Tuscany
ENERGY LTD.

2011 Annual Report

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Corporate Profile

Tuscany Energy Ltd. is a heavy oil development and production company with reserves, land holdings and production in Canada. The Company's principal focus is the exploitation of oil resources in Alberta and Saskatchewan through horizontal drilling. The majority of the Company's revenue is being generated from oil sales in Saskatchewan.

Corporate Summary

Period ended December 31 *($ Thousands, unless otherwise indicated)*	Three Months ended 2011	 2010	Years ended 2011	 2010
Financial				
Revenue	$ 2,516	$ 785	$ 6,073	$ 2,892
Cash flow from operations*	1,740	142	3,155	482
per share, diluted	0.01	0.00	0.03	0.01
Earnings (loss) for the period	1,869	(268)	2,031	(833)
per share, diluted	0.02	0.00	0.02	(0.01)
Capital additions	3,496	1,340	8,712	3,042
Dispositions	(521)	(34)	(913)	(34)
Net capital additions	2,975	1,306	7,799	3,008
Net debt	(447)	(4,205)	(447)	(4,205)
Investment - market securities	2,328	-	2,328	-
Total assets	27,740	12,445	27,740	12,445
Total shares outstanding at period end (millions)	123.4	62.8	123.4	62.8
Operations				
Production				
Oil (Bopd)	321	127	226	117
Gas (Mcfd)	65	128	124	164
BOEd (6 Mcf = 1 Bbl)	332	148	247	144
Product Prices				
Oil ($/Bbl)	$ 87.80	$60.68	$ 73.22	$61.66
Gas ($/Mcf)	$ 3.55	$4.93	$ 4.00	$4.03
Reserves (proved plus probable, forecast costs and prices)				
Gas (MMcf)			409.7	600.7
Oil (MBbl)			1,645.9	1,050.2
BOE (Thousands)			1,714.1	1,150.3
Net present value of future net revenue, before tax, discounted at 10% (millions)			$ 37.0	$ 22.9
Undeveloped land holdings (net acres)				
Alberta			2,766.5	1,231.6
Saskatchewan			3,946.6	1,801.1
Total net acreage			6,713.1	3,032.7

* Non GAAP Measurement

Message to Shareholders

Tuscany is pleased to report on the second straight year of significant increases of revenue, cash flow and reserves, as the Company continues to grow through the results of horizontal heavy oil drilling.

The Company began 2012 with an optimistic view of future oil prices and commenced the year with the drilling of three successful development wells at Macklin, Saskatchewan, which are currently exhibiting excellent production characteristics.

Highlights

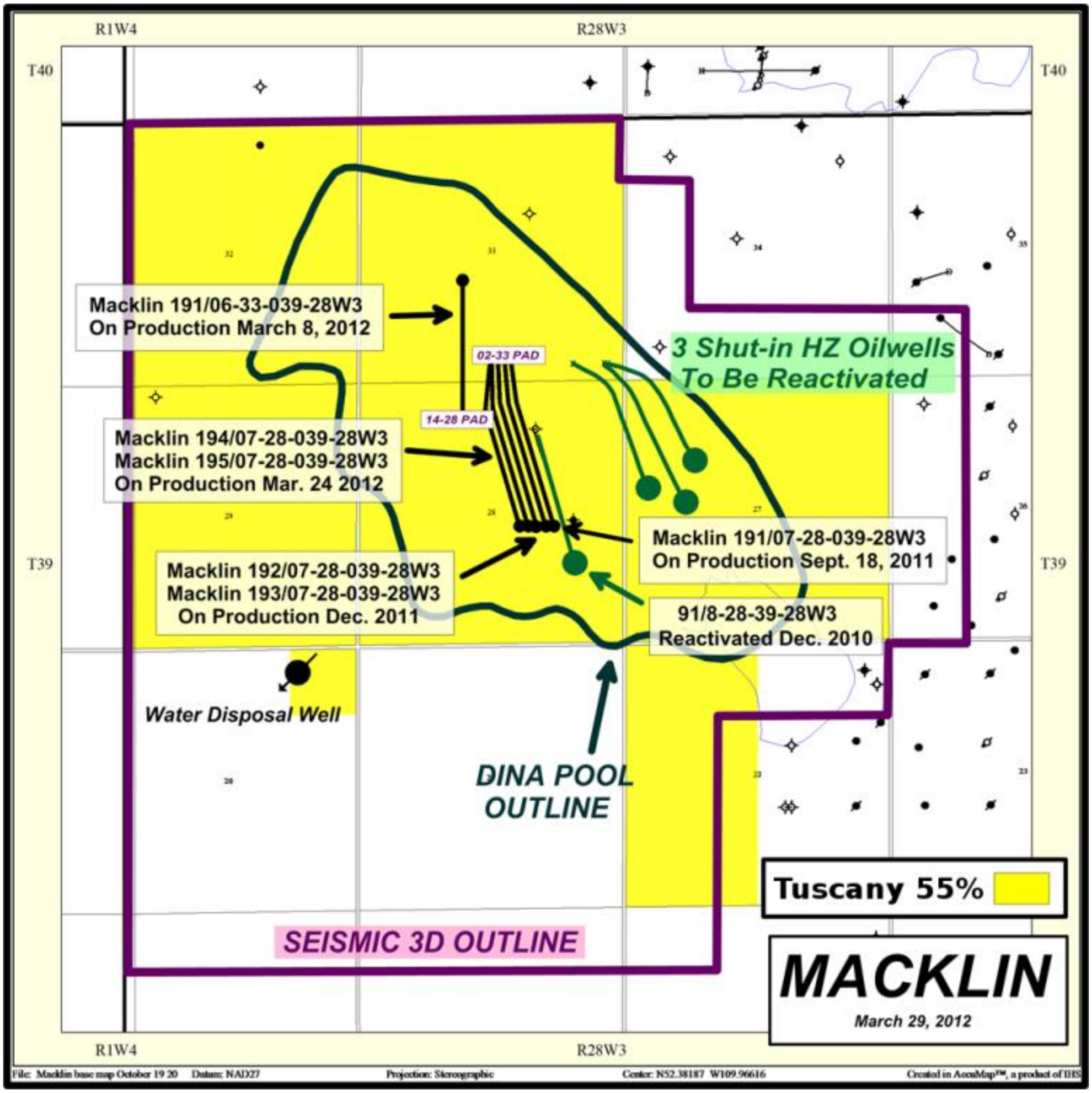
For 2011, Tuscany's revenue increased by 110% to $6.1 million, cash flow improved fivefold to $3.2 million, and proved and probable reserves increased by 55% to 1.7 million barrels of oil equivalent, compared with the prior year. Tuscany's revenues were derived 98% from oil production in 2011.

Tuscany completed the acquisition of Sharon Energy Ltd. in June 2011 which resulted in $7.9 million in available working capital and $3.8 million in marketable investments which was used to reduce the Company's bank debt to zero and to help finance Tuscany's drilling program for the year. With the additional capital from the Sharon transaction, the Company drilled 11 new horizontal heavy oil wells during the year (6.7 net wells) all of which are currently producing. The production and reserves added from the new wells contributed significantly to the positive financial results for 2011.

Macklin, Saskatchewan

At Macklin, Saskatchewan, Tuscany participated for a 55% interest in three Dina horizontal heavy oil wells during 2011 and an additional three oil wells in Q1 2012. Two of the three recent wells are producing at over 100 bopd, with lower water cuts than expected. Tuscany acquired a 55% interest in section 33-39-28 W3 immediately to the north of the initial development, and shot a two section 3D seismic program to delineate further locations. The first well drilled in Q1 2012 tested the acquired area to the north and has also been producing at rates exceeding 100 bopd, since March 8, 2012.

Based on the success of the first six wells, Tuscany plans to drill additional wells at Macklin during 2012.



Evesham, Saskatchewan

The Evesham area, where Tuscany holds a 60% working interest, is also an important development focus of the Company.

Tuscany drilled 7 successful horizontal heavy oil wells at Evesham during 2011 including three wells situated on new pads to the south and west of the main battery. The Company plans to drill additional wells at Evesham during the second half of 2012.

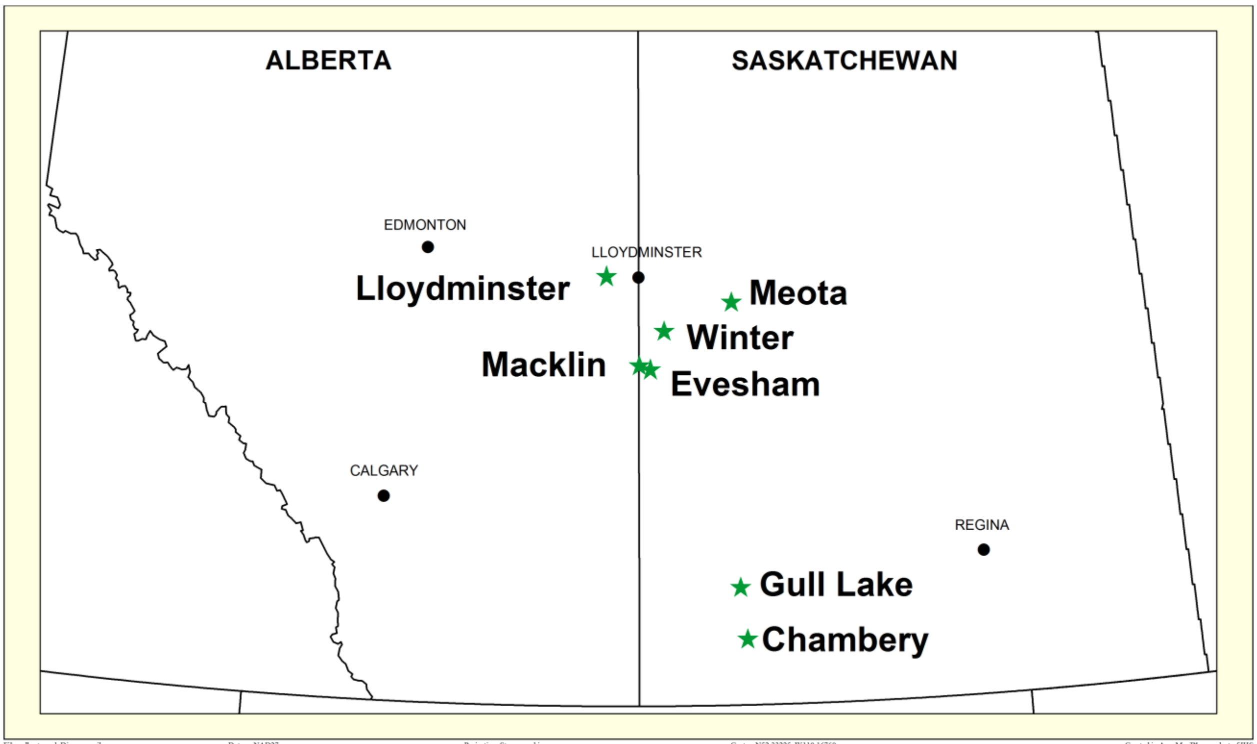
Ongoing Exploration Program – Alberta and Saskatchewan

To date, Tuscany has acquired oil and gas leases on five prospects in Alberta (4,618 gross acres, 1,679.9 net acres) and eight prospects in Saskatchewan (20,799 gross acres, 9,012 net acres) for a total inventory of eleven heavy oil projects and two medium/light oil projects. The primary pay zones are Lloydminster in Alberta and the Dina, Shaunavon and Birdbear zones in Saskatchewan.

Of significance, Tuscany holds two prospective leases on the active Birdbear oil development play in Saskatchewan, which are currently being closely offset by NuVista and Talisman drilling locations.

In addition, Tuscany holds two leases on the developing Shaunavon oil play, at Gull Lake, immediately offsetting lands that were purchased for over $1 million per section and are currently being drilled by Arc Resources Ltd.

Below is a map of Tuscany's current active exploration and development projects:



Financial

Tuscany's 2011 revenues net of royalties increased 110% to $6.1 million compared with $2.9 million in the prior year. Cash flows from operations increased by 555% to $3.2 million compared with $482,000 in 2010. Net earnings increased to $2.0 million compared with a net loss of $833,000 in 2010, as a result of a $3.1 million gain on the acquisition of Sharon Energy Ltd.

Tuscany incurred $8.7 million of capital expenditures during 2011 compared with $3.0 million for the prior year. Capital expenditures for the year were financed primarily from cash, disposal of oil and gas assets of $913,000, and from operating cash flow. At December 31, 2011, Tuscany had net debt of $446,000 compared with net debt of $4.2 million at the beginning of the year.

Subsequent to the end of 2011, Tuscany sold 326,195 shares of its investment in Magnum Hunter for net proceeds of $2.2 million. As of April 24, 2012 the remaining investment, 100,000 Magnum Hunter shares, were worth approximately $550,000.

Production

The Company's total production for 2011 increased 72% to average 247 BOEd compared with the prior year average of 144 BOEd. Average production rates for Q4 2011 increased 124% to 332 BOEd compared with average production of 148 BOEd in the prior year.

Outlook

Tuscany expects oil prices to hold above WTI $95 per barrel in 2012 as world demand for oil continues to be strong. This should result in realized heavy oil prices in excess of $70 per barrel for the year, which would support continued development of the Company's heavy oil projects.

Tuscany is focused on growth through oil exploration and development. With its prospect inventory, developed over the past three years, Tuscany believes it can achieve growth by continuing to develop its Dina oil properties at Macklin and Evesham, and its Lloydminster heavy oil projects, from working capital, operating cash flows and minimize the reliance on bank debt to finance future capital expenditures.

On Behalf of the Board,

R.W. Lamond, Chairman

April 24, 2012

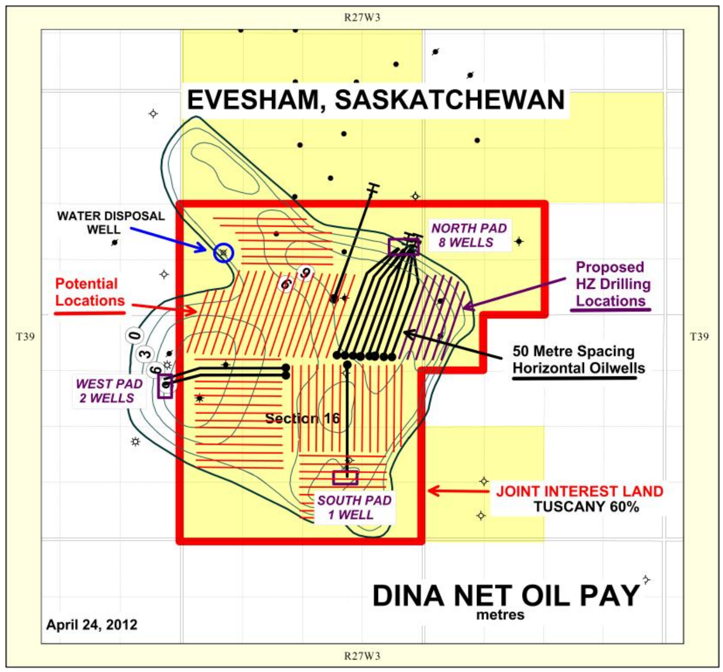
Operations Review

In the following description of Tuscany's principal oil and natural gas properties, reserve and production amounts stated are the Company's working interest in gross reserves based on forecast costs and prices, as evaluated by McDaniel and Associates Consultants Ltd. The estimates of reserves and future net revenue for the individual properties may not reflect the same confidence level as estimates of reserves and future net revenue for all properties due to the effects of aggregation.

During the year ended December 31, 2011, 11 wells were drilled (net 6.7) all of which were successfully completed as oil wells.

Evesham, Saskatchewan – Working Interest 60%

Tuscany has a 60% working interest in 12 producing Dina heavy oil wells and a 100% working interest in an additional 7 producing Sparky oil wells. The Evesham Dina oil pool continues to be a focus of the Company's development program for 2012. Q4 2011 production at Evesham primarily from the Dina oil pool averaged 253 Bopd compared with average production of 106 Bopd in Q1 2010.



Evesham	Natural Gas		Heavy Oil	
Reserves				
Proved	247	MMcf	650	MBbl
Probable	56	MMcf	610	MBbl
Total proved plus probable	303	MMcf	1,260	MBbl
Q4 2011 average production			260	BOEd

Evesham Proved plus Probable reserves totalled 1,311 MBOE, (76.5% of Total Company Reserves)

Macklin, Saskatchewan – Working Interest 55%

In 2010, Tuscany acquired an interest in 3,770 acreas in the Macklin area. During 2011, Tuscany drilled three new horizontal oil wells on the property. As a result, at December 31, 2011, Tuscany had a 55% working interest in 4 producing horizontal heavy oil wells (2.2 net), 1 water disposal well, and 3 shut-in horizontal heavy oil wells (1.65 net). The Macklin field is the primary focus of the Company's development drilling program for 2012.

Macklin	Natural Gas		Heavy Oil	
Reserves				
Proved	63	MMcf	191	MBbl
Probable	10	MMcf	175	MBbl
Total proved plus probable	73	MMcf	366	MBbl
Q4 2011 average production			57	Bopd

Macklin Proved plus Probable reserves totalled 378 MBOE, (22.1% of Total Company Reserves)

In Q1 2012, Tuscany completed a successful three well horizontal heavy oil program at Macklin. These wells came on production during March 2012 with initial flush production rates of 110 bopd to 120 bopd per well.

Oil and Gas Reserves

An independent evaluation of the Company's oil and gas reserves, conducted by McDaniel & Associates Consultants Ltd. dated March 14, 2012 (the "McDaniel Report") has assigned proved plus probable reserves of 1.7 MMBOE to the Company's properties, having an estimated net present value, at a 10% discount rate, before income tax of $37.0 million. **There is no assurance that this represents the fair value of the assets.**

Summary of Oil and Gas Reserves

Tuscany's proved reserves were 34% higher than in the prior year while proved plus probable reserves increased by 49%. The significant increase in reserves came from the Company's interest in the Dina heavy oil pools at Evesham and Macklin, Saskatchewan. The net present value of the Company's proved plus probable reserves increased by 62% as a result of the increase in oil reserves plus an increase in forecast oil prices combined with a reduction in future operating costs estimates.

Company Total	Light and Medium Oil		Heavy Oil		Natural Gas		Total BOE	
Reserves Category	Gross (MBbl)	Net (MBbl)	Gross (MMcf)	Net (MMcf)	Gross (MMcf)	Net (MMcf)	Gross (MBOE)	Net (MBOE)
Proved								
Developed Producing	13.9	11.0	443.0	426.0	288.1	280.3	504.9	483.7
Developed Non-producing	-	-	55.4	54.3	48.2	48.2	63.4	62.3
Undeveloped	-	-	342.9	335.5	-	-	342.9	335.5
Total Proved	13.9	11.0	841.3	815.8	336.3	328.5	911.2	881.5
Probable	6.2	4.9	784.5	742.3	73.4	71.8	802.9	759.2
Total Proved Plus Probable	20.1	15.9	1,625.8	1,558.1	409.7	400.3	1,714.1	1,640.7

Net Present Values of Future Net Revenue (based on forecast prices and cost assumptions)

Company Total	Before Income Taxes Discounted At (% Per Year)					After Income Taxes Discounted At (% Per Year)				
	0	5	10	15	20	0	5	10	15	20
Reserves Category	(MM$)	(MM$)	(MM$)	(MM$)	(MM$)	(MM$)	(MM$)	(MM$)	(MM$)	(MM$)
Proved										
Developed Producing	17.4	15.6	14.2	13.1	12.2	17.4	15.6	14.2	13.1	12.2
Developed Non-producing	1.2	1.1	1.0	0.9	0.8	1.2	1.1	1.0	0.9	0.8
Undeveloped	8.3	6.7	5.4	4.3	3.5	6.5	5.0	3.9	2.9	2.2
Total Proved	26.9	23.4	20.6	18.3	16.5	25.1	21.7	19.1	16.9	15.2
Probable	27.2	20.7	16.4	13.3	11.0	20.1	15.2	11.7	9.3	7.6

More detailed information with respect to the reserves reports, including reserve classifications can be found in the Company's Annual Information Form filed on Sedar. **There is no assurance that the above amounts represent the fair value of the assets.**

Summary of Pricing and Inflation Rate Assumptions
Forecast Prices and Costs
As of December 31, 2011

			Oil			Natural Gas	
Year	Inflation Rate	Exchange Rate $US/$CAN	WTI Cushing Oklahoma ($US/bbl)	Edmonton Par Price 40^0 API ($Cdn/bbl)	Hardisty Par Price 12^0 API ($Cdn/bbl)	AECO Gas Price ($Cdn/Mcf)	NYMEX Gas Price ($US/Mcf)
2012	2.0%	0.975	97.50	99.00	82.00	3.50	3.75
2013	2.0%	0.975	97.50	99.00	82.00	4.20	4.50
2014	2.0%	0.975	100.00	101.50	84.10	4.70	5.05
2015	2.0%	0.975	100.80	102.30	84.70	5.10	5.50
2016	2.0%	0.975	101.70	103.20	85.50	5.55	5.95
2017	2.0%	0.975	102.70	104.20	86.30	5.90	6.35
2018	2.0%	0.975	103.60	105.10	87.10	6.25	6.70
2019	2.0%	0.975	104.50	106.00	87.80	6.45	6.95
2020	2.0%	0.975	105.40	106.90	88.60	6.70	7.20
2021	2.0%	0.975	107.60	109.20	90.40	6.85	7.35
2022	2.0%	0.975	109.70	111.30	92.20	6.95	7.45
2023	2.0%	0.975	111.90	113.50	94.00	7.05	7.60
2024	2.0%	0.975	114.10	115.80	95.90	7.20	7.75
2025	2.0%	0.975	116.40	118.10	97.80	7.40	7.95
2026	2.0%	0.975	118.80	120.50	99.80	7.55	8.10
After	+2%/yr	+2%/yr	+2%/yr	+2%/yr	+2%/yr	+2%/yr	+2%/yr

The Contingent Resource Report

McDaniel has also prepared an evaluation of Contingent Resources of the Company's Evesham, Dina pool (the "Resource Report") dated April 2, 2012, effective as of December 31, 2011, which estimates that the portion of the Evesham Dina pool which was not assigned Proved or Probable reserves in the McDaniel Report, summarized above, may contain the following Contingent Resources:

Category / Level of Certainty	Tuscany's Interest 60% (Mbbl)	Total Contingent Resource (Mbbl)
Low Estimate	1,002	1,670
Best Estimate	1,759	2,932
High Estimate	2,506	4,177

The Resource Report on the resource potential of the Evesham Dina property describes the potentially recoverable volumes of oil associated with the Evesham Dina property as contingent resources as they do not meet the requisite criteria to be classified as reserves with respect to location relative to producing Dina wells. Contingent Resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but which are not currently considered to be commercially recoverable due to one or more contingencies. Contingencies may include factors such as economic, legal, environmental, political, and regulatory matters, or a lack of markets. It is also appropriate to classify as contingent resources the estimated discovered recoverable quantities associated with a project in the early evaluation stage.

The "Contingent Resources", as defined by the Canadian Oil and Gas Evaluation Handbook, do not represent an estimate of reserves. The Resource Report was prepared in accordance with National Instrument 51-101 "Standards of Disclosure for Oil and Gas Activities" ("NI 51-101").

According to the Resource Report the recovery of the Contingent Resources will require the drilling of 45 additional horizontal wells of 600 metres in horizontal length with interwell spacing of 50 metres. The development of the Contingent Resources will require a significant amount of capital investment and therefore will take several years to complete. In 2012 the Company plans to drill additional horizontal wells on the Evesham Dina property as the Company's working capital and cash flow permit. There is no certainty that these Contingent Resources will be produced.

The following sets forth the benchmark reference prices, as at December 31, 2011, reflected in the Reserves Data. These price assumptions were provided to the Company by McDaniel and Associates Consultants Ltd., the Company's independent qualified evaluator.

Management's Discussion and Analysis ("MD&A")

April 27, 2012

This Management's Discussion and Analysis ("MD&A") for Tuscany Energy Ltd. ("Tuscany" or the "Company") should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2011, as well as the audited consolidated financial statements and MD&A for the year ended December 31, 2010.

The information in this MD&A related to the three months ended December 31, 2011, has not been audited by the Company's auditor.

IFRS

These consolidated financial statements present Tuscany's financial results of operations and financial position for the year ended December 31, 2011, including required comparative information, have been prepared in accordance with International Financial Reporting Standards 1, First-time Adoption of International Financial Reporting Standards, as issued by the International Accounting Standards Board ("IASB"). Prior to 2011, the Company prepared its interim and annual consolidated financial statements in accordance with Canadian generally accepted accounting principles ("previous GAAP"). Unless otherwise noted, 2010 comparative information has been prepared in accordance with IFRS.

The adoption of IFRS on January 2011 has not had an impact on the Company's operations, strategic decisions or cash flow from operations. The most significant area of impact was the adoption of the IFRS upstream accounting principles. Further information on the IFRS impacts is provided in the Accounting Policy Changes Section of this MD&A. Reconciliations between previous GAAP and IFRS Balance Sheets, Net Earnings, Operating Earnings and other financial metrics are included in Note 18 in the audited consolidated financial statements of the Company for the year ended December 31, 2011.

The following discussion and analysis is Management's assessment of Tuscany's historical, financial and operating results. All dollar amounts are in Canadian dollars unless otherwise indicated.

The reader should be aware that historical results are not necessarily indicative of future performance.

Corporate Summary

The Corporate Summary included on page two of this report is included in the MD&A by reference.

Non-GAAP Measures

Certain measures in this document do not have any standardized meaning as prescribed by IFRS and previous GAAP and, therefore, are considered non-GAAP measures. Non-GAAP measures are commonly used in the oil and gas industry and by Tuscany to provide shareholders and potential investors with additional information regarding the Company's liquidity and its ability to generate funds to finance its operations.

Non-GAAP measures include the term "cash flow from operations", which should not be considered an alternative to, or more meaningful as an indicator of the Company's performance than, "cash flow provided by operating activities", as determined in accordance with IFRS. Tuscany's determination of "cash flow from operations" may not be particularly comparable to that reported by other companies especially those in other industries. Management uses "cash flow from operations" as a measure of operating performance as the result is not exposed to non-cash working capital movements, which for a small company, could be material and misleading. The reconciliation of "cash flow from operating activities" and "cash flow from operations" is as follows:

Years ended December 31 *($ Thousands)*	2011	2010
Cash provided by Operating Activities:	$ 5,178	$ 1,096
Adjusted for:		
Change in non-cash working capital	(2,023)	(614)
Cash flow from operations	$ 3,155	$ 482

The Company also presents "annualized cash flow from operations" which equals four times the most recent quarterly "cash flow from operations". "Cash flow" per share is calculated using the weighted average shares outstanding consistent with the calculation of earnings per share. In addition, the Company presents "Net debt", which is calculated as the aggregate of current assets and current liabilities.

Net Debt	December 31 2011	 2010
Current Assets	$ 6,423	$ 629
Current Liabilities	6,870	4,834
Working Capital (Net Debt)	$ (447)	$ (4,205)

BOE Presentation – The term barrels of oil equivalent (BOE) may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 Mcf : 1 Bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. All BOE conversions in this report are derived by converting gas to oil in the ratio of six Mcf of gas to one Bbl of oil.

Forward-looking Statements – Certain of the statements contained herein including, without limitation, financial and business prospects and financial outlook, reserve and production estimates, drilling and re-completion plans, timing of drilling, completion and tie-in of wells and capital expenditures and the timing thereof may be forward-looking statements. Words such as "may", "will", "should", "could", "anticipate", "believe", "expect", "intend", "plan", "potential", "continue" and similar expressions may be used to identify these forward-looking statements. These statements reflect management's beliefs at the date of the report and are based on information available to management at that time. Forward-looking statements involve significant risk and uncertainties.

A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements including, but not limited to, risks associated with oil and gas exploration, development, exploitation, production, marketing and transportation, loss of markets, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other producers, inability to retain drilling rigs and other services, incorrect assessment of the value of acquisitions, failure to realize the anticipated benefits of acquisitions, delays resulting from or inability to obtain required regulatory approvals and ability to access sufficient capital from internal and external sources and the risk factors outlined under "Risk Factors" in the Company's Annual Information Form and elsewhere herein. The recovery and reserve estimates of Tuscany's reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. As a consequence, actual results may differ materially from those anticipated in the forward-looking statements. Readers are cautioned that the foregoing list of factors is not exhaustive. Additional information on these and other factors that could affect Tuscany's operations and financial results are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com) or at Tuscany's website (www.Tuscanyenergy.com). Although the forward-looking statements contained herein are based upon what Management believes to be reasonable assumptions, including but not limited to assumptions as to the price of oil and natural gas, interest rates, exchange rates and the regulatory and legal environment in which Tuscany operates, the recoverability and production characteristics of Tuscany's reserves, the capital expenditures program and future operations and other matters, Management cannot assure that actual results will be consistent with these forward-looking statements. Investors should not place undue reliance on forward-looking statements. These forward-looking statements are made as of the date hereof and the Company assumes no obligation to update or review them to reflect new events or circumstances except as required by applicable securities laws.

Forward-looking statements and other information contained herein concerning the oil and gas industry and the Company's general expectations concerning this industry is based on estimates prepared by Management using data from publicly available industry sources as well as from reserve reports, market research and industry analysis and on assumptions based on data and knowledge of this industry which the Company believes to be reasonable. However, this data is inherently imprecise, although generally indicative of relative market positions, market shares and performance characteristics. While the Company is not aware of any misstatements regarding any industry data presented herein, the industry involves risks and uncertainties and is subject to change based on various factors.

Business Combination - Sharon Energy Ltd.

On June 2, 2011, the Company completed a business combination with Sharon Energy Ltd. Tuscany acquired all of the issued and outstanding common shares of Sharon in exchange for approximately 62.1 million shares of Tuscany. For additional information see Note 17 in the consolidated financial statements for the twelve months ended December 31, 2011.

Summary of Results

The following table provides financial data derived from the Company's financial statements for the past three years:

($ Thousands, except per BOE, BOEd and per share amounts)	2011	2010	Years Ended December 31 2009
			Previous GAAP
Total revenue	$ 6,073	$ 2,892	$ 1,732
Cash flow from operations *	3,155	482	(144)
per share, basic and diluted	$ 0.03	$ 0.01	$ 0.00
Earnings (loss) for the period	2,031	(833)	(263)
per share, basic and diluted	$ 0.02	$ (0.01)	$ (0.01)
Total assets	27,740	12,445	10,476
Net current debt	447	4,205	2,733
Production (BOEd)	247	144	89
Price ($ per BOE)	$ 69.00	$ 54.68	$ 54.35

* Non-GAAP measure

During 2011, Tuscany's average oil production reached its highest level ever, averaging 247 BOEd. Increased production, high oil prices, and the acquisition of Sharon resulted in record revenues, cash flows and earnings that were significantly improved over the prior two years.

During 2010, an higher in oil prices and sales volumes in addition to revenue from third party water disposal resulted in an increase in revenues and cash flows from operations compared with 2009the prior year. However, the loss for 2010 was higher than the prior year because increased depletion, G&A and operating costs exceeded the increase in revenue. In addition, in 2009, the Company reported a $543,000 gain on the acquisition of Goldmark Minerals Ltd.

Selected Quarterly Information

($ Thousands, except production, price and per share amounts)	Three Months Ended 2011 Dec 31	Sep 30	Jun 30	Mar 31	2010 Dec 31	Sep 30	June 30	Mar 31
Production (BOEd)	332	313	141	192	148	153	124	151
Price ($/BOE)	86.04	60.77	66.64	57.23	55.28	50.19	53.45	56.05
Total revenue	2,516	1,707	861	989	785	699	646	762
Operating and transportation	544	486	290	291	437	390	310	402
Cash flow from operations*	1,740	750	236	429	110	57	52	231
per share (basic and diluted)*	0.01	0.01	0.00	0.01	0.00	0.00	0.00	0.00
Earnings (Loss)	1,869	594	(132)	(300)	(172)	(361)	162	(437)
per share (basic and diluted)	0.02	0.00	0.00	0.00	0.00	(0.01)	0.00	0.00
Overhead	191	472	286	221	204	193	225	98
Net capital additions (dispositions)	2,975	3,213	1,214	397	1,343	693	638	417
Total assets	27,740	25,264	24,673	12,063	12,392	11,231	11,083	10,613
Working Capital (Net Debt)	(447)	856	2,613	(4,169)	(4,204)	(4,167)	(3,550)	(2,971)

** Non-GAAP measure*

Over the past two years Tuscany's production volumes rebounded from a low of

89 BOEd in Q4 2009, to the record level of 332 BOEd in Q4 2011 as a result of the successful horizontal heavy oil drilling program over the two years. During this period the Company also realized a steady increase in oil prices to a high of $86.04 in Q4 2011. Production revenue over this two year period showed similar increases to a record level of $2.5 million reported in Q4 2011. The increase in production volumes and the implementation of water handling facilities resulted in a significant reduction in operating and transportation costs per BOE. These lower operating costs combined with the steady increase in revenues resulted in quarterly increasing cashflows in all of the last seven quarters except for Q2 2011 where the Company experienced a temporary reduction in production volumes and revenues.

From Q3 2010 to Q3 2011 overhead charges increased in each of the quarters primarily as a result of an increased level of activity. In 2010, Tuscany entered into an overhead sharing agreement with Diaz Resources Ltd., and others, which allocates the group overhead expenses to each of the members of the group in proportion to the relative percentage of each Company in the group to the group's revenues and capital expenditures.

The overhead for Q3 2011 included certain overhead equalization charges for prior periods pursuant to the overhead sharing agreement. During June 2011, the Company concluded a business combination with Sharon Energy Ltd. which also contributed to the increase in overhead for the third quarter as Sharon's overhead charges are now consolidated into Tuscany's. Q4 2011 overhead was significantly lower but more representative of ongoing costs than the charges in the prior quarter. However, it should be noted that Tuscany's revenue and capital expenditures in the future are likely to be higher in proportion to the group and therefore Tuscany's overhead will likely increase in future periods.

As a result of the Company's acquisition of Sharon during the year, the Company's total assets increased to $27.7 million and the Company exited 2011 with net debt of $446,000 and marketable securities valued at $2.25 million.

Results of Operations

Oil & Gas Production

Oil and Gas Production by Area	Three months ended December 31		Years ended December 31	
	2011	2010	2011	2010
Oil and Natural Gas Liquids (bbls/d)				
Evesham Dina	233	66	166	56
Evesham Sparky	20	40	31	38
Macklin	57	17	24	17
Other	11	4	5	6
	321	127	226	117
Natural Gas (Mcf/d)				
Evesham	41	121	79	107
Macklin	20	-	21	33
Other	4	7	24	24
	65	128	124	164
Total boe/d	332	148	247	144

During Q4 2011, Tuscany's oil and NGL sales increased 153% to 321 Bbls/d compared with the same period in 2010. The four wells added in Q2 and three wells added during

Q4 were the primary reason for the increased rates. However, the Q4 results were only a 6% improvement over the Q3 oil production rates. For 2011, oil sales increased 93% compared with the prior year to 226 Bbls/d also resulting from the addition of new wells.

Gas sales for 2011 were less than 3% of the total revenue for the period.

Overall, the Company's average production increased 124% to 332 Boed for the fourth quarter and 72% to 247 Boed for the twelve month period, as production additions from new heavy oil wells were partially offset by natural gas production declines.

Selling Prices

Production and Prices	Three months ended December 31 2011	2010	Twelve Months Ended December 31 2011	2010
Average daily production				
Oil (Bbl/d)	321	127	226	117
Gas (Mcf/d)	65	128	124	164
BOEd	332	148	247	144
Average price				
Oil ($/Bbl)	$ 87.80	$ 60.68	$ 73.22	$ 61.66
Gas ($/Mcf)	$ 3.55	$ 4.93	$ 4.00	$ 4.03
$/BOE	$ 86.04	$ 56.33	$ 69.00	$ 54.68

For the three months ended December 31, 2011, Tuscany received an average of $87.80 per barrel, a 45% increase from the average price of $60.68 per barrel for the same period in 2010. Gas prices remained weak throughout the fourth quarter as the Company received an average of $3.55 per Mcf for its natural gas sales compared with $4.93 per Mcf.

The Company received average prices in 2011 of $73.22 per barrel compared with $61.66 per barrel for the prior year. The Company received an average of $4.00 per Mcf for the year ended December 31, 2011, compared with $4.03 per Mcf for the prior year.

The Company's production is heavily oil weighted with 97% of its oil & gas sales revenue coming from oil in 2011, compared with 92% in 2010.

Summary of operating net back * *(in thousands of dollars except per BOE information)*	Three months ended December 31 2011	2010	Twelve Months Ended December 31 2011	2010
Oil and Natural Gas Liquids	2,593	709	6,040	2,633
Natural Gas	35	58	181	241
Oil and natural gas sales	2,628	767	6,221	2,874
Processing fees	30	55	208	168
Total sales	2,658	822	6,429	3,042
Royalties	(145)	(35)	(372)	(150)
Operating expenses	(544)	(437)	(1,611)	(1,539)
Operating net back	1,969	350	4,446	1,353
$/ BOE				
Oil and natural gas sales	$ 86.04	$ 56.33	$ 69.00	$ 54.68
Processing revenue	$ 0.98	$ 4.04	$ 2.31	$ 3.20
Royalties	$ (4.75)	$ (2.57)	$ (4.13)	$ (2.85)
Operating expenses	$ (17.81)	$ (32.09)	$ (17.87)	$ (29.28)
Operating net back	$ 64.46	$ 25.71	$ 49.31	$ 25.75

* Non-GAAP Measure

Oil and Natural Gas Sales

For the quarter, total sales increased 243% to $2.6 million compared with $767,000 for the prior year period. The increased revenue resulted from an 153% increase in oil sales volumes and 45% higher oil prices. For 2011, total sales increased 116% to $6.2 million compared with $2.9 million for the prior year. This resulted from a 93% increase in oil sales volumes and 19% higher oil prices.

Tuscany anticipates revenues will continue to increase in Q1 2012 as new oil production is added from a drilling program during the first quarter of 2012.

Royalty Expense

The Company's average royalty rate for the twelve months ended December 31, 2011 was 6.0% or $4.13 per BOE. By comparison, during the same period in 2010 the Company incurred an average royalty rate of 5.2% or $2.85 per BOE. In the fourth quarter of 2011, the Company paid royalties of 5.5% or $4.75 per BOE. Sales revenue increases in 2011 were mainly from Saskatchewan heavy oil wells which have a 2.5% royalty for the initial 37,500 bbls of sales.

Operating Expense

Tuscany's operating expenses, including workovers and repairs, for Q4 2011 totalled $544,000 or $17.81 per BOE, a reduction of 45% per BOE compared with $32.09 per BOE in Q4 2010. Operating expenses for the twelve month period were $1.6 million or $17.87 per BOE, a 39% reduction per BOE compared with $29.28 per BOE compared with the same period in 2010, when operating costs totalled $1.5 million on lower production.

Operating expenses decreased partly due to the addition of a salt water disposal facility at Evesham which significantly reduces the cost of operating wells producing a high volume of water in the Evesham area.

General and Administrative Expense

Overhead Expenses *(in thousands of dollars except per BOE information)*	Three months ended December 31 2011	Three months ended December 31 2010	Twelve Months Ended December 31 2011	Twelve Months Ended December 31 2010
Corporate costs	172	184	758	446
Management fees*	158	105	817	494
Recovered from third parties	(63)	(33)	(167)	(60)
Capitalized	(76)	(52)	(238)	(160)
Total overhead	191	204	1,170	720
Per BOE	$ 6.25	$ 14.98	$ 12.98	$ 13.70

* The Company has a joint venture with Diaz Resources Ltd. whereby it participates in new oil and natural gas projects for a 55% working interest. Diaz provides administrative, operating and exploration services for Tuscany in exchange for payment of Management Fees representing a portion of the related costs of Diaz.

Total overhead expenses of $191,000 ($6.25 per BOE) decreased from $204,000 ($14.98 per BOE) incurred in Q4 2010. For the year, total overhead increased by 58.2% to $1.2 million compared with $720,000 in 2010.

Gross overhead costs for 2011 increased 70% to $758,000 compared with the prior year of $446,000. Net overhead costs increased 63% as increased gross expenses, and charges from the exploration joint venture, were partially offset by increased recoveries from third parties and increased capitalization.

Tuscany's joint overhead sharing agreement with Diaz Resources Ltd. charges the group overhead in proportion to the relative percentage of group revenues and capital spending for each of the companies in the group. As Tuscany's revenues and capital expenditures have increased as a proportion of the group's revenues and capital, its share of overhead costs have increased. This trend is likely to continue as Tuscany's revenues and capital spending are forecast to increase relative to the group.

Management believes the cost sharing arrangement will result in an efficient overhead cost structure for each member of the group and provides the members of the group with a larger number of new prospects.

Interest Charges

The Company had net debt of $447,000 for the fourth quarter of 2011 but no bank debt. The credit facility had been repaid in full during the second quarter and interest costs were minimal during the second half of 2011. The Company plans to minimize the use of debt to finance its operations.

Depletion, Depreciation and Accretion

Depletion, Depreciation & Accretion *(in thousands dollars except per BOE information)*	Three months ended December 31		Twelve Months Ended December 31	
	2011	2010	2011	2010
Depletion and depreciation	1,095	277	2,439	1,266
Property, plant & equipment impairment	1,397	-	1,397	-
Total	2,492	277	3,836	1,266
per BOE	$ 81.59	$ 20.34	$ 42.55	$ 24.09

Depletion and depreciation charges calculated on a unit of production basis are based on total proved reserves. For 2011, depletion and depreciation expense increased to $2.4 million from $1.2 million in the prior year due to increased production at Evesham and new production at Macklin. In addition, the Company recognized an impairment charge of $1.4 million in the fourth quarter 2011. This was due primarily to extremely weak natural gas prices and forward estimates. On a quarterly basis, depletion expenses increased to $1.1 million in Q4 2011 compared with $229,000 in Q4 2010. The impairment charge will reduced the depletion cost base for several CGU's which should result in lower depletion charges per BOE in future periods.

Gain on Purchase of Sharon Energy Ltd.

On June 2, 2011, Tuscany and Sharon Energy Ltd. ("Sharon") closed an arrangement agreement pursuant to which Tuscany acquired all of the issued and outstanding shares of Sharon through the issue of 62,070,593 common shares of Tuscany to shareholders of Sharon with a fair value on June 2, 2011 of $11.2 million.

Sharon's assets consisted of $8 million of working capital and assets held for resale, $4 million of investments available for sale, and land and fixed assets valued at $3 million. The net assets acquired exceeded the consideration provided, resulting in a "gain on purchase" of $3.1 million.

The assets of Sharon were valued at fair value, for the purpose of the acquisition and the shares issued for the acquisition were valued at $0.18 per share, being the closing bid price of Tuscany shares on the TSX-Venture exchange on June 2, 2011, the date of the acquisition.

Loss on Sale of Investment

The Company sold 120,000 shares of Magnum Hunter during the twelve month period ended December 31, 2011, for proceeds (net of costs) of $878,000, realizing a capital loss of $41,666.

Capital Expenditures

During 2011, Tuscany incurred $7.6 million in capital expenditures compared with $3.0 million in 2010.

Capital Expenditures *($ Thousands)*	Three Months Ended December 31 2011	Three Months Ended December 31 2010	Twelve Months Ended December 31 2011	Twelve Months Ended December 31 2010
Drilling and completions	2,563	888	6,032	1,549
Equipment, facilities and pipelines	446	306	1,547	1,015
Geological and geophysical	38	65	179	189
Land	$ 11	$ 45	$ (145)	$ 254
Total	$ 3,058	$ 1,304	$ 7,613	$ 3,007

In Q4 2011, the Company drilled two new horizontal wells at Mackliln, one new horizontal well at Evesham, and shot two 3D seismic programs. In the prior year, Tuscany drilled two wells (1.2 net). For 2011, Tuscany drilled 11 horizontal oil wells (6.7 net), compared with 4 horizontal heavy oil wells (2.4 net) in 2010 and a water disposal well.

Liquidity and Capital Resources

The Company's 2011 operations and capital expenditures were funded from cash flow and the acquisition of Sharon Energy Ltd. in June 2011. The acquisition of Sharon Energy Ltd. provided more than $8.0 million of cash which was used to repay the bank debt and fund planned development. At December 31, 2011, Tuscany's operating demand loan provided for a line of credit of $4.6 million (2010 – $4.0 million) which was undrawn (2010 – $2.5 million). The Company plans to finance its 2012 exploration and development budget out of available cash, cash flow, and the selling of its investment in Magnum Hunter while minimizing the use of the line of credit.

As of April 27, 2011, Tuscany had 123,355,018 common shares outstanding and options outstanding to purchase 6,371,200 additional common shares.

Subsequent to the end of 2011, Tuscany sold 326,195 shares of its investment in Magnum Hunter for net proceeds of $2.2 million. As of April 24th the remaining investment, 100,000 Magnum Hunter shares, was worth approximately $600,000.

Normal Course Issuer Bid ("NCIB")

On October 24, 2011, Tuscany filed a notice of intention to acquire up to 6,197,000 common shares through the facilities of the TSX Venture Exchange pursuant to a NCIB, which expires on October 26, 2012. Shares repurchased pursuant to the bid are cancelled. Tuscany had an NCIB in place prior to the current NCIB, and pursuant to the two NCIB's for the year, 1,498,000 shares were repurchased at an average price of $0.14.

Business Risk

The Company is engaged in the exploration, development, production and acquisition of crude oil and natural gas. Tuscany's business is inherently risky and there is no assurance that hydrocarbon reserves will be discovered and economically produced.

Financial risks associated with the petroleum industry include fluctuations in commodity prices, interest rates and currency exchange rates. Operational risks include competition, environmental factors, reservoir performance uncertainties, a complex regulatory environment and safety concerns.

The Company minimizes its business risks by focusing on a select group of properties. This enables Tuscany to have more control over the timing, direction and costs related to exploration and development opportunities. The geological focus is on areas in which the prospects are well understood by Management. Technological tools are regularly used to reduce risk and increase the probability of success. The Company closely follows all government regulations and has an up-to-date emergency response plan that has been communicated to all field operations by Management. Tuscany also carries insurance coverage to protect itself against potential losses.

Employing a highly motivated and experienced staff of petroleum and natural gas professionals further minimizes the business risk.

The Company is exposed to commodity price and market risk for its principal products of petroleum and natural gas. Commodity prices are influenced by a wide variety of factors of which most are beyond the control of Tuscany.

Contractual Obligations and Commitment

The Company has asset retirement obligations with respect to the abandonment and reclamation of wells and facilities owned by the Company. Tuscany includes the present value of the estimated liabilities for such costs on its balance sheet. The total estimated undiscounted cost of these liabilities at December 31, 2011, was $1.6 million (2010 – $1.2 million).

The Company issued $1.2 million of flow-through shares in November 2010 and has met all of its flow through spending commitment.

Off Balance Sheet Arrangements

Tuscany does not currently utilize any off balance sheet arrangements to enhance liquidity and capital resource positions or for any other purpose.

Related Party Transactions

As at December 31, 2011, Humboldt Capital Corporation ("Humboldt") and certain of its officers and directors owned 36.6% of the outstanding shares of Tuscany at April 27, 2012. Humboldt, is considered to be controlled by Robert Lamond, who owns 71% of the common shares of Humboldt. Mr. Lamond is the Chairman and CEO of Humboldt, Diaz, Tuscany and Paris. Humboldt's business includes the ownership, acquisition and sale of securities in other companies and Humboldt owns significant interests in companies in the oil and gas sector, which compete with Tuscany and may operate jointly with Tuscany. As at December 31, 2011, these include Diaz Resources Ltd. ("Diaz"), and Paris Energy Inc. ("Paris") which also have certain common officers and directors. The following table sets forth the respective ownership of Humboldt and its officers and directors in Tuscany, Paris and Diaz as at April 27, 2012:

- 36.6% of Tuscany common shares,
- 58.0% of Paris common shares, and
- 36.7% of Diaz common shares.

On June 2, 2011, Tuscany and Sharon completed a plan of arrangement whereby Tuscany acquired 100% of the common shares of Sharon.

The Company has a joint venture with Diaz Resources Ltd. whereby it participates in new oil and natural gas projects for a 55% working interest with Diaz having a 45% working interest. Diaz provides administrative, operating and exploration services for Tuscany in exchange for payment of a portion of the related costs of Diaz. For the twelve month period ended December 31, 2011, Diaz charged Tuscany overhead fees of $817,000 (2010 - $494,000). Fees of $238,000 (2010 - $160,000) charged by Diaz to Tuscany related to exploration and development activities and were capitalized.

Diaz and Tuscany participate in joint operations pursuant to agreements in which either Diaz or Tuscany are the operator. At December 31, 2011, Diaz owed Tuscany $505,000 (2010 – Tuscany owed Diaz $56,000) and Tuscany had no outstanding amounts owed to Paris Energy Inc. (2010 – $19,000). These transactions were measured at the amount of consideration established and agreed to by the related parties.

Application of Critical Accounting Estimates

Tuscany's financial statements have been prepared in accordance with IFRS. The significant accounting policies used by Tuscany are disclosed in Note 3 to the Consolidated Financial Statements. Certain accounting policies require that Management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The following discusses such accounting policies and is included in Management's Discussion and Analysis to aid the reader in assessing the critical accounting policies and practices of the Company and the likelihood of materially different results being reported.

Tuscany's Management reviews its estimates regularly. The emergence of new information and changed circumstances may result in actual results or changes to estimated amounts that differ materially from current estimates.

Accounting Policy Changes

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

The most significant changes to the Company's accounting policies relate to the accounting for upstream costs. Under previous GAAP, Tuscany followed the Canadian Institute of Chartered Accountants ("CICA") guideline on full cost accounting in which all costs directly associated with the acquisition of, the exploration for, and the development of natural gas and liquids reserves were capitalized on a country-by-country cost centre basis. Costs accumulated within each country cost centre were depleted using the unit-of-production method based on proved reserves determined using estimated future prices and costs. Upon transition to IFRS, the Company was required to adopt new accounting policies for upstream activities, including exploration and evaluation costs and development costs.

Under IFRS, exploration and evaluation costs are those expenditures for an area where technical feasibility and commercial viability has not yet been determined. Development costs include those expenditures for areas where technical feasibility and commercial viability has been determined. Tuscany adopted the IFRS 1 exemption whereby the Company deemed its January 1, 2010 IFRS upstream asset costs to be equal to its previous GAAP historical upstream property, plant and equipment net book value. Accordingly, exploration and evaluation costs were deemed equal to the unproved properties balance and the development costs were deemed equal to the upstream full cost pool balance. Under IFRS, exploration and evaluation costs are presented as exploration and evaluation assets and development costs are presented within property, plant and equipment on the Consolidated Balance Sheet.

The following provides summary reconciliations of Tuscany's 2010 previous GAAP and IFRS results, either explicitly, or by reference to disclosures contained in Tuscany's first quarter interim report, along with a discussion of the significant IFRS accounting policy changes:

Summary Earnings (Loss) Reconciliation

	2010				
($ Thousands, unaudited)	Annual	Q4	Q3	Q2	Q1
Net income (loss) and Comprehensive Income (loss) - Previous GAAP	$ (876)	$ (313)	$ (348)	$ (84)	$ (131)
Addition / (deduction)					
Depletion, depreciation and accretion	90	103	6	(33)	14
Asset retirement obligation	(32)	27	(17)	(39)	(3)
Deferred Tax (Expense) Recovery	(15)	(4)	11	2	(2)
	43	126	-	(70)	9
Net earnings (loss) and Comprehensive Income (loss) - IFRS	(833)	(186)	(350)	(153)	(122)

Summary Cash Flow From Operations Reconciliation

	2010				
($ Thousands, unaudited)	Annual	Q4	Q3	Q2	Q1
Cash flow from operations - Previous GAAP (1)	$ 450	$ 110	$ 57	$ 52	$ 231
Addition / (deduction)					
Exploration and evaluation	-	-	-	-	-
Depletion, depreciation and accretion	-	-	-	-	-
Deferred Tax Expense (Recovery)	-	-	-	-	-
Asset retirement obligation					
	-	-	-	-	-
Cash flow from operations - IFRS (1)	450	110	57	52	231

(1) A Non-GAAP measure, which is defined under the Non-GAAP Measures section of this MD&A.

Exploration and Evaluation

Exploration and evaluation assets at January 1, 2010 were deemed to be $107,000, representing the unproved properties balance under previous GAAP. This resulted in a reclassification of $107,000 from property, plant and equipment to exploration and evaluation assets on Tuscany's Consolidated Balance Sheet as at January 1, 2011. The

Company took an impairment of the exploration and evaluation assets at January 1, 2010, of $15,000. As at December 31, 2010, the Company's exploration and evaluation assets were approximately $390,000.

Under previous GAAP, exploration and evaluation costs were capitalized as property, plant and equipment in accordance with the CICA's full cost accounting guidelines. Under IFRS, Tuscany capitalizes these costs initially as exploration and evaluation assets. Once technical feasibility and commercial viability of the area has been determined, the capitalized costs are transferred from exploration and evaluation assets to property, plant and equipment. Under IFRS, unrecoverable exploration and evaluation costs associated with an area and costs incurred prior to obtaining the legal rights to explore are expensed.

During the twelve months ended December 31, 2010, Tuscany did not expense any exploration and evaluation assets. The application of IFRS for exploration and evaluation costs did not result in any change to Tuscany's previous GAAP net earnings for the twelve months ended December 31, 2010.

Depreciation, Depletion and Amortization

Development costs at January 1, 2010 were deemed to be $13.6 million, representing the upstream full cost pool balance under previous GAAP less exploration and evaluation assets. Consistent with previous GAAP, these costs are capitalized as property, plant and equipment under IFRS. Under previous GAAP, development costs were depleted using the unit-of-production method calculated for each country cost centre. Under IFRS, development costs are depleted using the unit-of-production method calculated at the Cash Generating Unit (CGU) level. The IFRS 1 exemption permitted the Company to allocate development costs to the CGU level using proved and probable reserve values for each CGU as at January 1, 2010.

Depleting at a CGU level under IFRS resulted in a $90,000 decrease to Tuscany's DD&A expense for the twelve months ended December 31, 2010. Tuscany's net loss decreased $90,000, after tax, compared to previous GAAP for the twelve months ended December 31, 2010 as a result of depleting at a CGU level under IFRS.

Impairments

Under previous GAAP, an upstream impairment was recognized if the carrying amount exceeded the undiscounted cash flows from proved reserves for a country cost centre. An impairment was measured as the amount by which the carrying value exceeded the sum of the fair value of the proved and probable reserves and the costs of unproved properties. Impairments recognized under previous GAAP were not reversed.

Under IFRS, an upstream impairment is recognized if the carrying value exceeds the recoverable amount for a CGU. Upstream areas are aggregated into CGUs based on their ability to generate largely independent cash flows. If the carrying value of the CGU exceeds the recoverable amount, the CGU is written down with an impairment recognized in net earnings. Impairments recognized under IFRS are reversed when there has been a subsequent increase in the recoverable amount. Impairment reversals are recognized in net earnings and the carrying amount of the CGU is increased to its revised recoverable amount as if no impairment had been recognized for the prior periods.

Dispositions

Under previous GAAP, proceeds from dispositions of upstream assets were deducted from the full cost pool without recognition of a gain or loss unless the deduction resulted in a change to the country cost centre depletion rate of 20 percent or greater, in which case a gain or loss was recorded.

Under IFRS, gains or losses are recorded on dispositions and are calculated as the difference between the proceeds and the net book value of the asset disposed.

Asset Retirement Obligation

Under previous GAAP, the asset retirement obligation was measured as the estimated fair value of the retirement and decommissioning expenditures expected to be incurred. Liabilities were not re-measured to reflect period end discount rates.

Under IFRS, the asset retirement obligation is measured as the best estimate of the expenditure to be incurred and requires that the asset retirement obligation be re-measured using period end discount rates.

In conjunction with the IFRS 1 exemption regarding upstream assets discussed above, Tuscany was required to re-measure its asset retirement obligation upon transition to IFRS and recognize the difference in retained earnings. The application of this exemption resulted in a $336,000 increase to the asset retirement obligation on Tuscany's Consolidated Balance Sheet as at January 1, 2010 and a corresponding charge to retained earnings of $336,000. Subsequent IFRS re-measurements of the obligation are recorded through property, plant and equipment with an offsetting adjustment to the asset retirement obligation. As at December 31, 2010, excluding the January 1, 2010 adjustment, Tuscany's asset retirement obligation increased by $62,000 reflecting primarily the re-measurement of the obligation using risk free discount rates for obligations within 5 years, 10 years or longer of 2.45%, 3.16% and 3.54% respectively as at December 31, 2010.

Share-Based Payments

The Company grants stock options to certain employees. Stock options vest over two years with one third vesting immediately on the grant date and an additional one third vesting on each of the next two anniversaries of the grant date. Options expire after five years. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. The fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is recognized over the tranche's vesting period by increasing contributed surplus based on the number of awards expected to vest. This number is reviewed at least annually, with any change in estimate recognized immediately in stock based expense with a corresponding adjustment to contributed surplus.

Income Tax

Deferred income taxes have been adjusted to reflect the tax effect arising from the differences between IFRS and previous GAAP. For the year ended December 31, 2010 the Company's deferred tax asset balance was not affected by the transition to IFRS.

Other Exemptions

Other significant IFRS 1 exemptions taken by Tuscany at January 1, 2010 include the following:

- Business combinations and jointly controlled operations entered into prior to January 1, 2010 were not retrospectively restated under IFRS.

- Leases were not reassessed to determine whether an arrangement contained a lease under International Financial Reporting Interpretations Committee 4, determining whether an Arrangement contains a Lease, for contracts that were already assessed under previous GAAP.

The remaining IFRS 1 exemptions were not applicable or material to the preparation of Tuscany's Consolidated Balance Sheet at the date of transition to IFRS on January 1, 2011.

Upstream Assets and Reserves

Reserves estimates can have a significant impact on earnings, as they are a key input to the Company's DD&A calculations and impairment tests. Costs accumulated within each area are depleted using the unit-of-production method based on proved reserves using estimated future prices and costs. Costs subject to depletion include estimated future costs to be incurred in developing proved reserves. A downward revision in reserves estimates or an increase in estimated future development costs could result in the recognition of a higher DD&A charge to net earnings.

Upstream assets, including exploration and evaluation costs and development costs, are aggregated into cash generating units based on their ability to generate largely independent cash flows. If the carrying value of the cash-generating unit exceeds the recoverable amount, the cash-generating unit is written down with an impairment recognized in net earnings. The recoverable amount of an asset or cash-generating unit is the greater of its fair value less costs to sell and its value in use. Fair value less costs to sell may be determined using discounted future net cash flows of proved and probable reserves using forecast prices and costs. A downward revision in reserves estimates could result in the recognition of impairments charged to net earnings.

Reversals of impairments are recognized when there has been a subsequent increase in the recoverable amount. In this event, the carrying amount of the asset or cash-generating unit is increased to its revised recoverable amount with an impairment reversal recognized in net earnings.

All of Tuscany's oil and gas reserves and resources are evaluated and reported on by independent qualified reserves evaluators. The estimation of reserves is a subjective process. Forecasts are based on engineering data, projected future rates of production, estimated commodity price forecasts and the timing of future expenditures, all of which are subject to numerous uncertainties and various interpretations. Reserves estimates can be revised upward or downward based on the results of future drilling, testing, production levels and economics of recovery based on cash flow forecasts. Contingent resources are not classified as reserves due to the absence of a commercial development plan that includes a firm intent to develop within a reasonable time frame.

Asset Retirement Obligations

Asset retirement obligations include present obligations where the Company will be required to retire tangible long-lived assets such as producing well sites and natural gas processing plants. The asset retirement obligation is measured at the present value of the expenditure expected to be incurred. The associated asset retirement cost is capitalized as part of the cost of the related long-lived asset. Changes in the estimated obligation resulting from revisions to estimated timing, amount of cash flows or changes in discount rate are recognized as a change in the asset retirement obligation and the related asset retirement cost.

Increases in the estimated asset retirement obligation and costs increase the corresponding charges of accretion and DD&A to net earnings. A decrease in discount rates increases the asset retirement obligation, and decreases the associated finance costs charged to net earnings. Actual expenditures incurred are charged against the accumulated asset retirement obligation.

Income Tax Accounting

Tuscany follows the liability method of accounting for income taxes. Under this method, deferred income taxes are recorded for the effect of any temporary difference between the accounting and income tax basis of an asset or liability, using the enacted or substantively enacted income tax rates. Current income taxes for the current and prior periods are measured at the amount expected to be recoverable from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period. The deferred income tax assets and liabilities are adjusted to reflect changes in enacted or substantively enacted income tax rates that are expected to apply, with the corresponding adjustment recognized in net earnings or in shareholders' equity depending on the item to which the adjustment relates.

The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded by Management.

Financial Instruments

All financial instruments are required to be measured at fair value on initial recognition of the instrument. Measurement in subsequent periods depends on whether the financial instrument has been classified as "held-for-trading," "available-for-sale," "held-to-maturity," "loans and receivables" or "other financial liabilities" as defined by the standard.

Cash and cash equivalents are measured at fair value. Accounts receivable are designated as "loans and receivables" and are carried at amortized cost. Accounts payable are designated as "other financial liabilities" and are carried at cost.

The Company's financial instruments that are included in the balance sheet are comprised of cash, accounts receivable, accounts payable, and bank debt.

Fair Values of Financial Assets and Liabilities

The fair values of financial instruments that are included in the balance sheet approximate their carrying amount due to the short-term maturity of those instruments.

Credit Risk

Credit risk is the risk that the counterparty to a financial asset will default, resulting in the Company incurring a financial loss. The Company is exposed to credit risk on its accounts receivable to a maximum of the carrying value of the aforementioned items at the end of the period. A substantial portion of the Company's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks. The exposure to credit risk is approximately $13,000 which represents accounts receivable balances in excess of 90 days. Management has reviewed the items comprising the accounts receivable balance and determined that all accounts are collectible; accordingly there has been no allowance for doubtful accounts recorded.

Interest Rate Risk

The Company is exposed to risks from interest rate fluctuation on its bank loan which is based on prime rates. The Company had no bank debt at December 31, 2011.

Liquidity Risk

The Company is exposed to liquidity risk from the possibility that it will encounter difficulty meeting its financial obligations. The Company manages this risk by forecasting cash flows in an effort to match operating cash flow to future expenditures and to arrange financing, if necessary. It may take many years and substantial cash expenditures to pursue exploration and development activities on all of the Company's existing undeveloped properties. Accordingly, the Company may need to raise additional funds from outside sources in order to explore and develop its properties. There is no assurance that adequate funds from debt and equity markets will be available to the Company in a timely manner. The timing of cash outflows relating to financial liabilities are outlined in the table below:

($ Thousands)	< 1 year	years 2 & 3	> 3 years
Accounts payable and accrued liabilities	$ 6,870	$ -	$ -

At December 31, 2011 the Company has met all the obligations associated with its financial liabilities. The majority of the Company's accounts payable are current. The bank loan is a demand loan and is classified as a current liability of less than one year. At December 31, 2011, the credit facility of $4.6 million remained undrawn.

Foreign Currency Exchange Risk

The Company currently has no material exposure to foreign currency fluctuations in its cash and cash equivalents, accounts receivables or accounts payables; however, the Company's investment in Magnum Hunter is in U.S. dollars and is therefore exposed to foreign currency fluctuations.

($ Thousands)	Balance Sheet Total	Canada	USA
		Cdn $ Equivalent	
Cash and cash equivalents	$ 3,386	$ 3,386	$ -
Investment	2,328	-	2,328
Accounts receivable	2,786	2,786	-
Accounts payable	6,870	6,870	-
Total	$ 15,370	$ 13,042	$ 2,328

The table below indicates the balance sheet exposure to a 10% change in the U.S. dollar to Canadian dollar exchange rate:

($ Thousands)	Favourable 10% Change	Unfavourable 10% Change
Investment in Magnum Hunter	$ 233	$ (233)

Disclosure Controls and Procedures (DC&P)

The Chief Executive Officer and Chief Financial Officer of Tuscany (the "Certifying Officers") have designed disclosure controls and procedures or caused them to be designed under our supervision, to provide reasonable assurance that:

(i) material information relating to the issuer is made known to the Certifying Officers by others, particularly during the period in which the annual filings are being prepared; and

(ii) information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

The Certifying Officers have evaluated the disclosure controls and procedures and have determined that the DC&P are effective as at December 31, 2011.

Outlook

Tuscany expects oil prices to hold above WTI $95 per barrel in 2012 as world demand for oil continues to be strong. This should result in realized heavy oil prices in excess of $70 per barrel for the year, which would support continued development of the Company's heavy oil projects.

Tuscany is focused on growth through oil exploration and development. With its prospect inventory, developed over the past three years, Tuscany believes it can achieve growth by continuing to develop its Dina oil properties at Evesham and Macklin, and its Lloydminster heavy oil projects from working capital, operating cash flows and its bank line if needed.

Management's Report

The accompanying consolidated financial statements of Tuscany Energy Ltd. are the responsibility of Management and have been prepared by Management in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and include certain estimates that reflect Management's best judgments. Financial information contained throughout the annual report is consistent with these financial statements.

The Company's Board of Directors has approved the information contained in the consolidated financial statements. The Board of Directors fulfills its responsibility regarding the financial statements mainly through its Audit Committee, which has a written mandate that complies with the current requirements of Canadian securities legislation. The Audit Committee has reviewed these statements with Management and the auditors, and has reported to the Board of Directors. The Audit Committee meets at least on a quarterly basis.

PricewaterhouseCoopers LLP have been appointed by the shareholders of Tuscany Energy Ltd. and serves as the Company's independent auditors.

Robert W. Lamond
President and Chairman of the Board
April 27, 2012

Brad R. Perry, CMA
Chief Financial Officer

pwc

Independent Auditor's Report

To the Shareholders of Tuscany Energy Ltd.

We have audited the accompanying consolidated financial statements of Tuscany Energy Ltd., which comprise the consolidated balance sheets as at December 31, 2011, December 31, 2010 and January 1, 2010 and the consolidated statements of operations, comprehensive earnings (loss), changes in shareholders' equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Tuscany Energy Ltd. as at December 31, 2011, December 31, 2010 and January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta

April 27, 2012

Consolidated Financial Statements

Consolidated Balance Sheets

As at ($ Thousands)		December 31 2011	December 31 2010	January 1 2010
ASSETS				
Cash	(Note 11)	$ 3,386	$ 14	$ 109
Accounts receivable	(Note 11)	2,786	612	694
Income tax receivable		-		
Prepaid expense		251	3	2
Total current assets		6,423	629	805
Property, plant and equipment, net	(Note 6)	17,308	10,380	8,745
Exploration and evaluation assets	(Note 6)	1,012	390	107
Investment	(Note 14)	2,328	-	-
Deferred Tax Asset	(Note 16)	669	1,046	871
		21,317	11,816	9,723
Total assets		$ 27,740	$ 12,445	$ 10,528
LIABILITIES				
Accounts payable and accrued liabilities	(Note 11)	$ 6,870	$ 2,304	$ 1,739
Bank debt	(Note 5)	-	2,530	1,800
Total current liabilities		6,870	4,834	3,539
Asset retirement obligation	(Note 9)	1,514	1,006	830
Total non-current liabilities		1,514	1,006	830
Total liabilities		$ 8,384	$ 5,840	$ 4,369
EQUITY				
Share capital	(Note 7)	$ 18,815	$ 7,992	$ 6,878
Contributed surplus	(Note 7)	975	558	392
Accumulated other comprehensive loss		(520)	-	
Deficit		86	(1,945)	(1,111)
Total equity		$ 19,356	$ 6,605	$ 6,159
Total liabilities and equity		$ 27,740	$ 12,445	$ 10,528

See Note 10, Commitments

Approved by the Board:

(Signed) "*R.W. Lamond*" Director (Signed) "*C.A. Teare*" Director

See accompanying Notes to the consolidated financial statements.

Consolidated Statement of Operations

Years ended December 31 *($ Thousands, except per share amounts)*		2011	2010
Revenue			
Oil and natural gas revenue	*(Note 3)*	$ 5,849	$ 2,724
Processing revenue		208	168
Other income		16	-
		6,073	2,892
Expenses			
Operating and transportation		1,611	1,539
Overhead	*(Note 19)*	1,170	720
Stock based compensation		219	184
Interest		143	182
Depletion, depreciation and amortization	*(Note 6)*	2,439	1,266
Property, plant & equipment impairment	*(Note 6)*	1,397	-
		6,979	3,891
Loss on sale of investment	*(Note 14)*	(42)	-
Gain on disposals		250	-
Gain on purchase of Sharon Energy Ltd.	*(Note 17)*	3,138	-
Earnings (loss) before income tax		2,440	(999)
Income tax			
Current tax expense (recovery)		32	-
Deferred tax expense (recovery)	*(Note 16)*	377	(166)
Total income tax (recovery)		409	(166)
Net Earnings (Loss)		2,031	(833)
Retained earnings (deficit), beginning of period		(1,945)	(1,111)
Retained earnings, end of period		$ 86	$ (1,944)
Earnings (Loss) per share, basic and diluted	*(Note 7)*	$ 0.02	$ (0.01)

Consolidated Statement of Comprehensive Earnings (Loss)

Years ended December 31 *($ Thousands, except per share amounts)*		2011	2010
Net Earnings (Loss)		$ 2,031	$ (833)
Other Comprehensive Income			
Gain (Loss) on value of investment	*(Note 14)*	(520)	-
Comprehensive earnings (loss)		$ 1,511	$ (833)

See accompanying Notes to the consolidated financial statements.

Consolidated Statement of Changes in Shareholders' Equity

Years ended December 31 *($ Thousands)*	2011	2010

Share Capital

Balance at January 1,	$ 7,992	$ 6,878
Common shares Issued (net of tax and issue costs)	11,017	1,175
Repurchased for cancellation	(206)	(61)
Excess of cost over paid up capital	12	-
Balance at December 31,	$ 18,815	$ 7,992

Contributed Surplus

Balance at January 1,	$ 558	$ 392
Option Compensation	429	184
Excess of Cost over Paid Up Capital *(Note 7)*	(12)	(18)
Balance at December 31,	$ 975	$ 558

Deficit

The deficit discloses the cumulative total resulting from transactions that are charged to the consolidated statement of operations.

Balance at January 1,	$ (1,945)	$ (1,112)
Net earnings (loss)	2,031	(833)
Balance at December 31,	$ 86	$ (1,945)

Accumulated Other Comprehensive Income

The reserve of accumulated other comprehensive loss discloses the cumulative total resulting from transactions that are charged to the consolidated statement of comprehensive loss.

Balance at January 1,	$ -	$ -
Gain (Loss) on value of investment	(520)	-
Balance at December 31,	$ (520)	$ -

See accompanying Notes to the consolidated financial statements.

Consolidated Statement of Cash Flows

Years ended December 31 *($ Thousands)*		2011	2010
Cash provided by (used for):			
Cash flows from operating activities			
Earnings (Loss) for the period		$ 2,031	$ (833)
Non-cash items:			
Loss on revaluation of asset retirement obligation		-	(16)
Depletion, depreciation and impairment		3,837	1,266
Borrrowing expense		37	47
Stock based compensation		219	184
Loss on sale of investment		42	-
Gain on disposals		(250)	-
Gain on bargain purchase		(3,138)	-
Deferred tax expense (recovery)		377	(166)
Cash flow from operations		$ 3,155	$ 482
Change in non-cash working capital	*(Note 13)*	2,023	614
Net cash from operating activitieds		$ 5,178	$ 1,096
Cash flows from investing activities			
Proceeds from sale of investment		878	
Property, plant & equipment expenditures		$ (8,280)	$ (2,759)
Property, plant & equipment disposals		592	34
Exploration and evaluation expenditures		(432)	(283)
Exploration and evaluation disposals		321	-
Net cash used in investing activities		$ (6,921)	$ (3,008)
Cash flows from financing activities			
Increase (decrease) in bank debt		$ (2,530)	$ 730
Common Shares			
Issued for cash on a flow through basis		-	1,200
Costs of share issue			(35)
Acquisition of Sharon Energy Ltd.		8,006	-
Less: cost of acquisition		(155)	-
Repurchased for cancellation		(206)	(78)
Net cash from financing activities		$ 5,115	$ 1,817
Increase (decrease) in cash		3,372	(95)
Cash, beginning of period		14	109
Cash, end of period		$ 3,386	$ 14

See accompanying Notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

1. *Corporate Information*

Tuscany Energy Ltd. and its subsidiaries ("Tuscany" or "the Company") are in the business of the exploration for, the development of, and the production of natural gas, crude oil and natural gas liquids.

Tuscany Energy Ltd. is a publicly traded company, incorporated and domiciled in Canada. The address of its office is 1800, 633 – 6th Avenue, S.W. Calgary, Alberta, Canada T2P 2Y5.

Tuscany has one wholly owned subsidiary, Sharon Energy Ltd.

Common shares of the Company trade on the TSX Venture Exchange under the symbol "TUS".

These consolidated financial statements were approved and authorized for issuance by the Board of Directors ("the Board") on April 24, 2012.

2. *Basis of Presentation*

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These are Tuscany's first audited annual consolidated financial statements issued under IFRS and present the Company's financial results of operations and financial position as at and for the year ended December 31, 2011, including 2010 comparative periods. As a result, the Company has followed IFRS 1 and "First-time Adoption of International Financial Reporting Standards". Prior to 2011, the Company prepared its consolidated financial statements in accordance with Canadian generally accepted accounting principles ("previous GAAP"). Unless otherwise noted, 2010 comparative information has been prepared in accordance with IFRS.

The preparation of these consolidated financial statements resulted in selected changes to Tuscany's accounting policies as compared to those disclosed in the Company's annual audited consolidated financial statements for the period ended December 31, 2010 issued under previous GAAP. A summary of the significant changes to Tuscany's accounting policies is disclosed in Note 18 along with reconciliations presenting the impact of the transition to IFRS for the comparative periods as at January 1, 2010, and as at and for the year ended December 31, 2010.

A summary of Tuscany's significant accounting policies under IFRS is presented in Note 3. These policies have been retrospectively and consistently applied except where specific exemptions permitted an alternative treatment upon transition to IFRS in accordance with IFRS 1 as disclosed in Note 18.

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of April 24, 2012, the date that the Board of Directors approved the statements. These consolidated financial statements have been prepared on a historical cost basis.

3. *Accounting Policies*

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary Sharon Energy Ltd.

The Corporation's principal business activity is the exploration, development and operation of oil and natural gas properties in Alberta and Saskatchewan, Canada. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") on a going concern basis, which contemplates the realization of assets and the payment of liabilities in the ordinary course of business.

Management has made the necessary estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses in the preparation of the financial statements. Accordingly, actual results may differ from estimated amounts but Management does not believe such differences will materially affect Tuscany's financial position or results of operations.

Principles of Consolidation

The consolidated financial statements include the accounts of Tuscany Energy Ltd. and its subsidiary Sharon Energy Ltd. Interests in jointly controlled assets are accounted for using the proportionate consolidation method, whereby Tuscany's proportionate share of revenues, expenses, assets and liabilities are included in the accounts.

Foreign Currency Translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at exchange rates of monetary assets and liabilities denominated in currencies other than an entities' functional currency are recognized in the statement of consolidated statement of operations in "foreign exchange loss (gain)".

Significant Accounting Judgments and Estimation Uncertainties

The amounts recorded for depletion, depreciation and amortization of petroleum and natural gas properties and equipment and the provision for asset retirement obligation are based on estimates. The impairment test of CGU's is based on estimates of proved reserves, production rates, oil and gas prices, future costs and other relevant assumptions, see Note 6. The Black-Scholes option pricing model is used to estimate stock option values based on estimates of the current risk free interest rate, expected life of the options, and expected volatility of the underlying common share price. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded by Management.

The discount rates used to determine the net present value of Asset Retirement Obligations are pre-tax risk-free rates relevant to the expected time remaining until abandonment on a property by property basis.

Revenue Recognition

Revenue associated with the sale of crude oil, natural gas and natural gas liquids owned by the Company is recognized when title passes from the Company to its customers and collectability is reasonably assured. Revenue is presented net of royalties under IFRS.

Production and Mineral Taxes

Costs paid by Tuscany to certain mineral and non-mineral interest owners based on production of crude oil, natural gas and natural gas liquids are recognized when the product is produced.

Income Taxes

Tuscany follows the liability method of accounting for income taxes. Under this method, deferred income taxes are recorded for the effect of any temporary difference between the accounting and income tax basis of an asset or liability, using the enacted or substantively enacted income tax rates. Current income taxes for the current and prior periods are measured at the amount expected to be recoverable from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period.

The deferred income tax assets and liabilities are adjusted to reflect changes in enacted or substantively enacted income tax rates that are expected to apply, with the corresponding adjustment recognized in net earnings or in shareholders' equity depending on the item to which the adjustment relates.

Deferred income tax assets are recognized to the extent future recovery is probable. They are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

Earnings Per Share

Basic earnings (loss) per share are calculated by dividing the weighted average number of the aggregate outstanding shares during the period into net earnings (loss) attributable to the shareholders.

Diluted earnings per share are calculated by dividing the diluted weighted average number of aggregate outstanding shares during the period in the net earnings for the period. Stock options that are in-the-money are considered when determining the diluted weighted average shares. Diluted loss per share is calculated by dividing the basic weighted average aggregate outstanding shares into the loss for the period as using the diluted weighted average shares would be anti-dilutive.

Exploration and Evaluation Assets

All costs directly associated with the exploration and evaluation of oil, natural gas and liquids reserves are initially capitalized. Exploration and evaluation costs are those expenditures for an area where technical feasibility and commercial viability has not yet been determined. These costs include unproved property acquisition costs, geological and geophysical costs, asset retirement costs, exploration and evaluation drilling, sampling and appraisals. Costs incurred prior to acquiring the legal rights to explore an area are charged directly to net earnings as exploration and evaluation expense.

When an area is determined to be technically feasible and commercially viable, the accumulated costs are transferred to property, plant and equipment. When an area is determined not to be technically feasible and commercially viable or the Company decides not to continue with its activity, the unrecoverable costs are charged to net earnings as exploration and evaluation expense.

Property, Plant & Equipment

All costs directly associated with the development of crude oil, natural gas and natural gas liquids reserves are capitalized on an area-by-area basis. Development costs include expenditures for areas where technical feasibility and commercial viability has been determined. These costs include proved property acquisitions, development drilling, completions, gathering and infrastructure, asset retirement costs and transfers of exploration and evaluation assets, less impairments recognized.

Costs accumulated within each area are depleted using the unit-of-production method based on proved reserves using estimated future prices and costs. Costs subject to depletion include estimated future costs to be incurred in developing proved reserves. Costs of major development projects are excluded from the costs subject to depletion until they are available for use.

For divestitures of properties, a gain or loss is recognized in net earnings.

Impairment of Long-Term Assets

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

Exploration and evaluation assets are grouped and examined for indicators of impairment on a quarterly basis. Development & production assets are aggregated into "cash generating units" (CGU's) based on a number of factors including geography, existence of shared infrastructure, and the ability to generate largely independent cash inflows.

The recoverable amount of an asset or cash-generating unit is the greater of its fair value less costs to sell and its value in use. Fair value is determined to be the amount for which the asset could be sold in an arm's length transaction.

For upstream assets, fair value less costs to sell may be determined using discounted future net cash flows of proved and probable reserves using forecast prices and costs. Value in use is determined by estimating the present value of the future net cash flows expected to be derived from the continued use of the asset or cash-generating unit.

Reversals of impairments are recognized when there has been a subsequent increase in the recoverable amount. In this event, the carrying amount of the asset or cash-generating unit is increased to its revised recoverable amount with an impairment reversal recognized in net earnings. The recoverable amount is limited to the original carrying amount less depreciation, depletion and amortization as if no impairment had been recognized for the asset or cash-generating unit for prior periods.

Corporate Asset Depreciation

Costs associated with office furniture, fixtures, leasehold investments, and information technology are depreciated at an annual rate of 20%, on a declining balance basis.

Capitalization of Costs

Expenditures related to renewals or betterments that improve the productive capacity or extend the life of an asset are capitalized. Maintenance and repairs are expensed as incurred. General and administrative costs that are directly related to productive oil and gas assets are capitalized to the related CGU.

Business Combinations

Business combinations are accounted for using the acquisition method. The acquired identifiable net assets are measured at their fair value at the date of acquisition. Any excess of the purchase price over the fair value of the net assets acquired is recognized as goodwill. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss. Associated transaction costs are expensed when incurred.

Asset Retirement Obligations

Asset retirement obligations include present obligations, legal or constructive, where the Company will be required to retire tangible long-lived assets such as producing well sites and natural gas processing plants. The asset retirement obligation is measured at the present value of the expenditure expected to be incurred. The associated asset retirement cost is capitalized as part of the cost of the related long-lived asset. Changes in the estimated obligation resulting from revisions to estimated timing, amount of cash flows or changes in discount rate are recognized as a change in the asset retirement obligation and the related asset retirement cost.

Amortization of asset retirement costs are included in depreciation, depletion and amortization in the condensed consolidated statement of operations. Increases in asset retirement obligations resulting from the passage of time are recorded as interest expense in the condensed consolidated statement of operations.

Actual expenditures incurred are charged against the accumulated asset retirement obligation. Any difference between actual expenditures and the carrying value of the obligation is recognized as a gain or loss in the period.

Cash and Cash Equivalents

Cash includes cash and cash-like short-term investments that can be liquidated into cash on less than 90-days' notice.

Jointly Controlled Operations

Certain of the Company's crude oil and natural gas activities involve jointly controlled operations. The consolidated financial statements reflect the Company's proportionate share of the jointly controlled assets and liabilities and proportionate share of related revenues and costs.

Share Based Compensation Plan

The Company has an equity-settled share-based compensation plan, which is described in Note 7. The Company uses the fair value method for accounting for its equity settled stock based compensation whereby the fair value of each tranche of the option granted is estimated on the date of the grant, using the Black-Scholes option pricing model adjusted for forfeitures in advance. Using the fair value method, compensation costs of stock based compensation are estimated and charged to earnings over the vesting period of the options.

Flow-Through Shares

At the time of share issuance, the proceeds are allocated between share capital and the obligation to deliver the tax deduction. The allocation is based on the difference between the quoted price of the Company's non-flow through shares and the amount the investor pays for the flow-through shares (given no other differences between the securities).

In accordance with IFRS, deferred income taxes related to the temporary differences created by the renouncement of flow-through share tax benefits to subscribers are recorded on a pro-rata basis when the qualified expenditures are incurred. This can occur either before or after the formal renunciation of expenditures is filed with tax authorities. When the qualified expenditures are incurred, the tax value of the renunciation is recorded on a pro-rata basis as a deferred income tax liability with a corresponding charge to income tax expense in the statement of comprehensive loss. Additionally, as qualified expenditures are incurred, the Company recognizes a pro-rata reduction of the flow-through premium liability as a recovery of deferred income taxes in the statement of comprehensive loss.

Financial Instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

At initial recognition, the Company classifies its financial instruments in the following categories:

(i) Financial assets and liabilities at fair value through profit or loss: A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term.

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statement of operations. Gains and losses arising from changes in fair value are presented in the consolidated statement of operations within "other gains and losses (net)" in the period in which they arise. Non-derivative financial assets and liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond twelve months of the balance sheet date, which are classified as long-term.

(ii) Available-for-sale investments: Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. The Company's available-for sale assets comprise investments equity securities (other than those qualifying as cash equivalents).

Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from re-measurement are recognized in other comprehensive income. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income to the statement of operations and are included in "other gains and losses (net)". Available-for-sale investments are classified as non-current, unless an investment matures within twelve months, or management expects to dispose of it within twelve months.

Interest on available-for-sale debt instruments, calculated using the effective interest method, is recognized in the statement of income as part of interest income.

(iii) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The company's loans and receivables comprise trade receivables and cash and cash equivalents, and are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

(iv) Financial liabilities at amortized cost: Financial liabilities at amortized cost include trade payables, bank debt and long-term debt. Trade payables are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, trade payables are measured at amortized cost using the effective interest method. Bank debt and long-term debt are recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method. These are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

Impairment of Financial Assets

At each reporting date, the company assesses whether there is objective evidence that a financial asset (other than a financial asset classified as fair value through profit or loss) is impaired.

The criteria used to determine if objective evidence of an impairment loss include:

(i) significant financial difficulty of the obligor;

(ii) delinquencies in interest or principal payments; and

(iii) it becomes probable that the borrower will enter bankruptcy or other financial reorganization.

For equity securities, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired.

If such evidence exists, the Company recognizes an impairment loss, as follows:

(i) Financial assets carried at amortized cost: The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

(ii) Available-for-sale financial assets: The impairment loss is the difference between the original cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the statement of income. This amount represents the loss in accumulated other comprehensive income that is reclassified to net income.

Impairment losses on financial assets carried at amortized cost and available-for-sale debt instruments are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. Impairment losses on available-for-sale equity instruments are not reversed.

4. *Adoption of New and Revised IFRS Standards and Interpretations*

The IASB issued a number of new and revised International Accounting Standards, International Financial Reporting Standards, amendments and related interpretations which are effective for the Company's financial year beginning on January 1, 2011. For the purpose of preparing and presenting the consolidated financial statements for the relevant periods, the Company has consistently adopted all of these new standards for the relevant reporting periods.

At the date of authorization of these consolidated financial statements, the IASB and the IFRS Interpretations Committee (IFRIC) have issued the following new and revised standards and interpretations which are not yet effective for the relevant reporting periods. The Company has not early adopted these standards, amendments or interpretations, however the Company is currently assessing what impact the application of these standards or amendments will have on the consolidated financial statements.

Amendment to IFRS 7, 'Financial instruments: Disclosures' on derecognition

This amendment promotes transparency in the reporting of transfer transactions and improves users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position. This amendment is effective for fiscal periods beginning on or after January 1, 2013.

Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income

The amendment requires entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). This amendment is effective for fiscal periods beginning on or after July 1, 2012.

Amendment to IAS 32, 'Financial instruments: Presentation'

The amendment clarifies the requirements for offsetting financial assets and liabilities. Specifically, the amendment clarifies that the right to offset must be available on the current date and cannot be contingent on a future event. This amendment is effective for fiscal periods beginning on or after January 1, 2014.

IFRS 9, 'Financial instruments'

IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply. This standard is effective for fiscal periods beginning on or after January 1, 2015.

IFRS 10, 'Consolidated financial statements'

IFRS 10 defines the principle of control, establishes control as the basis for consolidation, sets out how to apply the principle of control and prescribes the accounting requirements for the preparation of consolidated financial statements. This standard is effective for fiscal periods beginning on or after January 1, 2013.

IFRS 13, 'Fair value measurement'

IFRS 13 defines fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS. This standard is effective for fiscal periods beginning on or after January 1, 2013.

Other standards and interpretations issued or amended which are not yet effective for the relevant reporting periods include:

New standards	*Effective for fiscal years beginning on or after*
IFRS 11, 'Joint arrangements'	January 1, 2013
IFRS 12, 'Disclosure of interests in other entities'	January 1, 2013
IFRIC 20, 'Stripping costs in the production phase of a surface mine'	January 1, 2013

Amendments to existing standards	*Effective for fiscal years beginning on or after*
IAS 12, 'Income taxes'	July 1, 2012
IAS 19, 'Employee benefits'	January 1, 2013
IAS 27, 'Separate financial statements'	January 1, 2013
IAS 28, 'Investments in associates and joint ventures'	January 1, 2013

5. Bank Debt

Tuscany utilizes a secured revolving production loan that is payable on demand and is subject to an annual review and, therefore, is considered "current" for disclosure purposes and has been disclosed under current liabilities as bank debt.

At December 31, 2011, the Company had a $4.6 million production loan facility with a Canadian financial institution. The Company is required to maintain certain covenants with the financial institution and is in compliance of those covenants as at December 31, 2011.

At December 31, 2011, no amounts pursuant to this facility were outstanding (2010 - $2,530,000).

6. *Property, Plant and Equipment and Exploration and Evaluation*

($ Thousands)	Note		Property, Plant and Equipment		Exploration and Evaluation
As at January 1, 2010		$	13,600	$	107
Capital expenditures			2,823		283
As at December 31, 2010		$	16,423	$	390
Capital expenditures			8,493		432
Disposals			(688)		(51)
Transfers (from) to property, plant and equipment			264		(264)
Corporate acquisition			2,595		505
As at December 31, 2011		$	27,087	$	1,012

Accumulated Depletion, Depreciation and Amortization

($ Thousands)	Note		Property, Plant and Equipment
As at January 1, 2010		$	(4,855)
Depreciation, Depletion and amortization			(1,189)
As at December 31, 2010		$	(6,044)
Depreciation, Depletion and amortization			(2,384)
Disposals			46
Impairments			(1,397)
As at December 31, 2011		$	(9,779)

Net Book Value (Property, Plant and Equipment and Exploration and Evaluation)

($ Thousands)	Note		Net Book Value		Exploration and Evaluation
As at January 1, 2010		$	8,745	$	107
As at December 31, 2010		$	10,379	$	390
As at December 31, 2011		$	17,307	$	1,012

For the twelve months ended December 31, 2011, administrative expenses and stock based compensation of $238,000 related to exploration and development activities were capitalized as part of property, plant and equipment (2010 - $160,000).

For the calculation of depletion expense, estimated future costs required to develop the proved reserves were added to the cost base of property, plant and equipment. At December 31, 2011, future costs were $8.7 million (2010 - $5.3 million).

The carrying value of long-term assets is reviewed quarterly for indicators that the carrying value of an asset or CGU may not be recoverable. If indicators of impairment exist, the recoverable amount of the asset or cash-generating unit is estimated. If the carrying value of the asset or CGU exceeds the recoverable amount, the asset or CGU is written down with an impairment recognized in net earnings.

At December 31, 2011, Tuscany recognized a $1.40 million impairment (2010 – Nil) relating to the Company's natural gas producing assets. The impairment resulted from a decline in forecast natural gas prices, and changes in future development plans.

The impairments relate to specific cash-generating units ("CGUs") relating to natural gas properties and were based on the difference between the net book value of the assets and their recoverable amounts. The recoverable amounts were determined using fair value less costs to sell ("FVLCTS") based on discounted before-tax future net cash flows of proved and probable reserves using forecast prices and costs. The future net cash flows were discounted using 10 percent. The forecast prices used to determine fair value reflect the following benchmark prices, adjusted for basis differentials to determine local reference prices, transportation costs and tariffs, heat content, and quality.

Price Estimates Used for Ceiling Test					
	Henry Hub ($U.S./Mcf)	AECO ($Cdn/Mcf)	Edmonton Light ($Cdn/Bbl)	Heavy Oil Hardisty ($Cdn/Bbl)	WTI ($U.S./Bbl)
2012	3.75	3.50	99.00	82.00	97.50
2013	4.50	4.20	99.00	82.00	97.50
2014	5.05	4.70	101.50	84.10	100.00
2015	5.50	5.10	102.30	84.70	100.80
2016	5.95	5.55	103.20	85.50	101.70
2017-2026	6.35 - 8.10	5.90 - 7.55	104.20 - 120.50	86.30 - 99.80	102.70 - 118.80
Thereafter	+ 2%/Year	+ 2%/Year	+ 2%/Year	+ 2%/Year	+ 2%/Year

Discounted at 5%, the impairment would decrease to $1.33 million. Discounted at 15%, it would increase to 1.45 million.

7. *Share Capital*

Authorized

Unlimited number of common shares, no stated par value.

Voting rights

Common shares carry voting rights of one vote per share.

Issued

Common Shares - Issued	Number of Shares		Amount (thousands)
Balance, December 31, 2009	55,299,825	$	6,878
Flow through shares issued	8,000,000		1,200
Share issue costs (net of tax of $9,262)	-		(25)
Repurchased for cancellation	(498,000)		(61)
Balance, December 31, 2010	62,801,825	$	7,992
Common shares issued to acquire Sharon Energy Ltd.	62,062,193		11,171
Less: Costs of Issue	-		(154)
Repurchased for Cancellation	(1,498,000)		(206)
Excess of cost over paid up capital on share repurchases	-		12
Balance at December 31, 2011	123,366,018	$	18,815

Contributed Surplus		Amount (thousands)
Balance, December 31, 2009	$	392
Option compensation for the period		184
Paid up capital over (under) cost		(18)
Balance, December 31, 2010	$	558
Option compensation for the period		429
Paid up capital over (under) cost		(12)
Balance at December 31, 2011	$	975

Normal Course Issuer Bid ("NCIB")

On October 24, 2011, Tuscany filed a notice of intention to acquire up to 6,197,000 Common Shares through the facilities of the TSX Venture Exchange pursuant to a NCIB, which expires on October 26, 2012. Shares repurchased pursuant to the bid are cancelled. Tuscany had an NCIB in place prior to the current NCIB, and pursuant to the two NCIB's for the year, 1,498,000 shares were repurchased at an average price of $0.14.

Earnings Per Share

The treasury stock method is used to determine the dilutive effect of stock options, warrants and other dilutive instruments. Under the treasury stock method, only "in the money" dilutive instruments impact the dilution calculations.

Basic earnings (loss) per share are calculated by dividing the weighted average number of the aggregate outstanding shares during the period into net earnings (loss) attributable to the shareholders.

Diluted earnings per share are calculated by dividing the diluted weighted average number of aggregate outstanding shares during the period into the net earnings for the period. Diluted loss per share is calculated by dividing the basic weighted average aggregate outstanding shares into the loss for the period as using the diluted weighted average shares would be anti-dilutive.

Shares Outstanding	Three months ended December 31		Twelve Months Ended December 31	
	2011	2010	2011	2010
Weighted average shares outstanding	123,786,512	58,723,020	98,508,063	55,999,409
Dilutive effect of stock options	465,465	369,016	625,146	344,706
Diluted weighted average shares outstanding	124,251,977	59,092,036	99,133,209	56,344,115

Stock Option Plan

The Company's Stock Option Plan permits the granting of options to purchase common shares to officers, directors, employees and other persons who provide ongoing management or consulting services to the Company and its subsidiaries. The Stock Option Plan currently limits the number of common shares that may be issued on exercise of options to 10% of the number of outstanding common shares from time to time. Any increase in the issued and outstanding common shares will result in an increase in the available number of common shares issuable under the Stock Option Plan. Additionally, any exercise of options will make new grants available under the Stock Option Plan.

Options granted pursuant to the Stock Option Plan have a term not to exceed five years and vest as follows:

1/3 on grant date

1/3 on first anniversary of grant date

1/3 on second anniversary of grant date

As at December 31, 2011, there are a total of 6,371,200 options granted and outstanding under the Stock Option Plan with a weighted average exercise price of $0.1548 per common share. A total of 4,899,326 options with a weighted average exercise price of $0.1563 are exercisable at December 31, 2011.

Stock Options	December 31, 2011 Shares	December 31, 2011 Weighted Average Exercise Price	December 31, 2010 Shares	December 31, 2010 Weighted Average Exercise Price
Outstanding, beginning of period	4,195,000	$ 0.1280	2,220,000	$ 0.1160
Sharon Energy Ltd. acquisition*	2,755,200	$ 0.2056	-	$ -
Granted	166,000	$ 0.1400	2,175,000	$ 0.1400
Exercised	-	$ -	-	$ -
Expired	(511,665)	$ 0.1200	(200,000)	$ 0.2500
Cancelled	-	$ -	-	$ -
Forfeited	(233,335)	$ 0.1300	-	$ -
Outstanding, end of period	6,371,200	$ 0.1548	4,195,000	$ 0.1280
Options exercisable, end of period	4,899,326	$ 0.1563	2,078,315	$ 0.1280

* Options were granted on June 2, 2011, relating to the acquisition of Sharon Energy Ltd. Holders of stock options in Sharon at that date were granted 0.84 of an option in Tuscany for each Sharon option held. The exercise price was determined by dividing the Sharon exercise price by 0.84.

Exercise Price	Outstanding December 31, 2011	Weighted Average Remaining Life (years)	Vested December 31, 2011
$0.00 to $0.10	1,500,000	2.3352	1,500,000
$0.11 to $0.20	4,249,600	3.4938	2,777,726
$0.21 to $0.30	-	-	-
$0.31 to $0.40	621,600	1.2367	621,600
Total	6,371,200	3.4205	4,899,326

The Company accounts for its issued options using the fair value method whereby costs have been recognized in the financial statements for share options granted to employees, directors and consultants. The impact on these costs of using the fair value method increased option expenses for 2011 by $158,000 (2010 - $184,000).

The fair value of each option or warrant granted is estimated on the date of grant using the Black-Scholes option-pricing model with assumptions as follows:

	Risk Free Interest Rate (%)	**Expected Life (Years)**	**Expected Volatility**	**Weighted Average Future Value Per Option**
2010	1.79	4.5	1.40	0.1240
2011	1.49	4.5	1.38	0.1112

8. *Capital Disclosures*

Tuscany capital structure consists of shareholders equity plus debt, defined as current and long-term debt. Tuscany's objectives when managing capital are:

- To safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- To provide an adequate return to shareholders by investing in oil and gas activities commensurate with the level of risk management deems acceptable.

To facilitate the Management of its capital structure the Company prepares annual expenditure and operating budgets that are updated as necessary depending on success factors, industry conditions and operating cash flow. These annual and updated budgets are reviewed and approved by the Board of Directors. The Company makes adjustments to capital in light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure Tuscany may issue new shares, buy back shares, sell assets or increase its short-term or long-term debt.

Tuscany uses the terms cash flow from operations, annualized cash flow and net debt in its analysis below which are non-GAAP measures. The Company also uses annualized cash flow from operations which equals four times the most recent quarterly cash flow from operations. In addition, the Company presents "net current debt", which is calculated as the aggregate of current assets and current liabilities.

The ratio of net debt to annualized cash flow from operations is the primary ratio that Tuscany uses to determine if debt levels are being maintained below limits determined by the Board of Directors. Net debt repayability is a calculation to determine the number of months required to repay net debt from current cash flow from operations. The ratio is calculated as follows:

Net Current Debt Repayability Years ended December 31 *(Thousands, except for months)*		2011		2010
Current liabilities		6,870	$	4,834
Less Current assets		6,423	$	629
Net debt (working capital)		447		4,205
Annualized Cashflow from Operations	$	6,960	$	568
Months estimated to repay net debt		0.77		89

9. *Asset Retirement Obligation*

Tuscany is responsible for the retirement of long-lived assets related to its oil and gas assets at the end of their useful lives. The Company recognizes the fair value of an asset retirement obligation ("ARO") as a liability in the period in which it is incurred if a reasonable estimate of fair value can be made. The present value of the estimated ARO is capitalized as part of the net capitalized asset base and the depletion of the capitalized asset retirement cost is determined on a basis consistent with depletion of the Company's other assets. With time, accretion will increase the carrying amount of the obligation. Accretion is expensed.

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

Years ended December 31 *($ Thousands, except per share amounts)*	2011	2010
Asset Retirement Obligation, beginning of year	$ 1,006	$ 830
Obligations acquired from subsidiary	266	-
Liabilities incurred	144	61
Liabilities settled	-	20
Liabilities divested	(68)	-
Increase (decrease) for change in estimates	128	72
Accretion expense	38	23
Asset Retirement Obligation, end of year	$ 1,514	$ 1,006

The total undiscounted amount of estimated cash flows required to settle the obligation is $1.6 million (2010 – $1.2 million). The present value of the obligation has been discounted using average risk free rates of 1.44% to 2.83%. Most of these obligations are expected to be paid between 2015 and 2024.

10. Commitments

The Company issued $1.2 million of flow-through shares in November 2010 and at December 31, 2011 had fulfilled its flow-through spending commitment.

11. Financial Instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

All financial instruments are required to be measured at fair value on initial recognition of the instrument. Measurement in subsequent periods depends on whether the financial instrument has been classified as "held-for-trading," "available-for-sale," "held-to-maturity," "loans and receivables" or "other financial liabilities" as defined by the standard.

Cash and cash equivalents are measured at fair value, which approximates carrying value due to the short-term nature of these instruments. Accounts receivable are designated as "loans and receivables" and are carried at amortized cost. Accounts payable, accrued liabilities, and bank debt, are designated as "other financial liabilities" and carried at amortized cost using the effective interest method.

The Company's financial instruments that are included in the balance sheet are comprised of cash, accounts receivable, accounts payable, and bank debt.

Fair Values of Financial Assets and Liabilities

The fair values of financial instruments that are included in the balance sheet approximate their carrying amount due to the short-term maturity of those instruments.

Credit Risk

Credit risk is the risk that the counterparty to a financial asset will default, resulting in the Company incurring a financial loss. The Company is exposed to credit risk on its accounts receivable to a maximum of the carrying value of the aforementioned items at the end of the period. A substantial portion of the Company's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks. The exposure to credit risk is approximately $14,000 (2010 – $12,000) which represents accounts receivable balances in excess of 90 days. Management has reviewed the items comprising the accounts receivable balance and determined that all accounts are collectible; accordingly there has been no allowance for doubtful accounts recorded.

Interest Rate Risk

The Company is exposed to risks from interest rate fluctuation on its bank loan which is based on prime rates. The Company had no bank debt at December 31, 2011.

Liquidity Risk

The Company is exposed to liquidity risk from the possibility that it will encounter difficulty meeting its financial obligations. The Company manages this risk by forecasting cash flows in an effort to match operating cash flow to future expenditures and to arrange financing, if necessary. It may take many years and substantial cash expenditures to pursue exploration and development activities on all of the Company's existing undeveloped properties. Accordingly, the Company may need to raise additional funds from outside sources in order to explore and develop its properties. There is no assurance that adequate funds from debt and equity markets will be available to the Company in a timely manner. The timing of cash outflows relating to financial liabilities are outlined in the table below:

($ Thousands)	< 1 year	years 2 & 3	> 3 years
Accounts payable and accrued liabilities	$ 6,870	$ -	$ -

At December 31, 2011 the Company has met all the obligations associated with its financial liabilities. The majority of the Company's accounts payable are current. The bank loan is a demand loan and is classified as a current liability of less than one year. At December 31, 2011, the credit facility of $4.6 million remained undrawn.

Foreign Currency Exchange Risk

The Company currently has no material exposure to foreign currency fluctuations in its cash and cash equivalents, accounts receivables or accounts payables; however, the Company's investment in Magnum Hunter is in U.S. dollars and is therefore exposed to foreign currency fluctuations.

($ Thousands)	Balance Sheet Total	Canada	USA
		Cdn $ Equivalent	
Cash and cash equivalents	$ 3,386	$ 3,386	$ -
Investment	2,328	-	2,328
Accounts receivable	2,786	2,786	-
Accounts payable	6,870	6,870	-
Total	$ 15,370	$ 13,042	$ 2,328

The table below indicates the balance sheet exposure to a 10% change in the U.S. dollar to Canadian dollar exchange rate:

($ Thousands)	Favourable 10% Change	Unfavourable 10% Change
Investment in Magnum Hunter	$ 233	$ (233)

12. Related Party Transactions

Humboldt Capital Corporation

As at December 31, 2011, Humboldt Capital Corporation ("Humboldt") and certain of its officers and directors owned 36.6% of the outstanding shares of Tuscany at April 27, 2012. Humboldt, is considered to be controlled by Robert Lamond, who owns 71% of the common shares of Humboldt. Mr. Lamond is the Chairman and CEO of Humboldt, Diaz, Tuscany and Paris. Humboldt's business includes the ownership, acquisition and sale of securities in other companies and Humboldt owns significant interests in companies in the oil and gas sector, which compete with Tuscany and may operate jointly with Tuscany. As at December 31, 2011, these include Diaz Resources Ltd. ("Diaz"), and Paris Energy Inc. ("Paris") which also have certain common officers and directors. The following table sets forth the respective ownership of Humboldt and its officers and directors in Tuscany, Paris and Diaz as at April 27, 2012:

- 36.6% of Tuscany common shares,
- 58.0% of Paris common shares, and
- 36.7% of Diaz common shares.

On June 2, 2011, Tuscany and Sharon completed a plan of arrangement whereby Tuscany acquired 100% of the common shares of Sharon.

The Company has a joint venture with Diaz Resources Ltd. whereby it participates in new oil and natural gas projects for a 55% working interest with Diaz having a 45% working interest. Diaz provides administrative, operating and exploration services for Tuscany in exchange for payment of a portion of the related costs of Diaz. For the twelve month period ended December 31, 2011, Diaz charged Tuscany overhead fees of $817,000 (2010 - $494,000). Fees of $238,000 (2010 - $160,000) charged by Diaz to Tuscany related to exploration and development activities and were capitalized.

Diaz and Tuscany participate in joint operations pursuant to agreements in which either Diaz or Tuscany are the operator. At December 31, 2011, Diaz owed Tuscany $505,000 (2010 – Tuscany owed Diaz $56,000) and Tuscany had no outstanding amounts owed to

Paris Energy Inc. (2010 – $19,000). These transactions were measured at the amount of consideration established and agreed to by the related parties.

Remuneration of Directors and Senior Management

For the years ended December 31	2011	2010
Directors' fees	$ 30,000	$ 10,000
Short-term wages and benefits	387,047	286,559
Share-based compensation	23,240	171,038
Overhead recoveries	(22,500)	-
	$ 417,787	$ 467,597

Remuneration of Directors and Senior Management includes all amounts earned and awarded to the Company's Board of Directors and Senior Management.

Directors' fees include Board retainers and special committee fees.

Short-term wages and benefits includes management fees from Diaz Resources Ltd. for senior management services. Diaz provides senior management services in exchange for payment of a portion of the related costs of Diaz. Short-term wages and benefits include salary, benefits and bonuses earned or awarded during the year.

Share-based compensation includes expenses related to the Company's stock option plan as disclosed in Note 7.

Overhead recoveries are amounts recovered from Paris Energy Inc. related to the services of Senior Management. Tuscany provides Senior Management services in exchange for payment of a portion of the related costs of Tuscany.

13. Supplemental Cash Flow Information

Years ended December 31 *($ Thousands)*	2011	2010
Interest paid during the period	$ 107	$ 80
Taxes paid during the period	$ 32	$ -
Changes in non-cash working capital balances		
Accounts receivable	$ (2,174)	$ 82
Prepaid expenses	(248)	(1)
Accounts payable and acrued liabilities	4,445	533
	$ 2,023	$ 614

14. Investment

The Company acquired Sharon Energy Ltd. as a wholly owned subsidiary on June 2, 2011, which included Sharon's investment holdings in Magnum Hunter Resources Corporation (NYSE AMEX: MHR)("Magnum"). The investment holding resulted from the sale of Sharon's U.S. subsidiary in September 2009 in exchange for common shares of Magnum. The common shares of Magnum are recorded on the balance sheet of the Company at fair value. Fair value is calculated to be the product of the closing bid price of Magnum common stock on the NYSE AMEX on the balance sheet date multiplied by the number of shares held.

Investment in Magnum Hunter		December 31, 2011		Year Ended December 31, 2010
Shares held, January 1, 2011		-		-
Acquired		546,195		-
Sold		(120,000)		-
Shares held, end of period		426,195		-
$USD Closing bid price (NYSE AMEX: MHR)	$	5.37	$	-
CND / USD exchange rate, end of period		1.0170		-
$CND Fair value of investment, end of period	$	2,327,574	$	-

Investment - Sales proceeds received		December 31, 2011		Year Ended December 31, 2010
Loss on sales of shares	$	(41,666)	$	-
Recovery of original cost	$	920,127	$	-
Total amount received	$	878,461	$	-
Proceeds per share received	$	7.32	$	-

The Company sold 120,000 shares of Magnum Hunter during the twelve month period ended December 31, 2011, for proceeds (net of costs) of $878,000, realizing a capital loss of $41,666. The original cost of the Magnum Hunter shares was determined on the date the Company acquired Sharon Resources Ltd. using the closing price for the shares.

15. Subsequent Event

Subsequent to the end of 2011, Tuscany sold 326,195 shares of its investment in Magnum Hunter for net proceeds of $2.2 million. As of April 19th the remaining investment, 100,000 Magnum Hunter shares, was worth approximately $600,000.

16. Taxes

The provision for income taxes in the statement of operations and deficit varies from the amount that would be computed by applying the expected tax rate to loss before income taxes. The expected tax rate used was 27.48% (2010 – 28.97%). The principle reasons for differences between such “expected” income tax expense and the amounts actually recorded are as follows:

Income tax reconciliation	2011		2010
Expected rate	27.48%		28.97%
Earnings (Loss) before income taxes	2,440,000		(999,000)
Computed expected income tax Expense (recovery)	670,512	$	(289,410)
(Gain) on purchase of Sharon Energy Ltd.	(862,000)		-
Stock-based compensation	60,000		53,220
Tax pools expired	-		37,634
Adjustment to prior tax pools	-		4,884
Impact of lower future tax rates and other	(9,665)		27,795
Renouncement of flow through shares	329,767		-
Benefit from tax losses not recognized	188,000		
Provision for future income taxes	376,614	$	(165,877)

Analysis of deferred tax movements in the year		2011		2010
As at January 1	$	1,046,000	$	871,000
Charged (credited) to net earnings		(377,000)		166,000
IFRS opening balance adjustment		-		9,000
As at December 31	$	669,000	$	1,046,000

The significant components of the income tax asset are as follows:

Components		2011		2010
Net book value of properties and equipment	$	(4,513,289)	$	(2,870,911)
Tax pools		5,574,685		3,717,030
Asset retirement obligations		391,148		174,039
Share issue costs		74,777		25,923
Investment		(649,000)		-
Tax loss carryforward		2,355,000		-
Benefit from tax losses not recognized		(2,564,000)		-
Future tax asset	$	669,321	$	1,046,081

As at December 31, 2011 the Company had the following tax deductions available to reduce future taxable income. The Company committed to renounce $1.2 million of tax pools to subscribers of a flow through shares issue in November 2010 and the commitment has been renounced in the first quarter of 2011. This will reduce the available tax pools by $1.2 million in the first quarter of 2011. The non-capital loss carry forward expires between 2014 and 2028 with $473,813 expiring prior to the end of 2014.

Analysis of deferred tax movements in the year *($ Thousands)*		As at December 31, 2010		(Credited) charged to the income statement		As at December 31, 2011
Property, plant and equipment	$	(2,871)	$	(1,642)	$	(4,513)
Oil and gas assets		3,717		1,858		5,575
Asset retirement obligation		174		217		391
Share issue costs		26				75
Investment		-				(649)
Tax loss carryforward		-		2,355		2,355
Benefit from tax losses not recognized		-		(2,564)		(2,564)
Total	$	1,046	$	224	$	669

17. Acquisition of Sharon Energy Ltd.

On June 2, 2011, Tuscany and Sharon Energy Ltd. ("Sharon") closed an arrangement agreement pursuant to which Tuscany acquired all of the issued and outstanding shares of Sharon through the issue of 62,070,593 common shares of Tuscany to shareholders of Sharon with a fair value on June 2, 2011 of $11.2 million.

Sharon's assets consisted of $8 million of working capital and assets held for resale, $4 million of investments available for sale, and land and fixed assets valued at $3 million. The net assets acquired exceeded the consideration provided, resulting in a "gain from bargain purchase".

The assets of Sharon were valued at fair value, for the purpose of the acquisition and the shares issued for the acquisition were valued at $0.18 per share, being the closing bid price of Tuscany shares on the TSX-Venture exchange on June 2, 2011, the date of the acquisition.

The transaction has been recorded using the acquisition method as follows:

Fair Value of Consideration Exchanged:

All of the outstanding shares of Sharon Energy Ltd. at .84 shares of Tuscany Energy Ltd. per 1 share of Sharon Energy Ltd.		
Shares Issued by Tuscany [*at June 2, 2011*]:		62,062,193
Closing Bid - Tuscany Energy on (June 2, 2011) *[$/share]* :	$	0.18
Fair value of shares issued as consideration for Sharon Energy Ltd.	$	11,172,707
Option compensation exchanged as consideration	$	(200,472)
Consideration exchanged for assets of Sharon Energy Ltd.	$	10,972,235

Fair Value of Identifiable Assets & Liabilities of Sharon Energy Ltd.

Assets		
Current Assets		
Cash & Cash Equivalents	$	8,006,096
Accounts Receivable		16,832
Prepaid Expenses		150
Total Current Assets	$	8,023,078
		-
Investment in Magnum Hunter		3,772,087
Fair Value of Non-Producing Land		507,500
Fair Value of Fixed Assets		2,595,000
Total Assets	$	14,897,665
		-
Liabilties		-
Accounts Payable & Accrued Liabilities	$	164,406
Asset Retirement Obligation		221,816
Total Liabilities	$	386,222
		-
Fair Value of Identifiable Assets & Liabilities of Sharon Energy Limited:	$	14,511,443
		-
Negative Goodwill*	$	(3,138,264)

Fair Value Adjustments:

Fair Value of Identifiable Assets & Liabilities of Sharon Energy Limited at June 2, 2011	$ 14,511,443
Carrying Value of Identifiable Assets & Liabilities of Sharon Energy Limited at June 2, 2011	13,668,303
Purchase Price Discrepancy	$ 843,140
Allocated to Fixed Assets:	
Property Plant & Equipment	843,140

If the Company had acquired Sharon as at January 1, 2011, $411,000 of revenue would have been included in consolidated revenue for the year ended December 31, 2011. Since the date of acquisition, $338,000 of revenue has been included in the consolidated statement of operations.

18. Transition to IFRS

IFRS 1 requires the presentation of comparative information as at the January 1, 2010 transition date and subsequent comparative periods as well as the consistent and retrospective application of IFRS accounting policies. To assist with the transition, the provisions of IFRS 1 allow for certain mandatory and optional exemptions for first-time adopters to alleviate the retrospective application of all IFRSs.

The following reconciliations present the adjustments made to the Company's previous GAAP financial results of operations and financial position to comply with IFRS 1. A summary of the significant accounting policy changes and applicable exemptions are discussed following the reconciliations. Reconciliations include the Company's consolidated balance sheets as at January 1, 2010 and December 31, 2010, and consolidated statement of operations and consolidated statements of comprehensive loss for the year ended December 31, 2010.

IFRS Opening Consolidated Balance Sheet

As at January 1, 2010

($ Thousands, unaudited)	**Previous GAAP**	**IFRS Adjustments** E&E (Note 18a)	**IFRS Adjustments** ARO (Note 18d)	**IFRS**
ASSETS				
Cash	$ 109	$ -	$ -	$ 109
Accounts receivable	694			694
Prepaid expense	2			2
Total current assets	805	-	-	805
Property, plant and equipment	13,722	(122)		13,600
Accumulated depletion and depreciation	(4,855)			(4,855)
Exploration and evaluation assets	-	107		107
Deferred Tax Asset	804	4	63	871
Total non-current assets	9,671	(11)	63	9,723
Total assets	$ 10,476	$ (11)	$ 63	$ 10,528
LIABILITIES				
Accounts payable and accrued liabilities	$ 1,739	$ -	$ -	$ 1,739
Bank debt	1,800			1,800
Total current liabilities	3,539	-	-	3,539
Asset retirement obligation	587		243	830
Total non-current liabilities	587	-	243	830
Total liabilities	4,126	-	243	4,369
EQUITY				
Share capital	6,878			6,878
Contributed surplus	392			392
Deficit	(920)	(11)	(180)	(1,111)
Total equity	6,350	(11)	(180)	6,159
Total liabilities and equity	$ 10,476	$ (11)	$ 63	$ 10,528

Consolidated Balance Sheet
As at December 31, 2010

($ Thousands, unaudited)	**Previous GAAP**	**IFRS Adjustments** E&E (Note 18a)	DD&A (Note 18b)	Impairments (Note 18c)	ARO (Note 18d)	**IFRS**
ASSETS						
Cash	$ 14	$ -	$ -	$ -	$ -	$ 14
Accounts receivable	612					$ 612
Prepaid expense	3					$ 3
Total current assets	629	-	-	-	-	629
Property, plant and equipment	16,766	(405)			62	16,423
Accumulated depletion and depreciation	(6,132)		89			(6,043)
Exploration and evaluation assets	-	390				390
Deferred Tax Asset	994	4	(23)		71	1,046
Total non-current assets	11,628	(11)	66	-	133	11,816
Total assets	$ 12,257	$ (11)	$ 66	$ -	$ 133	$ 12,445
LIABILITIES						
Accounts payable and accrued liabilities	$ 2,304	$ -	$ -	$ -	$ -	$ 2,304
Bank debt	2,530					$ 2,530
Total current liabilities	4,834	-	-	-	-	4,834
Asset retirement obligation	670				336	1,006
Total non-current liabilities	670	-	-	-	336	1,006
Total liabilities	5,504	-	-	-	336	5,840
EQUITY						
Share capital	7,992					7,992
Contributed surplus	558					558
Deficit	(1,797)	(11)	66		(203)	(1,945)
Total equity	6,753	(11)	66	-	(203)	6,605
Total liabilities and equity	$ 12,257	$ (11)	$ 66	$ -	$ 133	$ 12,445

Consolidated Statement of Operations and Comprehensive Loss

Twelve Months Ended December 31, 2010

($ Thousands, except per share amounts, unaudited)	Previous GAAP	IFRS Adjustments DD&A (Note 18b)	IFRS Adjustments ARO (Note 18d)	IFRS
Revenue, Net of Royalties	$ 2,892	$ -	$ -	$ 2,892
Expenses				
Operating and transportation	1,539	-	-	1,539
Overhead	720	-	-	720
Stock based compensation	184	-	-	184
Interest expense	182	-	-	182
Depletion, depreciation and accretion	1,324	(90)	32	1,266
	3,949	(90)	32	3,891
Loss before income tax	(1,057)	90	(32)	(999)
Income tax				
Deferred tax expense (recovery)	(181)	23	(8)	(166)
Total income tax (recovery)	(181)	23	(8)	(166)
Net income (loss) and comprehensive income (loss)	(876)	67	(24)	(833)

The most significant changes to the Company's accounting policies relate to the accounting for upstream costs. Under previous GAAP, Tuscany followed the Canadian Institute of Chartered Accountants ("CICA") guideline on full cost accounting in which all costs directly associated with the acquisition of, the exploration for, and the development of natural gas and liquids reserves were capitalized on a country-by-country cost centre basis. Costs accumulated within each country cost centre were depleted using the unit-of-production method based on proved reserves determined using estimated future prices and costs. Upon transition to IFRS, the Company was required to adopt new accounting policies for upstream activities, including exploration and evaluation costs and development costs.

Under IFRS, exploration and evaluation costs are those expenditures for an area where technical feasibility and commercial viability has not yet been determined. Development costs include those expenditures for areas where technical feasibility and commercial viability has been determined. Tuscany adopted the IFRS 1 "full cost" exemption whereby the Company deemed its January 1, 2010 IFRS upstream asset costs to be equal to its previous GAAP historical upstream property, plant and equipment net book value. Accordingly, exploration and evaluation costs were deemed equal to the unproved properties balance and the development costs were deemed equal to the upstream full cost pool balance. Under IFRS, exploration and evaluation costs are presented as exploration and evaluation assets and development costs are presented within property, plant and equipment on the Consolidated Balance Sheet.

The following provides summary reconciliations of Tuscany's 2010 previous GAAP and IFRS results, along with a discussion of the significant IFRS accounting policy changes:

(a) Exploration and Evaluation

Exploration and evaluation assets at January 1, 2010 were deemed to be $107,000, representing the unproved properties balance under previous GAAP. This resulted in a reclassification of $107,000 from property, plant and equipment to exploration and evaluation assets on Tuscany's Consolidated Balance Sheet as at January 1, 2011. The Company took an impairment of the exploration and evaluation assets at January 1, 2010, of $15,000. As at December 31, 2010, the Company's exploration and evaluation assets were approximately $390,000.

Under previous GAAP, exploration and evaluation costs were capitalized as property, plant and equipment in accordance with the CICA's full cost accounting guidelines. Under IFRS, Tuscany capitalizes these costs initially as exploration and evaluation assets. Once technical feasibility and commercial viability of the area has been determined, the capitalized costs are transferred from exploration and evaluation assets to property, plant and equipment. Under IFRS, unrecoverable exploration and evaluation costs associated with an area and costs incurred prior to obtaining the legal rights to explore are expensed.

The application of IFRS for exploration and evaluation costs did not result in any change to Tuscany's previous GAAP net earnings for the twelve months ended December 31, 2010.

(b) Depreciation, Depletion and Amortization

Development costs at January 1, 2010 were deemed to be $13.6 million, representing the upstream full cost pool balance under previous GAAP less exploration and evaluation assets. Consistent with previous GAAP, these costs are capitalized as property, plant and equipment under IFRS. Under previous GAAP, development costs were depleted using the unit-of-production method calculated for each country cost centre. Under IFRS, development costs are depleted using the unit-of-production method calculated at the Cash Generating Unit (CGU) level. The IFRS 1 exemption permitted the Company to allocate development costs to the CGU level using proved and probable reserve values for each CGU as at January 1, 2010.

Depleting at a CGU level under IFRS resulted in a $90,000 decrease to Tuscany's DD&A expense for the twelve months ended December 31, 2010. Tuscany's net loss decreased $90,000, after tax, compared to previous GAAP for the twelve months ended December 31, 2010 as a result of depleting at a CGU level under IFRS.

(c) Impairments

Under previous GAAP, an upstream impairment was recognized if the carrying amount exceeded the discounted cash flows from proved plus probable reserves for a country cost centre. An impairment was measured as the amount by which the carrying value exceeded the sum of the fair value of the proved and probable reserves and the costs of unproved properties. Impairments recognized under previous GAAP were not reversed.

Under IFRS, Management is required to examine long-term assets for indicators of impairment. If indicators exist, then an impairment test is conducted. An upstream impairment would be recognized if the carrying value exceeded the recoverable amount for a CGU. Upstream areas are aggregated into CGUs based on their ability to generate largely independent cash flows. If the carrying value of the CGU exceeds the recoverable amount, the CGU is written down with an impairment recognized in net earnings. Impairments recognized under IFRS are reversed when there has been a subsequent increase in the recoverable amount. Impairment reversals are recognized in net earnings and the carrying amount of the CGU is increased to its revised recoverable amount as if no impairment had been recognized for the prior periods.

For the year ended December 31, 2010, Tuscany did not find any indicators of impairment of its fixed assets. Oil prices – a key quantitative indicator – remained strong throughout the previous year and the current period, and no qualitative factors existed to otherwise indicate an impairment of the fair value of the Company's assets, therefore no impairment test was conducted.

Under previous GAAP, proceeds from dispositions of upstream assets were deducted from the full cost pool without recognition of a gain or loss unless the deduction resulted in a change to the country cost centre depletion rate of 20 percent or greater, in which case a gain or loss was recorded.

(d) Asset Retirement Obligation

Under previous GAAP, the asset retirement obligation was measured as the estimated fair value of the retirement and decommissioning expenditures expected to be incurred. Liabilities were not re-measured to reflect period end discount rates.

Under IFRS, the asset retirement obligation is measured as the best estimate of the expenditure to be incurred and requires that the asset retirement obligation be re-measured using period end risk-free discount rates.

In conjunction with the IFRS 1 exemption regarding upstream assets discussed above, Tuscany was required to re-measure its asset retirement obligation upon transition to IFRS and recognize the difference in retained earnings. The application of this exemption resulted in a $336,000 increase to the asset retirement obligation on Tuscany's Consolidated Balance Sheet as at January 1, 2010 and a corresponding charge to retained earnings of $336,000. Subsequent IFRS re-measurements of the obligation are recorded through property, plant and equipment with an offsetting adjustment to the asset retirement obligation. As at December 31, 2010, excluding the January 1, 2011 adjustment, Tuscany's asset retirement obligation increased by $62,000 which primarily reflects the re-measurement of the obligation using risk-free discount rates for obligations within 5 years, 10 years or longer of 2.45%, 3.16% and 3.54% respectively as at December 31, 2010.

(e) Share-Based Payments

The Company grants stock options to certain employees. Stock options vest over two years with one third vesting immediately on the grant date and an additional one third vesting on each of the next two anniversaries of the grant date. Options expire after five years. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. The fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is recognized over the tranche's vesting period by increasing contributed surplus based on the number of awards expected to vest. This number is reviewed at least annually, with any change in estimate recognized immediately in stock based expense with a corresponding adjustment to contributed surplus.

(f) Other Exemptions

Other significant IFRS 1 exemptions taken by Tuscany at January 1, 2011 include the following:

- Business combinations and jointly controlled operations entered into prior to January 1, 2011 were not retrospectively restated under IFRS.

- Leases were not reassessed to determine whether an arrangement contained a lease under International Financial Reporting Interpretations Committee 4, Determining whether an Arrangement contains a Lease, for contracts that were already assessed under previous GAAP.

The remaining IFRS 1 exemptions were not applicable or material to the preparation of Tuscany's Consolidated Balance Sheet at the date of transition to IFRS on January 1, 2011.

19. Expenses by Nature

The majority of the Company's overhead expenses are composed of management fees charged by the related group of companies (see note 12).

Overhead Expenses *(in thousands of dollars)*	Years Ended December 31 2011	2010
Management fees	$ 817	$ 494
Consultants	317	267
Salaries and benefits	107	14
Professional fees	193	72
Corporate	102	44
Office	39	49
Gross expenses	1,575	940
Recovered from third parties	(167)	(60)
Capitalized	(238)	(160)
Net overhead	$ 1,170	$ 720

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