES AND SHAREHOLDERS' DEFICIENCY				
Current liabilities				
Accounts payable and accrued liabilities		\$ 1,978,836	\$ -	\$ 1,978,836
Due to related parties		200,775	-	200,775
Loan – related parties		2,560,000	-	2,560,000
Total current liabilities		4,739,611	-	4,739,611
Non-current liabilities				
Decommissioning liabilities	(iii)	699,448	51,102	750,460
Total non-current liabilities		699,448	51,102	750,460
TOTAL LIABILITIES		5,439,059	51,102	5,490,071
SHAREHOLDERS' DEFICIENCY				
Common shares		5,114,975	-	5,114,975
Warrants		212,398	-	212,398
Contributed surplus		716,716	-	716,716
Accumulated losses	(vii)	(7,129,669)	(376,238)	(7,505,907)
TOTAL DEFICIENCY		(1,085,585)	(376,238)	(1,461,823)
TOTAL LIABILITIES AND DEFICIENCY		\$ 4,353,474	\$ (325,226)	\$ 4,028,248

Desmarais Energy Corporation

Notes to the Financial Statements

(Unaudited)

For the period ended March 31, 2011

16. FIRST TIME ADOPTION OF IFRS (CONTINUED)

(b) Reconciliation of statement of operations and comprehensive loss from previous GAAP to IFRS:

i) For the three months ended March 31, 2010:

	Note 16 (d)	Previous GAAP	Effect of transition to IFRS	IFRS
REVENUE				
Petroleum and natural gas revenue		\$ 140,845	\$ -	\$ 140,845
Royalties		(9,458)	-	(9,458)
Other income		6,018	-	6,018
		137,405	-	137,405
EXPENSES				
Production		94,845	6,491	101,336
General and administrative	(iv)	132,345	-	132,345
Depletion, depreciation and amortization	(v)	86,978	3,518	90,496
		314,168	10,009	324,177
Results from operating activities		(176,763)	10,009	(186,772)
Finance expenses	(iii), (vi)	166,537	(8,559)	157,978
Net loss and comprehensive loss for the period		(343,300)	(1,450)	(344,750)
Net loss per share				
Basic & diluted		\$ (0.02)	\$ -	\$ (0.02)

ii) For the year ended December 31, 2010:

	Note 16 (d)	Previous GAAP	Effect of transition to IFRS	IFRS
REVENUE				
Petroleum and natural gas revenue		\$ 484,756	\$ -	\$ 484,756
Royalties		(66,423)	-	(66,423)
Other income		61,432	-	61,432
Gain – debt settlements		388,502	-	388,502
		868,267	-	868,267
EXPENSES				
Production		412,377	25,074	437,451
Exploration and evaluation	(i)	-	68,068	68,068
General and administrative	(iv)	598,064	-	598,064
Depletion, depreciation and amortization	(v)	333,510	26,086	359,596
		1,343,951	119,228	1,463,179
Results from operating activities		(475,684)	119,228	(594,912)
Finance expenses	(iii), (vi)	319,608	15,714	303,894
Net loss and comprehensive loss for the period		(795,292)	(103,514)	(898,806)
Net loss per share				
Basic & diluted		\$ (0.03)	\$ (0.01)	\$ (0.04)

Desmarais Energy Corporation

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(Unaudited)

For the period ended March 31, 2011

16. FIRST TIME ADOPTION OF IFRS (CONTINUED)

(c) Statements of Cash Flows

As the transition from former previous GAAP had no material impact on the cash flows generated by the Company, no comparative tables have been prepared.

(d) Impact of transition to IFRS on 2010 results:

- (i) Exploration and Evaluation assets (“E&E”) – As required under IFRS 6, upon transition to IFRS, Desmarais reclassified \$127,072 from Property, Plant and Equipment (“PP&E”) to E&E, which primarily consisted of undeveloped exploration lands. The Company reclassified \$65,000 at December 31, 2010 (March 31, 2010 - \$127,968).

On transition to IFRS, the Company did not record an impairment loss on E&E assets. For the year ended December 31, 2010, the Company recorded impairment losses on E&E assets of \$68,068 (three months ended March 31, 2010 - \$nil) due to the expiry of an exploration license due to non-development.

The following table summarizes the changes to E&E assets resulting from the transition to IFRS:

E&E assets	January 1, 2010 \$	March 31, 2010 \$	December 31, 2010 \$
Transferred from PP&E assets	127,072	127,968	133,068
Impairment losses	-	-	(68,068)
E&E assets as reported under IFRS	127,072	127,968	65,000

- (ii) Property, Plant and Equipment (“PP&E”) – The Company’s PP&E assets were allocated to CGU’s unlike under previous GAAP where all oil and natural gas assets are accumulated into one cost centre. The deemed cost of the Company’s oil and natural gas assets were allocated to CGU’s based on total proved plus probable reserve values as at January 1, 2010, in accordance with IFRS 1.

Under IFRS, impairment tests for PP&E are performed at a CGU level as opposed to the entire Company’s PP&E balance being subjected to a full cost ceiling test under previous GAAP. Impairment is recognized if the carrying value exceeds the recoverable amount for a CGU. The recoverable amount is determined using the greater of the fair value less costs to sell based on discounted future cash flows of proved plus probable reserves using forecast prices and costs, and the value in use. The Company recorded an impairment loss of \$236,114 on January 1, 2010, on transition to IFRS.

The following table summarizes the changes to PP&E assets resulting from the transition to IFRS:

PP&E assets	January 1, 2010 \$	March 31, 2010 \$	December 31, 2010 \$
PP&E assets as reported under previous GAAP	3,856,986	3,857,919	3,852,764
Transferred to E&E assets	(127,072)	(127,968)	(133,068)
Capitalized lease rentals expensed	-	(6,491)	(25,075)
Change in depletion, depreciation and amortization	-	(3,518)	(26,086)
Change impairment losses	(236,114)	(236,114)	(236,114)
Change in decommissioning liabilities	-	30,117	30,117
PP&E assets as reported under IFRS	3,493,800	3,513,945	3,462,538

- (iii) Decommissioning liabilities – Under previous GAAP, Desmarais’s decommissioning liabilities were discounted based on a credit adjusted risk-free rate which was 7 percent at December 31, 2009. Under IFRS, the Company is required to revalue its obligation at each balance sheet date using a current liability-specific discount rate. At transition, Desmarais revalued the obligation based on a risk-free rate of 4.1% resulting in a \$36,609 increase to the liability. As a result of the change in the discount rate applied, accretion of decommissioning liabilities expense decreased by \$15,736 for the year ended December 31, 2010 (March 31, 2010 - \$8,559). The accretion of decommissioning liabilities expense has been included in finance expenses.

Desmarais Energy Corporation

Notes to the Financial Statements

(Unaudited)

For the period ended March 31, 2011

16. FIRST TIME ADOPTION OF IFRS (CONTINUED)

(d) Impact of transition to IFRS on 2010 results (continued):

(iii) Decommissioning liabilities (continued):

The following table summarizes the changes to decommissioning liabilities resulting from the transition to IFRS:

Decommissioning liabilities	January 1, 2010 \$	March 31, 2010 \$	December 31, 2010 \$
Decommissioning liabilities as reported under previous GAAP	584,941	690,203	699,448
Increase resulting from change in discount rate	36,609	36,609	36,609
Change in accretion expense	-	(8,559)	(15,736)
Change in net additions/(disposals) & abandonments	-	30,117	30,095
Decommissioning liabilities as reported under IFRS	621,550	748,370	750,460

(iv) Divestitures – Under previous GAAP, proceeds from divestitures were deducted from the full cost pool without recognition of a gain or loss unless the divestiture resulted in a change in the depletion rate of 20% or greater in which case, a gain or loss was recorded. Under IFRS, gains and losses are recorded on divestitures and are calculated as the difference between the proceeds and the net book value of the asset disposed of.

There was no impact on the transactions in 2010 as proceeds equaled net book value in all transactions.

(v) Depletion, depreciation and amortization expense – Under IFRS, Desmarais has chosen to calculate depletion expense based on proved plus probable reserves as opposed to proved reserves under previous GAAP. This has resulted in an increase of depletion, depreciation and amortization expense of \$26,086 in 2010 (March 31, 2010 – \$3,518). The Company has included impairment losses on PP&E in depletion, depreciation and amortization expense in the statement of loss and comprehensive loss.

The following table summarizes the changes to depletion, depreciation and amortization expense resulting from the transition to IFRS:

	Three months ended March 31, 2010 \$	Year ended December 31, 2010 \$
Depletion, depreciation and amortization expense as reported under previous GAAP	86,978	333,510
Decrease in depletion, depreciation and amortization expense	(38,760)	(132,644)
Increase in impairment losses on PP&E	42,278	158,730
Depletion, depreciation and amortization as reported under IFRS	90,496	359,596

(vi) The following table summarizes the changes to accumulated losses resulting from the transition to IFRS:

	January 1, 2010 \$	March 31, 2010 \$	December 31, 2010 \$
Accumulated losses as reported under previous GAAP	(6,334,377)	(6,677,679)	(7,129,669)
Change in decommissioning liabilities	(36,609)	(28,050)	(20,895)
Change in depletion, depreciation and amortization	(236,114)	(239,630)	(262,200)
Change in capitalized lease rentals expensed	-	(6,491)	(25,075)
Change in impairment of E&E assets	-	-	(68,068)
Accumulated losses as reported under IFRS	(6,607,100)	(6,951,850)	(7,505,907)

Desmarais Energy Corporation

Notes to the Financial Statements

(Unaudited)

For the period ended March 31, 2011

16. FIRST TIME ADOPTION OF IFRS (CONTINUED)

(d) Impact of transition to IFRS on 2010 results (continued):

(vii) The following table summarizes the changes to net loss and comprehensive loss resulting from the transition to IFRS:

	Three months ended March 31, 2010 \$	Year ended December 31, 2010 \$
Net loss and comprehensive loss as reported under previous GAAP	(343,300)	(795,292)
Change in exploration and evaluation expenses	-	(68,068)
Change in depletion, depreciation and amortization expense	38,760	132,644
Change in impairment losses included in depletion, depreciation and amortization expense	(42,278)	(158,730)
Change in accretion of decommissioning liabilities	8,559	15,716
Change in capitalized lease rentals expensed	(6,491)	(25,075)
Net loss and comprehensive loss as reported under IFRS	(344,750)	(898,809)