

# Geomark Exploration Ltd. First Quarter 2011

## Financial and Operational Highlights

As at and for the three months ended	March 31, 2011	December 31, 2010 Restated <sup>(1)</sup>	March 31, 2010 Restated <sup>(1)</sup>
Financial (\$ 000s, except \$ per share)			
Revenue			
Mineral Division	175	179	70
Oil and Gas Division	414	443	573
Funds Flow <sup>(2)</sup>	122	300	204
Per Share Basic <sup>(3)</sup>	0.00	0.01	0.00
Per Share Diluted <sup>(3)</sup>	0.00	0.01	0.00
Cash Flow (Deficiency) from Operations	(162)	(1)	23
Per Share Basic <sup>(3)</sup>	(0.00)	(0.00)	0.00
Per Share Diluted <sup>(3)</sup>	(0.00)	(0.00)	0.00
Net Earnings (Loss)	(27)	186	(166)
Per Share Basic <sup>(3)</sup>	(0.00)	0.00	(0.00)
Per Share Diluted <sup>(3)</sup>	(0.00)	0.00	(0.00)
Capital Expenditures			
Mineral Division	677	179	-
Oil and Gas Division	4	8	157
Total Assets			
Mineral Division	40,826	40,382	30,843
Oil and Gas Division	13,320	12,641	9,991
Oil and Gas Operations			
Barrels of Oil Equivalent (BOE) per day <sup>(4)</sup>	139	125	161

<sup>(1)</sup> The comparative highlights have been restated with the adoption of International Financial Reporting Standards (IFRS).

<sup>(2)</sup> Funds flow is not a recognized measure under IFRS. For these purposes, the Company defines funds flow as funds provided by operations after including investment dividend and interest income and the changes in non-cash investing working capital related to these sources of investment income.

<sup>(3)</sup> Geomark issued one common share upon incorporation on April 20, 2010, and on July 6, 2010 issued 52,039,760 common shares as consideration for the net investment in Geomark Operations with an ascribed net book value of \$21,152,000 as at December 31, 2009 and cancelled the original common share. For purposes of the per share calculations, it was assumed that all 52,039,760 shares issued have been outstanding since January 1, 2010.

<sup>(4)</sup> Barrels of Oil Equivalent (BOE) are calculated using a conversion ratio of 6 MCF to 1 barrel of oil. The conversion is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead and as such may be misleading if used in isolation.

# Report to Shareholders

Geomark Exploration Ltd. (Geomark or the Company) is pleased to announce its financial and operational results for the three months ended March 31, 2011.

Geomark is a publicly traded mineral exploration company that emerged from Comaplex Minerals Corp. (Comaplex) following the successful July 2010 sale of Comaplex's five million ounce Meliadine gold deposit to Agnico-Eagle Mines Limited (Agnico-Eagle). As part of the deal's Plan of Arrangement, Comaplex transferred to Geomark all the assets and related liabilities other than those relating to the Meliadine properties. Geomark issued a total of 52,039,760 common shares to the former Comaplex shareholders (excluding Agnico-Eagle and Perfora Investment S.a.r.l.) as consideration for the Non-Meliadine assets.

Geomark is well-financed with proven management, experienced staff, a large cash position and immediate cash flow from its oil and gas and investment assets. The history of success and proven capabilities of the Geomark team will assist in advancing the Company. The entire Comaplex exploration team is now employed by Geomark.

Geomark's assets include:

- Working capital and investments of approximately \$52 million (which includes a short-term \$20 million loan to Bonterra Energy Corp.);
- Mineral properties located in Ontario, the Northwest Territories and Nunavut;
- Oil and gas properties located primarily in the Harmattan area of south-western Alberta; and
- Oil and gas properties, dividends and interest income are projected to generate annual income of approximately \$2.5 million.

The Company's business strategy is to acquire early stage mineral properties and to conduct exploration programs on them to advance the prospects to advanced exploration property status or into defined economic deposits. Geomark develops its new exploration prospects either internally (through grassroots efforts) or through negotiated transactions with other companies. The Company is intentionally targeting projects with gold and associated precious metals potential.

In the latter half of 2010, Geomark completed the consolidation of all eight of its currently held Timmins area gold properties (interests now ranging from 90 to 100 percent). The Timmins assets are relatively small properties that have undergone varying degrees of exploration over the years. The majority of the historical drilling on the Carr Wilkie, Thorneloe, and Deloro properties has been within 350 metres of surface; however, some of the recent gold discoveries in the Timmins area by other companies have been at considerable depths (below 500 metres from surface). Geomark is presently targeting the deeper, down-dip extensions of the known mineralized trends on its Ontario properties.

In November 2010, the Company commenced geophysical surveys (Titan 24 DC/IP and MT resistivity surveys) on four of the Timmins area assets – Thorneloe, Deloro, Carr-Wilkie and Cody Nighthawk. The surveys were completed in the first quarter of 2011 and IP anomalies were obtained on three of the four properties.

Based on the results of the surveys and a review of the previous geological information, a 4,000 metre diamond drilling program commenced in March 2011 on two of these properties – one of which is in the currently active West Timmins area near the Lake Shore Gold Corp. properties. Three drill holes totaling 1,687 metres were completed on the Carr-Wilkie property. The Company is presently compiling the results, but has been hampered by very slow sample turnaround at the lab.

Four drill holes, approximately 2,600 metres, are planned on the Thorneloe property. To date, two of the four holes (1,392 metres) have been completed. The program is ongoing and results will be released as they are

received and verified. The drill program will be extended if results warrant it. The other Ontario properties are in the process of further review and should the results be positive, further work, including geophysics and diamond drilling, will be completed on them as quickly as possible.

Geomark's exploration activities and G&A expenses in 2011 will be funded from its existing working capital, income from its investments, interest income and its oil and natural gas operations.

Geomark's business strategy also includes the acquisition of additional mineral interests from unrelated third parties through option/joint venture agreements and/or acquisitions. Gold and precious metals prices have continued to remain strong and this higher pricing environment has made the acquisitions market more expensive and competitive; however, serious effort continues to be spent in actively assessing and pursuing new precious metal properties that can be added to the Company's portfolio. Geomark's team has done general reviews of a large number of plays and numerous properties have been examined in detail. The search has been concentrated in Canada and the United States, but properties in all countries with mining friendly jurisdictions are being considered. The Company remains optimistic that additional opportunities will develop in the near-term.

As a final comment, the first quarter 2011's Management's Discussion and Analysis (MD&A) and Financial Statements along with the notes thereto, are reported under International Financial Reporting Standards (IFRS). It is mandatory that all Canadian publically accountable enterprises prepare their financial statements in accordance with Canadian Generally Accepted Accounting Principles (Canadian GAAP) revised to incorporate new accounting standards under IFRS. This change in accounting principles significantly affected certain financial information and disclosures from past financial reporting of the Company and may be confusing to Geomark's shareholders. Reporting under IFRS will result in Canadian standards now being more aligned with European and Australian accounting standards and away from previous Canadian principles and present United States principles. IFRS permits companies to be flexible with their reporting and this may result in making it more difficult to compare Canadian companies with each other, or in some instances, cross border reporting Canadian companies with their U.S. peers.

IFRS has been and continues to be a very costly and time consuming transition for Canadian companies and will likely continue to be so into the future. Management is of the opinion that the adoption of IFRS should have been delayed for Canadian companies and for the respective industries that are affected at least until the United States decided what form of IFRS it would adopt, if any. Regulators and the accounting profession obviously did not agree.

Geomark will ensure that appropriate disclosures and discussions are provided in the MD&A and the financial statements to assist shareholders, analysts and other parties with their respective evaluations and has provided additional information in the above "Highlights" section to assist readers with their reviews.

On behalf of Management and the Board of Directors, the Company would like to thank shareholders for their continued support and its staff for their dedicated efforts in advancing the Company forward.



George F. Fink  
Chairman of the Board and Chief Executive Officer



Mark J. Balog  
President and Chief Operating Officer

## **Management's Discussion and Analysis**

The following report dated June 1, 2011 is a review of the operations and current financial position for the three months ended March 31, 2011 for Geomark Exploration Ltd. (Geomark or the Company) and should be read in conjunction with the condensed consolidated financial statements presented under International Financial Reporting Standards (IFRS), including the notes related thereto, and the audited financial statements presented under Canadian generally accepted accounting principles (Canadian GAAP) for the fiscal year ended December 31, 2010, together with the notes related thereto.

A reconciliation of the new and revised standards and interpretations are outlined in Note 15 of the March 31, 2011 condensed financial statements for the comparative periods.

### **Transition to IFRS from Canadian GAAP**

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants (CICA Handbook). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards (IFRS) and now requires publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in the interim financial statements in accordance with International Accounting Standards (IAS) 34 – Interim Financial Reporting (IAS 34) after applying the requirements of International Financial Reporting Standards 1 – First-time Adoption of International Financial Reporting Standards (IFRS 1). In the Management's Discussion and Analysis (MD&A), the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS. The Company's financial statements for the year ending December 31, 2011 will be the first annual financial statements that comply with IFRS.

IFRS are premised on a conceptual framework similar to Canadian GAAP, however, significant differences can exist in certain matters of recognition, measurement and disclosure. As disclosed in the Company's 2010 Annual Report, management anticipated no material changes on adoption of IFRS for its January 1, 2010 opening consolidated statement of financial position. The following discussion highlights the new standards and first-time adoption exemptions that the Company has adopted and elected to use under IFRS. It also discusses the impact on the comparative period results of operations and financial position as previously reported under Canadian GAAP as well as possible effects going forward.

Upon adoption, the Company utilized certain first-time exemptions available that resulted in minor changes to the consolidated statement of financial position and consolidated statement of comprehensive income. In addition to these fair value changes to property, plant and equipment, a change was required in the assumptions used to estimate the Company's decommissioning liabilities for reclamation costs. Such adjustments are the result of the transition to IFRS.

Additionally, the changes to the opening statement of financial position required that a corresponding tax asset or liability be established based on the resultant differences between the carried value of these fixed assets under IFRS and their associated tax bases. In aggregate, these increases and the application of various policies under IFRS that differ from Canadian GAAP decreased our shareholders' equity by \$9,000 at January 1, 2010. Note 15 of our condensed consolidated financial statements provides detailed reconciliations between Canadian GAAP and IFRS of shareholders' equity as at January 1, March 31 and December 31, 2010 and of net income for the three months ended March 31, 2010 and for the year ended December 31, 2010, respectively. These reconciliations provide explanations of each major difference.

### **Effect of IFRS on Cash Flow**

The adoption of IFRS has materially changed the condensed consolidated statement of cash flow, as explained in Note 15. Dividend and interest income is classified as cash provided by investing activities under IFRS.

Under previous Canadian GAAP dividend and interest income was classified as cash provided by operating activities. A summary of the significant IFRS changes to the 2010 cash flow are as follows:

<b>Summary of IFRS Comparison to Previous Canadian GAAP Cash Flow (Deficiency) From Operations</b>					
<b>2010</b>					
(\$ 000s except \$ per share)	Annual	Q4	Q3	Q2	Q1
<b>Cash flow (deficiency) from operations -</b>					
<b>Canadian GAAP</b>	<b>523</b>	<b>300</b>	<b>60</b>	<b>(41)</b>	<b>204</b>
Dividend income	(510)	(136)	(135)	(128)	(111)
Interest income	(438)	(178)	(117)	(73)	(70)
Change in non-cash working capital					
Accounts receivable	26	13	10	3	-
<b>Cash flow (deficiency) from operations - IFRS</b>	<b>(399)</b>	<b>(1)</b>	<b>(182)</b>	<b>(239)</b>	<b>23</b>
<b>Cash flow (deficiency) from operations per share</b>					
<b>Basic and Diluted – Canadian GAAP</b>	<b>0.01</b>	<b>0.01</b>	<b>0.00</b>	<b>(0.00)</b>	<b>0.00</b>
Effects of adjustments to cash flow (deficiency) from operations	(0.02)	(0.01)	(0.00)	(0.00)	0.00
<b>Cash flow (deficiency) from operations per share</b>					
<b>Basic and Diluted – IFRS</b>	<b>(0.01)</b>	<b>(0.00)</b>	<b>(0.00)</b>	<b>(0.00)</b>	<b>0.00</b>

#### **Basis of Presentation**

Geomark was incorporated on April 20, 2010 as a 100 percent wholly-owned subsidiary of Comaplex Minerals Corp. (Comaplex). Pursuant to an acquisition agreement between Comaplex, Agnico-Eagle Mines Ltd. (Agnico-Eagle) and Geomark (the Arrangement), Agnico-Eagle acquired on July 6, 2010 all of the issued and outstanding common shares of Comaplex on the basis of one Comaplex share for 0.1576 of an Agnico-Eagle share. Also on July 6, 2010, Geomark was capitalized with Comaplex's Carved Out Operations' assets and obligations (Geomark Operations), including a 100 percent wholly-owned subsidiary WMC International Limited. In return, Geomark's common shares were distributed to the shareholders of Comaplex, other than Agnico-Eagle and Perfora Investments S.a.r.l. (Perfora) (a wholly owned subsidiary of Resource Capital Fund III L.P.), on the basis of one Geomark share for every Comaplex share. The initial share issued to Comaplex was then cancelled.

As Geomark and the Geomark Operations were under common control, these consolidated financial statements have been presented on a continuity-of-interest basis of accounting and represent the activities of the above noted entities from the date each commenced operations. The consolidated financial statements presented for comparative purposes reflect the financial position, results of operations and cash flows as if Geomark had been consolidated with the Geomark Operations since inception.

#### **Use of non-IFRS financial measures**

Included in this Management's Discussion and Analysis (MD&A) we use the term "funds flow" to analyze the Company's operating performance. Funds flow is not a standardized measure recognized under IFRS and does not have a standardized meaning prescribed by IFRS. This funds flow calculation is considered by management to be informative for shareholders and analysts. This measure may differ from those made by other companies and accordingly may not be comparable to such measures as reported by other companies.

Geomark's funds flow is calculated by adding investment dividend and interest income and the changes in non-cash investing working capital related to these sources of investment income to cash flow (deficiency) from operating activities.

## Forward-Looking Statements

Certain statements contained in this MD&A include statements which contain words such as “anticipate”, “could”, “should”, “expect”, “seek”, “may”, “intend”, “likely”, “will”, “believe” and similar expressions, statements relating to matters that are not historical facts, and such statements of our beliefs, intentions and expectations about development, results and events which will or may occur in the future, constitute “forward-looking information” within the meaning of applicable Canadian securities legislation and are based on certain assumptions and analysis made by us derived from our experience and perceptions. Forward-looking information in this MD&A includes, but is not limited to: expected cash provided by continuing operations; future capital expenditures, including the amount and nature thereof; mineral prices and demand, oil and natural gas prices and demand; expansion and other development trends of the mineral and oil and gas industry; business strategy and outlook; expansion and growth of our business and operations; and maintenance of existing customer, supplier and partner relationships; supply channels; accounting policies; credit risks; and other such matters.

All such forward-looking information is based on certain assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate in the circumstances. The risks, uncertainties, and assumptions are difficult to predict and may affect operations, and may include, without limitation: foreign exchange fluctuations; equipment and labour shortages and inflationary costs; general economic conditions; industry conditions; changes in applicable environmental, taxation and other laws and regulations as well as how such laws and regulations are interpreted and enforced; the ability of mineral companies to raise capital; the effect of weather conditions on operations and facilities; the existence of operating risks; volatility of oil and natural gas prices; oil and gas product supply and demand; risks inherent in the ability to generate sufficient cash flow from operations to meet current and future obligations; increased competition; stock market volatility; opportunities available to or pursued by us; and other factors, many of which are beyond our control. The foregoing factors are not exhaustive.

Actual results, performance or achievements could differ materially from those expressed in, or implied by, this forward-looking information and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking information will transpire or occur, or if any of them do, what benefits will be derived therefrom. Except as required by law, Geomark disclaims any intention or obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise.

The forward-looking information contained herein is expressly qualified by this cautionary statement.

## QUARTERLY FINANCIAL AND OPERATIONAL HIGHLIGHTS

(\$ 000s, except \$ per share)	IFRS				
	2011		2010		
	Q1	Q4	Q3	Q2	Q1
Revenue					
Minerals Division	175	179	13,636	73	70
Oil and Gas Division	414	443	526	686	573
Funds flow	122	300	60	(41)	204
Per Share Basic and Diluted <sup>(1)</sup>	0.00	0.01	0.00	(0.00)	0.00
Cash Flow (Deficiency) From Operations	(162)	(1)	(182)	(239)	23
Per Share Basic and Diluted <sup>(1)</sup>	(0.00)	(0.00)	(0.00)	(0.00)	0.00
Net Earnings (Loss)	(27)	186	13,274	(12)	(166)
Per Share Basic and Diluted <sup>(1)</sup>	(0.00)	0.00	0.26	(0.00)	(0.00)
Capital Expenditures					
Minerals Division	677	179	47	-	-
Oil and Gas Division	4	8	1	-	157
Oil and Gas Operations					
Barrels of Oil Equivalent (BOE) per day <sup>(2)</sup>	139	125	161	148	161

(\$ 000s, except \$ per share)	Canadian GAAP			
	2009			
	Q4	Q3	Q2	Q1
Revenue				
Minerals Division	72	59	77	39
Oil and Gas Division	549	367	425	557
Cash Flow (Deficiency) From Operations and funds flow	(77)	123	(262)	(76)
Per Share Basic and Diluted <sup>(1)</sup>	(0.00)	0.00	(0.01)	(0.00)
Net Earnings (Loss)	(673)	(461)	(318)	(109)
Per Share Basic and Diluted <sup>(1)</sup>	(0.01)	(0.01)	(0.01)	(0.00)
Capital Expenditures				
Minerals Division	-	-	-	-
Oil and Gas Division	144	112	184	164
Oil and Gas Operations				
Barrels of Oil Equivalent (BOE) per day <sup>(2)</sup>	139	139	150	177

<sup>(1)</sup> Geomark issued one common share upon incorporation on April 20, 2010, and on July 6, 2010 issued 52,039,760 common shares as consideration for the net investment in Geomark Operations with an ascribed net book value of \$21,152,000 as at December 31, 2009 and cancelled the original common share. For purposes of the per share calculations, it was assumed that all 52,039,760 shares issued have been outstanding since January 1, 2009.

<sup>(2)</sup> Barrels of Oil Equivalent (BOE) are calculated using a conversion ratio of 6 MCF to 1 barrel of oil. The conversion is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead and as such may be misleading if used in isolation.

**RESULTS OF OPERATIONS****Production**

	Three months ended		
	March 31, 2011	December 31, 2010	March 31, 2010
Natural gas (MCF per day)	609	561	726
Natural gas liquids (barrels per day)	38	32	40
Total BOE per day	139	125	161

Average production was lower in the first quarter of 2011 compared to the first quarter of 2010 due to natural production declines and flush production from a field optimization program conducted in the latter half of 2009 and early 2010 that increased Q1 2010 production. Production was higher in Q1 2011 compared to Q4 2010 due to a prior period production adjustment in the fourth quarter of 2010 on Geomark's largest property.

**Revenues**

	Three months ended		
(\$ 000s)	March 31, 2011	December 31, 2010	March 31, 2010
<b>Minerals Division Revenue:</b>			
Interest and other	175	179	70
<b>Oil and Gas Division Revenue:</b>			
Oil and gas sales	443	377	557
Less:			
Crown royalties	163	50	76
Freehold royalties	13	20	19
<b>Total Royalties</b>	<b>176</b>	<b>70</b>	<b>95</b>
Oil and gas sales, net of royalties	267	307	462
Dividend income	147	136	111
<b>Total Oil and Gas Division Revenue</b>	<b>414</b>	<b>443</b>	<b>573</b>
Average Realized Prices (Cdn \$):			
Natural gas (per MCF)	3.87	3.76	5.09
Natural gas liquids (per barrel)	67.02	61.79	61.83
Royalties – percentage of revenue	39.7	18.4	17.1
Royalties \$ per BOE	14.02	6.01	6.57

Interest and other income for the first quarter of 2011 increased by \$105,000 from the first quarter of 2010. The increase in interest income was mainly due to the receipt of a \$13,500,000 contingent receivable and a higher interest rate earned on \$8,000,000 additional funds loaned to Bonterra Energy Corp. (Bonterra) in the third quarter of 2010 (see related party transactions).

Revenue from petroleum and natural gas sales decreased 20 percent in the first quarter of 2011 compared to the first quarter of 2010 due to a decrease in natural gas prices and lower production volumes. This was

partially offset by higher natural gas liquid prices. The Company saw an increase in Q1 2011 over Q4 2010 due to higher commodity prices and a prior period adjustment for natural gas production in Q4 2010.

On February 1, 2009, the operator of one of the Company's oil and gas properties unilaterally stopped allocating natural gas production (approximately 55 MCF per day) to Geomark and the other minority interest partners based on the operator's interpretation of the pooling agreement. It is the Company's position that this interpretation of the agreement is incorrect and the non-operating partners should continue to receive this production. None of the natural gas in dispute has been recorded as sales from this property. Geomark has filed a claim against the operator. Until the matter is resolved, no amounts will be accrued in respect of this production.

Geomark acquired two Alberta crown royalty drilling credits of \$102,000 per credit from Bonterra for \$51,000 each. One of the credits was acquired in the first quarter of 2010 and the other in the last quarter of 2009 (discussed further in the related party section of this report). These crown royalty drilling credits reduce crown royalty expense to a maximum of 50 percent of crown royalties payable. The crown royalty drilling credit program expires at March 31, 2011. Remaining drilling credits cannot be used to offset future crown royalties.

Crown royalties for the first quarter of 2011 were higher than the first quarter of 2010 due to a prior period adjustments to Alberta crown royalty drilling credits received and delays in receiving gas cost allowance (GCA) on the Company's largest crown royalty paying property. Due to differences in actual to forecasted production volumes and commodity prices the actual drilling credits received in previous periods were lower than anticipated, therefore crown royalties increased by approximately \$67,000. The Company expects to recover up to \$54,000 in crown royalties relating to GCA once the operator of the property files the appropriate forms with the Alberta Crown that acknowledges the change of ownership from Comaplex to Geomark. The Company anticipates receiving a portion or all of these funds and will record them when received. Crown royalties increased from Q1 2011 compared to Q4 2010 primarily due to the previously discussed prior period adjustments to production and Alberta crown drilling credits.

Dividend income from Bonterra increased in Q1 2011 over Q1 2010 and Q4 2010. This was due to Bonterra increasing its dividends to \$0.72 per share for the first three months of 2011 from \$0.54 per share for the first three months of 2010 and \$0.66 per share for the last three months of 2010.

## Production Costs

	Three months ended		
	March 31, 2011	December 31, 2010	March 31, 2010
Production costs – Natural gas/NGLs (\$ 000s)	103	96	134
\$ per BOE	8.21	8.31	9.27

Differences in production costs compared to previous periods are a result of changes in production volumes and costs due to the field optimization program conducted in the first quarter of 2010.

## General and Administrative (G&A) Expenses

(\$ 000s)	Three months ended		
	March 31, 2011	December 31, 2010	March 31, 2010
Office and administration – Minerals	126	159	141
Office and administration – Oil and Gas	25	20	35
Employee compensation	169	113	185
Unwinding of the fair value of decommissioning liabilities	3	3	2
<b>Total general and administrative expenses</b>	<b>323</b>	<b>295</b>	<b>363</b>

Minerals division office and administrative costs decreased by \$15,000 in Q1 2011 compared to Q1 2010 due to decreased continuous disclosure costs and filing fees as Geomark is on the TSX venture exchange and Comaplex was listed on the TSX. Q1 2011 decreased over Q4 2011 due to the decrease in continuous disclosure costs.

The Oil and Gas division G&A costs have decreased from Q1 2011 compared to Q1 2010 due to decreased oil and gas engineering costs.

Employee compensation increased in Q1 2011 over Q4 2010 due to the hiring of additional staff for the Company's mineral exploration activities. The Q1 2011 decrease from Q1 2010 was due to a reduction of employees in Geomark compared to Comaplex for 2010.

## Share-Based Payments

(\$ 000s)	Three months ended		
	March 31, 2011	December 31, 2010	March 31, 2010
Share-based payments	169	151	173

Share-based payments are a statistically calculated value representing the estimated expense of issuing employee stock options. The Company records a compensation expense over the vesting period based on the fair value of options granted to employees, directors and consultants. Share-based payments increased in Q1 2011 compared to Q4 2010. The increase was due primarily to the granting of 450,000 stock options in February, 2011. Based on currently outstanding options, the Company anticipates that an expense of approximately \$417,000 will be recorded for the balance of 2011, \$276,000 for 2012, \$93,000 for 2013 and \$3,000 for 2014.

The estimated weighted average fair value of 450,000 share options (December 31, 2010 – 3,009,000) granted during the period was \$263,000 (December 31, 2010 - \$984,000) (\$0.58 per option (December 31, 2010 - \$0.33 per option)). No options were exercised during the period.

The fair value of each share-based payment transaction was estimated on the date of the grant, as determined by using the Black-Scholes option-pricing model with the following assumptions:

	March 31, 2011	December 31, 2010
Weighted-average risk free interest rate (%) <sup>(1)</sup>	2.2	1.8
Expected life (years)	3.3	3.3
Weighted-average volatility (%) <sup>(2)</sup>	57.0	57.0
Forfeiture rate (%)	0.0	0.0
Dividend yield (%)	0.0	0.0

- <sup>(1)</sup> Risk-free interest rate is based on the weighted average Government of Canada benchmark bond yields for two, three and five year terms to match corresponding vesting periods.
- <sup>(2)</sup> The expected volatility is measured as the standard deviation of expected share price returns based on statistical analysis of historical weekly share prices for a representative period.

## Depletion, Depreciation and Impairment Expense

(\$ 000s)	Three months ended		
	March 31, 2011	December 31, 2010	March 31, 2010
Depletion and depreciation expense	63	75	71
Impairment of oil and gas assets	-	77	-

Capital costs that result in the addition of reserves on oil and gas or mineral properties are depleted using the unit-of-production basis by producing field or mine. Oil and gas tangible assets, such as well equipment, are depreciated at a 20 percent declining balance per year. Mineral assets consist of exploration and evaluation costs and presently do not have proved producing reserves and are therefore not subject to depletion. The Company reviews the carrying value of its mineral properties on an ongoing basis and reduces the cost of properties if it is determined that the property values are lower than the property cost. Equipment is depreciated at 10 to 20 percent declining balance per year.

An impairment provision of \$77,000 was recorded for the year ended December 31, 2010 on one of the oil and gas properties as its estimated fair value was below its carrying value. No impairment provision was recorded for the first three months of 2011 or 2010. These calculations require an estimation of the amount of the Company's petroleum reserves by field. This reserve figure is calculated annually by an independent engineering firm and is used to calculate depletion and is, to a large extent, subjective. Reserves are affected by economic assumptions and by estimates of petroleum products in place and methods of recovering those reserves. When reserves are increased or decreased, depletion costs generally will be affected.

## Income Taxes (Recovery)

(\$ 000s)	Three months ended		
	March 31, 2011	December 31, 2010	March 31, 2010
Deferred tax (recovery)	(42)	(258)	68

The Company has adopted the liability method of accounting for income taxes under which the deferred tax provision is based on the temporary differences in the accounts calculated using income tax rates expected to apply in the year in which the temporary differences will reverse. The Company has no current income tax expense as it has sufficient tax pools to ensure that no current income taxes are payable.

Due to changes in estimates, tax rates and other differences in the Geomark Operations compared to the legal entity tax returns of Comaplex prior to July 6, 2010, Geomark had a deferred tax expense in Q1 2010 versus deferred tax recovery in Q1 2011 and Q4 2010. Subsequent to July 6, 2010, these adjustments were partially offset by a full valuation allowance on the Company's deferred tax assets which were determined that it was unlikely that they will be recovered.

The Company has the following tax pools which may be used to reduce taxable income in future years limited to the applicable rates of utilization:

	Rate of Utilization (%)	Amount (\$ 000s)
Undepreciated capital costs	30	1,151
Canadian oil and gas property expenditures	10	4,614
Canadian development expenditures	30	60
Canadian exploration expenditures	100	776
Non-capital loss carryforward <sup>(1)</sup>	100	528
		7,129

<sup>(1)</sup> Federal income tax losses carried forward expire in the following years; 2030 - \$330,000 and 2031 - \$198,000.

### Net Earnings (Loss)

(\$ 000s)	Three months ended		
	March 31, 2011	December 31, 2010	March 31, 2010
Net earnings (loss)	(27)	189	(166)

Net loss for the first three months of 2011 decreased compared to the first three months of 2010 primarily due to increased interest income and a deferred tax recovery versus a deferred tax expense. This was partially offset by decreased oil and gas sales and an increase in crown royalty expense. The decrease in net earnings in Q1 2011 compared to Q4 2010 is mainly attributable to a decreased deferred tax recovery and increased crown royalty expense which was partially offset by no impairment provision on the Company's oil and gas assets and increased oil and gas sales in the first quarter of 2011.

### Other Comprehensive Income

Other comprehensive income relates entirely to the changes in fair value of Geomark's investments in Bonterra and Pine Cliff Energy Ltd. (Pine Cliff). During the first quarter of 2011, the market value of the investments increased by \$783,000. In the first quarter of 2010, the market value of the investments increased by \$493,000 (Q4 2010 - \$1,845,000).

### Funds Flow

(\$ 000s)	Three months ended		
	March 31, 2011	December 31, 2010	March 31, 2010
Cash flow (deficiency) from operations	(162)	(1)	23
Add the effects of investment income			
Dividend income	147	136	111
Interest income	175	178	70
Change in non-cash working capital	(38)	(13)	-
Funds flow	122	300	204

Funds flow decreased \$82,000 in the first quarter of 2011 compared to the first quarter of 2010. The decrease was primarily due to decreased oil and gas revenue and increased crown royalties, partially offset by increased dividend and interest income. Q1 2011 funds flow decreased from Q4 2010 due to increased crown royalties, employee compensation and a decrease in changes in non-cash working capital from operating activities, offset partially by higher oil and gas sales.

## Liquidity and Capital Resources

At March 31, 2011, Geomark had a positive working capital position of \$39,386,000 (December 31, 2010 - \$39,923,000). These numbers do not include the value of liquid investments of \$11,456,000 at March 31, 2011 (December 31, 2010 - \$10,673,000).

Capital expenditures of \$677,000 (March 31, 2010 - \$Nil) were conducted on Geomark's mineral projects. Capital expenditures of \$4,000 (March 31, 2010 - \$157,000) were incurred on Geomark's oil and natural gas assets for capital maintenance projects. The Company is currently examining its 2011 capital budget for its mineral exploration operations. Capital expenditures for the oil and natural gas assets are expected to be less than \$250,000 for the remainder of 2011.

The Company's authorized share capital consists of an unlimited number of common shares without nominal or par value as well as an unlimited number of first preferred shares. A summary of the issued status of the common shares and changes for the period ended March 31, 2011:

	Number	Amount (\$ 000s)
<b>Common Shares</b>		
Balance, January 1, 2010 <sup>(1)</sup>	52,039,760	21,152
Additional net investment to Comaplex		(641)
Balance, December 31, 2010 and March 31, 2011	52,039,760	20,511

<sup>(1)</sup> Geomark issued one common share upon incorporation on April 20, 2010, and on July 6, 2010 issued 52,039,760 common shares as consideration for the net investment in Geomark Operations with an ascribed net book value of \$21,152,000 as at December 31, 2009 and cancelled the original common share. For purposes of the earnings per share calculation, it was assumed that all 52,039,760 shares issued have been outstanding since January 1, 2010.

The Company provides a stock option plan for its directors, officers, employees and consultants. Under the plan, the Company may grant options for up to 10 percent of the outstanding common shares which as of March 31, 2011 was 5,203,976. The exercise price of each option granted will not be lower than the market price of the Company's stock on the date of grant and the option's maximum term is five years. Options generally vest one-third each year for the first three years of the option term.

A summary of the status of the Company's stock option plan as of March 31, 2011 and December 31, 2010, and changes during the three month and twelve month periods ended on those dates is presented below:

	March 31, 2011		December 31, 2010	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding at beginning of period	3,009,000	\$ 0.80	-	\$ -
Options granted	450,000	1.42	3,009,000	0.80
Outstanding at end of period	3,459,000	\$ 0.88	3,009,000	\$ 0.80
Options exercisable at end of period	-	\$ -	-	\$ -

The following table summarizes information about options outstanding at March 31, 2011:

Range of exercise prices	Options Outstanding			Options Exercisable	
	Number outstanding at March 31, 2011	Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable at March 31, 2011	Weighted-average exercise price
\$ 0.80 to \$ 1.00	2,997,000	2.5 years	\$ 0.80	-	\$ -
1.05 to 1.25	12,000	3.2 years	1.25	-	-
1.25 to 1.60	450,000	3.3 years	1.42	-	-
\$ 0.80 to \$ 1.60	3,459,000	2.6 years	\$ 0.88	-	\$ -

### Related Party Transactions

Geomark paid a management fee to Bonterra of \$67,500 (March 31, 2010 - \$90,000 paid by Comaplex). Geomark also shares office rental costs with Bonterra and reimburses Bonterra for costs related to employee benefits and office materials. These costs have been included in office and administrative costs. In addition, Bonterra owns 689,682 (December 31, 2010 - 689,682) common shares in Geomark and previous to July 6, 2010 the equivalent amount in Comaplex. Services provided by Bonterra include executive services (executive and finance duties), accounting services, oil and gas administration and office administration. All services performed are charged at estimated fair value. As at March 31, 2011, Geomark had amounts owing to Bonterra of \$36,000 (December 31, 2010 - \$35,000).

In 2010, Bonterra sold \$102,000 of Alberta crown royalty drilling credits to Geomark for \$51,000. Crown royalty drilling credits were used to reduce crown royalties paid by Geomark by up to \$102,000.

Geomark assets include at March 31, 2011, 204,633 (December 31, 2010 - 204,633) common shares in Bonterra representing just over one percent of the outstanding shares of Bonterra. The shares have a fair value of \$11,369,000 (December 31, 2010 - \$10,569,000). For the three month period ended March 31, 2011, Geomark received dividend income of \$147,000 (March 31, 2010 - \$111,000 received by Comaplex).

As at March 31, 2011, Geomark has loaned Bonterra \$20,000,000 (December 31, 2010 - \$20,000,000). Effective May 1, 2010, interest is charged at a rate of Canadian Chartered Bank Prime less 5/8 percent. Prior to May 1, 2010, interest was charged at a rate of Canadian Chartered Bank Prime less 1/4 percent. The loan is subordinated to Bonterra's bank debt and is unsecured. The loan is payable upon demand subject to availability under Bonterra's line of credit. As at March 31, 2011, Bonterra has sufficient room under its line of credit to repay the loan. Interest earned on the loan during the period was \$117,000 (March 31, 2010 - \$59,000 received by Comaplex). This loan results in a substantial benefit to Bonterra and to the Company. The interest paid by Bonterra is substantially lower than the bank interest rate and for the Company, the interest earned is substantially higher than it would receive by investing in bank instruments such as bankers' acceptance or guaranteed investment certificates.

Geomark assets also include, at March 31, 2011, 346,000 (December 31, 2010 - 346,000) common shares in Pine Cliff Energy Ltd. (Pine Cliff). Pine Cliff has common directors and management with the Company. Pine Cliff trades on the TSX Venture Exchange. As of March 31, 2011, the common shares have a fair value of \$87,000 (December 31, 2010 - \$104,000). The ownership of 346,000 common shares represents less than one percent of the total issued and outstanding common shares of Pine Cliff. There were no transactions between Pine Cliff and Geomark.

### Sensitivity Analysis

The Company is still in the exploration stage of development of its mineral exploration properties and as such generates nominal cash flow or earnings from these properties. Some of the Company's interest income is

subject to the Canadian prime rate and as such changes of one percent in the prime interest rate would have no significant impact on the net earnings or comprehensive income per share of the Company.

In addition, the Company's petroleum and natural gas operations also provide only moderate cash flow and as such changes of \$1.00 U.S. per barrel in the price of crude oil, \$0.10 per MCF in the price of natural gas and \$0.01 change in the Cdn/U.S. exchange rate would also have no significant impact on the net earnings or comprehensive income per share of the Company.

#### **Additional information**

Additional information relating to Geomark may be found on [www.sedar.com](http://www.sedar.com) and by visiting our website at [www.geomark.ca](http://www.geomark.ca).

## **Management's Responsibility for Financial Statements**

The information provided in this report, including the financial statements, is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgements and have been properly reflected in the accompanying financial statements.

Management maintains a system of internal controls to provide reasonable assurance that the Company's assets are safeguarded and to facilitate the preparation of relevant and timely information.

The audit committee has reviewed these financial statements with management and has reported to the Board of Directors. The Board of Directors has approved the financial statements as presented in this interim report.

## GEOMARK EXPLORATION LTD. Condensed Consolidated Statements of Financial Position

(See Note 1: Basis of Presentation)

As at (unaudited) (\$ 000s)	Note	March 31, 2011	December 31, 2010 (Note 15)	January 1, 2010 (Note 15)
<b>Assets</b>				
<b>Current</b>				
Cash		7,774	8,110	16,051
Term investment	4	12,000	12,000	-
Accounts receivable		307	265	359
Prepaid expenses		49	33	246
Loan to related party	5	20,000	20,000	12,000
		<b>40,130</b>	<b>40,408</b>	<b>28,656</b>
<b>Investments</b>	5	<b>11,456</b>	<b>10,673</b>	<b>7,193</b>
<b>Exploration and evaluation assets</b>	6	<b>837</b>	<b>226</b>	<b>-</b>
<b>Property, plant and equipment</b>	7	<b>1,723</b>	<b>1,716</b>	<b>1,865</b>
		<b>54,146</b>	<b>53,023</b>	<b>37,714</b>
<b>Liabilities</b>				
<b>Current</b>				
Accounts payable and accrued liabilities	8	744	485	763
<b>Decommissioning liabilities</b>	9	<b>302</b>	<b>320</b>	<b>198</b>
<b>Deferred tax liability</b>	10	<b>-</b>	<b>-</b>	<b>17</b>
		<b>1,046</b>	<b>805</b>	<b>978</b>
<b>Shareholders' equity</b>				
Share capital	11	20,511	20,511	21,152
Contributed surplus		423	254	-
Retained earnings		24,344	24,371	11,089
Accumulated other comprehensive income		7,822	7,082	4,495
<b>Total Shareholders' Equity</b>		<b>53,100</b>	<b>52,218</b>	<b>36,736</b>
		<b>54,146</b>	<b>53,023</b>	<b>37,714</b>

See accompanying notes to these condensed consolidated financial statements.

## GEOMARK EXPLORATION LTD.

### Condensed Consolidated Statement of Comprehensive Income

(See Note 1: Basis of Presentation)

For the three months ended March 31 (unaudited) (\$ 000s, except \$ per share)	Note	2011	2010 (Note 15)
<b>Revenue</b>			
Oil and gas sales, net of royalties	12	267	462
Dividend income	5	147	111
Interest income		175	70
		<b>589</b>	<b>643</b>
<b>Expenses</b>			
Production costs		103	134
Office and administration		154	178
Employee compensation		169	185
Share-based payments	11	169	173
Depletion and depreciation	7	63	71
		<b>658</b>	<b>741</b>
<b>Loss before income taxes</b>		<b>(69)</b>	<b>(98)</b>
<b>Income taxes (recovery)</b>			
Deferred	10	(42)	68
		<b>(42)</b>	<b>68</b>
<b>Net loss</b>		<b>(27)</b>	<b>(166)</b>
<b>Other comprehensive income</b>			
Unrealized gains on investments		783	493
Deferred taxes on unrealized gains on investments		(43)	(60)
		<b>740</b>	<b>433</b>
<b>Total comprehensive income</b>		<b>713</b>	<b>267</b>
<b>Net loss per share – Basic and Diluted</b>	11	<b>(0.00)</b>	<b>(0.00)</b>
<b>Comprehensive income per share – Basic and Diluted</b>	11	<b>0.01</b>	<b>0.01</b>

See accompanying notes to these condensed consolidated financial statements.

## GEOMARK EXPLORATION LTD. Condensed Consolidated Statements of Cash Flow

(See Note 1: Basis of Presentation)

For the three months ended March 31 (unaudited) (\$ 000s)	2011	2010 (Note 15)
<b>Operating Activities</b>		
Loss before income taxes	(69)	(98)
Items not affecting cash		
Share-based payments	169	173
Depletion and depreciation	63	71
Unwinding of the fair value of decommissioning liabilities	3	2
Dividend income	(147)	(111)
Interest income	(175)	(70)
Change in non-cash working capital		
Accounts receivable	15	93
Prepaid expenses	(16)	36
Accounts payable and accrued liabilities	16	(72)
Decommissioning liabilities settled	(21)	(1)
<b>Cash provided by (used in) operating activities</b>	<b>(162)</b>	<b>23</b>
<b>Financing Activities</b>		
Net investment by Comaplex Minerals Corp.	-	2,630
<b>Cash provided by financing activities</b>	<b>-</b>	<b>2,630</b>
<b>Investing Activities</b>		
Dividend income	147	111
Interest income	175	70
Exploration and evaluation expenditures	(611)	-
Property, plant and equipment expenditures	(70)	(157)
Change in non-cash operating working capital items		
Accounts receivable	(57)	-
Accounts payable and accrued liabilities	242	-
<b>Cash provided by (used in) investing activities</b>	<b>(174)</b>	<b>24</b>
<b>Net Cash Inflow (Outflow)</b>	<b>(336)</b>	<b>2,677</b>
Cash, beginning of the period	8,110	16,051
<b>Cash, end of the period</b>	<b>7,774</b>	<b>18,728</b>
<b>Non-cash financing transactions</b>		
Net investment by Comaplex Minerals Corp.	-	233

See accompanying notes to these condensed consolidated financial statements.

## GEOMARK EXPLORATION LTD. Condensed Consolidated Statements of Changes in Equity

(See Note 1: Basis of Presentation)

For the periods ended (unaudited)  
(\$ 000s except for number of common shares outstanding)

	Number of common shares (Note 11)	Share capital (Note 11)	Contributed surplus (Note 11)	Accumulated other comprehensive income	Retained earnings	Total shareholders' equity
<b>January 1, 2010</b>	52,039,760	21,152	-	4,495	11,089	36,736
Net investment by Comaplex Minerals Corp.		2,863				2,863
Unrealized gain on available-for-sale investment (net of tax)				433		433
Net loss for the three months					(166)	(166)
<b>March 31, 2010</b>	52,039,760	24,015	-	4,928	10,923	39,866
Share-based payments			254			254
Net investment by Comaplex Minerals Corp.		(3,504)				(3,504)
Unrealized gain on available-for-sale investments (net of tax)				2,154		2,154
Net earnings for the nine months					13,448	13,448
<b>December 31, 2010</b>	52,039,760	20,511	254	7,082	24,371	52,218
Share-based payments			169			169
Unrealized gain on available-for-sale investments (net of tax)				740		740
Net loss for the three months					(27)	(27)
<b>March 31, 2011</b>	<b>52,039,760</b>	<b>20,511</b>	<b>423</b>	<b>7,822</b>	<b>24,344</b>	<b>53,100</b>

See accompanying notes to these unaudited consolidated financial statements.

## **GEOMARK EXPLORATION LTD.**

### **Notes to the Condensed Consolidated Financial Statements**

As at and for the periods ended March 31, 2011, 2010, December 31, 2010 and as at January 1, 2010  
(unaudited)

#### **1. BASIS OF PRESENTATION**

Geomark Exploration Ltd. (Geomark or the Company) was incorporated on April 20, 2010 as a 100 percent wholly-owned subsidiary of Comaplex Minerals Corp. (Comaplex). On July 6, 2010, Geomark was capitalized with Comaplex's Carved Out Operations' assets and obligations (the Geomark Operations), including a 100 percent wholly-owned subsidiary WMC International Limited. In return, Geomark's common shares were distributed to the shareholders of Comaplex, other than Agnico-Eagle Mines Limited (Agnico-Eagle) and Perfora Investments S.a.r.l. (Perfora), on the basis of one Geomark share for every Comaplex share.

As Geomark and the Geomark Operations were under common control, these consolidated financial statements have been presented on a continuity-of-interest basis of accounting and represent the activities of the above noted entities from the date each commenced operations. The consolidated financial statements presented for comparative purposes reflect the financial position, results of operations and cash flows as if Geomark had been consolidated with the Geomark Operations since inception.

Geomark is a widely held public company listed on the TSX Venture Exchange. The address of the Company's corporate office is Suite 901, 1015 4<sup>th</sup> Street SW, Calgary, Alberta, Canada. Geomark has two reportable segments. The Company's primary activity is to explore for both base and precious metals in Canada and internationally, and to a lesser extent, the development and production of oil and natural gas in the Western Canadian Sedimentary Basin.

#### **2. BASIS OF PREPARATION**

##### **a) Statement of compliance**

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants (CICA Handbook). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards (IFRS), and requires publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in these interim financial statements in accordance with International Accounting Standards 34 – Interim Financial Reporting (IAS 34) after applying the requirements of International Financial Reporting Standards (IFRS) 1 – First-time Adoption of International Financial Reporting Standards ("IFRS 1"). In the financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

The March 31, 2011 consolidated condensed financial statements are the Company's first financial statements prepared under IFRS using the policies expected to be used at December 31, 2011, having an adoption date of January 1, 2011 and a transition date of January 1, 2010. Consequently, the comparative figures for 2010 and the Company's statement of financial position as at January 1, 2010 have been restated from accounting principles generally accepted under Canadian GAAP to comply with IFRS.

The reconciliations to IFRS from the previously published Canadian GAAP consolidated financial statements are summarized in Note 15. In addition, IFRS 1 requires certain exemptions and allows certain exemptions from retrospective application of IFRS in the opening statement of financial position. Where these have been applied they are explained in Note 15.

**b) Basis of measurement**

These condensed consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments and share-based payment transactions which are measured at fair value.

**c) Use of judgments and estimates**

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the consolidated statement of financial position, as well as the reported amounts of revenues, expenses, and cash flows during the periods presented. Such estimates relate primarily to unsettled transactions and events as of the date of the financial statements. Actual results could differ materially from estimated amounts.

Amounts recorded for depletion and depreciation and amounts used for impairment calculations are based on estimates of crude oil and natural gas reserves and future costs required to develop those reserves. Share-based payments are based upon expected volatility and option life estimates. Provisions for decommissioning liabilities are based on estimates of abandonment costs, timing of abandonment, inflation and interest rates. The provision for income taxes is based on judgments in applying income tax law and estimates on the timing, likelihood and reversal of temporary differences between the accounting and tax basis of assets and liabilities. These estimates are subject to measurement uncertainty and changes in these estimates could materially impact the financial statements of future periods. Further details regarding judgments are discussed in Note 3.

**d) Presentation Currency**

The Company's functional and reporting currency is the Canadian dollar.

Monetary assets and liabilities are translated into Canadian dollars at the rates prevailing on the reporting date. Non-monetary assets and liabilities are translated into Canadian dollars at the rates prevailing on the transaction dates. Exchange gains and losses are recorded as income or expense in the period in which they occur.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**a) Basis of consolidation**

These condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary WMC International Limited. The financial statements of the subsidiary are prepared for the same reporting period as the parent using consistent accounting policies. Inter-company transactions and balances are fully eliminated upon consolidation.

**b) Revenue recognition**

Revenues from the sale of petroleum and natural gas are recorded when the significant risks and rewards of ownership have been transferred to the customer. This generally occurs when product is physically transferred into a third-party pipeline or when the delivery truck arrives at a customer's receiving location. Items such as crown and freehold royalties are netted against revenue. These items are netted to reflect the deduction for other parties' proportionate share of the revenue.

Interest and dividend income are recorded when earned.

**c) Jointly controlled assets and jointly controlled operations**

Significant portions of the Company's oil and gas assets are owned and operated jointly with other parties and accordingly the financial statements reflect only the Company's proportionate share of assets, liabilities, revenues, expenses and cash flows from these activities.

**d) Investments**

Investments consist of equity securities classified on initial recognition as available-for-sale and are carried at fair value, less any impairment. Fair value is determined by multiplying the period end trading price of the investments by the number of common shares held as at period end. Unrealized holding gains and losses are recognized in other comprehensive income. Net gains and losses arising on disposal are recognized in net earnings.

**e) Exploration and evaluation assets (E&E assets)**

*Pre-license costs*

Pre-license costs are expensed in the period in which they are incurred.

*Mineral E&E assets*

Once the legal right to explore has been acquired, all costs related to acquisition and exploration of mineral properties and related equipment are capitalized. E&E assets are moved into property, plant and equipment (PPE) when they are determined to meet certain technical feasibility and commercial viability thresholds as determined by management. E&E assets are assessed for impairment annually, upon transfer to PPE, or where indicators arise to ensure they are not carried at amounts above their estimated recoverable values.

*Oil and Gas E&E assets*

E&E expenditures represent undeveloped land costs and license and exploration well costs. Undeveloped land costs, licenses and exploration well costs are initially capitalized and, if subsequently determined to have not found sufficient reserves to justify commercial production, are charged to expense. E&E assets continue to be capitalized as long as sufficient progress is being made to assess the reserves and economic viability of the well and/or related project. Once technical feasibility and commercial viability has been established, E&E assets are transferred to PPE. E&E assets are assessed for impairment annually, upon transfer to PPE, or where indicators arise, to ensure they are not carried above their recoverable amounts. The Company has no oil and gas E&E assets.

No depletion is charged on E&E assets.

**f) Property, plant and equipment**

*Mineral PPE*

PPE assets include successful or transferred-in E&E costs, development costs, which includes subsurface development expenditures. PPE assets are carried at cost less depletion and depreciation.

When commercial production has commenced in an area, PPE assets, excluding surface costs are depleted using the unit-of-production method over their total proved reserves. Future development costs are included in costs subject to depletion. Proved reserves and estimated future development costs are determined annually by qualified independent reserve engineers. Changes in factors such as estimates of proved reserves that affect unit-of-production calculations are applied on a prospective

basis. Surface costs such as production facilities and furniture, fixtures and other equipment are depreciated over their estimated useful lives.

#### *Oil and Gas PPE*

PPE assets include transferred-in E&E costs, drilling, completion and tie-in costs. PPE assets are carried at cost less depletion, depreciation and accumulated impairment charges of all expenditures and include any other expenditure associated with the PPE assets.

When commercial production has commenced in an area, PPE assets, excluding surface costs are depleted using the unit-of-production method over their total proved reserve life. Future development costs are included and will be depleted when production commences. Proved reserves and estimated future development costs are determined annually by qualified independent reserve engineers. Changes in factors such as estimates of proved reserves that affect unit-of-production calculations are applied on a prospective basis. Surface costs such as production facilities and furniture, fixtures and other equipment are depreciated over their estimated useful lives.

#### *Oil and Gas Properties*

The initial cost of an asset is its purchase price or construction cost, including expenditures that are directly attributable to bringing the asset into operation. The present value of the initial estimate and changes in estimate of any decommissioning obligation associated with the asset is capitalized.

#### *Production Facilities*

Production facilities comprise costs related to petroleum and natural gas plant and production equipment.

#### *Depreciation*

Depreciation is recognized in the statement of comprehensive income. Production facilities, furniture, fixtures and other equipment are depreciated over the individual assets estimated economic lives. These assets are depreciated on a declining balance method as follows:

Production facilities	20 percent per year
Furniture, fixtures and other equipment	10 percent to 20 percent per year

### **g) Impairment of assets**

#### *Impairment of Financial Assets*

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. 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. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

All impairment losses are recognized in net earnings. An impairment loss is reversed if there are positive indications that the impairment reversal can be related objectively to an event occurring after the impairment loss was recognized. Any subsequent recovery of an impairment loss in respect of an investment in an equity instrument classified as available-for-sale is reversed through other

comprehensive income instead of net earnings. For financial assets measured at amortized cost, the reversal is recognized in net earnings.

#### *Impairment of Non-Financial Assets*

The carrying amount of the Company's non-financial assets are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If such indication exists, then the asset's carrying amounts are assessed for impairment.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash flows from continuing use that are largely independent of the cash flows of other assets or groups of assets (the cash-generating unit or CGU). The recoverable amount of an asset or a CGU is the greater of its value-in-use (VIU) and its fair value less costs to sell (FVLCS).

In assessing VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining FVLCS, recent market transactions are used. These calculations are corroborated by valuation multiples or other available fair value indicators.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its recoverable amount. Impairment losses are recognized in the statement of comprehensive income. Impairment losses recognized in respect of a CGU is allocated first to reduce the carrying value of any goodwill allocated to the CGU and then to reduce the carrying value of the other assets of the CGU on a pro-rata basis.

An impairment loss in respect of goodwill cannot be reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. If the amount of the impairment loss decreases in a subsequent period and the decrease can be objectively related to an event occurring after the impairment was recognized, the 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, had no impairment loss been recognized.

#### **h) Decommissioning liabilities**

The fair value of the statutory, contractual, constructive or legal liabilities associated with the retirement and reclamation of mining assets and oil and gas assets are recorded when incurred, with a corresponding increase to the carrying amount of the related PPE. The amount recognized is the estimated cost of decommissioning, discounted to its present value using the Company's risk free rate. Changes in the estimated timing of decommissioning or decommissioning cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to property and equipment. The unwinding of the discount on the decommissioning provision is charged to net earnings or loss as office and administration expense.

The Company recognizes a decommissioning liability in the period in which it is incurred when a reasonable estimate of the fair value can be made. On a periodic basis, management will review these estimates and changes and if there are any, they will be applied prospectively. The fair value of the estimated provision is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount is depleted on a unit-of-production basis over the life of the reserves. The liability amount is increased each reporting period due to the passage of time and this amount is charged to earnings in the period. Revisions to the estimated timing of cash flows or to the original estimated undiscounted cost would also result in an increase or decrease to the provision. Actual costs incurred upon settlement of the obligations are charged against the provision to the extent

of the liability recorded and the remaining balance of the actual costs is recorded in the consolidated statement of comprehensive income.

**i) Income taxes**

Tax expense comprises current and deferred taxes. Tax is recognized in the statement of comprehensive income or directly in equity.

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that are substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is recognized using the liability 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 for the following temporary differences: the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they are unlikely to be reversed in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they are reversed, based on the laws that have been enacted or substantively enacted by the balance date.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which temporary differences 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.

**j) Share-based payments**

The Company accounts for share-based payments using the fair-value method of accounting for stock options granted to directors, officers, employees and other service providers using the Black-Scholes option pricing model. Share based payments are recognized through the consolidated statement of comprehensive income over the vesting period with a corresponding amount reflected in the share-based payment reserve in equity. For awards with graded vesting, the fair value of each tranche is recognized over its respective vesting period.

At the end of each reporting period, the Company re-assesses its estimates of the number of awards that are expected to vest and recognizes the impact of the revisions in the consolidated statement of comprehensive income. Upon exercise of share-based options, the proceeds received net of any transaction costs and the fair value of the exercised share-based options is credited to share capital.

**k) Financial instruments**

On initial recognition of the financial instruments, they are measured at fair value, into one of the following five categories: fair-value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets and financial liabilities at amortized cost.

Subsequent measurement of financial instruments is based on their initial classification. Fair-value through profit or loss financial instruments are measured at fair value and changes in fair value are recognized in the consolidated statement of comprehensive income. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired. The remaining categories of financial instruments are recognized at amortized cost using the effective interest rate method.

Cash and term investment are classified as fair-value through profit or loss and are measured at fair value which equals the carrying value and any gains or losses are recognized in net earnings in the period they occur. Accounts receivable and loan to related party are classified as loans and receivables which are measured at amortized cost. Investments are classified as available-for-sale and are measured at fair value. Accounts payable and accrued liabilities are classified as financial liabilities at amortized cost.

**l) Net earnings (loss) and comprehensive income (loss) per share**

Per share amounts are calculated by dividing the net earnings (loss) or net comprehensive income (loss) attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the reporting period.

Diluted per share amounts are calculated similar to basic per share amounts except that the weighted average common shares outstanding are increased to include additional common shares from the assumed exercise of dilutive share options. The number of additional outstanding common shares is calculated by assuming that the outstanding in-the-money share options were exercised and that the proceeds from such exercises were used to acquire common shares at the average market price during the reporting period.

**m) Segment reporting**

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses that relate to transactions with any of the Company's other components. The Company has two operating segments comprised of mineral exploration and oil and gas production. All operating segments' operating results are reviewed regularly by the Company's management to make decisions about resources to be allocated to the segment and assess its performance.

**4. TERM INVESTMENT**

Term investment is a guaranteed investment certificate (GIC) that accrues interest at 1.3 percent per annum, matures on November 8, 2011 and the GIC plus accrued interest is redeemable on demand. Interest earned on the GIC for the period was \$39,000 (2010 - \$Nil).

**5. RELATED PARTY TRANSACTIONS**

Geomark paid a management fee of \$67,500 (March 31, 2010 - \$90,000 paid by Comaplex) to Bonterra Energy Corp. (Bonterra) a publicly traded oil and gas corporation listed on the Toronto Stock Exchange, that has common directors and management with Geomark. Geomark also shares office rental costs with Bonterra and reimburses Bonterra for costs related to employee compensation and office materials. These costs have been included in office and administrative expenses. Services provided by Bonterra include executive services (executive and finance duties), accounting services, oil and gas technical services and office administration.

In 2010, Bonterra sold \$102,000 of Alberta crown royalty drilling credits to Geomark for \$51,000. Crown royalty drilling credits were used to reduce crown royalties paid by Geomark by up to \$102,000.

Bonterra owns 689,682 (December 31, 2010 – 689,682) common shares in Geomark representing just over one percent of the outstanding shares.

At March 31, 2011, Geomark owns 204,633 (December 31, 2010 – 204,633, January 1, 2010 – 204,633 owned by Comaplex) shares in Bonterra representing just over one percent of the outstanding shares of

Bonterra. The shares have a fair value of \$11,369,000 (December 31, 2010 - \$10,569,000, January 1, 2010 - \$7,093,000). For the period ended March 31, 2011, Geomark received dividend income of \$147,000 (March 31, 2010 - \$111,000 received by Comaplex) from this investment.

At March 31, 2011, Geomark also owns 346,000 (December 31, 2010 - 346,000, January 1, 2010 - 346,000 owned by Comaplex) common shares in Pine Cliff Energy Ltd. (Pine Cliff). Pine Cliff has common directors and management with Geomark. Pine Cliff shares trade on the TSX Venture Exchange. As of March 31, 2011, the common shares have a fair value of \$87,000 (December 31, 2010 - \$104,000, January 1, 2010 - \$100,000). Geomark's ownership of 346,000 common shares represents less than one percent of the total issued and outstanding common shares of Pine Cliff.

As at March 31, 2011, Geomark had amounts owing to Bonterra of \$36,000 (December 31, 2010 - \$35,000, January 1, 2010 - \$105,000 payable by Comaplex).

As at March 31, 2011, Geomark has loaned Bonterra \$20,000,000 (December 31, 2010 - \$20,000,000, Comaplex January 1, 2010 - \$12,000,000). Effective May 1, 2010, interest is charged at a rate equal to a Canadian Chartered Bank Prime rate less 5/8 percent. Prior to May 1, 2010, interest was charged at a rate equal to a Canadian Chartered Bank Prime rate less 1/4 percent. The loan is subordinated to Bonterra's bank debt and is unsecured. The loan is payable upon demand subject to availability under Bonterra's line of credit. As at March 31, 2011, Bonterra has sufficient room under its line of credit to repay the loan. Interest earned on the loan during the period was \$117,000 (March 31, 2010 - \$59,000 received by Comaplex).

All related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of the consideration established and agreed to by the related parties.

#### Compensation of key management personnel

(\$ 000s)	March 31, 2011	March 31, 2010
Compensation	48	45
Share-based payments	100	73
	<b>148</b>	<b>118</b>

Key management personnel are those persons, including all directors, having authority and responsibility for planning, directing and controlling the activities of the Company. Employee compensation includes key management personnel paid through Geomark. Other key management personnel are not paid through Geomark as their services are included in the management fee from Bonterra.

## 6. EXPLORATION AND EVALUATION ASSETS

(\$ 000s)	Mineral E&E assets
<b>Cost</b>	
Balance at January 1, 2010	-
Acquisitions	61
Additions	165
<b>Balance at December 31, 2010</b>	<b>226</b>
Additions	611
<b>Balance at March 31, 2011</b>	<b>837</b>

During the period ended March 31, 2011, \$74,000 (December 31, 2010 - \$94,000) of directly attributable office and administration costs related to mineral exploration and evaluation assets were capitalized.

## 7. PROPERTY, PLANT AND EQUIPMENT

Cost (\$ 000s)	Mineral properties	Oil and gas properties	Production facilities	Furniture, fixtures and other equipment	Total property, plant and equipment
Balance at January 1, 2010	442	7,256	2,504	-	10,202
Additions	-	200	128	-	328
Disposals	-	(54)	(20)	-	(74)
<b>Balance at December 31, 2010</b>	<b>442</b>	<b>7,402</b>	<b>2,612</b>	<b>-</b>	<b>10,456</b>
Additions	-	4	1	65	70
<b>Balance at March 31, 2011</b>	<b>442</b>	<b>7,406</b>	<b>2,613</b>	<b>65</b>	<b>10,526</b>

Accumulated depletion and depreciation (\$ 000s)	Mineral properties	Oil and gas properties	Production facilities	Furniture, fixtures and other equipment	Total property, plant and equipment
Balance at January 1, 2010	442	5,922	1,973	-	8,337
Depletion and depreciation	-	198	128	-	326
Disposals	-	-	-	-	-
Impairment provision	-	77	-	-	77
<b>Balance at December 31, 2010</b>	<b>442</b>	<b>6,197</b>	<b>2,101</b>	<b>-</b>	<b>8,740</b>
Depletion and depreciation	-	37	25	1	63
<b>Balance at March 31, 2011</b>	<b>442</b>	<b>6,234</b>	<b>2,126</b>	<b>1</b>	<b>8,803</b>

Net book values as at: (\$ 000s)	Mineral properties	Oil and gas properties	Production facilities	Furniture, fixtures and other equipment	Total property, plant and equipment
January 1, 2010	-	1,334	531	-	1,865
December 31, 2010	-	1,205	511	-	1,716
<b>March 31, 2011</b>	<b>-</b>	<b>1,172</b>	<b>487</b>	<b>64</b>	<b>1,723</b>

### Impairment

Management has not identified any specific cash generating unit (CGU) for the mining assets as this segment is solely exploration.

Management has determined four CGUs for the oil and gas assets of the Company, which are comprised of:

- Carstairs, Alberta, Canada
- Granta Makepeace, Alberta, Canada
- Garrington Elkton, Alberta, Canada
- Harmattan Elkton, Alberta, Canada

These CGUs are the Company's producing fields. As part of its annual impairment analysis, the Company assessed its PPE assets, production facilities, furniture and other equipment by CGU for possible impairment. The assessment for impairment has been determined based on the value-in-use (VIU) method.

At December 31, 2010, a Canadian based independent reserves evaluator's report resulted in a reduction in total proved reserve estimates for Granta Makepeace. A provision of \$77,000 was recorded. Expected future cash flows from the sale of these volumes are calculated based on the Company's best estimate of future oil and gas prices. Prices for oil and gas used for future cash flow projections are based on quality and Edmonton PAR for oil and AECO for natural gas forward prices. Management have used the past experience to estimate the required capital and operating expenditures to extract oil and gas, and factored inflation at 1.5 percent.

Projected estimates of cash flows from the CGUs have been determined based on the economic life of the reserves. For the CGUs, these projections are based on the expected life ending December 2037. The impairment testing undertaken concluded that the value-in-use is greater than the carrying values of the CGUs and no impairment provisions have been recorded for the three months ended March 31, 2011 and March 31, 2010.

## 8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

(\$ 000s)	March 31, 2011	December 31, 2010	January 1, 2010
Accounts payable	336	293	446
Accrued liabilities	408	192	317
	<b>744</b>	<b>485</b>	<b>763</b>

## 9. DECOMMISSIONING LIABILITIES

As at March 31, 2011, the estimated total undiscounted amount required to settle the decommissioning liabilities was \$404,000 (December 31, 2010 - \$425,000, January 1, 2010 - \$326,000). Costs for decommissioning have been calculated assuming a 1.5 percent inflation rate. These obligations will be settled based on the useful lives of the underlying assets, which extend up to 27 years into the future. This amount has been discounted using a risk-free interest rate of 3.5 percent (December 31, 2010 and January 1, 2010 – 4.1 percent).

Changes to decommissioning liabilities are as follows:

(\$ 000s)	March 31, 2011	December 31, 2010
Decommissioning liabilities, January 1	320	198
Adjustment to decommissioning liabilities	-	142
Liabilities settled during the period	(21)	(29)
Unwinding of the fair value of decommissioning liabilities	3	9
Decommissioning liabilities, end of period	<b>302</b>	<b>320</b>

## 10. DEFERRED TAXES

The Company has recorded a full valuation allowance for its deferred income tax assets as it has been determined that it is unlikely that they will be recovered.

(\$ 000s)	March 31, 2011	December 31, 2010	January 1, 2010
Deferred tax assets (liabilities):			
Capital assets	1,010	1,043	26
Investments	(550)	(452)	(228)
Decommissioning liabilities	76	80	51
Loss carry-forward	132	83	-
Other	-	-	32
Attributed crown royalty income	-	-	102
Valuation allowance	(668)	(754)	-
	-	-	(17)

Income tax expense varies from the amounts that would be computed by applying Canadian federal and provincial income tax rates as follows:

(\$ 000s)	March 31, 2011	March 31, 2010
Loss before income taxes	(69)	(98)
Combined federal and provincial tax rates	26.5%	28.0%
Income tax expense (recovery)	(18)	(27)
Increase (decrease) in taxes resulting from:		
Permanent differences on capitalization of Geomark	-	47
Share-based payments	45	48
Change in estimates and other	17	-
Change in valuation allowance	(86)	-
Income tax expense (recovery)	(42)	68

The Company has the following tax pools which may be used to reduce taxable income in future years, limited to the applicable rates of utilization:

	Rate of Utilization (%)	Amount (\$ 000s)
Undepreciated capital costs	30	1,151
Canadian oil and gas property expenditures	10	4,614
Canadian development expenditures	30	60
Canadian exploration expenditures	100	776
Non-capital loss carryforward <sup>(1)</sup>	100	528
		7,129

<sup>(1)</sup> Federal income tax losses carried forward expire in the following years: 2030 - \$330,000 and 2031 - \$198,000.

## 11. SHARE CAPITAL

### Authorized

Unlimited number of common shares without nominal or par value

Unlimited number of first preferred shares

	Number	Amount (\$ 000s)
Issued – common shares		
At January 1, 2010 <sup>(1)</sup>	52,039,760	21,152
Additional net investment to Comaplex		(641)
At December 31, 2010 and March 31, 2011	52,039,760	20,511

(1) Geomark issued one common share upon incorporation on April 20, 2010, and on July 6, 2010 issued 52,039,760 common shares as consideration for the net investment in Geomark Operations with an ascribed net book value of \$21,152,000 as at January 1, 2010 and cancelled the original common share. For purposes of the earnings per share calculation, it was assumed that all 52,039,760 shares issued have been outstanding since January 1, 2010.

The weighted average common shares used to calculate basic and diluted net earnings (loss) and comprehensive income (loss) per share for the three month periods ended March 31 is as follows:

	2011	2010
Basic common shares outstanding <sup>(1)</sup>	52,039,760	52,039,760
Dilutive effect of share options <sup>(2)</sup>	1,281,912	-
Diluted common shares outstanding	53,321,672	52,039,760

(1) Basic common shares outstanding are used to calculate basic and diluted loss per share when the Company is in a loss position.

(2) The Company did not include 90,000 share options (March 31, 2010 – Nil) in the dilutive effect of share options calculation, as these share options were anti-dilutive.

The Company provides a stock option plan for its directors, officers, employees and consultants. Under the plan, the Company may grant options for up to 10 percent of the outstanding common shares which as of March 31, 2011 was 5,203,976. The exercise price of each option granted will not be lower than the market price of the Company's stock on the date of grant and the option's maximum term is five years. Options generally vest one-third each year for the first three years of the option term.

	Number of options	Weighted average exercise price
At January 1, 2010	-	\$ -
Options issued	3,009,000	0.80
At December 31, 2010	3,009,000	0.80
Options issued	450,000	1.42
At March 31, 2011	3,459,000	\$ 0.88

The following table summarizes information about options outstanding at March 31, 2011:

Range of exercise prices	Options Outstanding			Options Exercisable	
	Number outstanding at March 31, 2011	Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable at March 31, 2011	Weighted-average exercise price
\$ 0.80 to \$ 1.00	2,997,000	2.5 years	\$ 0.80	-	\$ -
1.05 to 1.25	12,000	3.2 years	1.25	-	-
1.25 to 1.60	450,000	3.3 years	1.42	-	-
<b>\$ 0.80 to \$ 1.60</b>	<b>3,459,000</b>	<b>2.6 years</b>	<b>\$ 0.88</b>	<b>-</b>	<b>\$ -</b>

The estimated weighted average fair value of share options granted during the period was \$263,000 or \$0.58 per option (December 31, 2010 - \$984,000 or \$0.33 per option). No options were exercised during the period.

The fair value of each share-based payment transaction was estimated on the date of the grant, as determined by using the Black-Scholes option-pricing model with the following assumptions:

	March 31, 2011	December 31, 2010
Weighted-average risk free interest rate (%) <sup>(1)</sup>	2.2	1.8
Expected life (years)	3.3	3.3
Weighted-average volatility (%) <sup>(2)</sup>	57.0	57.0
Forfeiture rate (%)	0.0	0.0
Dividend yield (%)	0.0	0.0

- (1) Risk-free interest rate is based on the weighted average Government of Canada benchmark bond yields for two, three and five year terms to match corresponding vesting periods.
- (2) The expected volatility is measured as the standard deviation of expected share price returns based on statistical analysis of historical weekly share prices for a representative period.

Contributed surplus consists of \$423,000 (December 31, 2010 - \$254,000) of share-based payment expense on the stock options issued by Geomark after July 6, 2010. Prior to July 6, 2010, Geomark Operations expensed a further \$575,000 of Comaplex stock options that vested and were exercised. This expense was recorded as a capital contribution to Geomark.

## 12. OIL AND GAS SALES, NET OF ROYALTIES

(\$ 000s)	March 31, 2011	March 31, 2010
Oil and gas sales	443	557
Less:		
Crown royalties	(163)	(76)
Freehold royalties	(13)	(19)
<b>Oil and gas sales, net of royalties</b>	<b>267</b>	<b>462</b>

### 13. BUSINESS SEGMENT INFORMATION

Geomark's activities are represented by two industry segments comprised of mineral exploration and oil and gas production:

Three months ended	March 31, 2011			March 31, 2010		
(\$ 000s)	Mineral exploration	Oil and gas	Total	Mineral exploration	Oil and gas	Total
<b>Revenue</b>						
Oil and gas sales, net of royalties	-	267	267	-	462	462
Dividend income <sup>(1)</sup>	-	147	147	-	111	111
Interest income	175	-	175	70	-	70
	175	414	589	70	573	643
<b>Expenses</b>						
Production costs	-	103	103	-	134	134
Office and administration	126	28	154	141	37	178
Employee compensation	169	-	169	185	-	185
Share-based payments	169	-	169	173	-	173
Depletion and depreciation	1	62	63	-	71	71
	465	193	658	499	242	741
<b>Earnings (Loss) before income taxes</b>						
	(290)	221	(69)	(429)	331	(98)
Deferred Taxes (recovery)	(97)	55	(42)	(16)	84	68
<b>Net Earnings (Loss)</b>	<b>(193)</b>	<b>166</b>	<b>(27)</b>	<b>(413)</b>	<b>247</b>	<b>(166)</b>
<b>Capital expenditures</b>						
Exploration and evaluation	611	-	611	-	-	-
Property, plant and equipment	65	5	70	-	157	157
	676	5	681	-	157	157

<sup>(1)</sup> Dividend income is from an investment in a related party (Bonterra see note 5). Bonterra is solely in the oil and gas industry and as such this corporate investment income has been classified as oil and gas revenue.

As at	March 31, 2011			December 31, 2010			January 1, 2010		
(\$ 000s)	Mineral exploration	Oil and gas	Total	Mineral exploration	Oil and gas	Total	Mineral exploration	Oil and gas	Total
Exploration and evaluation	837	-	837	226	-	226	-	-	-
Property, plant and equipment	65	1,658	1,723	-	1,716	1,716	-	1,865	1,865
Total Assets	40,826	13,320	54,146	40,382	12,641	53,023	28,226	9,488	37,714
Total Liabilities	535	511	1,046	250	555	805	548	430	978

## 14. FINANCIAL AND CAPITAL RISK MANAGEMENT

### Financial Risk Factors

Geomark undertakes transactions in a range of financial instruments including:

- Cash
- Term investment
- Accounts receivable
- Loan to related party
- Investments
- Accounts payable

Geomark's activities result in exposure to a number of financial risks including market risk (commodity price risk, interest rate risk and foreign exchange risk) credit risk and liquidity risk. Financial risk is managed by senior management under the direction of the Board of Directors.

Geomark does not enter into risk management contracts to sell its oil and gas commodities. Commodities are sold at market prices at the date of sale.

### Capital Risk Management

Geomark's objectives when managing capital, which Geomark defines to include equity and working capital balances, are to safeguard Geomark's ability to continue as a going concern, so that it can continue to provide returns to its shareholders and benefits for other stakeholders and to maintain a capital structure that provides a low cost of capital. Geomark has a large working capital balance to fund its future exploration activities.

Geomark believes that it is adequately capitalized to allow it to continue its future mineral and oil and gas activities.

The following section (a) of this note provides a summary of the underlying economic positions as represented by the carrying values, fair values and contractual face values of the financial assets and financial liabilities.

The following section (b) addresses in more detail the key financial risk factors that arise from Geomark's activities including its policies for managing these risks.

#### **a) Financial assets, financial liabilities**

The carrying amounts, fair value and face values of Geomark's financial assets and liabilities are shown in Table 1.

Table 1

(\$ 000s)	As at March 31, 2011			As at December 31, 2010		
	Carrying Value	Fair Value	Face Value	Carrying Value	Fair Value	Face Value
<b>Financial assets</b>						
Cash	7,774	7,774	7,774	8,110	8,110	8,110
Term investment	12,000	12,000	12,000	12,000	12,000	12,000
Accounts receivable	307	307	312	265	265	269
Loan to related party	20,000	20,000	20,000	20,000	20,000	20,000
Investments	11,456	11,456	-	10,673	10,673	-
<b>Financial liabilities</b>						
Accounts payable and accrued liabilities	744	744	744	485	485	485

(\$ 000s)	As at January 1, 2010		
	Carrying Value	Fair Value	Face Value
<b>Financial assets</b>			
Cash	16,051	16,051	16,051
Accounts receivable	359	359	453
Loan to related party	12,000	12,000	12,000
Investments	7,193	7,193	-
<b>Financial liabilities</b>			
Accounts payable and accrued liabilities	763	763	763

Financial instruments consisting of accounts receivable, loan to related party and accounts payable and accrued liabilities are carried on the consolidated statement of financial position at amortized cost. Cash, term investment and investments are carried at fair value. All of the fair value items are transacted in active markets. Geomark classifies the fair value of these transactions according to the following hierarchy based on the amount of information available to value the instrument.

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

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

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

Geomark's cash and term investment have been assessed on the fair value hierarchy described above and are all considered Level 1.

## b) Risks and mitigations

Market risk is the risk that the fair value or future cash flow of Geomark's financial instruments will fluctuate because of changes in market prices. Components of market risk to which Geomark is exposed are discussed below.

### Commodity price risk

Geomark's principal operation is the exploration of mineral properties. Geomark also engages in the production and sale of oil and natural gas to assist with the payment of expenses and exploration programs. Fluctuations in prices of these commodities may directly impact Geomark's performance and ability to continue with its operations.

The Company's management, at the direction of the Board of Directors, currently does not use risk management contracts to set price parameters for its production.

### *Sensitivity Analysis*

Geomark is still in the exploration stage of development of its mineral exploration properties and therefore generates nominal cash flow or earnings from these properties. In addition, Geomark's petroleum and natural gas operations provide only moderate cash flow and as such, changes of \$1.00 U.S. per barrel in the price of crude oil, \$0.10 per MCF in the price of natural gas and \$0.01 change in the Cdn/U.S. exchange rate would have no significant impact on consolidated comprehensive income.

### Interest rate risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. Interest rate risk arises from interest bearing financial assets and liabilities that Geomark uses. The principal exposure to Geomark is on its cash and its loan to related party which have a variable interest rate which gives rise to a cash flow interest rate risk.

Geomark's cash consists of Canadian and U.S. investment chequing accounts. In order to achieve a higher interest rate on a portion of its excess funds, Geomark has purchased a one year redeemable GIC thereby reducing its exposure to interest rate risk.

### *Sensitivity Analysis*

Based on historic movements and volatilities in the interest rate markets and management's current assessment of the financial markets, Geomark believes that a one percent variation in the Canadian prime interest rate is reasonably possible over a 12-month period.

A one percent change in the Canadian prime rate would increase or decrease annual net earnings and comprehensive income by \$204,000.

### Foreign exchange risk

Geomark has no foreign operations and currently makes all of its product sales in Canadian currency. Geomark has an insignificant U.S. cash balance. Geomark does not mitigate Cdn \$/U.S. \$ exchange rate risk by using risk management contracts.

### Credit risk

Credit risk is the risk that a contracting party will not complete its obligations under a financial instrument and cause Geomark to incur a financial loss. Geomark is exposed to credit risk on all financial assets included on the consolidated statement of financial position. To help mitigate this risk:

- Geomark only maintains its cash balances with low risk exposure which frequently results in receiving lower interest rates on investments.
- Equity investments are only with entities that have common management and board of directors with Geomark.

Accounts receivable balance at March 31, 2011 (\$307,000) and December 31, 2010 (\$265,000) primarily consist of product sales with major oil and gas marketing companies, all of which have generally paid within 30 days, federal and provincial government refunds and credits, and interest from a major Canadian Bank.

Geomark assesses its financial assets quarterly to determine if there has been any impairment. No material impairment provision was required on the mineral and oil and gas financial assets of the Company. Geomark does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

The maximum exposure to credit risk is represented by the carrying amount on the consolidated statement of financial position. There are no material financial assets that Geomark considers past due.

#### Liquidity risk

Liquidity risk includes the risk that, as a result of Geomark's operational liquidity requirements:

- Geomark will not have sufficient funds to settle a transaction on the due date;
- Geomark will not have sufficient funds to continue with its exploration projects;
- Geomark will be forced to sell assets at a value which is less than what they are worth; or
- Geomark may be unable to settle or recover a financial asset at all.

To help reduce these risks, Geomark:

- Has a significant working capital base;
- Holds current investments that are readily tradable should the need arise; and
- Maintains a continuous evaluation approach as to the financing requirements for its oil and gas and mining programs.

The Company's financial liabilities as outlined in the financial statements consist of accounts payable and accrued liabilities that are due within a year.

## **15. TRANSITION TO IFRS**

As stated in Note 2, these financial statements are the Company's first financial statements prepared in accordance with IFRS. For all accounting periods prior to this, the Company prepared its financial statements under Canadian GAAP. An explanation of how the transition from previous GAAP to IFRS has affected the Company's statement of financial position and comprehensive income is set out in this note.

The accounting policies set out in Note 3 have been applied in preparing the financial statements for the period ended March 31, 2011, the comparative information presented in these financial statements for the period ended March 31, 2010 and December 31, 2010 and in the preparation of an opening IFRS statement of financial position at January 1, 2010 (the Company's date of transition).

#### IFRS 1 "First-time Adoption of International Financial Reporting Standards" (IFRS 1)

IFRS 1 generally requires that first-time adopters retrospectively apply all effective IFRS standards and interpretations in effect as at the reporting date. IFRS 1 also provides for certain optional exemptions and certain mandatory exemptions to this general principle.

### **Initial elections upon adoption**

Set forth below are the IFRS 1 applicable exemptions and exceptions applied in the conversion from Canadian GAAP to IFRS.

- Business combinations (IFRS 3) - provides the option to apply IFRS 3, Business Combinations, retrospectively or prospectively from the Transition Date. The retrospective basis would require restatement of all business combinations that occurred prior to the Transition Date or an earlier date chosen by management. The Company elected not to retrospectively apply IFRS 3 to business combinations that occurred prior to its Transition Date and such business combinations have not been restated. Any goodwill arising on such business combinations before the Transition Date has not been adjusted from the carrying value previously determined under Canadian GAAP as a result of applying these exemptions.
- Share-based payments (IFRS 2) - encourages the application of its provisions to equity instruments granted on or before November 7, 2002, but permits the application only to equity instruments granted after November 7, 2002 that had not vested by the Transition Date. The Company elected to avail itself of the exemption provided under IFRS 1 and applied IFRS 2 for all equity instruments granted after November 7, 2002 that had not vested by its Transition Date. Further, the Company applied IFRS 2 for all liabilities arising from share-based payment transactions that existed at its Transition Date. This election has no material effect on the Company.
- Borrowing Costs (IAS 23) - requires an entity to capitalize the borrowing costs related to all qualifying assets for which the commencement date for capitalization is on or after January 1, 2010 or earlier if elected by management. Due to the Company having no debt, this election has no effect on the Company.
- Leases (IAS 17) - requires an entity to assess arrangements outstanding at the Transition Date. It also requires a determination of the appropriate lease classification in accordance with IAS 17, should an arrangement containing a lease be identified as part of the International Financial Reporting Interpretations Committee (IFRIC) 4, Determining Whether an Arrangement Contains a Lease, application. This election has no effect on the Company.

### 15.1 Reconciliation of the consolidated statement of financial position

(\$ 000s)	Notes	As at January 1, 2010			As at March 31, 2010			As at December 31, 2010		
		Canadian GAAP	IFRS Adjustments	IFRS	Canadian GAAP	IFRS Adjustments	IFRS	Canadian GAAP	IFRS Adjustments	IFRS
<b>Assets</b>										
<b>Current</b>										
Cash		16,051	-	16,051	18,728	-	18,728	8,110	-	8,110
Term investment		-	-	-	-	-	-	12,000	-	12,000
Accounts receivable		359	-	359	266	-	266	265	-	265
Prepaid expenses		246	-	246	210	-	210	33	-	33
Loan to related party		12,000	-	12,000	12,000	-	12,000	20,000	-	20,000
<b>Total current assets</b>		<b>28,656</b>	<b>-</b>	<b>28,656</b>	<b>31,204</b>	<b>-</b>	<b>31,204</b>	<b>40,408</b>	<b>-</b>	<b>40,408</b>
Investments		7,193	-	7,193	7,686	-	7,686	10,673	-	10,673
Exploration and evaluation assets	(a)	-	-	-	-	-	-	-	226	226
Property, plant and equipment	(a, b)	1,858	7	1,865	1,944	7	1,951	1,924	(208)	1,716
		37,707	7	37,714	40,834	7	40,841	53,005	18	53,023
<b>Liabilities</b>										
<b>Current</b>										
Accounts payable and accrued liabilities		763	-	763	691	-	691	485	-	485
Decommissioning liabilities	(b)	179	19	198	180	19	199	288	32	320
Deferred tax liability	(b)	20	(3)	17	88	(3)	85	-	-	-
		962	16	978	959	16	975	773	32	805
<b>Shareholders' Equity</b>										
Share capital		21,152	-	21,152	24,015	-	24,015	20,511	-	20,511
Contributed surplus		-	-	-	-	-	-	254	-	254
Retained earnings	(c)	11,098	(9)	11,089	10,932	(9)	10,923	24,385	(14)	24,371
Accumulated other comprehensive income		4,495	-	4,495	4,928	-	4,928	7,082	-	7,082
<b>Total Shareholders' Equity</b>		<b>36,745</b>	<b>(9)</b>	<b>36,736</b>	<b>39,875</b>	<b>(9)</b>	<b>39,866</b>	<b>52,232</b>	<b>(14)</b>	<b>52,218</b>
		37,707	7	37,714	40,834	7	40,841	53,005	18	53,023

### 15.1 Reconciliation of the consolidated statement of financial position (continued)

IFRS has many similarities with Canadian GAAP as it is based on a similar conceptual framework. However, there are important differences with regard to recognition, measurement and disclosure. Adoption of IFRS resulted in changes to Geomark's consolidated statement of financial position, consolidated statement of comprehensive income and consolidated statement of cash flows as set out below:

**a) Exploration and evaluation assets**

Under Canadian GAAP, capitalized exploration and evaluation assets was included with the Company's property, plant and equipment assets. Under IFRS, exploration and evaluation assets are separately disclosed within the statement of financial position.

**b) Decommissioning liabilities**

The discounted value of the decommissioning liabilities has increased due to a change in the discount rate used to calculate the present value of future oil and gas well reclamation and abandonments. Under Canadian GAAP a risk adjusted discount rate was used. Under IFRS a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation has been used. In accordance with IFRS 1, the Company has elected to recognize the \$19,000 increase in the decommissioning obligation along with an increase to related property, plant and equipment assets, a decrease in deferred tax liability and a decrease in retained earnings (see (c) below) at the transition date.

Similar adjustments were made for the three months ended March 31, 2010 and for the year ended December 31, 2010 for \$19,000 and \$32,000, respectively to decommissioning liabilities.

**c) Retained earnings**

The following tables represent the cumulative effect on the above transitional adjustments on retained earnings for the respective periods covered under this reconciliation (see (b) above):

(\$ 000s)	January 1, 2010 and March 31, 2010
PPE adjustment	7
Decommissioning liabilities	(19)
Deferred tax liability	3
Net effect – decrease in retained earnings	(9)

(\$ 000s)	December 31, 2010
PPE adjustment	18
Decommissioning liabilities	(32)
Deferred tax liability	-
Net effect – decrease in retained earnings	(14)

## 15.2 Reconciliation of the consolidated statement of comprehensive income

(\$ 000s)	Notes	Three months ended March 31, 2010			Year ended December 31, 2010		
		Canadian GAAP	IFRS Adjustments	IFRS	Canadian GAAP	IFRS Adjustments	IFRS
<b>Revenues</b>							
Receipt of contingent consideration		-	-	-	13,500	-	13,500
Oil and gas sales, net of royalties	(a)	457	5	462	1,697	21	1,718
Dividend income		111	-	111	510	-	510
Interest and other income		70	-	70	458	-	458
		638	5	643	16,165	21	16,186
<b>Expenses</b>							
Production costs	(a)	129	5	134	567	21	588
Office and administration	(d)	361	(183)	178	1,599	(643)	956
Employee compensation	(d)	-	185	185	-	652	652
Share-based payments		173	-	173	829	-	829
Depletion and depreciation	(b), (c)	73	(2)	71	333	(7)	326
Impairment of oil and gas assets		-	-	-	77	-	77
		736	5	741	3,405	23	3,428
<b>Earnings (loss) before income taxes</b>		(98)	-	(98)	12,760	(2)	12,758
<b>Income taxes (recovery)</b>							
Deferred	(e)	68	-	68	(527)	3	(524)
<b>Net earnings (loss)</b>		(166)	-	(166)	13,287	(5)	13,282
<b>Other comprehensive income</b>							
Unrealized gains on investments		493	-	493	3,480	-	3,480
Deferred taxes on unrealized gains on investments		(60)	-	(60)	(893)	-	(893)
		433	-	433	2,587	-	2,587
<b>Total comprehensive income for the period</b>		267	-	267	15,874	(5)	15,869
<b>Net earnings (loss) per share – Basic and Diluted</b>							
		(0.00)	-	(0.00)	0.25	-	0.25
<b>Comprehensive income per share – Basic and Diluted</b>							
		0.01	-	0.01	0.30	-	0.30

## 15.2 Reconciliation of the consolidated statement of comprehensive income (continued)

The nature of the adjustments is explained as follows:

### a) Net profit interest royalty

Under IFRS, the Company disclosed the net profit interest royalty as a production cost. Under Canadian GAAP this type of royalty was disclosed as royalty expense that was netted off of oil and gas sales

### b) Office and administration

Under IFRS, the Company disclosed the unwinding of the fair value of decommissioning liabilities under office and administration expense. Under Canadian GAAP the fair value of decommissioning liabilities was disclosed with depletion and depreciation. The reclassification increased office and administration costs by \$2,000 for the period ended March 31, 2010 and \$9,000 for the year ended December 31, 2010.

### c) Depletion and depreciation

Refer to above 15.1 (b).

### d) Employee compensation

Under IFRS, the Company's expenses related to employee compensation are disclosed separately on the face of the consolidated statement of comprehensive income. Under Canadian GAAP this expense was disclosed under office and administration expenses.

### e) Deferred taxes

Refer to above 15.1 (b).

## 15.3 Reconciliation of the consolidated statement of cash flow

(\$ 000s)	Notes	Three months ended March 31, 2010			Year ended December 31, 2010		
		Canadian GAAP	IFRS Adjustments	IFRS	Canadian GAAP	IFRS Adjustments	IFRS
<b>Operating Activities</b>							
Net earnings (loss) before income taxes		(98)	-	(98)	12,760	(2)	12,758
Items not affecting cash							(13,500)
Receipt of contingent consideration		-	-	-	(13,500)	-	0
Share-based payments		173	-	173	829	-	829
Depletion and depreciation		71	-	71	324	2	326
Impairment of oil and gas assets					77		77
Unwinding of the fair value of decommissioning liabilities		2	-	2	9	-	9
Dividend income	(a)	-	(111)	(111)	-	(510)	(510)
Interest income	(a)	-	(70)	(70)	-	(438)	(438)
Change in non-cash working capital							
Accounts receivable	(a)	93	-	93	118	26	144
Prepaid expenses		36	-	36	213	-	213
Accounts payable and accrued liabilities		(72)	-	(72)	(278)	-	(278)
Decommissioning liabilities settled		(1)	-	(1)	(29)		(29)
<b>Cash provided by (used in) operating activities</b>		<b>204</b>	<b>(181)</b>	<b>23</b>	<b>523</b>	<b>(922)</b>	<b>(399)</b>
<b>Financing Activities</b>							
Net investment by Comaplex Minerals Corp.		2,630	-	2,630	(1,608)	-	(1,608)
<b>Cash provided by (used in) financing activities</b>		<b>2,630</b>	<b>-</b>	<b>2,630</b>	<b>(1,608)</b>	<b>-</b>	<b>(1,608)</b>
<b>Investing Activities</b>							
Dividend income	(a)	-	111	111	-	510	510
Interest income	(a)	-	70	70	-	438	438
Exploration and evaluation expenditures	(b)	-	-	-	-	(226)	(226)
Property, plant and equipment expenditures	(b)	(157)	-	(157)	(392)	226	(166)
Proceeds on property, plant and equipment		-	-	-	60	-	60
Loan to related party		-	-	-	(8,000)	-	(8,000)
							(12,000)
Purchase of term investment		-	-	-	(12,000)	-	0
Receipt of contingent consideration		-	-	-	13,500	-	13,500
Change in non-cash operating working capital items							
Accounts receivable		-	-	-	(24)	(26)	(50)
<b>Cash provided by (used in) investing activities</b>		<b>(157)</b>	<b>181</b>	<b>24</b>	<b>(6,856)</b>	<b>922</b>	<b>(5,934)</b>
<b>Net Cash Inflow (Outflow)</b>		<b>2,677</b>	<b>-</b>	<b>2,677</b>	<b>(7,941)</b>	<b>-</b>	<b>(7,941)</b>
Cash, beginning of period		16,051	-	16,051	16,051	-	16,051
<b>Cash, end of period</b>		<b>18,728</b>	<b>-</b>	<b>18,728</b>	<b>8,110</b>	<b>-</b>	<b>8,110</b>

### 15.3 Reconciliation of the consolidated statement of cash flow (continued)

The nature of the adjustments is explained as follows:

**a) Dividend and interest income**

Under IFRS, the Company's dividend and interest income are disclosed under investing activities on the face of the consolidated statement of cash flow. Under Canadian GAAP dividend and interest income was disclosed under operating activities.

**b) Exploration and evaluation expenditures**

Refer to above 15.1 (a).



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