THIS IS EXHIBIT "J"

Referred to in the Affidavit of Don Umbach

Sworn before me this 6th Day of December, 2013

A COMMISSIONER FOR OATHS
IN AND FOR THE PROVINCE OF ALBERTA

David LeGeyt
Barrister & Solicitor

ALSTON ENERGY INC.

Financial Statements

For the Years ended December 31, 2012 and 2011

Collins Barrow
Chartered Accountants & Consultants

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Independent Auditors' Report

To the Shareholders
Alston Energy Inc.

We have audited the accompanying financial statements of Alston Energy Inc., which comprise the balance sheets as at December 31, 2012 and December 31, 2011, and the statements of loss and comprehensive loss, statements of changes in shareholders' equity and statements of cash flows for the years ended December 31, 2012 and December 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Alston Energy Inc. as at December 31, 2012 and December 31, 2011, and its financial performance and its cash flows for the years ended December 31, 2012 and December 31, 2011 in accordance with International Financial Reporting Standards.

Emphasis of Matter

We draw attention to note 2(b) to the financial statements which describes conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Corporation's ability to continue operating as a going concern. Our opinion is not qualified in respect of this matter.

Other Matters

The financial statements of Alston Energy Inc. (formerly CanRock Energy Corp.) as at and for the year ended December 31, 2011 were audited by another auditor who expressed an unmodified opinion on those statements on April 26, 2012.

Collins Barrow Calgary LLP

CHARTERED ACCOUNTANTS

Calgary, Canada
April 30, 2013

ALSTON
ENERGY INC.

Alston Energy Inc.
Balance Sheets

As at December 31,		2012		2011
ASSETS				
Current assets:				
Cash and cash equivalents	$	-	$	16,267
Trade and other receivables (note 19(a))		947,325		1,021,879
Prepaid expenses and deposits		92,388		94,581
Assets held for sale (note 6)		500,000		
Derivative contract (note 19(c))		-		149,727
		1,539,713		1,282,454
Non-current assets:				
Exploration and evaluation assets (note 6)		2,399,830		3,164,399
Property, plant and equipment (note 7)		22,348,988		17,370,659
		24,748,818		20,535,058
Total assets	$	26,288,531	$	21,817,512
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities (note 19(b))	$	3,176,359	$	4,749,533
Bank operating loan (note 8)		7,155,005		3,823,000
Loans from related parties (note 9)		347,863		320,000
Current portion of loan payable (note 10)		1,100,000		2,810,427
		11,779,227		11,702,960
Non-current liabilities:				
Loan payable (note 10)		524,005		-
Decommissioning obligations (note 11)		5,258,359		1,978,536
Total liabilities	$	17,561,591	$	13,681,496
SHAREHOLDERS' EQUITY				
Share capital (note 13)		19,995,528		13,802,944
Warrants (note 13)		2,463,582		2,463,582
Contributed surplus (note 14)		1,341,167		1,240,995
Deficit		(15,073,337)		(9,371,505)
		8,726,940		8,136,016
	$	26,288,531	$	21,817,512

Nature of operations and going concern (note 2(b))
Commitments (note 16)
Subsequent events (note 22)

The accompanying notes are an integral part of these financial statements

(signed) "Dennis Nerland" Director

(signed) "Wayne Babcock" Director

Alston Energy Inc.
Statements of Loss and Comprehensive Loss

Years ended December 31,		2012		2011
REVENUE				
Oil and natural gas sales	$	8,468,717	$	7,913,624
Crown royalties		(222,901)		(694,743)
Other royalties		(628,466)		(781,083)
Revenue, net of royalties		7,617,350		6,437,798
EXPENSES				
Operating		4,361,276		3,053,616
Transportation		338,683		214,247
General and administrative (note 17)		2,682,259		1,937,312
Stock-based compensation (note 13(d))		100,172		1,693,168
Exploration and evaluation (note 6)		448,501		359,283
Depletion and depreciation (note 7)		2,580,280		2,224,060
Impairment of property, plant and equipment (note 7)		1,221,446		-
Impairment of exploration and evaluation assets (note 6)		1,101,867		-
		12,834,484		9,481,686
Other (income) and expenses				
Unrealized (gain) loss on derivative financial instruments (note 19(c))		149,727		(149,727)
Finance expenses, net (note 18)		531,643		493,099
Loss on settlement of loans (note 9)		-		72,119
Gain on sale of assets (notes 6 & 7)		-		(492,936)
Realized gain on derivative contract (note 19(c))		(196,672)		(134,977)
		484,698		(212,422)
Loss and comprehensive loss before taxes		(5,701,832)		(2,831,466)
TAXES				
Deferred income tax recovery (note 12)		-		(758,300)
Loss and comprehensive loss for the year	$	(5,701,832)	$	(2,073,166)
LOSS PER SHARE				
Basic and diluted	$	(0.04)	$	(0.08)

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

ALSTON
ENERGY INC.

Alston Energy Inc.
Statements of Changes in Shareholders` Equity

Years ended December 31, 2012 and 2011

	Share Capital	Warrants	Contributed Surplus	Deficit	Total Equity
Balance – December 31, 2010	**$ 8,051,178**	**$ 1,667,000**	**$ 297,999**	**$ (7,298,339)**	**$ 2,717,838**
Issue of common shares, net	6,757,348	-	-	-	6,757,348
Flow-through share premium liability	(124,000)	-	-	-	(124,000)
Stock-based compensation	-	-	857,996	-	857,996
Fair value of warrants	(881,582)	881,582	-	-	-
Expiry of warrants	-	(85,000)	85,000	-	-
Loss for the year				(2,073,166)	(2,073,166)
Balance – December 31, 2011	**$ 13,802,944**	**$ 2,463,582**	**$ 1,240,995**	**$ (9,371,505)**	**$ 8,136,016**
Issue of common shares	24,000	-	-	-	24,000
Elimination of CanRock voting shares	-	-	-	-	-
Stock-based compensation	-	-	100,172	-	100,172
Alston common shares outstanding July 17, 2012	4,628,358	-	-	-	4,628,358
Shares issued for property acquisition	3,108,253	-	-	-	3,108,253
Shares issued for finder's fee	133,333	-	-	-	133,333
Share issue costs	(133,333)	-	-	-	(133,333)
Shares issued on reverse acquisition (notes 5 and 13)	6,168,584	-	-	-	6,168,584
Warrants issued by property transaction	-	141,747	-	-	141,747
Elimination of Alston stated value	(7,736,581)	(141,747)	-	-	(7,878,328)
Loss for the year	-	-	-	(5,701,832)	(5,701,832)
Balance – December 31, 2012	**$ 19,995,528**	**$ 2,463,582**	**$ 1,341,167**	**$ (15,073,337)**	**$ 8,726,940**

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

ALSTON
ENERGY INC.

Alston Energy Inc.
Statements of Cash Flows

Years ended December 31,		2012		2011
Cash and cash equivalents provided by (used in):				
OPERATING ACTIVITIES				
Loss for the year	$	(5,701,832)	$	(2,073,166)
Items not affecting cash:				
Unrealized loss (gain) on derivative contracts		149,727		(149,727)
Gain on sale of assets		-		(492,936)
Finance expenses		531,643		493,099
Depletion, depreciation and impairment of property, plant and equipment		3,801,726		2,224,060
Non-cash exploration and evaluation expenses and impairments		1,040,105		-
Cash interest paid		(361,841)		(262,659)
Decommissioning expenditures		-		(7,312)
Stock-based compensation		100,172		1,693,168
Shares issued for services		24,000		-
Deferred income tax recovery		-		(758,300)
		(416,300)		666,227
Changes in non-cash working capital (note 15)		(512,922)		326,530
		(929,222)		992,757
FINANCING ACTIVITIES				
Increase in bank operating loan		3,332,005		3,623,000
Issue of shares		-		4,828,772
Share issue costs		-		(247,927)
Decrease in loans from related party		(320,000)		(570,000)
(Decrease) increase in loan payable		(926,035)		2,633,065
Changes in non-cash working capital (note 15)		-		-
		2,085,970		10,266,910
INVESTING ACTIVITIES				
Corporate acquisition		-		(15,218,212)
Property, plant and equipment expenditures		(1,565,473)		(2,436,404)
Acquisitions of exploration and evaluation assets		(122,077)		(2,531,042)
Proceeds on dispositions of property, plant and equipment		87,985		785,000
Cash acquired in reverse acquisition		1,371,407		-
Changes in non-cash working capital (note 15)		(944,857)		2,161,132
		(1,173,015)		(17,239,526)
Change in cash and cash equivalents		(16,267)		(5,979,859)
Cash and cash equivalents, beginning of year		16,267		5,996,126
Cash and cash equivalents, end of year	$	-	$	16,267

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

1. General business description

Alston Energy Inc. ("Alston" or the "Company") is a publicly traded Company incorporated under the laws of Alberta. The Company is engaged in the exploration for and exploitation, development and production of oil and natural gas. The head office, principal address and registered and records office of the Company are located at 1100, 744 – 4th Avenue S.W. Calgary, Alberta, T2P 3T4.

On July 17, 2012, the Company (formerly CanRock Energy Corp., "CanRock") completed a business combination by way of a Plan of Arrangement whereby all issued and outstanding common shares of CanRock were exchanged for common shares of Alston on the basis of 2.321 Alston common shares for each CanRock common share. The business combination was accounted for as a reverse acquisition of Alston by CanRock, with CanRock being the continuing entity, as the transaction resulted in the issuance of voting common shares such that control of the combined companies passed to the shareholders of CanRock. In conjunction with the transaction, the two companies amalgamated and continued under the name Alston Energy Inc.

These financial statements represent the results of operations of CanRock for the year ended December 31, 2012 combined with the results of operations of Alston since the reverse acquisition.

2. Basis of presentation

(a) Statement of compliance

These financial statements present the Company's results of operations and financial position as at and for the years ended December 31, 2012 and 2011. They have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Interpretations Committee ("IFRIC")

These financial statements were authorized for issuance by the Board of Directors on April 30, 2013.

(b) Going concern

The financial statements have been prepared using accounting principles that are applied to a going concern. As at and for the year ended December 31, 2012, the Company had an accumulated deficit of $15.1 million, a working capital deficiency of $10.2 million, negative cash flow from operating activities of $0.9 million and incurred a net loss of $5.7 million. In order to improve the Company's working capital position, the Company may need to adjust its exploration and development activities, monetize certain assets, issue shares and/or seek additional debt financing. Although management's efforts to raise capital and monetize assets have been successful in the past, there is no certainty that they will be able to do so in the future. The aforementioned circumstances indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. See also notes 19(b) and 20.

These financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern.

(c) *Basis of measurement:*

These financial statements have been prepared on a historical cost basis, except for the financial instruments. The methods used to measure fair values of these financial instruments are discussed in note 4.

(d) *Functional and presentation currency:*

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

(e) *Use of estimates and judgments:*

The preparation of the financial statements in conformity with IFRS requires management to make estimates and use judgment regarding the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the date of the condensed interim financial statements and the reported amounts of revenues and expenses during the period. By their nature, estimates are subject to measurement uncertainty. Accordingly, actual results may differ from the estimated amounts as future confirming events occur. Significant estimates and judgments made by management in the preparation of these financial statements are as follows:

Valuation of exploration and evaluation assets

The value of exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves which in turn is dependent on future petroleum and natural gas prices, future capital expenditures and environmental and regulatory restrictions.

Recoverability of property plant and equipment

The recoverability of carrying values for oil and natural gas properties is assessed at a cash generating unit ("CGU") level. Determination of what constitutes a CGU is subject to management judgments. The asset composition of a CGU can directly impact the recoverability of the assets included therein. The key estimates used in the determination of cash flows from oil and natural gas reserves include the following:

- Reserves: Assumptions that are valid at the time of reserve estimation may change significantly when new information becomes available. Changes in forward price estimates, production costs or recovery rates may change the economic status of reserves and may ultimately result in reserves being restated.

- Oil and natural gas prices: Forward price estimates are used in the Company's reserve evaluation. Commodity prices can fluctuate for a variety of reasons including supply and demand fundamentals, inventory levels, exchange rates, weather, and economic and geopolitical factors.

- Discount rate: The discount rate used to calculate the net present value of cash flows is based on estimates of an approximate industry peer group weighted average cost of capital. Changes in the general economic environment could result in significant changes to this estimate.

- The Company's reserve estimates are evaluated annually pursuant to the parameters and guidelines stipulated under *National Instrument 51-101 – Standard of Disclosure for Petroleum and Gas Activities.*

Depletion and depreciation

Amounts recorded for depletion and depreciation are based on estimates of total proved and probable oil and natural gas reserve volumes and future development capital. By their nature, the estimates of reserve volumes are subject to measurement uncertainty.

Decommissioning obligations

Amounts recorded for decommissioning obligations and the related accretion expense requires the use of estimates with respect to the amount and timing of decommissioning expenditures. Actual costs and cash outflows can differ from estimates because of changes in laws and regulations, public expectations, market conditions, discovery and analysis of site conditions and changes in technology. Provisions are recognized in the period when it becomes probable that there will be a future cash outflow.

Valuation of accounts receivable

The valuation of accounts receivable is based on management's best estimate of collectability and provisions for doubtful accounts.

Fair value of derivative contracts

The estimated fair value of derivative contracts resulting in financial assets and liabilities, are subject to measurement uncertainty as it requires management to select assumptions based on current market conditions.

Stock options and warrants

The amounts recorded relating to the fair value of stock options and warrants issued are based on estimates of the future volatility of the Company's share price, market price of the Company's shares at the grant date, expected lives of the options, expected dividends and other relevant assumptions.

Income taxes

The amounts recorded for deferred income taxes are based on estimates as to the timing of the reversal of temporary differences and tax rates currently substantively enacted. They are also based on estimates of the probability of the Company utilizing certain tax pools and assets which, in turn, is dependent on estimates of proved and probable reserves, production rates, future petroleum and natural gas prices and changes in legislation, tax rates and interpretations by taxation authorities. The availability of tax pools is subject to audit and interpretation by taxation authorities.

Flow- through share premium

The amounts recorded for the flow-through share premium on flow-through shares and the related deferred income tax effect are based on management's estimates of the estimated market value of the Company's shares on the date of issuance of the flow-through common shares.

Business combinations

The acquisition method of accounting for business acquisitions requires that the identifiable assets and liabilities be measured at fair value. Judgement is required in selecting key assumptions in these measurements due to limited active markets for certain assets and liabilities. The fair values recorded for business combinations are based on initial information and may be subject to change once final closing adjustments are determined.

3. Significant accounting policies

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

(a) *Jointly controlled operations and jointly controlled assets*

Some 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) *Cash and cash equivalents*

Cash and cash equivalents consist of amounts on deposit with banks, term deposits and other similar short-term highly liquid investments with maturities of 90 days or less at the date of issue.

(c) *Financial Instruments*

Non-derivative financial instruments
Non-derivative financial instruments are comprised of cash and cash equivalents, trade and other receivables, bank operating loan, loans from related parties, loan payable, and accounts payable and accrued liabilities. Non-derivative financial instruments are recognized initially at fair value net of any directly attributable transaction costs unless the non-derivative financial instrument is designated at fair value through profit or loss. Subsequent to initial recognition these financial instruments are measured based on their classification.

Financial assets and financial liabilities at "fair value through income (loss)" are either classified as "held for trading" or "designated at fair value through income (loss)" and are measured at fair value with changes in fair value recognized in the statement of income (loss). Transaction costs are expensed when incurred. The Company has designated cash and cash equivalents, deposits and any outstanding derivative commodity contracts as "held for trading".

Financial assets and financial liabilities classifies as "loans and receivables', "held-to maturity", or "financial liabilities measured at amortized cost" are measured at amortized cost using the effective interest method of amortization. "Loans and receivables" are non-derivative financial assets with fixed or determinable payments that are not quoted in the active market. "Held-to maturity" financial assets are non-derivative investments that an entity has the positive intention and ability to hold to maturity. "Financial liabilities measured at amortized cost" are those financial liabilities that are not designated as "fair value through income (loss)" and that are not derivatives. The Company has designated accounts receivable as "loans and receivables" and accounts payable and accrued liabilities, bank operating loan, loans from related parties and loan payable as "financial liabilities measured at amortized cost".

Financial assets classifies as "available-for-sale" are measured at fair value, with changes in fair value recognized in other comprehensive income. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. The Corporation currently has no financial instruments included in this category.

Derivative financial instruments
The Company uses financial derivative instruments to manage the exposure to market risk associated with volatile commodity prices. These instruments are not used for trading or speculative purposes. The Company has not designated its financial derivative contracts as effective accounting hedges and all contracts are, therefore, classified as fair value through income (loss). These instruments are recorded at their fair value at each balance sheet date and related gains and losses are recorded as other income (expenses) in income (loss) in the period they occur.

Common shares and warrants
Common shares and warrants 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.

(d) Business combinations and goodwill

Business combinations, including acquisitions of subsidiaries and assets that meet the definition of a business under IFRS are accounted for using the acquisition method of accounting. The cost of an acquisition is measured as the cash paid and the fair value of other assets given, equity instruments issued and liabilities and contingent liabilities incurred or assumed at the date of exchange. The acquired identifiable assets, liabilities and contingent liabilities are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the net fair value of the identifiable assets, liabilities and contingent liabilities acquired is recognized as goodwill. At the acquisition date, any goodwill is allocated to a CGU or a group of CGUs expected to benefit from the combination's synergies.

Following initial recognition, any goodwill is measured at cost less any accumulated impairment losses. Goodwill is assessed for impairment annually at year end or more frequently if events occur that indicate a possible impairment. Impairment is determined by assessing the recoverable amount of the CGU or group of CGUs to which the goodwill relates. Where the recoverable amount of the cash-generating unit or units with allocated goodwill is less than the carrying amount, an impairment of goodwill is recognized.

(e) *Property, plant and equipment and exploration and evaluation assets:*

Exploration and evaluation expenditures

Exploration and evaluation costs, including the costs of acquiring undeveloped land and drilling costs are initially capitalized until the drilling of the well is complete and the results have been evaluated. The costs are accumulated in cost centres by well, field or exploration area pending determination of technical feasibility and commercial viability. The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proved or probable reserves are determined to exist. If proved and or probable reserves are found, the drilling costs and associated undeveloped land are transferred to property, plant and equipment. Pre-license seismic and other pre-license costs are expensed. The cost of undeveloped land that expires or any impairment recognized during a period is charged to income (loss) as exploration and evaluation expenses. No depletion or depreciation is provided for exploration and evaluation assets.

Development and production costs

Items of property, plant and equipment, which include oil and natural gas properties and equipment, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. The cost of development and production assets include transfers from exploration and evaluation assets, which generally include the cost to drill the well and the cost of the associated land and seismic costs upon determination of technical feasibility and commercial viability, the cost to complete and tie-in the wells, facility costs, the cost of recognizing provisions for future restoration and decommissioning, geological and geophysical costs, and directly attributable overheads.

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

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 income (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 operating expenses as incurred.

Depletion and depreciation

The net carrying value of development and production assets is depleted using the unit of production method by reference to the ratio of production in the period to the related proved plus probable reserves, taking into account estimated future development costs necessary to bring those reserves into production the estimated salvage value of the assets at the end of their useful lives. Future development costs are estimated taking into account the level of development required to produce the reserves. Proved reserves are estimated annually by independent qualified reserve evaluators 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.

Computer and office equipment are recorded at cost and amortized on a declining basis and reviewed at each reporting period. Leasehold improvements are recorded at cost and amortized over the remaining term of the office lease or the estimated useful life, if shorter.

An asset within oil and gas properties is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognized.

(f) *Impairment:*

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.

Non-financial assets
The carrying amounts of the Company's non-financial assets, other than exploration and evaluation 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. Goodwill and other intangible assets that have indefinite lives or that are not yet available for use are tested annually for impairment.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount exceeds the recoverable amount and upon transfer to property, plant and equipment. Exploration and evaluation assets are tested for impairment separately. If, at any time it is determined that the Company has no future exploration plans and commercial production cannot be achieved in relation to an area, the associated costs are written down to the estimated recoverable amount and the amount of the write-down is expensed.

For the purpose of impairment testing, assets included in property plant and equipment are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets by cash generating unit (CGU). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less cost to sell.

Fair value less cost to sell is determined as the amount that would be obtained from the sale of a CGU in an arm's length transaction between knowledgeable and willing parties.

Value in use is determined as the net present value of the estimated future cash flows expected to arise from the continued use of the asset in its present form and its eventual disposal. Value in use is determined by applying assumptions specific to the Company's continued use and take into account approved future development plans and costs. Estimates of future cash flows used in the evaluation of impairment of assets are made using management's forecasts of commodity prices and expected production volumes. The latter takes into account assessments of field reservoir performance and includes expectations about proved and unproved volumes, which are risk-weighted utilizing geological, production, recovery and economic projections.

An impairment loss is recognized if the carrying amount of a CGU exceeds its estimated recoverable amount. Impairment losses are recognized in depletion and depreciation expense. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amounts of the other assets in the CGU 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, if facts and circumstances indicate 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, if no impairment loss had been recognized.

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.

Decommissioning obligations
The Company's activities give rise to dismantling, decommissioning and site disturbance remediation activities. A provision is made for the estimated cost of abandonment and site restoration and capitalized in the relevant asset category. The capitalized amount is depreciated on a unit of production basis over the life of the associated proved plus probable reserves.

Decommissioning obligations are measured at the present value of management's best estimate of the expenditure required to settle the present obligation as at the reporting 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 accretion (within finance expenses) whereas increases/decreases due to changes in the estimated future cash flows or changes in the discount rate are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

Income taxes
Income tax expense is comprised of current and deferred tax. Income tax expense is recognized in income (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 and that affects neither accounting nor taxable profit or loss and differences relating to investments in subsidiaries and jointly controlled entities to the extent it is probable that they will not reverse in the foreseeable future. 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.

Flow-through shares
The resource expenditure deductions for income tax purposes related to exploratory and development activities funded by flow-through shares are renounced to investors in accordance with tax legislation. Share capital is stated at the market value of shares without the flow-through feature at the time of issue, with a liability recognized representing the difference between cash received and market value. The premium paid for flow through shares in excess of that market value of the shares is drawn down and deferred tax is recognized at the time the qualifying exploration and development expenditures are renounced and incurred.

Revenue recognition
Oil and natural gas revenues are recognized when the title and risks pass to the purchaser and the collectability is reasonably assured. Revenue represents the Company's share and is recorded not of royalty obligations to governments and other mineral interest owners. The costs associated with the delivery, including operating and maintenance costs and transportation are recognized in the same period in which the related revenues is earned and recorded. Transportation costs are reported as a separate expense and are not netted against revenue.

Foreign currency
Any transactions in foreign currencies are translated to Canadian dollars at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the period end exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on translation are recognized in profit or loss.

Finance expenses
Finance expenses comprise interest expense on borrowings and accretion of the discount on the decommissioning obligation and loan payable. Borrowing costs incurred for the acquisition or 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. A qualifying asset is one that takes a substantial period of time to get ready for use or sale.

Where funds are borrowed specifically to finance a project, the amount capitalized represents the actual borrowing costs incurred. Where the funds used to finance a project form part of general borrowings, the amount capitalized is calculated using a weighted average of rates applicable to relevant general borrowings of the Company during the period.

All other borrowing costs are recognized in the statement of income (loss) in the period in which they are incurred using the effective interest method.

Per share amounts
Basic earnings per share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as warrants and options granted to employees. Should the Company have a loss for the period, options and warrants would be anti-dilutive; and therefore, have no effect on the determination of loss per share.

Stock-based compensation
The Company has a stock-based compensation plan enabling officers, directors and employees to purchase common shares at exercise prices equal to the price determined by the directors on the date the option is granted. Stock option awards are accounted for based on the fair value method of accounting (note 4). Under this method, stock-based compensation is recorded as an expense over the vesting period of the option, with a corresponding increase in contributed surplus. Stock-based compensation is based on the estimated fair value of the related stock option at the time of the grant using the Black-Scholes option model. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest. When stock options are exercised, the consideration paid to the Company, along with amounts previously credited to contribute surplus, is credited to share capital. In the event that options are forfeited, previously recognized compensation expense associated with the unvested portion of such stock options is reversed.

The Company measures share based payments to non-employees at the fair value of the goods and services received at the date of receipt of the goods and services. If the fair value of the goods or services cannot be measured reliably, the value of the options/warrants granted is measured using the Black-Scholes option pricing model.

New standards and interpretations not yet adopted
The Company has reviewed new and revised accounting standards that have been issued but are not yet effective, and determined that the following may have an impact on the Company:

For the annual periods beginning on or after January 1, 2013, the Company will be required to adopt the following:

a) IFRS 7, "Financial Instruments" provides additional information about offsetting of financial assets and liabilities. Additional disclosures will be required to enable users of financial statements to evaluate the effect or potential effect of netting arrangements on the entity's financial position.
b) IFRS 10, "Consolidated Financial Statements" provides a single model to be applied in control analysis for all investees including special purpose entities.
c) IFRS 11, "Joint Arrangements" redefines joint arrangements into two types, joint operations and joint ventures, each with their own accounting model. All joint operations will need to be proportionately consolidated and joint ventures to be equity accounted.
d) IFRS 12, "Disclosure of Interests in Other Entities" combines in a single standard the disclosure requirements for subsidiaries, associates and joint arrangements as well as unconsolidated structured entities.
e) IFRS 13 "Fair Value Measurement" defines the fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. This standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

In addition to the issuance of new standards as detailed above, there have also been amendments to existing standards, which are also effective January 1, 2013, including:

f) IAS 1 "Presentation of Financial Statements", amended to require presentation of an additional opening balance sheet when an entity applies an accounting policy retrospectively or makes a retrospective restatement or reclassification and to clarify the disclosure requirements.
g) IAS 32 "Financial Instruments: Presentation", amended to clarify the criteria that should be considered in determining whether an entity has a legally enforceable right of offset in respect of its financial instruments and clarifying the treatment of income taxes related to distributions and transaction costs.

For annual periods beginning on or after January 1, 2015, the Company will be required to adopt:

h) IFRS 9 "Financial Instruments". The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value.

The Company has not yet completed its assessment and evaluation of the effect of adopting the new and amended standards and the impact it may have on its 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.

(a) *Property, plant and equipment and exploration and evaluation assets:*

The fair value of property, plant and equipment and exploration and evaluation assets acquired or recognized in a business combination, is based on market values. The market value of property, plant and equipment and exploration and evaluation assets is the estimated amount for which the assets 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 intangible exploration assets is normally 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. The market value of other items of property, plant and equipment is based on the quoted market prices for similar items.

(b) *Trade and other receivables, accounts payable and accrued liabilities, loans payable and bank debt:*

The fair value of accounts receivable, accounts payable and accrued liabilities, loans payable, bank operating loan and loan from related parties is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At December 31, 2012 and December 31, 2011, the fair value of these balances approximated their carrying value due to their short term to maturity or in the case of loans payable, bank operating loan and loans from related parties, the fair value approximates its carrying value as they bear interest at floating rates or the premium charged on fixed rate debt instruments is indicative of the Company's current credit premium.

(c) *Stock options:*

The fair value of employee stock options is measured using a Black Scholes option pricing model. Measurement inputs include the share price on the 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).

(d) *Financial instruments measured at fair value:*

Alston classifies the fair value of these financial instruments measured at fair value according to a hierarchy based on the amount of observable inputs used to value the instrument The fair value of any financial derivatives, including commodity contracts, are determined by discounting the difference between the contracted prices and published forward price curves as at the balance sheet date, using the remaining contracted petroleum and natural gas volumes and a risk-free interest rate adjusted for the Company's non-performance risk and the non-performance risk of the counterparty.

The significance of inputs used in the making fair value measurements are examined and classified according to a fair value hierarchy. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and Liabilities in Level 2 Include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly, which can be substantially observed or corroborated in the marketplace. Level 3 valuations are based on inputs that are unobservable and significant to the fair value measurement.

Cash and cash equivalents are measured at fair market value based on their Level 1 designation. Deposits and any outstanding derivative financial instruments, including commodity contracts, are measured at the fair value based on a Level 2 designation.

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

5. Acquisitions

2011 Acquisitions

During 2011, the Company acquired oil and gas assets principally located in the Provost area of east-central Alberta for total consideration of $16,113,065. The acquisition closed on February 24, 2011 and was accounted for as outlined below. Acquisition costs of $24,494 were charged to general and administration expenses.

Net assets acquired	
Property, plant and equipment	$ 16,850,425
Exploration and evaluation assets	992,640
Decommissioning obligations	(1,615,000)
Deferred tax liability	(95,000)
	$ 16,133,065
Consideration	
Cash consideration	$ 13,000,000
Vendor take back loan (note 9)	3,133,065
	$ 16,133,065

In 2012 assets acquired as part of the acquisition were adjusted by $350,000.

In conjunction with the acquisition, the Company purchased 100% of the outstanding common shares of a privately owned company ("PrivateCo") for total consideration of 1,749,995 common shares of the Company. The net assets acquired consisted primarily of net cash $914,823. Since an owner of PrivateCo became new management to the Company, $835,172 of consideration paid was charged to stock-based compensation expense.

Net assets acquired	
Stock-based compensation expense	$ 835,172
Cash	914,823
	$ 1,749,995
Consideration	
Common shares	$ 1,749,995

Had the acquisition closed on February 1, 2011, an additional $382,209 in net operating revenue and $220,437 in operating and transportation expenses would have been recognized in the statement of operations and comprehensive loss rather than as an adjustment to the purchase price. Net income specific to the acquisition is not readily determinable.

2012 Acquisitions

On July 17, 2012, in conjunction with the CanRock acquisition outlined below, the Company acquired oil and gas assets located in the Newton area of Alberta ("Newton Acquisition") for total consideration of $3,418,183 in cash and common share units of the Company.

Net assets acquired	
Property, plant and equipment	$ 4,828,936
Exploration and evaluation assets	384,592
Decommissioning obligations	(1,795,345)
	$ 3,418,183
Consideration	
Common share units (note 13)	$ 3,250,000
Cash	168,183
	$ 3,418,183

On July 16, 2012, the Company completed the reverse acquisition with CanRock Energy Corp. ("CanRock") whereby all issued and outstanding common shares of CanRock were exchanged for common shares of Alston. Alston issued 103,287,136 common shares in conjunction with the arrangement.

The transaction has been accounted for as a reverse acquisition of Alston by CanRock, with CanRock being the continuing entity as the transaction resulted in the issuance of voting shares such that control of the combined companies passed to the shareholders of CanRock. The total share consideration was valued at $6,168,584, based on the estimated fair value market value of the Alston common shares outstanding immediately prior to the reverse acquisition. The fair market values assigned to the net assets acquired from the Company, which includes the net assets acquired as part of the Newton acquisition, were as follows:

Cash and cash equivalents	$ 1,371,407
Prepaid expenses and deposits	18,759
Accounts receivable	167,273
Exploration and evaluation	653,459
Property and equipment	6,515,516
Accounts payable and accrued liabilities	(147,384)
Loans from related parties	(347,863)
Decommissioning obligations	(2,062,583)
	$ 6,168,584

Transaction costs of $353,984 were charged to general and administrative expenses.

The accounting for the reverse acquisition and allocation to the net assets acquired is based on preliminary information and is subject to final closing adjustments.

CanRock had stock options and warrants outstanding at the date of the business combination which were exercisable to acquire the equivalent number of Alston common shares. No value was ascribed to the stock options and warrants at the close of the amalgamation as the fair value calculated using the Black-Scholes option pricing model, was determined to be nominal.

As of the closing date of the acquisition, Alston had tax pools and deductions available to reduce future taxable income in excess of the fair values assigned to the assets and liabilities acquired. Management evaluated the estimated future cash flows and determined that future realization of these tax pools and deductions was not probable as of the acquisition date, and accordingly, no deferred tax amount was recognized.

The acquisition was a non-cash transaction paid by common shares of the Company and therefore has been excluded from the statement of cash flows. The accounts of the Company include the results of Alston from July 17, 2012 onward. Alston and CanRock were also amalgamated on July 17, 2012.

The revenue, operating results and net income (loss) attributable to the acquisition from the respective closing dates to December 31, 2012, as well as the pro forma consolidated revenue, operating results and net income (loss) giving effect to the acquisitions as if they had occurred on January 1, 2012 are not practicable to determine. The operations attributable to the acquisitions are not managed as separate business units or divisions and general business overhead and other costs are not allocated or identified on a specific entity basis. Any such allocation would be arbitrary and would require significant assumptions and estimates of management's intent during those periods.

6. *Exploration and evaluation assets*

	December 31, 2012	December 31, 2011
Balance - beginning of year	$ 3,164,399	$ -
Additions	132,340	3,523,682
Transfer to exploration and evaluation expenses	(448,501)	(359,283)
Proceeds on sale	-	(190,000)
Acquisitions (note 5)	653,459	-
Transfer to assets held for sale	(500,000)	-
Impairment (expense) recovery	(601,867)	190,000
Balance - end of year	**$ 2,399,830**	**$ 3,164,399**

During the year ended December 31, 2012, the Company incurred costs of $10,263 related to an unsuccessful well drilled in the fourth quarter of 2011, which were charged to exploration and evaluation expenses and included in the calculation of net loss for the year. Also during the year, the Company elected not to complete a JV arrangement to earn a working interest in prospective lands, and the related seismic costs previously incurred to evaluate the lands of $438,238, was also transferred to exploration and evaluation expenses.

During 2012, the Company elected not to incur drilling costs on a specific well related to a farm-in in the Provost area and accordingly was subject to liquidated damages $500,000. Subsequent to December 31, 2012, to meet that obligation, the Company agreed to transfer the trading rights on seismic related to the farm-in lands in lieu of a cash payment. The Company maintains a working copy of the seismic to be used on future locations on the Company's land and adjacent sections within the area.

Assets held for sale at December 31, 2012 includes the $500,000 of seismic data, which was transferred subsequent to December 31, 2012. An impairment loss of $1,101,867 was recognized on the seismic on the transfer from exploration and evaluation assets to assets held for sale.

During the year ended December 31, 2011, the Company incurred costs to drill one well that was unsuccessful, and as a result, the well was abandoned or will be abandoned during 2012. Consequently, the related costs of $359,283 were expensed and included in the calculation of net loss for the year.

In 2011 the Company received proceeds of $190,000 for certain non-core undeveloped lands. These properties had been written off at December 31, 2010 and the proceeds of $190,000 were reflected as a gain on sale of assets.

7. *Property, plant and equipment*

		Oil and Natural Gas Properties and Equipment		Office Equipment		Total
Cost						
Balance – January 1, 2011	$	8,979,489	$	31,688	$	9,011,177
Additions		19,478,402		35,672		19,514,074
Dispositions		(3,066,436)		-		(3,066,436)
Balance – December 31, 2011	$	25,391,455	$	67,360	$	25,458,815
Cash additions		1,564,718		755		1,565,473
Disposition of assets		(87,985)		-		(87,985)
Acquisitions (note 5)		6,514,892		624		6,515,516
Adjustment on purchase price for 2011 acquisition (note 5)		(350,000)		-		(350,000)
Decommissioning obligations (note11)		1,137,051		-		1,137,051
Balance – December 31, 2012	**$**	**34,170,131**	**$**	**68,739**	**$**	**34,238,870**
Accumulated depletion and depreciation,						
Balance – January 1, 2011	$	(7,978,289)	$	(31,688)	$	(8,009,977)
Depletion and depreciation for the year		(2,216,771)		(7,292)		(2,224,063)
Dispositions		2,145,884		-		2,145,884
Balance – December 31, 2011	$	(8,049,176)	$	(38,980)	$	(8,088,156)
Depletion and depreciation for the period		(2,570,000)		(10,280)		(2,580,280)
Impairment		(1,221,446)		-		(1,221,446)
Balance – December 31, 2012	**$**	**(11,840,622)**	**$**	**(49,260)**	**$**	**(11,889,882)**
Net Book Value						
As at December 31, 2011		17,342,279		28,380		17,370,659
As at December 31, 2012	**$**	**22,329,509**	**$**	**19,479**	**$**	**22,348,988**

(a) Dispositions

In July 2011, the Company disposed of certain non-core Saskatchewan assets with a net book value of $1,004,700 resulting in a gain on sale of assets of $302,936

(b) Amortization and impairment charges

As at December 31, 2012, management performed impairment tests of its CGUs and determined that a impairment of $1,221,446 was required for the Company's Newton CGU (No impairments for any CGU at December 31, 2011). The impairment was a result of downward reserve revisions as determined by the Company's external reserve evaluators and weakening in oil, natural gas and natural gas liquids forecast prices at December 31, 2012 compared to December 31, 2011.

Impairment tests were carried out at December 31, 2012 using the following commodity price estimates:

	WTI Cushing *($US/bbl)*	Exchange rate *($US/$Cdn)*	Bow River Hardisty *($Cdn/bbl)*	Natural Gas AECO Spot *($Cdn/mmbtu)*	Natural Gas Liquids *($Cdn/bbl)*
2013	$ 92.50	$ 1.000	$ 75.30	$ 3.35	$ 57.60
2014	92.50	1.000	77.80	3.85	63.40
2015	93.60	1.000	79.60	4.35	68.70
2016	95.50	1.000	81.30	4.70	70.40
2017	97.40	1.000	82.90	5.10	72.10
2018	99.40	1.000	84.50	5.45	73.80
2019	101.40	1.000	86.30	5.55	75.30
2020	103.40	1.000	88.00	5.70	76.80
2021	105.40	1.000	89.70	5.80	78.30
2022	107.60	1.000	91.60	5.90	80.00
2023	109.70	1.000	93.30	6.00	81.50
2024	111.90	1.000	95.20	6.15	83.10
2025	114.10	1.000	97.10	6.25	84.80
2026	116.40	1.000	99.10	6.35	86.50
2027	118.80	1.000	101.10	6.50	88.30

Escalation rate of 2.0% thereafter.

(c) Future development costs and salvage value

During the year ended December 31, 2012, an estimated $4,652,900 (December 31, 2011 - $4,896,000) of future development costs associated with proved and probable undeveloped reserves was included in the calculation of depletion and depreciation expense and an estimated $Nil (December 31, 2011 - $395,000) of salvage value of production equipment was excluded.

8. Bank operating loan

At December 31, 2012, the Company had available a $9,000,000 bank revolving, demand operating loan facility bearing interest at the bank's prime rate plus 1.0%. This loan is secured by a floating charge over all assets of the Company. In addition, a $2,500,000 revolving development line of credit (with interest at the bank's prime rate plus 1.5%) is available to the Company. The operating facility agreement includes an adjusted working capital ratio covenant (with current assets increased for the undrawn portion of the bank operating loan and current liabilities decreased to exclude amounts drawn under the bank operating loan, loans from related parties and loans payable), which is not to fall below 1:1. At December 31, 2012, $7,155,005 (December 31, 2011 - $3,823,000) was drawn against the operating facility and the Company was in compliance with the covenant. No amounts were drawn against the development line of credit.

9. Loans from related parties and related party transactions

In December 2009, the Company received a total of $1,400,000 in loans from parties associated with three former directors of the Company. The loans were in the form of demand promissory notes due November 30, 2012, with interest at 10% per annum, payable quarterly. The loans were secured by all assets of the Company, and were subordinated to amounts outstanding under a bank operating loan facility. During 2011, the Company paid cash of $1,025,000 and issued common shares valued at $765,000 to repay $1,080,000 of principal and $638,000 of accrued interest on these loans. This settlement transaction resulted in a loss of $72,119 and a remaining balance at December 31, 2011 of $320,000. All amounts were subsequently paid during the year ended December 31, 2012.

In January 2011, Alston entered into term loan agreements with management and former directors of Alston for a total of $347,863 (note 5). The notes are due on demand and bear interest at a rate of 7.5% per annum, with the interest payable quarterly. Each loan is secured by a promissory note from the Company.

10. Loan payable

In connection with the financing of the 2011 acquisition (see note 5), the Company issued a $3,417,865 non-interest bearing loan payable to the property seller. The loan was recognized at the acquisition date fair value of $3,133,065, which was determined using an effective interest rate of 6% per annum. The loan is secured by a floating charge over the acquired properties, and is subordinated to amounts outstanding under the bank operating loan.

The loan was due to be repaid August 22, 2012. At August 2, 2012 the parties agreed to reduce the outstanding loan balance by $350,000 due to land title deficiencies and extend the maturity date for repayment of the outstanding balance. The Company made a principal repayment of $1,000,000 on August 21, 2012 and will make further principal and interest payments of $275,000 beginning on March 15, 2013 and every ninety days thereafter until the full amount of principal. The March 15, 2013 payment was made subsequent to year-end. The outstanding amount bears interest at 8% per annum.

11. Decommissioning obligations

	Year ended December 31, 2012	Year ended December 31, 2011
Obligation, beginning of year	$ 1,978,536	$ 829,775
Liabilities acquired in year (note 5)	2,062,583	1,615,000
Liabilities incurred in the year	92,471	-
Disposition of assets	-	(737,189)
Revision of estimates	1,044,580	225,184
Obligation expenditures	-	(7,312)
Accretion expense	80,189	53,078
Obligation, end of year	$ 5,258,359	$ 1,978,536

The Company has estimated the net present value of the decommissioning obligations to be $5,258,359 as at December 31, 2012 (December 31, 2011 - $1,978,536) based on an undiscounted total future liability of $8,302,773 (December 31, 2011 - $2,744,424). These payments are expected to be made at various dates over the next thirty years, with the majority of costs to be incurred between 2031 and 2033. A risk free rate of 2.4% (December 31, 2011 – 2.5%) and an inflation rate of 2.0% (December 31, 2011 - 2.5%) was used to calculate the net present value of the decommissioning obligations.

12. Income taxes

Deferred income tax expense differs from the amount that would be computed by applying the basic combined federal and provincial statutory income tax rate of 25.0% (2011 – 26.5%) to earnings before taxes. The reasons for the differences are provided below:

	December 31, 2012	December 31, 2011
Loss before taxes	$ (5,701,832)	$ (2,831,436)
Statutory tax rate	25.00%	26.50%
Expected provision	$ (1,425,458)	$ (750,331)
Add (deduct):		
Stock-based compensation and other non-deductible items	25,043	451,950
Effect of reduction in tax provision rate and other	(286,276)	37,955
Flow-through shares	-	419,236
Change in unrecognized deferred tax assets	1,686,691	(917,110)
Deferred income tax expense (recovery)	$ -	$ (758,300)

The general combined Federal/Provincial tax rate lowered to 25.0% in 2012 from 26.5% in 2011 due to the Federal Rate dropping from 16.5% (2011) to 15.0% in 2012.

The tax effects of temporary differences that give rise to the deferred tax liabilities at December 31, 2012 and 2011 are as follows:

	December 31, 2012	December 31, 2011
Deferred income tax assets (liabilities)		
Net book value of property and equipment in excess of tax basis	$ 970,123	$ (552,322)
Derivative contracts	-	(37,432)
Loan payable	-	(26,860)
Decommissioning obligations	(1,314,590)	-
Asset retirement obligation	-	494,634
Other	4,457	-
Non-capital losses	340,010	121,980
Deferred tax asset (liability)	$ -	$ -

Unrecognized deferred tax assets
Deferred tax assets have not been recognized for the following deductible temporary differences:

	December 31, 2012	December 31, 2011
Share issuance costs and other	$ 748,352	$ 364,465
Non-capital losses carry-forward	10,002,147	6,167,385
	$ 10,750,499	$ 6,531,850

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profits will be available against which they can be utilized.

The Company's non-capital losses carried forward are available to offset future income for income tax purposes expiring over the periods 2014 to 2032.

13. Share capital

The Company has authorized an unlimited number of common shares. The outstanding share capital is as follows:

a) *Common shares, issued and outstanding:*

	Number of shares	Amount
Balance as at December 31, 2010	19,494,612	$ 8,051,178
Issue of common shares for cash	810,704	445,887
Subscriptions receivable from 2010		667,882
Issued on acquisition of private company (note 5)	1,749,995	1,749,995
Issued on settlement of loan (note 9)	1,390,900	765,000
Issue of common shares on private placement	14,957,954	2,468,062
Issue of flow-through common shares for cash	6,060,606	1,000,000
Premium on flow through shares	-	(124,000)
Warrants	-	(801,000)
Share issue costs	-	(330,060)
Balance at December 31, 2011	44,301,135	$ 13,802,944
Issue of shares for services	200,000	24,000
Alston common shares outstanding, July 17 2012 (note 5)	38,685,842	4,628,328
Elimination of CanRock shares on reverse acquisition	(44,501,135)	-
Shares issued for property acquisition (note 5)	21,666,667	3,108,253
Shares issued for finder's fee (note 5)	1,333,333	133,333
Share issue costs	-	(133,333)
Shares issued on reverse acquisition (note 5)	103,287,136	6,168,584
Elimination of Alston stated value	-	(7,736,581)
Balance at December 31, 2012	164,972,798	$ 19,995,528

A portion of the common shares related to the December 2010 private placement were issued in January, 2011. In addition, $667,882 of the proceeds related to the December closing of the placement were not deposited until January 2011.

During 2011, as part of consideration for the sale of undeveloped lands during the year, 163,636 common shares were returned to treasury by an existing shareholder with a value of $90,000.

On September 20, 2011, the Company completed a private placement issuing 14,957,954 units at a price of $0.165 per unit for gross proceeds of $2,468,062. Each unit was comprised of one common share and one-half of one common share purchase warrant, with each whole common share purchase warrant entitling the holder thereof to acquire one common share of the Company at a price of $0.25 per share, expiring five years from the date of issuance. If, at any time within a year of the closing date of the financing, the common shares of the Company trade at a 30 day volume weighted average trading price greater than $0.60 on the TSX Venture Exchange or such other exchanges as the common shares may then trade and the Company provides notice thereof to the holders of units, the holders of Units will have ten days of receipt of such notice to exercise their warrants, failing which the warrants will expire and become null and void (the "Acceleration Right"). All securities issued pursuant to the financing were also subject to a four month hold period expiring on January 16, 2012.

The agents for the financing, in consideration for their efforts, received a cash commission of $127,486 and 772,645 compensation warrants that will entitle them to acquire an equal number of CanRock common shares at a price of $0.25 per share for a period of 18 months from the date of grant. These agent's warrants were valued at $0.0973 per warrant or $75,171 as determined by the Black-Scholes model and were accounted for as a charge to share issuance costs and a credit to warrants. Assumptions used in the Black-Scholes model were a risk free interest rate of 1.0%, an 18-month life, a volatility of 100% and no dividends.

On December 16, 2011, the Company issued 6,060,606 flow-through common shares at a price of $0.165 per flow-through share for total gross proceeds of $1,000,000 and $0.015 per share or $91,000 was determined to be the implied premium on the flow-through shares. As at December 31, 2011, the Company had met its obligation for qualified expenditures related to this issuance.

As part of the December 2011 flow-through financing, the agents in consideration for their efforts, received a cash commission of $44,650 and 84,547 compensation warrants that will entitle them to acquire an equal number of CanRock common shares at a price of $0.25 per share for a period of 18 months from the date of grant. These agent's warrants were valued at $0.064 per warrant or $5,411 as determined by the Black-Scholes model and were accounted for as a charge to share issuance costs and a credit to warrants. Assumptions used in the Black-Scholes model were a risk free interest rate of 0.9%, an 18-month life, a volatility of 100% and no dividends.

In July 2012, the Company paid in $168,183 cash and issued 21,666,667 common share units at a deemed price of $0.15 per unit to the vendor in exchange for certain producing and non-producing properties in the Newton area of Alberta, for a total purchase price of $3,418,183 (note 5). Each unit consists of one common share of Alston and one-half of one common share purchase warrant, entitling the vendor to acquire one common share of the Company at a price of $0.20 per common share on or before January 16, 2014. The valued assigned to the warrants as determined by the Black-Scholes model, was $141,747 and treated as share issue costs. Assumptions used in the Black-Scholes model were a risk free rate of 0.97%, an 18 month life and a volatility of 68%. A cash commission of $80,000 and 1,333,333 shares were issued to brokers as a finder's fee upon closing of the transaction.

On July 17, 2012 the Company completed the reverse acquisition with CanRock whereby all issued and outstanding common shares of CanRock were exchanged for common shares of Alston. Alston issued 103,287,136 in conjunction with the arrangement (see also note 5).

b) *Common share purchase warrants:*

Warrants	Exercise price	Number of warrants	Amount
Balance at December 31, 2010	$ 1.02	13,133,384	$ 1,667,000
Issued pursuant to a private placement	$ 0.25	810,704	102,000
Issued pursuant to a private placement	$ 0.25	7,478,977	699,000
Issued pursuant to a private placement	$ 0.25	772,645	75,171
Issued pursuant to a private placement	$ 0.25	84,547	5,411
Warrants expired	$ 0.50	(525,000)	(85,000)
Balance at December 31, 2011	$ 1.68	21,755,257	$ 2,463,582
Elimination of CanRock warrants on reverse acquisition	-	(21,755,257)	-
Alston warrants outstanding July 17, 2012	$ 0.21	8,373,056	-
Warrants issued on property acquisition	$ 0.20	10,833,334	141,747
Warrants issued on property acquisition	$ 0.31	50,493,952	-
Reverse acquisition transaction	-	-	(141,747)
Balance as at December 31, 2012	$ 0.29	69,700,342	$ 2,463,582

- In January 2012, 3,492,000 warrants expired unexercised.
- In June 2012, 1,388,200 warrants expired unexercised.

c) *Stock options:*

The Company has an option plan that entitles officers, directors, employees and certain consultants to purchase shares in the Company. Options are granted based on market price on the date of grant with vesting dates set at the discretion of the Board of Directors. The maximum option term is 10 years.

All outstanding CanRock options were converted to Alston options at the conversion ratio and became exercisable immediately upon completion of the reverse acquisition and remained exercisable for 90 days thereafter. These options have since expired without exercise. 785,000 Alston options also expired during the year without any being exercised.

The number and weighted average exercise price of stock options as at and during the years ended December 31, 2012 and 2011 are as follows:

	Number of Options	Weighted average exercise price	Options Exercisable
Balance at December 31, 2010	335,000	$1.00	
Granted	3,700,000	$0.51	
Expired	(1,445,000)	$0.85	
Balance at December 31, 2011	2,590,000	$0.38	1,295,000
Alston options outstanding July 17, 2012	1,719,675	$0.19	
CanRock options expired	(2,590,000)	$0.38	
Alston options expired	(785,000)	$0.15	
Balance at December 31, 2012	934,675	$0.19	884,675

Pursuant to the plan of arrangement, all CanRock options expired 90 days after the amalgamation.

d) *Stock-based compensation:*

The Company accounts for its stock options granted to employees, officers, and directors using the fair value method. In accordance with the Company's incentive stock plan, these options have an exercise price equal to the fair value of the security at the date of grant. The compensation amount that has been charged against income was $100,172 for the year ended December 31, 2012 (December 31, 2011 - $1,693,168). No options were granted in the year ended December 31, 2012. The fair value of options granted is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2012	2011
Exercise price	-	$0.51
Expected life (years)	-	5
Volatility	-	100%
Forfeiture rate	-	15%
Risk-free rates	-	1.4% - 2.8%
Fair value per option granted during the year	-	$0.394

e) *Per share amounts:*

The weighted average numbers of shares outstanding for the determination of basic and diluted per share amounts are as follows:

	2012	2011
Basic	136,904,507	26,954,075

The total weighted average number of shares outstanding for the year ended December 31, 2012 have been adjusted to reflect the equivalent number of Alston shares issued to CanRock shareholders upon the reverse acquisition transactions. All outstanding options and warrants were excluded from the dilution calculation as they were anti-dilutive.

14. Contributed surplus

A reconciliation of contributed surplus resulting from the prospective stock-based compensation adoption for stock options granted since January 1, 2009 is provided below:

Years ended December 31,		2012		2011
Balance, beginning of year	$	1,240,995	$	297,999
Stock-based compensation expense		100,172		857,996
Transfer of carrying value of warrants expired		-		85,000
Balance, end of year	$	1,341,167	$	1, 240,995

15. Supplemental cash flow information

Changes in non-cash working capital is comprised of:

Years ended December 31,		2012		2011
Trade and other receivables	$	(241,827)	$	(814,622)
Prepaid expenses and deposits		(20,952)		(94,581)
Accounts payable and accrued liabilities		(1,720,558)		3,396,865
	$	**(1,457,779)**	**$**	**2,487,662**
Related to investing activities	$	(944,857)	$	2,161,132
Related to operating activities		(512,922)		326,530
	$	**(1,457,779)**	**$**	**2,487,662**

All of the Company's cash equivalents at December 31, 2011 was comprised of cash on deposit.

Cash interest paid	$	350,779	$	243,785
Cash interest received	$	105	$	3,983
Cash taxes paid	$	11,167	$	22,857

16. Commitments

Under a lease agreement commencing August 1, 2011 and ending September 30, 2013, the Company has committed to a monthly payment of $9,438, including operating costs, for lease of its office space. Future commitments total $84,942.

The Company had entered into a Farm-out Agreement with another party (the "Farmor") to drill one horizontal well and one vertical well (the "Test Wells") on certain farm-out lands in the Provost area of Alberta to earn an interest in the farm-out lands. Both wells were to be spud no later than September 30, 2012. The Company elected not to drill the Test Wells, and the Company is subject to pay $500,000 in liquidation damages to the Farmor. The Farmor has since agreed to accept the trading rights to the 3D seismic over the farm-out lands owned by the Company in lieu of the liquidated damages. The Company retains a working copy of the seismic for corporate purposes. See also note 6.

The Company has flow-through share commitments to incur $572,000 in qualified expenditures before December 31, 2012 related to the October and December 2011 financings and $1,626,360 before December 31, 2013 related to the April 2012 financings. At December 31, 2012, the Company has incurred $891,814 in qualified expenditures and has $1,306,546 remaining to spend.

The Company has a joint venture commitment on its Chauvin property with third party partners. The Company is required to pay the first $225,000 of drilling costs on the first well to equalize on project costs already incurred by the partners. At December 31, 2012, $101,421 of this commitment is remaining. The agreement also requires that the Company pay 58.33% of the first $1.2 million of expenditures incurred by the joint venture on land, drilling or seismic to earn a 50% working interest position in the opportunity. At December 31, 2012, $158,000 of the $1.2 million expenditures had been incurred.

17. Key management personnel expenses

Key management personnel include executive officers and non-executive directors. Executive officers were paid compensation and also participate in the Company's stock option program. The executive officers during the periods presented included the Chief Executive Officer, Chief Financial Officer, Vice Presidents of Engineering and Exploration along with vice president of Corporate Development. Non-executive directors participate in the Corporation's stock option program. Key management personnel compensation included in general and administrative expenses and stock-based compensation expense is as follows:

Years ended December 31,	2012	2011
Salaries and consulting fees	$ 867,878	$ 1,029,657
Stock-based compensation	100,172	485,238
Total remuneration	$ 968,050	$ 1,514,895

The Company has 5 employees and 2 consultants and does not capitalize any general and administrative expenses.

18. Finance income and expenses

Years ended December 31,	2012	2011
Finance (income) expenses:		
Interest on bank debt	$ 266,120	$ 175,648
Interest on loans payable	46,307	46,027
Interest on related party loans	11,978	-
Part XII.6 tax related to flow-through shares	4,344	22,857
Accretion expense on loan	89,613	204,340
Accretion expense on decommissioning obligations	80,189	26,100
Interest income on bank deposits	(105)	(3.983)
Service fees, carrying charges and other	33,197	22,110
	$ 531,643	$ 493,099

19. Financial instruments and risk management

The Company has exposure to credit, liquidity and market risk. The Company's risk management policies are established to identify and analyze the risks faced by the Company, set appropriate limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

a) *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. The Company's receivables consisted of the following:

	December 31, 2012	December 31, 2011
Oil and natural gas marketers	$ 655,893	$ 717,206
Joint venture partners	187,078	235,385
Other trade receivables	158,822	69,288
	1,001,793	1,021,879
Allowance for doubtful accounts	(54,468)	-
	$ 947,325	$ 1,021,879
0 to 30 days	$ 619,764	$ 910,229
31 to 60 days	113	3,994
61 to 90 days	51,464	5,355
Greater than 90 days	275,984	102,301
	$ 947,325	$ 1,021,879

Receivables from oil and natural gas marketers are normally collected on the 25th day of the month following the month of production. The Company historically has not experienced any collection issues with its oil and natural gas marketers.

Joint venture receivables are typically collected within 90 days of the joint venture bill being issued to the partner. The Company attempts to mitigate the risk from joint venture receivables by obtaining partner approval of significant capital expenditures prior to the expenditure being incurred. Risk exists with joint venture partners as disagreements may arise or dry holes may be drilled that increase the potential for non-collection. The Company does not typically obtain collateral from oil and natural gas marketers or joint venture partners. As the operator of properties, Alston has the ability to not allocate production to joint venture partners who are in default of amounts owing.

b) *Liquidity risk:*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The financial liabilities on the balance sheet consist of accounts payable and accrued liabilities, loans payable, loans from related parties and bank operating loan. In addition, the Company has commitments to incur qualifying expenditures under its flow-through share agreements (note 16).

Accounts payable consist of amounts due to trade suppliers relating to office and field operating activities, as well as the Company's acquisition and capital spending program. The Company's payables are typically due within 30 to 60 days of invoicing. At December 31, 2012 the Company considered $728,937 of its accounts payable to be past due.

The Company anticipates it will continue to have adequate liquidity to settle its financial liabilities in due course through operating cash flows and its available bank operating loan. However, the Company has a history of generating negative cash flow and will require additional debt or equity finance or additional asset sales to fund ongoing operations and planned capital expenditures.

The Corporation's accounts payable and accrued liabilities as at March 31, 2012 and March 31, 2011 are comprised of the following:

	December 31, 2012	December 31, 2011
Operating and administrative	$ 1,869,588	$ 3,261,512
Capital expenditures	716,273	1,311,935
Royalties, taxes and other	590,487	176,086
	$ 3,176,359	$ 4,749,533
0 to 30 days	$ 1,413,575	$ 4,108,628
31 to 60 days	696,689	280,523
61 to 90 days	337,158	5,457
Greater than 90 days	728,938	354,925
	$ 3,176,359	$ 4,749,533

c) *Market and commodity 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 financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while maximizing returns, by ensuring that sufficient protection exists to enable the Company to meet budgeted capital expenditures in the event of downward movements in commodity prices

The Company is primarily exposed to market risk in the form of commodity price volatility. Up until March 31, 2011, the Company did not use financial derivatives or forward physical delivery sales contracts to manage the market risk. Effective for the period from April 1, 2011 to December 31, 2012, the Company had hedged 150 barrels per day of oil production under a costless collar hedge, with a floor price of $95 floor and a ceiling price of $114.50 / barrel.

Type	Volume	Price per barrel	Commencement date	Termination date
Oil				
Costless Collar (WTI)	150 bbls/d	Floor $95.00 Ceiling $114.50	April 2011	December 2012

During the year ended December 31, 2012, the Company had a realized gain related to this hedge in the amount of $196,672 (December 31, 2011- $134,977). Based on the fair market value of the contract the Company recorded an unrealized loss of $149,727 at December 31, 2012 (December 31, 2011 - $149,727 unrealized gain).

d) *Foreign currency risk:*
Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. Although substantially all of the Company's oil and natural gas sales are denominated in Canadian dollars, the underlying market prices in Canada for oil and natural gas are impacted by changes in the exchange rate between the Canadian and United States dollar. As the effects of foreign exchange fluctuations are embedded in the Company's results, the total effect of foreign exchange fluctuations is not separately identifiable The Company had no material foreign denominated assets or liabilities at December 31, 2012 and no forward exchange rate contracts in place as at or during the year ended December 31, 2012.

e) *Interest rate risk:*
The Company is exposed to interest rate risk on its outstanding bank debt. The bank debt has a floating interest rate and consequently, changes to interest rates would impact the Company's future cash flows. The Company had no interest rate swaps or hedges at December 31, 2012.

20. 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 the future development of the business.

The Company manages its capital structure and makes adjustments to it in 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 and working capital. In order to maintain or adjust the capital structure, the Company may from time to time issue shares and adjust its capital spending to manage current and projected debt levels.

The Company monitors capital based primarily on its net debt to funds from operations ratio as defined in its banking agreement. In calculating this ratio, net debt is defined as outstanding bank debt plus or minus working capital, divided by funds from operations for the most recent calendar quarter, multiplied by four. Funds from operations are defined as cash flow from operating activities before changes in non-cash working capital. The Company's strategy is to maintain a prudent debt to funds from operations ratio. This ratio may increase at certain times as a result of acquisitions. In order to facilitate the management of this ratio, the Company prepares annual capital expenditure budgets, which are updated as necessary depending on varying factors including current and forecast prices, actual capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

The Company's share capital is not subject to external restrictions; however the bank operating loan is based on oil and natural gas reserves and contains a working capital covenant. The Company has no other externally imposed Capital restrictions. The Company has not paid or declared any dividends since the date of incorporation, nor are any contemplated in the next twelve months. There were no changes in the Company's approach to capital management during the period.

21. Contingencies

In 2011, a shareholder of the CanRock has initiated a lawsuit against the Company. Management are of the opinion that the lawsuit is without merit and therefore has not accrued any amounts at December 31, 2012.

22. Other subsequent events

The Company's Board of Directors approved the granting of stock options to directors, employees and consultants of the Company on November 22, 2012. Subsequent to December 31, 2012, 12,700,000 options were granted at an exercise price of $0.10 per common Share. The options vest over 3 a year period and expire 5 years from the date of grant January 8, 2013.

Subsequent to December 31, 2012, 1,321,000 common shares of the Company were acquired under the normal course issuer bid announced November 22, 2012 ("the Bid") at an average price of $0.033 per share for total consideration of $43,980. It is expected that the Bid will continue until November 26, 2013 or such date as the Company has purchased the maximum 4,124,324 common shares under the Bid.

Subsequent to December 31, 2012, the Company entered into a costless collar crude oil contract for 75/bbls a day of oil and a fixed swap on 100 bbls/day of oil at a USD WTI price of $98.50/bbl. The financial institution participating in the fixed swap holds an option for 150 Bbls/d at the same USD WTI price of $98.50/bbl for calendar year 2014. The option is to be exercised or declined on or before December 31, 2013.

Type	Volume	Price per barrel	Commencement date	Termination date
Oil				
Costless Collar (WTI)	75 bbls/d	Floor CAN$85.00 Ceiling CAN$98.50	Feb 2013	December 2013
Fixed Swap (WTI)	100 bbls/d	Fixed USD$98.50	Feb 2013	December 2013
Fixed Swap Option (WTI)	150 bbls/d	Fixed USD$98.50	Jan 2014	December 2014