STETSON OIL AND GAS LTD.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

For the three months ended March 31, 2011

STETSON OIL AND GAS LTD.

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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

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

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

Date: May 25, 2011

*"**Darren Moulds**" (signed)*

Darren Moulds
Chief Financial Officer

STETSON OIL & GAS LTD.

INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS *(unaudited)*

($ Canadian)	**March 31, 2011**	December 31, 2010	January 1, 2010
ASSETS			
Current			
Cash and cash equivalents	**$ 4,000,570**	$ 466,733	$ 415,679
Accounts receivable	**547,829**	525,634	1,711,617
Prepaid expenses and deposits	**27,368**	55,702	36,407
Discontinued operations (Note 5)	**-**	6,667,823	8,150,217
	4,575,767	7,715,892	10,313,920
Long-term			
Restricted cash (Note 17)	**291,046**	74,595	78,495
Reclamation deposits (Note 9)	**359,677**	359,238	357,565
Property and equipment (Note 7)	**-**	-	2,812
Exploration and evaluation (Note 6)	**8,078,872**	8,287,177	8,676,850
	$ 13,305,362	$ 16,436,902	$ 19,429,642
LIABILITIES			
Current			
Accounts payable and accrued liabilities	**$ 581,826**	$ 1,208,350	$ 2,204,212
Discontinued operations (Note 5)	**-**	2,271,876	2,271,876
	581,826	3,480,226	4,476,088
Decommissioning obligations (Note 9)	**183,720**	179,362	226,083
	765,546	3,659,588	4,702,171
SHAREHOLDERS' EQUITY			
Common shares (Note 10)	**32,414,157**	32,414,157	32,414,157
Warrants (Note 10)	**-**	-	4,771,000
Preferred shares (Note 10)	**8,570**	8,570	8,570
Contributed surplus (Note 10)	**10,182,963**	10,167,003	5,392,303
Accumulated other comprehensive loss	**(680,020)**	(467,361)	-
Deficit	**(29,385,854)**	(29,345,055)	(27,858,559)
	12,539,816	12,777,314	14,727,471
Basis of Presentation (Note 2)			
Contingencies and Commitments (Note 17)			
Subsequent Events (Note 18)			
	$ 13,305,362	$ 16,436,902	$ 19,429,642

Approved on behalf of the board of directors

"Ahmed Said"

Ahmed Said

"Fari Goodarzi"

Fari Goodarzi

See accompanying selected notes to the consolidated financial statements

STETSON OIL & GAS LTD.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS *(unaudited)*

($ Canadian)	**Three months ended March 31, 2011**	Three months ended March 31, 2010
Revenue		
Petroleum and natural gas sales	**$ -**	$ 38,502
Royalties	**-**	(12,519)
	-	25,983
Other income	**1,475**	88
	1,475	26,071
Expenses		
Operating	**-**	26,815
General and administrative (Note 12)	**366,529**	394,118
Stock-based compensation (Note 10)	**15,960**	900
Finance costs	**5,118**	18,599
Foreign exchange loss	**13,137**	335
Depreciation	**-**	2,543
	400,744	443,310
Loss before discontinued operations	**(399,269)**	(417,239)
Discontinued operations (Note 5)	**358,470**	493,367
Net (loss) / income	**(40,799)**	76,128
Other comprehensive loss		
Foreign currency translation	**(212,659)**	(285,364)
Total comprehensive loss	**(253,458)**	(209,236)
Basic and diluted loss per share - continuing operations	**$ (0.00)**	$ (0.00)
Basic and diluted income per share - discontinued operations	**$ 0.00**	$ 0.00
Weighted average number of common shares outstanding basic and diluted (Note 10)	**108,902,260**	108,902,260

See accompanying selected notes to the consolidated financial statements

STETSON OIL & GAS LTD.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY *(unaudited)*

($ Canadian)	**Three months ended March 31, 2011**	Three months ended March 31, 2010
Share Capital		
Balance, beginning of period	**$ 32,414,157**	$ 32,414,157
Balance, end of period	**$ 32,414,157**	$ 32,414,157
Warrants		
Balance, beginning of period	**$ -**	$ 4,771,000
Balance, end of period	**$ -**	$ 4,771,000
Preferred shares		
Balance, beginning of period	**$ 8,570**	$ 8,570
Balance, end of period	**$ 8,570**	$ 8,570
Contributed Surplus		
Balance, beginning of period	**$ 10,167,003**	$ 5,392,303
Stock-based compensation (Note 10)	**15,960**	900
Balance, end of period	**$ 10,182,963**	$ 5,393,203
Accumulated other comprehensive loss		
Balance, beginning of period	**$ (467,361)**	$ -
Foreign currency translation adjustments	**(212,659)**	(285,364)
Balance, end of period	**$ (680,020)**	$ (285,364)
Deficit		
Balance, beginning of period	**$ (29,345,055)**	$ (27,858,559)
Net (loss) / income	**(40,799)**	76,128
Balance, end of period	**$ (29,385,854)**	$ (27,782,431)

See accompanying selected notes to the consolidated financial statements

STETSON OIL & GAS LTD.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS *(unaudited)*

($ Canadian)	**Three months ended March 31, 2011**	Three months ended March 31, 2010
Cash (used in) provided by:		
Operating activities:		
Net (loss)/income	**$ (40,799)**	$ 76,128
Income from discontinued operations	**(358,470)**	(493,367)
Items not involving cash:		
Depreciation (Note 7)	**-**	2,543
Accretion (Note 9)	**1,093**	1,086
Stock-based compensation (Note 10)	**15,960**	900
Unrealized foreign exchange loss/(gain)	**6,682**	(6,369)
Settlement of decommissioning obligations and change in estimates (Note 9)	**4,032**	-
	(371,502)	(419,079)
Net change in non-cash working capital (Note 16)	**(621,119)**	(729,987)
	(992,621)	(1,149,066)
Funds from discontinued operations (Note 5)	**358,470**	493,367
	(634,151)	(655,699)
Financing activities:		
Increase in bank indebtedness (Note 8)	**-**	330,440
	-	330,440
Investing activities:		
Reclamation deposits	**(439)**	623
Restricted cash	**(216,451)**	(2,666)
Acquisition of oil and gas properties	**-**	1,527
Disposition of oil and gas properties (Note 5)	**4,395,947**	-
Net change in non-cash working capital (Note 16)	**-**	(20,923)
Discontinued operations (Note 5)	**-**	(59,010)
	4,179,057	(80,449)
Increase / (decrease) in cash	**3,544,906**	(405,708)
Net effect of foreign exchange on cash held in foreign currencies	**(11,069)**	(9,971)
Cash, beginning of period	**466,733**	415,679
Cash, end of period	**$ 4,000,570**	$ -
Supplemental cash flow information:		
Interest paid	**-**	17,513
Income taxes paid	**-**	-

See accompanying selected notes to the consolidated financial statements

1. REPORTING ENTITY

Stetson Oil & Gas Ltd. (the "Company" or "Stetson") is a publicly traded company incorporated and domiciled in Alberta, Canada with the registered office located at Suite 1100, 505 – 3rd Street SW, Calgary, Alberta, T2P 3E6.

The Company is in the business of exploring, developing and producing conventional oil and gas reserves. These consolidated financial statements include Stetson Oil & Gas Ltd. and its wholly-owned subsidiaries Stetson Oil and Gas Corporation Ltd., Stetson Oil and Gas Holdings (Barbados) Ltd., and Llanos 11 Holdings (Colombia) Ltd. Stetson is a public company and trades on the TSX Venture Exchange under the symbol "SSN".

2. BASIS OF PRESENTATION

These interim consolidated financial statements represent Stetson's financial results of operations and financial position under initial adoption of International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). As a result of initial adoption in this period IFRS 1 (First-time adoption of International Financial Reporting Standards) has been applied. As such these interim consolidated financial statements do not include all necessary disclosures that are required for annual statements in accordance with IFRS. These statements should be read in conjunction with the December 31, 2010 year ended consolidated financial statements as well as comparative reconciliations of Canadian GAAP to IFRS which are included in Note 19. Quarterly financial information may change depending on subsequent changes to IFRS.

a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements were authorized for issue by the Board of Directors on May 25, 2011.

b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following:

i. derivative financial instruments are measured at fair value; and
ii. held for trading financial assets are measured at fair value with changes in fair value recorded in earnings.

The methods used to measure fair values are discussed in Note 4.

c) Functional and presentation currency

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

d) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies regarding certain types of assets, liabilities, revenues and expenses in the preparation of the consolidated financial statements. Actual results could differ from those estimates.

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

Information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

- Note 4 – determination of fair values
- Note 6 – exploration and evaluation assets
- Note 9 – decommissioning obligations
- Note 10 – measurement of stock-based compensation
- Note 14 – valuation of financial instruments

Reserve estimates impact a number of the areas referred to above; in particular, the valuation of property and equipment and the calculation of depletion and depreciation.

e) Going concern

These interim consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. Accordingly, the financial statements do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and meet its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying consolidated financial statements.

3. SUMMARY OF ACCOUNTING POLICIES

a) Consolidation

Subsidiaries

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

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

Jointly controlled operations and jointly controlled assets

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

Transactions eliminated on consolidation

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

b) Foreign currency translation

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 other comprehensive income/loss.

In the consolidated financial statements, all assets, liabilities and transactions of Stetson's subsidiaries with a functional currency other than the Canadian dollars (the Company's presentation currency) are translated into Canadian dollars.

Assets and liabilities of these subsidiaries have been translated into Canadian dollars at the closing rate at the reporting date. Income and expenses have been translated into the Company's presentation currency at the average rate over the reporting period. Exchange differences are charged/credited to other comprehensive income/loss and recognized in the currency translation balance in equity. On disposal of a foreign operation the cumulative translation differences recognised in equity are reclassified to profit or loss and recognised as part of the gain or loss on disposal. The functional currency of these subsidiaries has remained unchanged during the reporting period.

c) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument to another entity. Upon initial recognition all financial instruments, including derivatives, are recognized on the balance sheet at fair value. Subsequent measurement is then based on the financial instruments being classified into one of the following categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale and other liabilities. The Company has designated its financial instruments into the following categories applying the indicated measurement methods:

Financial instrument	Category	Measurement Method
Cash and restricted cash	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Reclamation deposits	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost

The Company will assess at each reporting period whether any financial assets, other than those classified as held-for-trading, are impaired. An impairment loss, if any is recorded on the Consolidated Statement Comprehensive Loss.

The Company may in the future enter into certain financial derivative and physical delivery sales contracts in order to reduce its exposure to market risks from fluctuations in commodity prices. These instruments will not be used for trading or speculative purposes. The Company will not designate its financial derivative contracts as effective accounting hedges.

The Company has not entered into any physical delivery sales contracts. Should Stetson enter into physical delivery sales contracts in the future, these settlements would be recognized in petroleum and natural gas sales at the time of the settlement and there would be no recognition of fair value on the balance sheet.

The Company measures and recognizes embedded derivatives separately from the host contracts when the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract, when it meets the definition of a derivative and when the entire contract is not measured at fair value. Embedded derivatives are recorded at fair value. There were no embedded derivatives during 2010 or the quarter ended March 31, 2011.

d) Cash and cash equivalents

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

e) Intangible assets

Recognition and measurement:

Pre-exploration costs

Costs that are incurred prior to obtaining the legal right to explore, develop or extract resources are expensed in the statement of operations as incurred.

Exploration and evaluation expenditures:

Exploration and evaluation ("E&E") costs are those expenditures incurred for which technical feasibility and commercial viability have not been determined. E&E costs are initially capitalized as either tangible or intangible exploration and evaluation assets 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 oil and gas resources. The Company will expense items that are not directly attributable to the exploration and evaluation asset pool.

Costs that are capitalized will be recorded using the cost model as which they will be carried at cost less accumulated depreciation and impairment. Costs that are capitalized are accumulated in cost centers by well, field or exploration area pending determination of technical feasibility and commercial viability.

When technical feasibility and commercial viability is determinable, 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.

f) Property and equipment

Items of property and equipment ("P&E"), which include oil and gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Development and production assets are grouped into CGU's for impairment testing. The cost of property and equipment at January 1, 2010, the date of transition to IFRS, was recorded based on the cost model where all assets are carried at cost less accumulated depreciation and depletion.

When significant parts of an item of property, plant and equipment, including oil and natural gas interests, have different useful lives, they are accounted for as separate items (major components).

Gains and losses on disposal of an item of property and equipment, including oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized net within "other income" or "other expenses" in the Consolidated Statement of Comprehensive Income/Loss.

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property 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 the Consolidated Statement of Comprehensive 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 and equipment are recognized in profit or loss 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 year to the related proven and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers at least annually.

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

g) Interest and dividend income

Interest income is reported on an accrual basis using the effective interest method. Dividend income, other than those from investments in associates, are recognized at the time the right to receive payment is established.

h) Finance costs

Finance costs includes interest expenses and other costs in association with borrowing funds as well as any expense relating to accretion incurred in relation to Stetson's decommissioning obligations. All applicable borrowing costs attributable to qualifying assets are to be capitalized along with the corresponding asset until that asset is acquired and/or is ready for use. All other borrowing costs are recognized in the Consolidated Statement of Comprehensive Income/Loss as incurred. Currently, there are no qualifying assets for which interest is being capitalized.

i) Impairment of assets

Property and equipment

The carrying value of long-term assets is reviewed at each reporting date for indicators that the carrying value of an asset or cash-generating unit may not be recoverable. If indicators of impairment exist, the recoverable amount of the asset or cash-generating unit is estimated. If the carrying value of the asset or cash-generating unit exceeds the recoverable amount, the asset or cash-generating unit is written down with an impairment recognized in net income/loss.

Exploration and evaluation
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.

j) Decommissioning obligations
The Company records a liability for the fair value presentation of legal obligations associated with the decommissioning of long-lived tangible assets in the period in which they are incurred, normally when the asset is purchased or developed. On recognition of the liability there is a corresponding increase in the carrying amount of the related asset known as the decommissioning cost, which is depleted on a unit-of-production basis over the life of the reserves. The liability is adjusted each reporting period to reflect the passage of time using the risk free rate, with the accretion charged to earnings, and for revisions to the estimated future cash flows. Actual costs incurred upon settlement of the obligations are charged against the liability.

k) Income Taxes
The Company uses the liability method of accounting for income taxes. Under the liability method of tax allocation, future income taxes are determined based on the differences between the financial reporting and tax bases of assets and liabilities. These income tax assets and liabilities are measured using the substantively enacted tax rates in which the income tax assets or liabilities are expected to be settled or realized. A valuation allowance is provided to the extent that it is more likely than not that future income tax assets will not be realized.

Tax on income in interim periods is accrued using an annual expected effective tax rate.

l) Loss Per Share
Basic loss per share is calculated using the weighted average number of shares outstanding. Diluted loss per share is calculated using the treasury stock method. In order to determine diluted loss per share, the treasury stock method assumes that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted loss per share calculation. The diluted loss per share calculation excludes any potential conversion of options and warrants that would be anti-dilutive.

m) New standards and interpretations not yet adopted
On November 12, 2009, the IASB issued IFRS 9 Financial Instruments to replace IAS 39 Financial Instruments: Recognition and Measurement. As at January 1, 2013 Stetson will be required to adopt IFRS 9. IFRS 9 introduces a new classification and measurement regime for financial assets within its scope. Stetson does not expect the adoption of this standard to impact the Company significantly.

In May 2011, the IASB issued the following standards which have not yet been adopted by the Company: Consolidated Financial Statements (IFRS 10), Joint Arrangements (IFRS 11), Disclosure of Interests in Other Entities (IFRS 12), Separate Financial Statements (IAS 27), Fair Value Measurement (IFRS 13) and amended IAS 28 Investments in Associates and Joint Ventures. Each of the new standards is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has not yet begun the process of assessing the impact the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements.

4. DETERMINATION OF FAIR VALUES

A number of Stetson'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 based on the following methods:

Property and equipment

Fair value of property and equipment is based on market values which are the estimated amount that the property could be disposed of to an arm's length buyer after proper marketing. Market value of any oil and natural gas interests included in property and equipment is estimated based on discounted future cash flows that are anticipated to be derived from production based on externally prepared reserve reports.

Exploration and evaluation
Fair value of E&E 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.

Cash, cash equivalents, deposits, accounts receivable, accounts payable
Due to the short term maturity of these items, the balances approximate their carrying value.

Restricted cash and reclamation deposits
Fair value of restricted cash and reclamation deposits is determined based on their carrying value as the long term nature does not significantly impact the fair value.

Stock based compensation
The fair value of each option granted is determined using the Black-Scholes option pricing model. Inputs included in the model include expected dividend yield, expected volatility, risk-free interest rate, forfeiture rate, and an expected life. The forfeiture rate is estimated on the grant date and is subsequently adjusted to reflect the actual number of options that vest.

5. DISCONTINUED OPERATIONS

In February 2010, the board of directors determined that, in order to fund potential activities on its North Dakota property and to begin pursuit of other international activities, Stetson would consider selling all of its Canadian assets and hired Sayer Energy Advisors to assist in the process. In January 2011, the Company entered into a definitive agreement to sell all of its active Canadian oil and gas properties, including oil and gas assets in Alberta and Saskatchewan, along with resource tax pools related thereto, to an arms-length party.

The purchase and sale agreement was based on an effective date of December 1, 2010 and included consideration payable by the Purchaser of $5,000,000, subject to closing adjustments. The sale was closed on March 9, 2011, with net proceeds of $4,395,947. The final statement of adjustments is due by June 7, 2011.

Operating results related to the disposed assets and liabilities have been included in Discontinued Operations on the Consolidated Balance Sheets, the Consolidated Statements Comprehensive Loss and the Consolidated Statements of Cash Flows.

	Three months ended March 31, 2011	Three months ended March 31, 2010
Revenue		
Petroleum and natural gas sales	$ 773,765	$ 913,669
Royalties	(115,253)	(161,645)
	658,512	752,024
Expenses		
Operating	290,405	255,483
Transportation	8,027	3,174
Depletion, accretion and impairment	-	-
	298,432	258,657
Income from discontinued operations	$ 360,080	$ 493,367

Sale price	$ 5,000,000
Interim Statement of Adjustments	(457,588)
	4,542,412
Estimated disposition costs	146,465
Net proceeds	**$ 4,395,947**
Assets disposed	6,667,823
Liabilities disposed	(2,271,876)
Loss on disposition	**$ 0**

6. EXPLORATION AND EVALUATION

	E&E Assets
Balance at January 1, 2010	$ 8,676,850
Additions	316,795
Foreign currency translation	(706,468)
Balance at December 31, 2010	$ 8,287,177
Additions	-
Foreign currency translation	(208,305)
Balance at March 31, 2011	$ **8,078,872**

Costs included as intangible exploration and evaluation assets at March 31, 2011 total $8,078,872 (December 31, 2010 - $8,287,177) representing all of Stetson's North Dakota assets. The North Dakota asset has not yet proved commercial viability or to be technically feasible and therefore is still included as part of E&E.

There were no indications, events or changes in circumstances which would cause the Company to question whether the carrying amount may not be recoverable; as such no provision for impairment has been recorded.

7. PROPERTY AND EQUIPMENT

Property and equipment consists of furniture and fixtures, computer hardware and computer software less accumulated depreciation. As at March 31, 2011 and December 31, 2010 all property and equipment was fully depreciated.

8. LOAN FACILITY

On December 31, 2010, the Company had a $1,500,000 revolving demand loan facility available with a Canadian chartered bank. The interest rate on outstanding debt was set at the bank's prime lending rate plus 2.25%. The facility was secured by a floating charge over all of Stetson's assets. There was no outstanding balance under the revolving facility at December 31, 2010. As a result of the disposition of Stetson's active Canadian properties (Note 5), the facility was cancelled in March 2011.

9. DECOMMISSIONING OBLIGATIONS

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the obligation associated with the retirement of oil and gas properties:

	March 31, 2011	December 31, 2010
Balance, beginning of period	**$ 179,362**	$ 226,083
Liabilities incurred and acquired	**7,228**	-
Settlement of liabilities	**(3,196)**	(51,157)
Disposition of liabilities	**-**	-
Accretion expense	**1,093**	4,413
Change in estimates	**(767)**	23
Balance, end of period	**$ 183,720**	$ 179,362

The total future decommissioning obligations are estimated based on the Company's net ownership interest in all wells and facilities relating to continuing operations, the estimated costs to abandon and reclaim these wells and facilities, and the estimated timing of the costs to be incurred in future periods. The key assumptions, upon which the carrying amount of the decommissioning obligation is based, include a risk free rate ranging between 1.53% and 3.73% and an inflation factor of 2.0%. The total undiscounted amount of the estimated cash flows required to settle the asset retirement obligations is approximately $178,194 (December 31, 2010 – $175,430) which will be incurred over the next one to ten years.

At March 31, 2011, the Company had reclamation deposits of $359,677 (December 31, 2010 - $359,238) held by the Energy Resources Conservation Board ("ERCB"). As a result of the sale of active Canadian properties, the Company expects to be refunded a large portion of these deposits upon the completion of ERCB's reassessment of Stetson's remaining license liability rating.

10. CAPITAL STOCK

(a) Authorized

Unlimited common shares without par value
Unlimited preferred shares without par value

b) Common shares

	Number of shares	Amount
Balance December 31, 2010 and March 31, 2011	108,902,260	$ 32,414,157

There was no change in common shares outstanding between the year ended December 31, 2010 and the three months ended March 31, 2011.

(c) Preferred shares

	Number of shares	Amount
Balance December 31, 2010 and March 31, 2011	85,696,408	$ 8,570

There was no change in preferred shares outstanding between the year ended December 31, 2010 and the three months ended March 31, 2011.

(d) Stock-based compensation

The Company has granted options for the purchase of common shares to its directors and officers. The aggregate number of shares that may be issuable pursuant to options granted under the Plan will not exceed 10% of the issued common shares of the Company at the date of grant. No more than 5% of the issued shares of the Company may be granted to any one optionee. The options are non-transferable and non-assignable and may be granted for a term not exceeding five years. The exercise price of the options may not be less than the greater of $0.10 and the market price, subject to all applicable regulatory requirements.

The following table depicts the stock options transactions during the period:

	Number of stock options	Weighted average exercise price ($)
Balance December 31, 2010	10,140,000	$ 0.23
Granted	200,000	0.10
Expired	(575,000)	0.23
Balance March 31, 2011	9,765,000	$ 0.23

As at March 31, 2011, the following stock options are outstanding:

Exercise Price	Options Outstanding	Remaining Life (Years)	Options Exercisable
$0.10	200,000	3.06	200,000
$0.10	1,600,000	0.67	1,600,000
$0.10	200,000	4.95	200,000
$0.20	5,580,000	2.56	5,580,000
$0.30	1,765,000	1.78	1,765,000
$0.36	100,000	1.03	100,000
$1.00	250,000	0.19	250,000
$1.00	70,000	0.28	70,000
$0.23	9,765,000	2.07	9,765,000

The fair value of options granted during the quarter ended March 31, 2011 was determined using the Black-Scholes option pricing model used the following weighted average assumptions: expected dividend yield of 0%, expected volatility of 168%, a risk-free interest rate of 2.63%, expected forfeiture rate of 1.72% and an expected life of 5 years. Terms for vesting rules are approved by the Board of Directors on each grant and in the period ended March 31, 2011, all options granted vested immediately. During the quarter ended March 31, 2011, the Company recorded $15,960 (March 31, 2010 - $900) of stock-based compensation expense related to stock options. No options were issued in 2010.

(e) Contributed Surplus

	Amount
Balance December 31, 2010	$ 10,167,003
Stock-based compensation	15,960
Balance March 31, 2011	$ 10,182,963

11. RELATED PARTY TRANSACTIONS

The Company paid $24,000 to directors or companies controlled by directors, for professional and consulting fees during the period ended March 31, 2011 (2010 - $37,667).

Stetson shares its office premises with other companies that have common directors and/or officers. The Company reimburses the related companies for its proportional share of the expenses and charges the related companies for expenses incurred on their behalf. During the period ended March 31, 2011, the Company incurred $53,456 (2010 - $20,065) of expenses on behalf of those companies while they incurred $80,761 (2010 - $60,324) on Stetson's behalf. As at March 31, 2011, net accounts payable to these companies was $112,187 (2010 – $174,529).

All of the above transactions are in the normal course of operations and are measured at the exchange amount equaling the consideration established and agreed to by the related parties.

12. GENERAL AND ADMINISTRATIVE EXPENSES

The breakdown of significant cost categories included in general and administrative expense is as follows:

	Three months ended March 31, 2011	Three months ended March 31, 2010
General and administrative expenses:		
Salaries, wages, benefits and employee expenses	**$ 37,785**	$ 13,940
Office rent and supplies	**40,356**	122,898
Outside services / consulting	**260,931**	260,173
Website, advertising, investor relations	**665**	823
Other	**26,792**	(3,716)
Total	**$ 366,529**	$ 394,118

13. NET LOSS PER SHARE

The number of shares used to calculate the diluted net loss per share for the three months ended March 31, 2011 and 2010 included the weighted average number of Stetson common shares outstanding of 108,902,260 and 108,902,260, respectively, plus nil shares related to the dilutive effect of the conversion of stock options and warrants as the stock options and warrants would be anti-dilutive.

14. FINANCIAL INSTRUMENTS

Stetson`s financial instruments as at March 31, 2011 consist of cash and cash equivalents, accounts receivable, deposits, accounts payable and accrued liabilities.

Fair value:
Financial instruments held by the Company at March 31, 2011 including cash, deposits, accounts receivable and accounts payable and accrued liabilities reflected in the consolidated balance sheets approximate fair value because of the short term to maturity of these instruments.

Financial instruments are classified into one of three levels based upon the fair value hierarchy. Items are categorized based on inputs used to derive fair value based on:

Level 1 – quoted prices that are unadjusted in active markets for identical assets or liabilities
Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset/liability either directly or indirectly
Level 3 – inputs for the instruments are not based on any observable market data.

As at March 31, 2011 and December 31, 2010 all instruments are classified as Level 1 with their fair value derived directly from active markets for identical assets and/or liabilities.

Fair value estimates are made at the balance sheet date based on relevant market information and information about the financial

instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

Risk Management Overview:
The Company has exposure to credit, liquidity and market risks from its use of financial instruments. This note provides information about the Company's exposure to each of these risks, the Company's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these financial statements.

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 petroleum and natural gas marketers and joint venture partners.

The majority of the Company's accounts receivable are with joint venture partners or related parties in the oil and gas industry and are subject to normal industry credit risks. The carrying value of accounts receivable reflects management's assessment of the credit risk associated with these parties. Management believes the credit risk is mitigated by the size and reputation of the companies to which it extends credit. Joint venture receivables are usually collected within one to three months 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. However, the receivables are from participants in the petroleum and natural gas sector, and collection of the outstanding balances can be impacted by industry factors such as commodity price fluctuations, limited capital availability and unsuccessful drilling programs. The Company does not typically obtain collateral from petroleum and natural gas joint venture partners; however the Company does have the ability in many cases to recover amounts from production in the event of non-payment. The Company has not experienced significant credit loss in the collection of accounts receivable.

The carrying amount of accounts receivable represents the maximum credit exposure. As at March 31, 2011, the Company's receivables consisted of $119,926 (2010 – $1,310,829) from joint venture partners of which $16,317 has been subsequently collected, and $427,903 (2010 – $479,661) of other accounts receivable. The Company does not consider any receivables to be uncollectible. There were no derivative instruments held at March 31, 2011 or 2010.

The Company's reclamation deposits are subject to minimal credit risk as they are held by the ERCB, an independent agency of the Government of Alberta. As at March 31, 2011, the Company had reclamation deposits of $359,677 (December 31, 2010 - $359,238) held by the ERCB.

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

Commodity Price Risk
Commodity price risk is the risk that future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by not only the relationship between the Canadian and United States dollar, as outlined below, but also global economic events that dictate the levels of supply and demand. Lower commodity prices can also reduce the Company's ability to raise capital. From time to time the Company may attempt to mitigate commodity price risk through the use of financial derivatives.

Foreign Exchange Risk
Foreign currency exchange rate risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates.

The Company currently operates in both the U.S. and Canada, which gives rise to a risk that its earnings and cash flows may be adversely impacted by fluctuations in foreign exchange conversion rates. During the period, the majority of the Company's expenditures were denominated in Canadian dollars. The Company also had accounts receivable and accounts payable related to partner recoveries, capital expenditures and other expenses denominated in U.S. dollars. From time to time, the Company may use derivatives to manage this foreign exchange risk. No such derivatives were used in the quarter.

Liquidity Risk
Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with the financial liabilities. The Company's financial liabilities consist of accounts payable and accrued liabilities. The Company prepares annual capital expenditure budgets, which are monitored and updated as considered necessary. Accounts payable consists of invoices payable to trade suppliers for office, general and administrative and joint venture. The Company processes invoices within a normal payment period. Accounts payable have contractual maturities of less than one year.

15. CAPITAL MANAGEMENT

Stetson considers its capital structure to include shareholders' equity and working capital. The policy of the Company is to maintain a capital base to ensure it is able to sustain the future development of the Company's business objectives. The Company manages its capital through the issuance of shares as well as prudently managing expenditures relating to acquisition, exploration and development of resource properties. The ability of the Company to access the equity market will dictate whether the capital necessary to meet the Company's business objectives is attainable.

The Company's overall capital risk management strategy remains unchanged as at March 31, 2011.

In 2009, the Company obtained a $1,500,000 demand loan facility with a Canadian chartered bank. At December 31, 2010 no funds had been drawn on the facility and the Company was fully compliant with its debt covenants. In March 2011, the loan facility was terminated.

16. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended March 31, 2011	Three months ended March 31, 2010
Changes in non-cash working capital:		
Accounts receivable	**$ (22,195)**	$ (78,873)
Prepaid expenses and deposits	**28,334**	21,289
Accounts payable and accrued liabilities	**(626,524)**	(677,711)
Net effect of foreign exchange on non-cash working capital	**(734)**	(15,615)
	$ (621,119)	$ (750,910)
Operating activities	**$ (621,119)**	$ (729,987)
Investing activities	**-**	(20,923)
	$ (621,119)	$ (750,910)

17. CONTINGENCIES AND COMMITMENTS

Fort Berthold

Pursuant to an agreement entered into with the Tribal Council of the Three Affiliated Tribes of the Fort Berthold Reservation in North Dakota to lease certain oil and gas mineral rights, the Company and its joint venture partner completed the initial commitment well and an additional two wells are to be drilled prior to August 28, 2012. Pursuant to the terms of the agreement, Stetson is carried on all costs through the re-completion of the existing well and abandonment thereof if required. Stetson has approximately a 40% working interest on the tribal acreage and a 50% working interest on the allottee acreage.

Statement of Claim

On October 29, 2008, the Company filed a statement of claim against Thomas Weisel Partners Canada Inc. seeking to recover damages incurred by the Company as a result of the incomplete bought deal financing of July 2008. The Company has filed a copy of the Statement of Claim under its profile on SEDAR.

Letters of Credit

Stetson has outstanding Standby Letters of Credit in the amount of USD $220,000 relating to the participation in an open bid round in the Republic of Colombia (Note 19). At March 31, 2011, the Letters of Credit were secured by cash, which has been classified as restricted cash on the Consolidated Balance Sheets.

The Company also has an Irrevocable Letter of Credit in the amount of USD $75,000 relating to its oil and gas mining leases on tribally or individual-owned Indian land including the Fort Berthold Reservation in the State of North Dakota, as required by the Bureau of Indian Affairs. March 31, 2011, the Letter of Credit was secured by cash holdings, which have been classified as restricted cash on the Consolidated Balance Sheets.

Other Contingencies and Commitments

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

18. SUBSEQUENT EVENTS

Subsequent to quarter end, the Company signed a Hydrocarbon Exploration and Production Contract (E&P Contract) with the Agencia Nacional de Hydrocarburos of Colombia (ANH) for LLA-11 (Llanos Block). The Llanos Block in the Llanos Basin was successfully won by the Company during a bid round held on June 22, 2010, in Cartagena, Colombia (the "Bid"). The Company has granted a 90% private interest in the Block to a wholly-owned subsidiary of Sagres Energy Inc. ("Sagres") in consideration for the Company retaining a 10% carried interest during the first exploration phase (the "Carried Interest"), which consists of a minimum expenditure of USD $9.5 MM over a 36 month period.

The Llanos Block carries an additional royalty of 1% payable to the Government of Colombia in addition to the basic royalty scheme established under Colombia Law, being 8% for up to 5,000 bopd of production and increasing to 25% for a 600,000 bopd field. All other terms of the contract are standard to the model E&P Contract. Sagres will have an option to acquire the Company's Carried Interest in the Block over the next twelve months at a mutually agreed price.

Stetson entered into a Letter of Intent with a private Ontario company ("Ontario Co.") for Ontario Co. to acquire a 90% private interest in the Block in consideration for paying to Stetson a fee of USD$50,000, agreeing to reimburse Stetson for all expenses of the Bid and to allow Stetson to retain the Carried Interest (the "LOI"). Subsequent to the Bid, Ontario Co. was acquired by Sagres. The transaction closed in May 2011.

The transaction may be considered a Non-Arm's Length Transaction for the purposes of the TSX Venture Exchange as Stetson and Ontario Co. had a common officer at the time the terms of the LOI were negotiated. Stetson and Sagres are arm's length parties.

19. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

As disclosed in Note 2, the interim consolidated financial statements represent Stetson`s initial presentation of the financial information and comparatives under IFRS. The change in accounting policy bears a significant impact on presentation, classification and value of the information stated.

IFRS 1- First Time Adoption of IFRS

IFRS 1 allows first time adopters to elect certain exemptions from applying application of certain IFRS standards retrospectively from the date of transition of January 1, 2011. The exemptions elected and applied by the Company are to have opening Accumulated Other Comprehensive Loss to be nil as at the date of transition, as well as to elect full cost book value as deemed cost which will allow the Company to measure oil and gas assets at the date of transition to IFRS. Due to this election all foreign currency translation differences, prior to the date of transition, have been included in the Company's deficit and oil and gas assets are deemed as cost at the date of transition. Adjustments subsequent to the transition date for translation of foreign subsidiaries have been included in Other Comprehensive Loss. See reconciliation discussions below for a more detailed impact of this change.

COMPARATIVE RECONCILIATIONS

The accounting policies that have been described in Note 3 have been applied in preparing the both the interim condensed consolidated financial statements for the period ended March 31, 2011 and the comparative information throughout the statements and the notes. Reconciliations of the adjustments required to report previously reported financial information under Canadian GAAP to IFRS for comparative purposes of these interim consolidated financial statements are presented on the following pages.

OPENING CONSOLIDATED BALANCE SHEET *(unaudited)*

January 1, 2010		IFRS Adjustments			
($ Canadian)	Canadian GAAP	Exploration & Evaluation Note 19 A	Decommissioning obligations Note 19 D	Foreign Currency Translation Note 19 C	IFRS
ASSETS					
Current					
Cash	$ 415,679	-	-	-	$ 415,679
Accounts receivable	1,711,617	-	-	-	1,711,617
Prepaid expenses and deposits	36,407	-	-	-	36,407
Discontinued operations	8,150,217	-	-	-	8,150,217
	10,313,920	-	-	-	10,313,920
Long-term					
Restricted cash	78,495	-	-	-	78,495
Reclamation deposits	357,565	-	-	-	357,565
Property and equipment	9,386,130	(9,383,318)	-	-	2,812
Exploration and evaluation	-	9,383,318	-	(706,468)	8,676,850
	$ 20,136,110	-	-	(706,468)	$ 19,429,642
LIABILITIES					
Current					
Accounts payable and accrued liabilities	$ 2,204,212	-	-	-	$ 2,204,212
Discontinued operations	2,271,876	-	-	-	2,271,876
	4,476,088	-	-	-	4,476,088
Decommissioning obligations	182,424	-	43,659	-	226,083
	4,658,512	-	43,659	-	4,702,171
SHAREHOLDERS' EQUITY					
Common shares	32,414,157	-	-	-	32,414,157
Warrants	4,771,000	-	-	-	4,771,000
Preferred shares	8,570	-	-	-	8,570
Contributed surplus	5,392,303	-	-	-	5,392,303
Accumulated other comprehensive loss	-	-	-	-	-
Deficit	(27,108,432)	-	(43,659)	(706,468)	(27,858,559)
	15,477,598	-	(43,659)	(706,468)	14,727,471
	$ 20,136,110	-	-	(706,468)	$ 19,429,642

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET *(unaudited)*

March 31, 2010		IFRS Adjustments				
($ Canadian)	Canadian GAAP	Exploration & Evaluation Note 19 A	Decommissioning obligations Note 19 D	Foreign Currency Translation Note 19 C		IFRS
ASSETS						
Current						
Cash	$ -	-	-	-	$	-
Accounts receivable	1,790,490	-	-	-		1,790,490
Prepaid expenses and deposits	15,118	-	-	-		15,118
Discontinued operations	8,209,227	-	-	-		8,209,227
	10,014,835	-	-	-		10,014,835
Long-term						
Restricted cash	81,161	-	-	-		81,161
Reclamation deposits	356,942	-	-	-		356,942
Property and equipment	9,384,334	(9,384,064)	-	-		270
Exploration and evaluation	-	9,384,064	-	(963,496)		8,420,568
	$ 19,837,272	-	-	(963,496)	$	18,873,776
LIABILITIES						
Current						
Accounts payable and accrued liabilities	$ 1,526,501	-	-	-	$	1,526,501
Bank loan	330,440	-	-	-		330,440
Discontinued operations	2,270,525	-	-	-		2,270,525
	4,127,466	-	-	-		4,127,466
Decommissioning obligations	182,818	-	44,357	-		227,175
	4,310,284	-	44,357	-		4,354,641
SHAREHOLDERS' EQUITY						
Common shares	32,414,157	-	-	-		32,414,157
Warrants	4,771,000	-	-	-		4,771,000
Preferred shares	8,570	-	-	-		8,570
Contributed surplus	5,393,203	-	-	-		5,393,203
Accumulated other comprehensive loss	-	-	(6)	(285,358)		(285,364)
Deficit	(27,059,942)	-	(44,351)	(678,138)		(27,782,431)
	15,526,988	-	(44,357)	(963,496)		14,519,135
	$ 19,837,272	-	-	(963,496)	$	18,873,776

CONSOLIDATED BALANCE SHEET *(unaudited)*

December 31, 2010		IFRS Adjustments			
($ Canadian)	Canadian GAAP	Exploration & Evaluation Note 19 A	Decommissioning obligations Note 19 D	Foreign Currency Translation Note 19 C	IFRS
ASSETS					
Current					
Cash	$ 466,733	-	-	-	$ 466,733
Accounts receivable	525,634	-	-	-	525,634
Prepaid expenses and deposits	55,702	-	-	-	55,702
Discontinued operations	6,667,823	-	-	-	6,667,823
	7,715,892	-	-	-	7,715,892
Long-term					
Restricted cash	74,595	-	-	-	74,595
Reclamation deposits	359,238	-	-	-	359,238
Property and equipment	9,426,638	(9,426,638)	-	-	-
Exploration and evaluation	-	9,426,638	-	(1,139,461)	8,287,177
	$ 17,576,363	-	-	(1,139,461)	$ 16,436,902
LIABILITIES					
Current					
Accounts payable and accrued liabilities	$ 1,208,350	-	-	-	$ 1,208,350
Discontinued operations	2,271,876	-	-	-	2,271,876
	3,480,226	-	-	-	3,480,226
Decommissioning obligations	142,687	-	36,675	-	179,362
	3,622,913	-	36,675	-	3,659,588
SHAREHOLDERS' EQUITY					
Common shares	32,414,157	-	-	-	32,414,157
Warrants	-	-	-	-	-
Preferred shares	8,570	-	-	-	8,570
Contributed surplus	10,167,003	-	-	-	10,167,003
Accumulated other comprehensive loss	-	-	(2,026)	(465,335)	(467,361)
Deficit	(28,636,280)	-	(34,649)	(674,126)	(29,345,055)
	13,953,450	-	(36,675)	(1,139,461)	12,777,314
	$ 17,576,363	-	-	(1,139,461)	$ 16,436,902

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS *(unaudited)*

Three months ended March 31, 2010	Canadian GAAP	IFRS Adjustments		IFRS
($ Canadian)		Decommissioning obligations Note 19 D	Foreign Currency Translation Note 19 C	
Revenue				
Petroleum and natural gas sales	$ 38,502	-	-	$ 38,502
Royalties	(12,519)	-	-	(12,519)
	25,983	-	-	25,983
Other income	88	-	-	88
	26,071	-	-	26,071
Expenses				
Operating	26,815	-	-	26,815
General and administrative	394,118	-	-	394,118
Stock-based compensation	900	-	-	900
Finance costs	17,513	1,086	-	18,599
Foreign exchange loss/(gain)	28,665	-	(28,330)	335
Depreciation	2,937	(394)	-	2,543
	470,948	692	(28,330)	443,310
Loss before discontinued operations	(444,877)	(692)	28,330	(417,239)
Discontinued operations	493,367	-	-	493,367
Net income/(loss)	48,490	(692)	28,330	76,128
Other comprehensive loss				
Foreign currency translation	-	(6)	(285,358)	(285,364)
	-	(6)	(285,358)	(285,364)
Total comprehensive income/(loss)	**$** 48,490	(698)	(257,028)	**$** (209,236)

CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS *(unaudited)*

Year ended December 31, 2010		IFRS Adjustments		
($ Canadian)	**Canadian GAAP**	**Decommissioning obligations Note 19 D**	**Foreign Currency Translation Note 19 C**	**IFRS**
Revenue				
Petroleum and natural gas sales	$ 48,592	-	-	$ 48,592
Royalties	(10,485)	-	-	(10,485)
	38,107	-	-	38,107
Other income	2,572	-	-	2,572
	40,679	-	-	40,679
Expenses				
Operating	58,885	-	-	58,885
General and administrative	1,519,007	-	-	1,519,007
Bad debt expense	34,745	-	-	34,745
Stock-based compensation	3,700	-	-	3,700
Finance costs	41,230	4,413	-	45,643
Foreign exchange loss/(gain)	38,358	-	(32,342)	6,016
Depreciation	16,235	(13,423)	-	2,812
	1,712,160	(9,010)	(32,342)	1,670,808
Loss before discontinued operations	(1,671,481)	9,010	32,342	(1,630,129)
Discontinued operations	143,633	-	-	143,633
Net income/(loss)	(1,527,848)	9,010	32,342	(1,486,496)
Other comprehensive loss				
Foreign currency translation	-	(2,026)	(465,335)	(467,361)
	-	(2,026)	(465,335)	(467,361)
Total comprehensive income/(loss)	$ (1,527,848)	6,984	(432,993)	$ (1,953,857)

SIGNIFICANT ACCOUNTING POLICY CHANGES
The below discussion explains the significant differences between Stetson's accounting policies applied by the Company under Canadian GAAP compared to the new accounting policies under IFRS.

A. Exploration and Evaluation – IFRS 6

Under Canadian GAAP Stetson 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. 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 PP&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 resource.

Application of this policy impacted the financial statements significantly. The opening balance sheet adjustment for this policy change reclassified $9,383,318 from PP&E to intangible E&E. This adjustment had no impact on net loss.

B. Property and equipment – IAS 16

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.

All property and equipment that is held in the US subsidiaries under Canadian GAAP were held at historical cost using the exchange rate at the date or purchase. Under IFRS these assets must be revalued at the period end exchange rate due to the change in classification of the foreign subsidiaries under IFRS. All translation differences arising from these adjustments are recognized as a part of Other Comprehensive Income/Loss.

C. Effects of Foreign Currency translation – IAS 21

Translation of foreign subsidiaries for consolidation
Under Canadian GAAP all foreign subsidiaries were assessed as integrated and were translated for consolidation using the temporal method. Under this method monetary assets and liabilities were translated at exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities were translated at rates in effect on the dates the assets were acquired or liabilities were incurred. Revenue and expense were translated at the rates of exchange prevailing at the date of the transaction. Foreign exchange gains and losses were recorded in the consolidated statement of earnings as they arose.

Under IFRS the assessment of functional currency is different than that of Canadian GAAP in that the focus is mainly on the primary economic environment in which it operates rather than financing received and dependency on the reporting entity with which it is consolidated. As such the functional currency assessed using IFRS criteria for the subsidiaries is USD (CAD under previous GAAP). Any exchange gains and losses due to translation to the reporting entities functional currency for consolidation are recorded as a part of Other Comprehensive Income/Loss rather than included in Net Income/Loss.

The adjustments required are twofold:

- The first is to revalue the assets in E&E and property and equipment using the period end rates and record this difference to Other Comprehensive Income/Loss. This adjustment is required as under Canadian GAAP these assets would have been carried at the historical rate and therefore no translation differences would have been included in the Canadian GAAP foreign exchange gains/losses;

- Secondly, the exchange gain/loss included on the income statement is analyzed for amounts relating to the translation of foreign subsidiaries with these amounts being reclassified as Other Comprehensive Income/Loss.

The Company has chosen to make the election for the optional IFRS 1 exemption to deem the cumulative translation differences to be nil at the date of transition, and reclassify any such amounts determined in accordance with previous GAAP at that date to retained earnings. Below is a discussion of the impact of this change on comparative balances as shown in the reconciliations above.

Opening balance sheet – January 1, 2010
This change resulted in opening adjustment as at the date of transition of $706,468 due to revaluation of foreign held E&E which was adjusted against retained earnings as permitted per the IFRS 1 exemption as elected per the above.

Three months ended March 31, 2010
On the balance sheet translation differences on E&E totaling $963,496 arose due to revaluation of the assets at the rate for the period end and has been adjusted to other comprehensive income/loss. An income statement adjustment of $28,330 removed foreign exchange differences on translation of subsidiaries that were previously included on the income statement under Canadian GAAP to other comprehensive income/loss. The adjustment attributed to the increase in net income of $48,490 under Canadian GAAP to $76,128 under IFRS.

Year ended December 31, 2010
For the year ended December 31, 2010, a total of $1,139,461 was adjusted against property, equipment and exploration and evaluation assets and included as other comprehensive income/loss. The total year to date adjustment to remove foreign exchange differences on translation of foreign subsidiaries from operations, a loss of $32,342, is included in other comprehensive income/loss. This adjustment attributed to the decrease in net loss from $1,527,848 under Canadian GAAP to $1,486,496 under IFRS.

D. Decommissioning obligations

Under Canadian GAAP, asset retirement obligations were measured as the estimated fair value of the reclamation and abandonment expenditures expected to be incurred. Liabilities were not re-measured to reflect period end discount rates.

Under IFRS, decommissioning obligations are measured as the best estimate of the expenditure to be incurred. IFRS requires that the decommissioning obligation be re-measured using the period end discount rate which is the risk free rate.

Upon transition to IFRS, Stetson elected to re-measure its decommissioning obligations upon transition to IFRS and recognize the difference in deficit. The application of this election resulted in a $43,659 increase to the decommission obligations on the Company's Consolidated Balance Sheet as at January 1, 2010. In addition, adjustments to accretion expense of $698 and $6,984, respectively, are reflected in the Consolidated Statements of Comprehensive Loss for the three months ended March 31, 2010 and year ended December 31, 2010.

E. Cash Flow statement adjustments

The transition to IFRS from Canadian GAAP had no significant impact on cash used/generated by the Company. Presentation adjustments were made to conform with the IFRS adjustments as shown in the above reconciliations, with no impact on the bottom line change in cash.

F. Summary of effect on current and deferred taxes

The above adjustments had no bottom line impact on income taxes. A valuation allowance is taken on all existing deferred tax balances due to the uncertainty of their utilization. There is no impact on the consolidated financial statements as a result of the conversion to IFRS.