

Desmarais Energy Corporation

Management's Discussion and Analysis

First Quarter 2011

This Management's Discussion and Analysis ("MD&A") of financial results and related data of Desmarais Energy Corporation ("Desmarais" or the "Company") is reported in Canadian dollars and has been prepared in accordance with International Financial Reporting Standard 1, "First-time Adoption of International Financial Reporting Standards", and with International Accounting Standard 34 "Interim Financial Reporting", as issued by the International Accounting Standards Board. Previously, the Company prepared its Interim and Annual Consolidated Financial Statements in accordance with Canadian generally accepted accounting principles ("previous GAAP"). To the extent which may be appropriate, this MD&A should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2010 and the unaudited interim condensed consolidated financial statements for the three months ended March 31, 2011.

The commentary is as of June 29, 2011. The reader should be aware that historical results are not necessarily indicative of future performance.

In conformity with Canadian Securities Administrator's National Instrument ("NI") NI 51-101 "Standards of Disclosure for Oil and Gas Activities", natural gas volumes have been converted to equivalent barrels of oil ("BOE") using a conversion ratio of six thousand cubic feet ("mcf") of natural gas to one BOE. This ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Readers are cautioned that BOE may be misleading, particularly if used in isolation.

Forward Looking Statements

This MD&A contains forward-looking statements. Management's assessment of future plans and operations, capital expenditures, methods of financing capital expenditures and the ability to fund financial liabilities, expected commodity prices and the impact on Desmarais, future operating costs, future transportation costs, expected change in royalty rates, interest rates and the timing of and impact of adoption of IFRS and other accounting policies may constitute forward-looking statements under applicable securities laws and necessarily involve risks including, without limitation, risks associated with oil and gas exploration, development, exploitation, production, marketing and transportation, loss of markets, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other producers, inability to retain drilling rigs and other services, incorrect assessment of the value of acquisitions, failure to realize the anticipated benefits of acquisitions, the inability to fully realize the benefits of the acquisitions, delays resulting from or inability to obtain required regulatory approvals, ability to access sufficient capital from internal and external sources, and litigation risks. As a consequence, the Company's actual results may differ materially from those expressed in, or implied by, the forward looking statements. Forward looking statements or information are based on a number of factors and assumptions which have been used to develop such statements and information but which may prove to be incorrect. Although Desmarais believes that the expectations reflected in such forward-looking statements or information are reasonable, undue reliance should not be placed on forward looking statements because the Company can give no assurance that such expectations will prove to be correct. In addition to other factors and assumptions which may be identified in this document and other documents filed by the Company, assumptions have been made regarding, among other things: the impact of increasing competition; the ability of the Company to obtain qualified staff, equipment and services in a timely and cost efficient manner; drilling results; the ability of the operator of the projects which the Company has an interest in to operate the field in a safe, efficient and effective manner; Desmarais's ability to obtain financing on acceptable terms; field production rates and decline rates; the ability to reduce operating costs; the ability to replace and expand oil and natural gas reserves through acquisition, development or exploration; the timing and costs of pipeline, storage and facility construction and expansion; the ability of the Company to secure adequate product transportation; future oil and natural gas prices; currency, exchange and interest rates; the regulatory framework regarding royalties, taxes and environmental matters in the jurisdictions in which the Company operates; and Desmarais's ability to successfully market its oil and natural gas products. Readers are cautioned that the foregoing list of factors is not exhaustive. Additional information on these and other factors that could affect the Company's operations and financial results are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com). Furthermore, the forward looking statements contained in this document are made as at the date of this document and the Company does not undertake any obligation to update publicly or to revise any of the included forward looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

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Non-IFRS Measurements

The MD&A contains the term cash flow from operations ("cash flow"), which should not be considered an alternative to or more meaningful than, "cash flow from operating activities" as determined in accordance with Canadian GAAP as an indicator of the Company's financial performance. Desmarais' determination of cash flow from operations may not be comparable to that reported by other companies. The reconciliation between net earnings and cash flow from operations can be found in the statements of cash flows in the financial statements. The Company evaluates its performance based on net income and cash flow from operations. The Company considers cash flow from operations to be a key measure as it demonstrates the Company's ability to generate the cash necessary to repay debt and to fund future growth through capital investment. Cash flow from operations per share is calculated using the diluted weighted average number of shares for the period.

RESULTS OF OPERATIONS

(\$, except boe/d)	Three months ended March 31	
	2011	2010
Production		
Oil and liquids	8	11
Natural gas	161	167
Boe/d (6:1)	35	39
Petroleum and natural gas sales	116,690	140,845
Royalties	(13,614)	(9,458)
Operating	(104,455)	(101,336)
Operating netback (loss)	(1,379)	30,051
Other income	18,264	6,018
General and administrative	(119,044)	(132,345)
Financing - interest	(93,206)	(139,678)
Cash flow used in operations	(195,365)	(235,954)
Depletion, depreciation and amortization	(50,627)	(90,496)
Gain - debt settlements	41,815	-
Financing - accretion	(4,630)	(18,300)
Net loss	(208,807)	(344,750)

Production

An average of 35 BOE/d was produced in the three months March 31, 2011, down slightly from 39 BOE/d in the corresponding period last year, primarily due to lower oil and liquids production in 2011.

Revenue

For the three months ended March 31, 2011 revenues were down as compared to the same period in 2010 due primarily to lower natural gas sales price prices received partially offset by improved pricing on oil sales.

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(\$)	Three months ended March 31	
	2011	2010
Revenue		
Oil and liquids	63,068	72,228
Natural gas	53,622	68,618
Total	116,690	140,846
Desmarais average prices		
Oil and liquids (\$/bbl)	87.59	75.02
Natural gas (\$/mcf)	3.70	4.40
Oil equivalent (\$/boe)	37.12	40.65

Royalties

	Three months ended March 31	
	2011	2010
Royalties	\$ 13,614	\$ 9,458
Per boe	\$ 4.33	\$ 2.73
Percentage of revenue	11.7%	6.7%

Royalties on current production for the three month period ended March 31, 2011 were higher primarily due to the higher oil and liquids selling price.

Operating Costs

(\$, except per boe)	Three months ended March 31	
	2011	2010
Operating costs	104,455	101,336
Per boe	\$ 33.22	\$ 29.25

The increase in the first quarter reflects additional costs for increased fluids trucking and winter operating conditions. For both periods, non productive lease rentals are included in operating expenses totaling \$7,149 in 2011 and \$6,194 in 2010.

Other Income

Other income totaled \$18,264 for the first quarter of 2011 compared to \$6,018 for the corresponding period in 2010. In 2011, other income reflects increased third party recoveries for usage of Desmarais' pipeline infrastructure and equipment rental recoveries compared to the same period in 2010.

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Gain – Debt Settlements

A total of \$41,815 was recorded in the three months ended March 31, 2011 (\$nil – March 31, 2010) as the result of ongoing settlement agreements and resolutions reached with trade creditors.

General and Administrative

(\$, except per boe)	Three months ended March 31	
	2011	2010
General and administrative	119,044	132,345
Per boe	\$ 37.86	\$ 38.19

The expenditures for general and administrative expenses have decreased during the first quarter of 2010. The reduction in total expenditures reflects ongoing cost minimization efforts.

Financing Costs

Interest for the three months ended March 31, 2011 totaled \$93,206 compared to \$139,678 in 2010. The decrease in the 2011 was due to one time amounts in 2010 and was partially offset by increased overall borrowing levels from the installation of additional well tie-ins in the Barrhead area in 2010.

Accretion of decommissioning liabilities is now classified as a financing cost. Accretion for the three months ended March 31, 2011 totaled \$4,630 as compared to \$18,300 for the corresponding period in 2010.

Depletion, Depreciation and Amortization

Depletion, depreciation and amortization during the three months ended March 31, 2011 was \$50,627 as compared to \$90,496 for the corresponding 2010 period. Lower total depletion provisions that include recent reserve additions were partially offset by increased accretion provisions on new and acquired wells.

Taxes

No tax expense was recorded in either the first quarter of 2011 and 2010.

No tax asset has been recognized due to the uncertainty of future utilization.

Cash and Funds from Operations and Net Loss

(\$, except per share amounts)	Three months ended March 31	
	2011	2010
Funds from operating activities	(138,810)	(184,323)
Change in non-cash working capital	53,765	42,441
Cash flow used in operations	(195,365)	(235,954)
Per share - basic and diluted	\$ (0.01)	\$ (0.01)
Net loss	(208,807)	(344,750)
Per share - basic and diluted	\$ (0.01)	\$ (0.02)

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Capital Expenditures

Capital expenditures for the three months ended March 31, 2011 totaled \$19,578 compared to \$3,018 during the corresponding period last year.

In the three month period ended March 31, 2011, the Company minimized capital activity to conserve working capital.

Effective January 1, 2010, Desmarais acquired significant additional interests in wells and infrastructure in the Barrhead area in a non-cash exchange of assets. Desmarais assumed the current asset retirement obligations for these properties and exchanged the Company's rights to a gross overriding royalty. See also related party transactions.

Dispositions totaled \$nil for the first quarter of 2011 and 2010.

LIQUIDITY AND CAPITAL RESOURCES

Funding for the Company's capital expenditure program has come from joint venture partners and equity raised during the last year. The Company had negative cash flow from operations for the period and this trend is expected to continue until such time as the Company is able to establish a higher production base, which it hopes to achieve through a combination of drilling and strategic acquisitions. Desmarais currently does not have a credit facility with any commercial lending institution. Desmarais will require significant additional financing in order to execute its business plan.

Working Capital

As at March 31, 2011, the Company had a non-cash working capital deficiency, excluding the loan from a related party, of \$1,959,266 compared to \$1,744,310 at December 31, 2010. In addition, there was \$53,306 in the Company's bank accounts as at March 31, 2011 (\$48,136 as at December 31, 2010) and \$364,791 held in trust for joint venture partners at March 31, 2011 (\$nil – March 31, 2010).

Share Capital

As at the date of this report, 27,031,835 common shares of Desmarais are outstanding. (March 31, 2011 – 27,031,835).

There are no off-balance sheet financing arrangements.

RELATED PARTY TRANSACTIONS AND MANAGEMENT AND BOARD COMPENSATION

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.

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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 company 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.

CONTINGENCIES AND COMMITMENTS

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.

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.

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.

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OUTLOOK

Desmarais expects oil prices to remain firmly above \$85 per barrel (WTI) for 2011 as the North American demand for oil continues to be strong. Desmarais plans to continue to develop the Company's significant land base, particularly in West Central Alberta, where both medium gravity crude oil and liquids rich natural gas prospects are being proven with 3 recent successful wells: 2 new pool oil discoveries and one gas well to be completed shortly. Drilling locations on these prospects are being selected with the support of 3D seismic, in an area where Desmarais controls and operates more than 25 kilometres of pipeline infrastructure.

The tight market for natural gas is anticipated to hold prices during 2011 to a narrow trading range between \$3.50 per MCF and \$4.50 per MCF.

Other initiatives, such as an equity issue, and ongoing joint venture arrangements will assist Desmarais in maintaining operatorship in new drilling projects, with a mandate to increase our oil to gas ratio towards a 50:50 balance by year end.

ADDITIONAL DISCLOSURES

Risk Assessment

There are a number of risks facing participants in the Canadian oil and gas industry. Some risks are common to all businesses while others are specific to the Company. The following are a number of identifiable business risks faced by Desmarais which will evolve and additional risks will emerge periodically. The risks shown are those identified by management at the date of completion of this report and may not describe all of the risks faced by the Company.

Substantial Capital Requirements

The Company anticipates making substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. As the Company's revenues may decline as a result of decreased commodity pricing, it may be required to reduce capital expenditures. In addition, uncertain levels of near term industry activity coupled with the present global credit crisis exposes the Company to additional financing risks. There can be no assurance that debt or equity financing, or funds generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Company. The inability of the Company to access sufficient capital for its operations could have a material adverse effect on the Company's business financial condition, results of operations and prospects.

Third Party Credit Risk

The Company may be exposed to third party credit risk through its contractual arrangements with its current or future joint venture partners, marketers of its petroleum and natural gas production and other parties. In the event such entities fail to meet their contractual obligations to the Company, such failures may have a material adverse effect on the Company's business, financial condition, results of operations and prospects. In addition, poor credit conditions in the industry and of joint venture partners may impact a joint venture partner's willingness to participate in the Company's ongoing capital program, potentially delaying the program and the results of such program until the Company finds a suitable alternative partner.

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QUARTERLY RESULTS

(\$, except per share amounts)	IFRS				Canadian GAAP			
	Mar-11	Dec-10	Sep-10	Jun-10	Mar-10	Dec-09	Sep-09	Jun-09
Petroleum and natural gas sales	116,690	109,970	138,745	95,195	140,845	139,671	113,573	76,199
Cash flow from (used in) operations	(60,344)	(221,313)	(91,596)	(173,036)	(229,463)	(515,001)	(250,727)	(275,525)
Funds (used in) from operating activities	(138,810)	(101,235)	(80,350)	(154,157)	(177,832)	2,679	(57,883)	(411,774)
Net loss	(208,807)	(325,065)	(198,265)	(30,726)	(344,750)	(884,674)	(421,708)	(386,315)
Per share - basic and diluted	(0.01)	(0.01)	(0.01)	-	(0.02)	(0.05)	(0.03)	(0.02)
Total assets	4,589,396	4,028,428	4,718,442	3,917,126	4,123,524	4,189,605	4,669,598	5,599,368

Desmarais' petroleum and natural gas sales, cash flow and funds from operating activities and net income are all impacted by production levels and volatile commodity pricing. From 2009 to 2011, these performance measures have fluctuated as a result of volatile commodity prices and escalating cost of royalties and operations.

Significant factors and trends that have impacted the Company's results during the above periods include:

- Revenue is directly impacted by the Company's ability to replace existing declining production and add incremental production through its on-going capital expenditure program
- Cash flow from operations over the past two years is a cumulative negative amount as production levels have not increased enough to support operating costs and the requisite staffing levels required to operate a publicly listed oil and gas company
- The working capital deficiency has increased due to a minimal amount of new equity
- Total assets have not grown materially due to capital expenditure activities being funded by joint venture partners

SIGNIFICANT ACCOUNTING POLICIES

Changes in accounting policies and practices

The following discussion explains the significant differences between Desmarais' previous GAAP accounting policies and those applied by the Company under International Financial Reporting Standards ("IFRS"). IFRS policies have been retrospectively and consistently applied except where specific IFRS 1 optional and mandatory exemptions permitted an alternative treatment upon transition to IFRS for first-time adopters.

The most significant changes to the Company's accounting policies relate to the accounting for exploration and evaluation costs and decommissioning liabilities. Refer to Note 16 of the March 31, 2011 Financial Statements

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for additional disclosures and illustrative information for differences between IFRS and previously applied GAAP.

IFRS 2 - Share-based Payments

Stock options that vested prior to December 31, 2009 are not required to be retrospectively restated. Therefore, IFRS 2 requirements apply only to those options that were unvested at the date of transition

IFRS 6 - Exploration and Evaluation

Under Canadian GAAP Desmarais used the full cost method of oil and gas accounting whereby all costs relating to the exploration for and development of petroleum and natural gas reserves were capitalized and included with property and equipment ("P&E"). Such costs include land acquisition, drilling of productive and non-productive wells, geological and geophysical, production facilities, carrying costs directly related to unproved properties and corporate expenses directly related to acquisition, exploration and development activities.

IFRS 6 mandates that E&E costs must be separated from P&E into tangible or intangible pools according to the nature of the assets acquired, these costs include acquisition of rights to explore, exploration drilling, carrying costs of unproved properties, and any other activities relating to evaluation of technical feasibility and commercial viability of extracting an oil and gas resources.

IAS 16 - Property and equipment

The most significant accounting impact to property and equipment is the removal of E&E assets as described above. Although IAS 16 requires P&E components to be broken out based on their cash generating units and the review of the useful life of each major asset that has been recorded there is minimal impact due to the small number of tangible assets that the Company currently holds.

IAS 37 - Provisions, Contingent Liabilities and Contingent Assets

Desmarais has elected to measure decommissioning obligations as at the transition date in accordance with IAS 37 and recognize directly in retained earnings (deficit) the difference between that amount and the carrying amount of those liabilities at the date of transition determined under previous GAAP.

APPLICATION OF CRITICAL ACCOUNTING POLICIES

Desmarais' significant accounting policies are disclosed in Note 3 to the March 31, 2011 consolidated financial statements.

Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. These accounting policies are discussed below and are included to aid the reader in assessing the critical accounting policies and practices of the Company and the likelihood of materially different results being reported. Desmarais' management reviews its estimates regularly. The emergence of new information and changed circumstances may result in actual results or changes to estimate amounts that differ materially from current estimates.

The following assessment of significant accounting policies and associated estimates is not meant to be exhaustive. The Company might realize different results from the application of new accounting standards promulgated, from time to time, by various rule-making bodies.

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Exploration and Evaluation and Impairment Evaluation

Fair value of exploration and evaluation assets is determined based on market value to an arm's length buyer as described in property and equipment above. As E&E assets are not proven assets, they have uncertainties that make it difficult to assess future cash flows; as such market conditions and assessment by management are used to determine fair value.

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 of extracting an oil and gas resource is considered to be determinable when proven reserves are determined to exist. Upon determination of proven reserves, intangible 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 oil and natural gas development and production assets.

Reserves

Estimation of reported recoverable quantities of proved and probable reserves include judgmental assumptions regarding production profile, commodity prices, exchange rates, remediation costs, timing and amount of future development costs, and production, transportation and marketing costs for future cash flows. It also requires interpretation of geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoirs, and their anticipated recoveries. The economical, geological and technical factors used to estimate reserves may change from period to period. Changes in reported reserves can impact the carrying values of the Company's petroleum and natural gas properties and equipment, the calculation of depletion and depreciation, the provision for decommissioning obligations, and the recognition of deferred tax assets due to changes in expected future cash flows. The recoverable quantities of reserves and estimated cash flows from Desmarais' petroleum and natural interests are independently evaluated by reserve engineers at least annually.

The Company's petroleum and natural gas reserves 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 economically recoverable in future years from known reservoirs and which are considered commercially producible. Such reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon (i) a reasonable assessment of the future economics of such production; (ii) a reasonable expectation that there is a market for all or substantially all the expected oil and natural gas production; and (iii) 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 productive capacity is supported by either production or conclusive formation tests. Desmarais' oil and gas reserves are determined pursuant to National Instrument 51-101, Standard of Disclosures for Oil and Gas Activities.

Decommissioning obligations

The Company estimates future remediation costs of production facilities, well sites and gathering systems at different stages of development and construction of assets or facilities. In most instances, removal of assets occurs many years into the future. This requires judgment regarding abandonment date, future environmental and regulatory legislation, the extent of reclamation activities, the engineering methodology for estimating cost, future removal technologies in determining the removal cost and liability-specific discount rates to determine the present value of these cash flows.

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Stock-based compensation

All share-based awards issued by the Company are fair valued using the Black-Scholes option-pricing model. In assessing the fair value of share-based compensation, estimates have to be made regarding the expected volatility in share price, option life, dividend yield, risk-free rate and estimated forfeitures at the initial grant date.

Impairment of assets

The impairment testing of PP&E is based on estimates of proved plus probable reserves, production rates, forecasted petroleum and natural gas prices, future costs and other relevant assumptions. Desmarais assets are aggregated into cash-generating units, for the purpose of calculating impairment, based on their ability to generate largely independent cash flows. By their nature, these estimates and assumptions are subject to measurement uncertainty and may impact the carrying value of the Company's assets in future periods.

Income Tax Accounting

The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. All tax filings are subject to audit and potential reassessment subsequent to the financial statement reporting period. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded by management.

Stock-based Compensation

Desmarais accounts for its stock based compensation program, which includes stock options using the fair value method. The determination of the fair value of options requires management to make assumptions about risk-free interest rates and expected volatility. Such assumptions may change from time to time and the estimated fair value of options calculated at the grant date may differ on subsequent dates. The fair value of stock options being amortized to compensation expense is not revised for any changes to the grant date.