tuscany energy ltd

Q1 2011 INTERIM REPORT

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Corporate Profile

Tuscany Energy Ltd. is an oil and gas exploration, 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 production in Saskatchewan.

Corporate Summary

(Thousands, except shares and per share amounts, unaudited)	Three Months Ended March 31 2011	2010
Financial		
Revenue	$ 989	$ 762
Cash flow from operations*	429	232
per share, diluted	0.01	0.00
Earnings (Loss) for the period	(300)	(119)
per share, diluted	0.00	(0.02)
Net capital additions	397	447
Net debt*	4,169	2,972
Total assets	12,063	10,678
Total shares outstanding at period end	62,801,825	55,091,825
Operations		
Production		
Gas (Mcfd)	123	200
Oil (Bopd)	171	119
BOEd (6 Mcf = 1 Bbl)	192	152
Product Prices		
Gas ($/Mcf)	$ 2.98	$4.94
Oil ($/Bbl)	$ 62.05	$67.51

* Non GAAP Measurement

Message to Shareholders

Highlights

Tuscany is pleased to report improved first quarter operating and financial results, the closing of its amalgamation with Sharon Energy Ltd, the commencement of a four well heavy oil development program and the sixth successful Dina well at Evesham.

On June 2nd, the Company completed a business combination with Sharon Energy Ltd. Tuscany acquired all of the issued and outstanding common shares of Sharon on the basis of 0.84 of a common share of Tuscany for each one common share of Sharon.

A pro forma balance sheet effective March 31, 2011, for the combined entity shows available cash of $4.5 million, a liquid investment in Magnum Hunter stock valued at $3.3 million based on June 21st prices, and an available undrawn bank line of $4.6 million. This new financial strength is now being utilized in an extensive heavy oil development program at Evesham, Saskatchewan.

Financial

For the quarter, Tuscany's revenue increased by 30% to $989,000, net loss increased to $300,000 from the prior year period loss of $119,000, and cash flow from operations improved by 92% to $429,000.

Tuscany incurred $397,000 of capital expenditures during the quarter compared with $439,000 for the prior year period. At March 31, 2011, Tuscany had unchanged net debt of $4.2 million compared with the beginning of the year.

Improved financial results were driven by the December 2010 addition of two new Evesham heavy oil wells which produced during the first quarter.

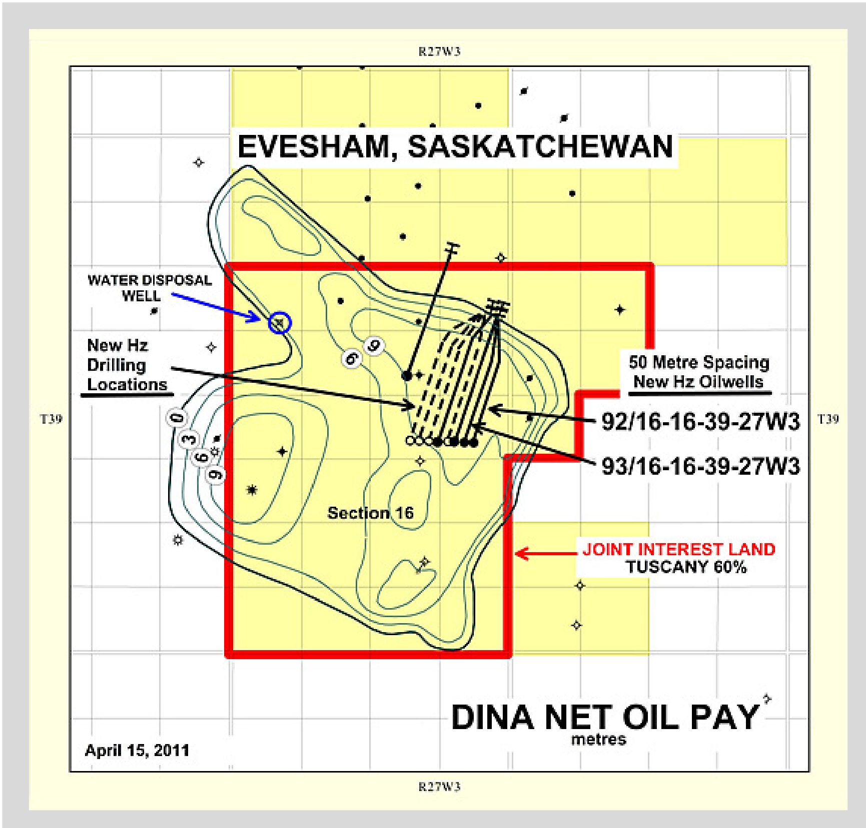
Exploration and Development

During the second half of 2011, Tuscany will focus on developing its Dina oil property at Evesham. Tuscany plans to increase the pace of investment and development at Evesham with six new wells planned. Initial drilling of a four well program commenced in early June with the first well successfully drilled and cased and the drilling of a second well about to begin. Tuscany expects all four wells to be producing during the month of July which should be very positive for the Company.

Heavy oil prices have averaged above $70 per barrel for the last couple of months and appear to have stabilized at that price. If these prices are maintained, the economics of Tuscany's development programs are greatly enhanced and would lead to a higher level activity at the end of 2011.

Operationally the Company has laid the foundation for long term growth by purchasing new heavy oil prospects at Macklin, Lloydminster, Winter and acreage on 10 additional oil prospects in Alberta and Saskatchewan. Some of these prospects will also be drilled during the second half of 2011.

The current drilling program is outlined on the map below, new wells shown as dashed lines:



Outlook

Tuscany is focused on growth through oil exploration and development. With an extensive project inventory, developed during the past two years, Tuscany believes it can achieve significant growth over the next year by continuing to develop its Evesham, Dina pool, and adjacent projects.

In order to accelerate the development of this pool and Tuscany's growth, the Company completed the business combination with Sharon Energy Ltd. which provided the combined company with sufficient working capital to develop its prospects at a significantly accelerated pace.

Management would like to thank its shareholders for their continued support and we look forward to a year of steady growth.

R.W. Lamond, Chairman

June 23, 2011

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

June 23, 2011

This Management's Discussion and Analysis ("MD&A") for Tuscany Energy Ltd. ("Tuscany" or the "Company") should be read with the unaudited Interim Consolidated Financial Statements for the period ended March 31, 2011, as well as the audited Consolidated Financial Statements and MD&A for the year ended December 31, 2010.

IFRS

On January 1, 2011, Tuscany adopted International Financial Reporting Standards ("IFRS") for financial reporting purposes, using a transition date of January 1, 2010. The financial statements for the three months ended March 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, and with International Accounting Standard ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). Previously, 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 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 16 in the unaudited consolidated financial statements of the Company for the three months ended March 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 accounting principles generally accepted in Canada. 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 measure 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:

($ Thousands, unaudited)	Three Months Ended March 31 2011	2010
Cash provided by Operating Activities:	$ (782)	$ (611)
Adjusted for:		
Change in non-cash working capital	1,211	843
Cash flow from operations	$ 429	$ 232

The Company also presents "annualized cash flow from operations" which equals four times 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 current debt", which is calculated as the aggregate of current assets and current liabilities.

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 Limited

Subsequent to March 31, 2011, the Company's completed a business combination with Sharon Energy Ltd. Tuscany acquired all of the issued and outstanding common shares of Sharon on the basis of 0.84 of a common share of Tuscany for each one (1) common share of Sharon.

Following completion of the Transaction, Tuscany has approximately 124.9 million common shares outstanding. The combined entity has total proved plus probable reserves of approximately 1,345,000 barrels of oil equivalent ("BOE") and current estimated production of 190 BOE per day.

Following is a Proforma Balance Sheet of the combined entities as at March 31, 2011:

Tuscany Energy Ltd
Pro Forma Consolidated Balance Sheet
As at March 31, 2011
(unaudited)

(thousands $)	**Tuscany Energy Ltd**	**Sharon Energy Ltd**	**Pro Forma Consolidation**
ASSETS			
Current Assets			
Cash and cash equivalents	14	8,186	4,491
Accounts Receivable	554	263	817
Prepaid Expenses and deposits	1	-	1
	569	8,449	5,309
Investment *	-	3,933	3,260
Property, plant and equipment	10,241	2,322	12,563
Exploration and evaluation assets	567	-	567
Deferred tax asset	686	-	686
Total Assets	12,063	14,704	22,385
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities	1,029	168	1,216
Bank debt	3,709	-	-
	4,738	168	1,216
Other Liabilities			
Asset retirement obligation	997	217	1,214
	5,735	385	2,430
SHAREHOLDERS' EQUITY			
Share capital	7,992	19,710	18,546
Options	-	-	176
Contributed surplus	581	3,856	581
Accumulated other comprehensive income	-	3,328	-
Retained Earnings (Deficit)	(2,245)	(12,575)	652
	6,328	14,319	19,955
Total Liabilities and Shareholders' Equity	12,063	14,704	22,385

* Investment in Magnum Hunter as at June 21, 2011 at $6.25 closing price.

Selected Quarterly Information

($ Thousands, except production, price and per share amounts)	2011	2010				2009*		
	Mar 31	Dec 31	Sep 30	June 30	Mar 31	Dec 31	Sep 30	Jun 30
Production (BOEd)	192	148	153	124	151	89	103	127
Price ($/BOE)	57.23	55.28	50.19	53.45	56.05	54.35	50.42	44.47
Total revenue	989	785	699	646	762	390	418	469
Cash flow from operations	429	110	57	52	231	(289)	(13)	85
per share (basic and diluted)	0.01	0.00	0.00	0.00	0.00	(0.01)	0.00	0.00
Earnings (Loss)	(300)	(197)	(361)	(163)	(112)	(81)	72	(108)
per share (basic and diluted)	0.00	0.00	(0.01)	0.00	0.00	0.00	0.00	0.00
Overhead	221	204	193	225	98	163	110	93
Net capital additions (dispositions)	397	1,343	693	638	417	931	171	89
Total assets	12,063	12,392	11,231	11,083	10,613	10,476	9,174	8,767
Net current debt	4,169	4,204	4,167	3,550	2,971	2,733	3,224	3,040

Three Months Ended

* *Prepared under previous Canadian Generally Accepted Accounting Standards*

Over the past two years Tuscany's production volumes rebounded from a low of 89 BOEd in Q4 2009 to 192 BOEd in Q1 2011.

In Q4 2010, the company raised $1.2 million through a flow-through share issue and used the additional working capital to drill two more successful horizontal oil wells at Evesham. These wells were placed on production in the middle of December 2010 and therefore had limited effect on the average production for the quarter. Average production for the first quarter of 2011 rose to 192 BOEd as a result of increased production from the new wells. The new production was partially offset by reductions in oil and gas production from the Company's Wildwood well and oil production from the Evesham Sparky oil wells.

Results of Operations

Oil & Gas Sales

During Q1 2011, Tuscany's oil and NGL sales increased 44% to 171 Bbls/d compared with the same period in 2010. Sales increases were a direct result of the Evesham Dina horizontal drilling. Two new wells drilled in Q4 2010, were placed on production in the middle of December, 2010 and therefore had little effect on the Q4 2010 average sales, however, they contributed to stronger oil and gas sales of 192 BOEd in the first quarter of 2011.

Production from the Wildwood, Alberta well continued to decline throughout 2010 and into 2011. Subsequent to March 31, 2011, the Company decided to shut the well in.

Gas sales continued to decline – to 123 Mcf/d in Q1 2011 compared with 200 Mcf/d during the first quarter of 2010 – as expected, given the Company's intense focus on the development of its Dina oil property.

Oil and Gas Production by Area	Three Months Ended March 31 2011	2010
Oil and Natural Gas Liquids (bbls/d)		
Evesham	35	58
Evesham Dina	118	41
Macklin	15	10
Wildwood	3	10
	171	119
Natural Gas (Mcf/d)		
Evesham	91	126
Macklin	21	28
Wildwood	5	24
Other	6	22
	123	200
Total boe/d	192	152

In Q4 2010, Tuscany completed the drilling of its fourth and fifth horizontal Dina oil wells at Evesham. The horizontal wells commenced production in mid-December 2010. These wells increased the Company's production in the first quarter to 192 BOEd. Overall production in the Evesham Dina property increased substantially from 41 bbls/d in Q1 2010 to 118 bbls/d in the current period.

Selling Prices

For the three months ended March 31, 2011 Tuscany received an average of $57.23 per BOE, a slight decrease from $59.36 per BOE for the same period in 2010. Oil prices were relatively steady throughout fiscal 2010 and the first quarter of 2011, though the heavy oil price differential increased briefly in Q1 2011 due to a disruption in pipeline and refining capacity. Gas prices remained weak throughout the first quarter and the Company received $2.98 per Mcf for its natural gas sales in Q1 2011 compared with $4.94 per Mcf in Q1 2010.

The Company's production is heavily weighted to oil production with 89% of its Oil & Gas sales revenue coming from oil in Q1 2010, compared with 78% in Q1 2010.

Production and Prices	Three Months Ended March 31 2011	2010
Average daily production		
Gas (Mcf/d)	123	200
Oil (Bbl/d)	171	119
BOEd	192	152
Average price		
Gas ($/Mcf)	$ 2.98	$ 4.94
Oil ($/Bbl)	$ 62.05	$ 67.51
$/BOE	$ 57.23	$ 59.36

Oil and Natural Gas Sales

Total sales increased 27% from $828,000 for the quarter ended March 31, 2010 to $1.1 million for the quarter ended March 31, 2011. The increased revenue resulted primarily from a 44%

increase in Oil Sales volumes and a $46,000 increase in processing revenues from third party water disposal in Q1 2011 compared with the first quarter of 2010. Tuscany anticipates revenues will continue to increase in 2011 as it pursues an aggressive drilling program for the balance of the year.

Summary of operating net back * *(in thousands of dollars except per BOE information)*	Three Months Ended March 31 2011	 2010
Natural Gas	33	89
Oil and Natural Gas Liquids	955	723
Oil and natural gas	989	812
Processing revenue	62	16
Total Revenue	1,051	828
Royalties	(61)	(66)
Operating expenses	(291)	(402)
Operating net back	699	360
$/ BOE		
Oil and natural gas	$ 57.23	$ 59.36
Processing revenue	$ 3.59	$ 1.17
Royalties	$ (3.53)	$ (4.82)
Operating expenses	$ (16.84)	$ (29.39)
Operating net back	$ 40.45	$ 26.32

* Non-GAAP Measure

Royalty Expense

The Company's average royalty rate for the three months ended March 31, 2011 was 6% or $3.53 per BOE. By comparison, in Q1 2010 the Company incurred an average royalty rate of 8% or $4.82 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. In addition, the low productivity Sparky wells have a low royalty rate. Royalties paid in Alberta decreased proportionately with the further decline in production from the Wildwood well.

Operating Expense

Tuscany's operating expenses, net of workovers and repairs, for Q1 2011 totalled $291,000 or $16.84 per BOE, a reduction of 28% compared with $402,000 or $29.39 per BOE in Q1 2010. Total operating expenses decreased due to the addition of a salt water disposal facility at Evesham, which significantly reduces the cost of operating in the Evesham area. Operating cost per BOE also decreased as a result of these water disposal facilities and increased production rates.

General and Administrative Expense

General and Administrative Expenses *(in thousands of dollars except per BOE information)*	Three Months Ended March 31 2011	2010
Gross expenses	278	98
Stock based compensation costs	22	11
Capitalized	(57)	-
Total overhead	243	109
Per BOE	$ 14.06	$ 7.97

General and administrative expenses of $243,000 ($14.06 per BOE) increased from the $109,000 ($7.97 per BOE) incurred in Q1 2010. This is primarily due to an increased level on activity for the Company under the overhead sharing arrangement entered into with a related group of companies, which assigned costs proportionally to activity levels of the companies in the group. Tuscany's overhead is anticipated to increase slightly as its activity level increases in 2011, however, management believes the cost sharing arrangement will result in the most efficient overhead cost structure and provides Tuscany exposure to an increasing number of new prospects.

Financing Charges

Interest Expense *(in thousands of dollars)*	Three Months Ended March 31 2011	2010
Average bank debt	3,247	2,369
Interest expense	50	27
Average interest rate	4.96%	4.50%

Interest expense for the three months ended March 31, 2011, increased slightly to $50,000 from $27,000 incurred in Q1 2010 due to higher levels of debt carried to finance increased drilling and completions activity in December 2010 and January 2011.

Depletion, Depreciation and Accretion

Depletion, Depreciation & Accretion *(in thousands dollars except per BOE information)*	Three Months Ended March 31 2011	2010
Depletion and depreciation	362	332
Total	362	332
per BOE	$ 20.95	$ 24.27

Depletion and depreciation charges calculated on a unit of production basis are based on total proved reserves. In Q1 2011, depletion and depreciation expense increased to $362,000 from $332,000 in Q1 2010 due to increases in the Evesham reserve base and natural production declines. On a per unit basis, depletion and depreciation expense decreased sharply to $20.95 per BOE in Q1 2011, compared to $24.27 per BOE recorded in Q1 2010. This was due primarily to a significant increase in the Company's proved reserves at the end of 2010.

Capital Expenditures

During the first three months of 2011, Tuscany incurred $397,000 in capital expenditures.

Capital Expenditures *(in thousands of dollars)*	Three Months Ended March 31 2011	2010
Exploration & Evaluation		
Land	69	(6)
Geological and geophysical	107	-
Development & Production		
Drilling and completions	214	168
Equipment, facilities and pipelines	7	242
		-
Total	397	404

Liquidity and Capital Resources

The Company's first quarter 2011 operations and capital expenditures were funded from cash flow and an increase in bank debt and trade payables. At March 31, 2011, Tuscany's operating demand loan provides for a line of credit of $4.0 million (2010 – $3.0 million) of which $291,000 remained undrawn at the end of the quarter. However, Tuscany's net debt was $4.2 million. The terms of the Company's existing line of credit do not allow the Company to exceed $4.0 million in net debt. The bank has waived the requirement for March 31, 2011. Subsequent to the end of Q1 2011, the Company negotiated an increase in the credit facility to $4.6 million, and has paid the balance of the line, bringing the undrawn facility to $4.6 million.

The Company plans to finance its exploration budget out of available cash, cash flow and the bank credit facility.

At March 31, 2011, Tuscany had 62,801,825 common shares issued and outstanding options to purchase 3,950,000 additional common shares.

At June 23, 2011, after the amalgamation with Sharon Energy Ltd., Tuscany had 124,872,418 common shares issued and outstanding.

Normal Course Issuer Bid ("NCIB")

Tuscany is authorized to repurchase up to 2,742,500 Common Shares through the facilities of the TSX Venture Exchange pursuant to a normal course issuer bid, which expires on October 26, 2011. Shares repurchased pursuant to the bid are cancelled. No shares have been repurchased pursuant to the bid to date.

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.

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 March 31, 2011, was $1.1 million (2010 – $839,000).

The Company issued $1.2 million of flow-through shares in November 2010 and has $20,000 remaining to spend on exploration costs prior to December 31, 2011.

Off Balance Sheet Arrangements

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

Related Party Transactions

Humboldt Capital Corporation ("Humboldt") and certain of its officers and directors owned 33% of the outstanding shares of Tuscany. 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 operate jointly with Tuscany, from time to time, in certain areas. As at March 31, 2011, these include Sharon Energy Ltd. ("Sharon"), 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 insiders that may be considered related parties as at June 21, 2011:

- 34% of Tuscany common shares,
- 53% of Paris common shares, and
- 37% 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 – Diaz 45%. Diaz provides administrative, operating and exploration services for Tuscany in exchange for payment of a portion of the related costs of Diaz. For the three month period ended March 31, 2011, Diaz charged Tuscany Management fees of $134,100 (2010 - $26,100). Management fees of $57,000 (2010 - nil) charged by Diaz to Tuscany related to exploration and development activities and were capitalized.

At March 31, 2011, Tuscany owed Diaz $138,000 (2010 – $26,000) and Tuscany owed Paris $8,000 (2010 – $47,000) through the normal course of business.

These transactions were conducted in the normal course of operations and 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 generally accepted accounting principles in Canada. The significant accounting policies used by Tuscany are disclosed in Note 2 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, along with a discussion of the significant IFRS accounting policy changes.

Summary Earnings (Loss) Reconciliation

($ Thousands, unaudited)	2010 Annual	Q4	Q3	Q2	Q1
Net income (loss) - Previous GAAP	$ (876)	$ (312)	$ (348)	$ (85)	$ (131)
Addition / (deduction)					
Depletion, depreciation and accretion	90	103	13	(34)	8
Asset retirement obligation	16	27	(26)	(34)	1
Deferred Tax (Expense) Recovery	(15)	(4)	11	-	3
	91	126	(2)	(68)	12
Net earnings (loss) - IFRS	(785)	(186)	(350)	(153)	(119)

Summary Cash Flow From Operations Reconciliation

($ Thousands, unaudited)	2010 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, 2010. 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 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.

Forward Prices Used to Evaluate Indicators of Impairment*		
	Oil Price ($Cdn/Bbl)	Natural Gas Price ($Cdn/Mcf)
2011	$ 64.20	$ 4.31
2012	68.20	4.85
2013	71.35	5.50
2014	73.25	5.83
2015	78.60	6.10

For the three months ended March 31, 2011, Tuscany did not find any indicators of impairment of its fixed assets. Oil prices – a key quantitative indicator – remained strong throughout the 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.

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 $243,000 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 $243,000. 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 $93,000 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.

Share-based payments

Under previous GAAP, the Company adopted the fair value method for accounting for 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. Using the fair value method, compensation costs of stock based compensation are estimated and charged to earnings over the vesting period of the options. IFRS requires the same method so no changes were required in transition.

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, 2010.

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 $149,000 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. Interest rate risk is specific to the interest expense charged to income on the Company's bank debt. The Company believes that a 25% volatility is a reasonable measure when assessing the potential impact of a change in interest rate. Variations in interest rates on the Company's bank debt could have resulted in gains (losses) impacting net earnings as at March 31, 2011, as follows:

($ Thousands)	Favourable 25% Change	Unfavourable 25% Change
Interest expense	$ 13	$ (13)

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	1,029	-	-
Bank loan	3,709	-	-

At March 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.

Foreign currency exchange risk

The Company currently has no material exposure to foreign currency fluctuations.

Commodity price risk

Inherent to the Company's business of producing petroleum and natural gas is the commodity price risk where fluctuations in the market price of petroleum and natural gas could significantly impact the Company's ability to generate cash flow from operating activities. The Company believes that a 10% volatility is a reasonable measure when assessing the potential impact of commodity price changes on natural gas and oil prices. Variations in commodity prices could have resulted in gains (losses) impacting net earnings as at March 31, 2011, as follows:

($ Thousands)	Favourable 10% Change	Unfavourable 10% Change
Natural gas price	$ 3	$ (3)
Crude oil price	$ 96	$ (96)

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 March 31, 2011.

Outlook

Tuscany is focused on growth through oil exploration and development. With an extensive project inventory, developed during the past two years, Tuscany believes it can achieve significant growth over the next year by continuing to develop its Evesham, Dina pool, and adjacent projects.

In order to accelerate the development of this pool and Tuscany's growth, the Company completed the business combination with Sharon Energy Ltd. which provided the combined company with sufficient working capital to develop its prospects at a significantly accelerated pace.

Consolidated Financial Statements

Consolidated Balance Sheets

As at ($ Thousands, unaudited)	Note	March 31 2011	December 31 2010	January 1 2010
ASSETS				
Cash		$ 14	$ 14	$ 109
Accounts receivable		554	612	694
Prepaid expense		1	3	2
Total current assets		569	629	805
Property, plant and equipment, net	6	10,241	10,379	8,745
Exploration and evaluation assets	6	567	390	107
Deferred Tax Asset		686	1,046	871
Total non-current assets		11,494	11,815	9,723
Total assets		$ 12,063	$ 12,444	$ 10,528
LIABILITIES				
Accounts payable and accrued liabilities		$ 1,029	$ 2,304	$ 1,739
Bank debt	5	3,709	2,530	1,800
Total current liabilities		4,738	4,834	3,539
Asset retirement obligation	9	997	1,006	830
Total non-current liabilities		997	1,006	830
Total liabilities		$ 5,735	$ 5,840	$ 4,369
EQUITY				
Share capital	7	$ 7,992	$ 7,992	$ 6,878
Contributed surplus	7	581	557	392
Deficit		(2,245)	(1,945)	(1,111)
Total equity		$ 6,328	$ 6,604	$ 6,159
Total liabilities and equity		$ 12,063	$ 12,444	$ 10,528

See Note 11, Commitments

Approved by the Board:

(Signed) "*R.W. Lamond*" Director   (Signed) "*R.W. Hume*" Director

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statement of Operations and Comprehensive Loss

($ Thousands, except per share amounts, unaudited)	Note	Three Months Ended March 31 2011	2010
Revenue			
Oil and natural gas revenue	3	$ 927	$ 746
Processing Revenue		$ 62	$ 16
		989	762
Expenses			
Operating and transportation		291	402
Overhead		221	98
Stock based compensation		22	11
Interest expense		50	26
Foreign exchange loss (gain)		-	4
Depletion, depreciation and amortization	3	362	333
		946	874
Gain (loss) on revaluation of site restoration liability		17	-
Earnings (loss) before income tax		60	(112)
Income tax			
Deferred tax expense (recovery)		360	7
Total income tax (recovery)		360	7
Net loss and comprehensive loss		(300)	(119)
Loss per share, basic and diluted		$ (0.00)	**$ (0.02)**

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Loss and Accumulated Other Comprehensive Loss

($ Thousands, except per share amounts, unaudited)	Note	Three Months Ended March 31 2011	2010
Net loss and comprehensive loss		$ (300)	$ (119)
Other Comprehensive Income			
Unrealized loss on translation of consolidated financial statements into reporting currency		-	-
Unrealized gain on revaluation of ARO		-	-
Unrealized gain on revaluation of debenture	9	-	-
Comprehensive loss		$ (300)	$ (119)

Consolidated Statement of Changes in Shareholders' Equity

($ Thousands, unaudited)		2011		2010
Share Capital				
Balance at January 1,	$	7,992	$	6,878
Common Shares Issued (net of tax and issue costs)		-		-
Repurchased for Cancellation		-		(47)
Balance at March 31,	$	7,992	$	6,831
Contributed Surplus				
Balance at January 1,	$	557	$	392
Excess of Cost over Paid Up Capital				12
Option Compensation		22		11
Balance at March 31,	$	581	$	415
Deficit				
Balance at January 1,	$	(1,945)	$	(1,111)
Net Earnings (loss) and Comprehensive Income (loss)		(300)		(119)
Balance at March 31,	$	(2,245)	$	(1,230)

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statement of Cash Flows

($ Thousands, unaudited)	Note	Three Months Ended March 31 2011		2010	
Cash provided by (used for):					
Cash flows from operating activities					
Earnings (Loss) for the period		**$**	**(300)**	$	(119)
Non-cash items:					
Gain on revaluation of asset retirement obligation			**(17)**		-
Depletion and depreciation			**364**		333
Borrowing Expense			**-**		
Stock based compensation			**22**		11
Deferred Tax Expense			**360**		7
Cash flow from operations		**$**	**429**	$	232
Change in non-cash working capital	13		**(1,211)**		(843)
		$	**(782)**	$	(611)
Cash flows from investing activities					
Property, Plant & Equipment Expenditures		**$**	**(177)**	$	(447)
Exploration and Evaluation Expenditures			**(220)**		6
		$	**(397)**	$	(441)
Cash flows from financing activities					
Increase (decrease) in bank debt		**$**	**1,179**	$	1,086
Repurchased for cancellation			**-**		63
		$	**1,179**	$	1,149
Increase (decrease) in cash			**-**		97
Cash, beginning of period			**14**		-
Cash, end of period		**$**	**14**	$	97

See accompanying Notes to Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

For the three months ended March 31, 2011 (unaudited)

1. Corporate Information

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

These interim Consolidated Financial Statements were approved and authorized for issuance by the Board of Directors ("the Board") on June 23, 2011.

2. Basis of Presentation

These interim Consolidated Financial Statements present Tuscany's initial financial results of operations and financial position under IFRS as at and for the three months ended March 31, 2011, including 2010 comparative periods, and should be read In conjunction with the Company's annual audited Consolidated Financial Statements to be issued under International Financial Reporting Standards ("IFRS") for the year ended December 31, 2011. They have been prepared in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards" and with International Accounting Standard ("IAS") 34, "Interim Financial Reporting", as issued by the International Accounting Standards Board ("IASB") and as applicable to interim financial statements. These interim Consolidated Financial Statements do not include all the necessary annual disclosures in accordance with IFRS. Previously, the Company prepared its interim and annual Consolidated Financial Statements in accordance with Canadian generally accepted accounting principles ("previous GAAP").

The preparation of these interim 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 16 along with reconciliations presenting the impact of the transition to IFRS for the comparative periods as at January 1, 2010, as at and for the three months ended March 31, 2010, and for the twelve months 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 16.

The policies applied in these interim consolidated financial statements are based on IFRS issued and outstanding as of June 23, 2011, the date that the board of directors approved the statements. Any subsequent changes to IFRS that are given effect in the company's annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these interim consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

All dollar amounts are in Canadian dollars unless otherwise indicated. These interim Consolidated Financial Statements have been prepared on a historical cost basis.

3. *Accounting Policies*

The Corporation's principal business activity is the exploration, development and operation of oil and natural gas properties in Canada and in the United States. 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.

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.

Development and Production Assets

Items of property, plant and equipment, which include crude oil and natural gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. The development and production assets are grouped into cash generating units (CGU) for the purpose of impairment testing. The cost of property, plant and equipment as at January 1, 2010, the date of transition, was allocated to the CGU's based on geographical location and the related field processing and transportation infrastructure. Within a CGU, when significant parts of property, plant and equipment have different useful lives, the parts are accounted for as separate items (major components) of property, plant and equipment. All costs directly associated with the development of natural gas and 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, completion, gathering and infrastructure, asset retirement costs and transfers of exploration and evaluation assets.

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

For disposals 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. Associated transaction costs are expensed when incurred.

Asset Retirement Obligation

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 Consolidated Statement of Operations. Increases in asset retirement obligations resulting from the passage of time are recorded as interest expense in the 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.

Income Tax Accounting

Tuscany follows the liability method of accounting for income taxes. Income tax comprises current and deferred tax. 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.

Tax on income in interim periods is accrued using the tax rate that would be applicable to expected total annual earnings.

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. The Company did not have cash equivalents at the balance sheet dates.

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 has adopted the fair value method for accounting for stock based compensation whereby the fair value of the option granted is estimated on the date of the grant using the Black-Scholes option pricing model for each tranche. Using the fair value method, compensation costs of stock based compensation are estimated and charged to earnings over the vesting period of the options.

Foreign Currency Translation

Foreign currency balances of foreign subsidiaries are expressed in Canadian dollars on the following basis:

- Monetary assets and liabilities – at the period end rate of exchange;
- Other assets and liabilities – at the period end rate of exchange; and
- Revenues and expenses – at average rates of exchange for the period.

Flow-Through Shares

Earnings are reduced by the deferred tax effect of renouncing income tax cost to the purchaser of flow-through shares when the tax pools are renounced and the share capital has been spent on qualifying assets. The tax effect is calculated using the expected rate of tax.

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. Processing revenue is recognized when the service has been provided. Revenue is presented net of royalties under IFRS.

Significant Accounting Judgements 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 plus probable reserves, production rates, oil and gas prices, future costs and other relevant assumptions. 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.

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 "Fair Value through Profit or Loss", "Loans and Receivables", "available-for-sale, and "Financial Liabilities at amortized cost".

Financial Instrument Disclosures

Fair values are now required to be determined following a three level hierarchy:

Level 1: quoted prices in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3: inputs for the asset or liability that are not based on observable market data.

The Company has cash, which is considered to be level 2.

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. 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.

4. Recent IFRS Pronouncements

Adopted

March 31, 2011 is Tuscany's first reporting period under IFRS. Accounting standards effective for periods beginning on or after January 1, 2011 have been adopted as part of the transition to IFRS.

Issued but not in effect

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

IFRS 9 - Financial Instruments

IFRS 9 replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. The adoption of this standard should not have a material impact on Tuscany's Consolidated Financial Statements.

IFRS 10 – Consolidation

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 *Consolidation—Special Purpose Entities* and parts of IAS 27 *Consolidated and Separate Financial Statements*.

IFRS 11 - Joint Arrangements

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures,* and SIC-13, *Jointly Controlled Entities—Non-monetary Contributions by Venturers*.

IFRS 12 – Disclosure of Interests in Other Entities

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

IFRS 13 - Fair Value Measurement

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

Amendments to Other Standards

In addition, there have been amendments to existing standards, including IAS 27, *Separate Financial Statements* (IAS 27), and IAS 28, *Investments in Associates and Joint Ventures* (IAS 28). IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 13.

5. Bank Debt

All credit facilities that are revolving in nature must be disclosed as liabilities. 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 March 31, 2011, the Company had a $4.0 million production loan with a Canadian financial institution. The Company is required to maintain certain covenants with the financial institution and is not in compliance of those covenants as at March 31, 2011. The Company has obtained a waiver from the institution. At March 31, 2011, $3.7 million of the loan was outstanding (YE 2010 - $2.5 million).

Subsequent to March 31, 2011, the Company's bank line was increased by the financial institution to $4.6 million.

6. Property, Plant and Equipment

Property, Plant and Equipment

($ Thousands)		Property, Plant and Equipment, Net		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		225		177
As at March 31, 2011	$	16,648	$	567

Accumulated Depletion, Depreciation and Amortization

($ Thousands)		Property, Plant and Equipment, Net
As at January 1, 2010	$	(4,855)
Depreciation, Depletion and amortization		(1,189)
As at December 31, 2010	$	(6,044)
Depreciation, Depletion and amortization		(362)
As at March 31, 2011	$	(6,407)

Net Book Value (Property, Plant and Equipment)

($ Thousands)		
As at January 1, 2010	$	8,745
As at December 31, 2010	$	10,379
As at March 31, 2011	$	10,241

For the three months ended March 31, 2011, administrative expenses and stock based compensation of $59,000 related to exploration and development activities were capitalized as part of property, plant and equipment (2010 - nil).

For the calculation of depletion expense, estimated future costs to develop the proved reserves were added to property, plant and equipment. At March 31, 2011, future costs were $8.4 million (2010 - $2.6 million).

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.

No impairment was required for the three month period ended March 31, 2011 (2010 - nil).

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	$	6,877,686
Flow Through Shares Issued	8,000,000		1,200,000
Share Issue Costs (net of tax of $9,262)			(25,463)
Repurchased for cancellation	(498,000)		(59,760)
Balance at December 31, 2010 and March 31, 2011	62,801,825	$	7,992,463

Contributed Surplus		Amount (thousands)
Balance, December 31, 2009	$	392,368
Option compensation for the period		183,584
Paid up capital over (under) cost		(18,406)
Balance at December 31, 2010 and March 31, 2011	$	557,546

Normal Course Issuer Bid ("NCIB")

Tuscany is authorized to repurchase up to 2,742,500 Common Shares through the facilities of the TSX Venture Exchange pursuant to a normal course issuer bid, which expires on October 26, 2011. Shares repurchased pursuant to the bid are cancelled. No shares have been repurchased pursuant to the bid to date.

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. At March 31, 2011 the diluted weighted average shares outstanding was 64,126,326 compared with

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, unaudited)	Three Months Ended March 31 2011	2010
Weighted average shares outstanding	62,801,825	55,227,293
Dilutive effect of stock options	1,324,501	266,698
Diluted weighted average shares outstanding	64,126,326	55,493,991

Stock Option Plan

The Corporation'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 Corporation 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 March 31, 2011, there are a total of 3,950,000 options granted and outstanding under the stock option plan with a weighted average exercise price of $0.1197 per share. A total of 1,983,316 options with a weighted average exercise price of $0.1131 are exercisable at March 31, 2011.

Stock Options		March 31, 2011		December 31, 2010	
	Shares	Weighted Average Exercise Price		Shares	Weighted Average Exercise Price
Outstanding, beginning of period	4,195,000	$ 0.1219		2,220,000	$ 0.1160
Granted				2,175,000	$ 0.1400
Exercised				-	$ -
Expired	(94,999)	$ 0.1821		(200,000)	$ 0.2500
Cancelled				-	$ -
Forfeited	(150,001)	$ 0.1400		-	$ -
Outstanding, end of period	3,950,000	$ 0.1197		4,195,000	$ 0.1219
Options exercisable, end of period	1,983,316	$ 0.1131		2,078,315	$ 0.1163

Exercise Price	Outstanding March 31, 2011	Weighted Average Remaining Life (years)	Vested March 31, 2011
$0.00 to $0.10	2,000,000	3.1808	1,333,328
$0.11 to $0.20	1,950,000	4.2137	649,988
Total	3,950,000	4.0000	1,983,316

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 the three months ended March 31, 2011 by $22,000 (2010 - $11,000).

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

8. *Capital Disclosures*

Tuscany manages shareholder equity and debt as capital. Tuscany uses the terms cash flow from operations, annualized cash flow and net debt in its analysis below which are non-GAAP measures. Cash flow from operations should not be considered an alternative to, or more meaningful as an indicator of the Company's performance than cash flow from operating activities, as determined in accordance with International Financial Reporting Standards ("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 measure 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:

($ Thousands, unaudited)	Three Months Ended March 31 2011	2010
Cash provided by Operating Activities:	$ (782)	$ (611)
Adjusted for:		
Change in non-cash working capital	1,211	843
Cash flow from operations	$ 429	$ 232

The Company also uses annualized cash flow from operations which equals four times the 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.

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.

Tuscany sets the level of capital in proportion to its risk of achieving sufficient annualized operating cashflows with the goal of maintaining its net current debt repayability ratio to less than twenty-four months. 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, sell assets or increase its short-term or long-term debt.

The ratio of net debt to annualized cashflow from operations is the primary ratio of capital that Tuscany uses. In the long term, the ratio of net debt to annualized cash flow from operations is an important target. Net debt repayability is a calculation to determine the number of months required to repay net debt from current cashflow from operations. The ratio is calculated as follows:

Net Current Debt Repayability *(Thousands, except for months)*		Three Months Ended March 31 2011		2010
Current liabilities		4,738	$	3,826
Less Current assets		569	$	854
Net current debt		4,169		2,972
Annualized Cashflow from Operations	$	1,648	$	(10,244)
Months estimated to repay net current debt		30.36		(3.48)

These ratios have improved significantly compared to the first quarter of 2010, but the Company is committed to reaching its target of 24 months repayability. On June 2, 2011, with the conclusion of the business combination with Sharon Energy Ltd. the Company had no debt.

9. *Asset Retirement Obligation*

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:

($ Thousands)		Three Months Ended March 31 2011		2010
Asset Retirement Obligation, beginning of year	$	1,006	$	830
(Gain) Loss on Revaluation due to Rate Fluctuations		(17)		3
Finance Cost		8		7
Asset Retirement Obligation, end of year	$	997	$	840

The total undiscounted amount of estimated cash flows required to settle the obligation is $1.1 million. The present value of the obligation has been discounted using average risk free rates of 2.71 to 3.72 percent. Most of these obligations are expected to be paid between 2012 and 2024.

10. *Commitments*

The Company issued $1.2 million of flow-through shares in November 2010 and has $20,000 remaining to spend on exploration costs prior to December 31, 2011.

11. *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 $149,000 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. Interest rate risk is specific to the interest expense charged to income on the Company's bank debt. The Company believes a 25% volatility is a reasonable measure when assessing the potential impact of a change in interest rate. Variations in interest rates on the Company's bank debt could have resulted in gains (losses) impacting net earnings as at March 31, 2011, as follows:

($ Thousands)	Favourable 25% Change	Unfavourable 25% Change
Interest expense	$ 13	$ (13)

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	1,029	-	-
Bank loan	3,709	-	-

At March 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.

Foreign currency exchange risk

The Company currently has no material exposure to foreign currency fluctuations.

12. Related Party Transactions

Humboldt Capital Corporation ("Humboldt") and certain of its officers and directors owned 33% of the outstanding shares of Tuscany. 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 operate jointly with Tuscany, from time to time, in certain areas. As at March 31, 2011, these include Sharon Energy Ltd. ("Sharon"), 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 insiders that may be considered related parties as at June 21, 2011:

- 34% of Tuscany common shares,
- 53% of Paris common shares, and
- 37% 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 – Diaz 45%. Diaz provides administrative, operating and exploration services for Tuscany in exchange for payment of a portion of the related costs of Diaz. For the three month period ended March 31, 2011, Diaz charged Tuscany Management fees of $134,100 (2010 - $26,100). Management fees of $57,000 (2010 - nil) charged by Diaz to Tuscany related to exploration and development activities and were capitalized.

At March 31, 2011, Tuscany owed Diaz $138,000 (2010 – $26,000) and Tuscany owed Paris $8,000 (2010 – $47,000) through the normal course of business.

These transactions were conducted in the normal course of operations and measured at the amount of consideration established and agreed to by the related parties.

13. Supplemental Cash Flow Information

($ Thousands, unaudited)	Three Months Ended March 31	
	2011	2010
Interest paid during the period	$ 50	$ 26
Taxes paid during the period		$ -
Changes in non-cash working capital balances		
Accounts receivable	$ 58	$ (41)
Prepaid expenses	$ 2	$ (20)
Accounts payable and acrued liabilities	$ (1,275)	$ (799)
	$ (1,215)	$ (860)

14. Subsequent Events

Subsequent to March 31, 2011, the Company's completed a business combination with Sharon Energy Ltd. Tuscany acquired all of the issued and outstanding common shares of

Sharon on the basis of 0.84 of a common share of Tuscany for each one (1) common share of Sharon.

Following completion of the Transaction, Tuscany has approximately 124.9 million common shares outstanding. The combined entity has total proved plus probable reserves of approximately 1,345,000 barrels of oil equivalent ("BOE") and current estimated production of 190 BOE per day.

The trading of the common shares of Sharon was halted on the TSX Venture Exchange ("TSXV") after the close of trading on June 2, 2011 and trading of the common shares of Sharon will be delisted from the TSXV.

15. *Reclassification*

Certain information provided for prior periods has been reclassified to conform to the presentation adopted in 2011.

16. *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 International Financial Reporting Standards.

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, March 31, 2010 and December 31, 2010, and Consolidated Statement of Operations for the three months ended March 31, 2010 and for the twelve months ended December 31, 2010.

IFRS Opening Consolidated Balance Sheet

As at January 1, 2010

($ Thousands, unaudited)	Previous GAAP	IFRS Adjustments E&E	IFRS Adjustments ARO	IFRS
		(Note 16a)	(Note 16d)	
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 March 31, 2010

($ Thousands, unaudited)	Previous GAAP	IFRS Adjustments E&E (Note 16a)	IFRS Adjustments DD&A (Note 16b)	IFRS Adjustments ARO (Note 16d)	IFRS
ASSETS					
Cash	$ 97	$ -	$ -	$ -	$ 97
Accounts receivable	735				735
Prepaid expense	22				22
Total current assets	854	-	-	-	854
Property, plant and equipment	14,155	(116)			14,039
Accumulated depletion and depreciation	(5,189)		9		(5,180)
Exploration and evaluation assets	-	101			101
Deferred Tax Asset	799	4	(2)	63	864
Total non-current assets	9,765	(11)	7	63	9,824
Total assets	$ 10,619	$ (11)	$ 7	$ 63	$ 10,678
LIABILITIES					
Accounts payable and accrued liabilities	$ 940	$ -	$ -	$ -	$ 940
Bank debt	2,886				2,886
Total current liabilities	3,826	-	-	-	3,826
Asset retirement obligation	598			242	840
Total non-current liabilities	598	-	-	242	840
Total liabilities	4,424	-	-	242	4,666
EQUITY					
Share capital	6,831				6,831
Contributed surplus	415				415
Deficit	(1,051)	(11)	7	(179)	(1,234)
Total equity	6,195	(11)	7	(179)	6,012
Total liabilities and equity	$ 10,619	$ (11)	$ 7	$ 63	$ 10,678

Consolidated Balance Sheet
As at December 31, 2010

($ Thousands, unaudited)	Previous GAAP	IFRS Adjustments E&E (Note 16a)	DD&A (Note 16b)	Impairments (Note 16c)	ARO (Note 16d)	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	(6,133)		89			(6,044)
Exploration and evaluation assets	-	390				390
Deferred Tax Asset	994	4	(23)		71	1,046
Total non-current assets	11,627	(11)	66	-	133	11,815
Total assets	$ 12,256	$ (11)	$ 66	$ -	$ 133	$ 12,444
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	557					557
Deficit	(1,797)	(11)	66		(203)	(1,945)
Total equity	6,752	(11)	66	-	(203)	6,604
Total liabilities and equity	$ 12,256	$ (11)	$ 66	$ -	$ 133	$ 12,444

Consolidated Statement of Operations and Comprehensive Loss

Three Months Ended March 31, 2010

($ Thousands, except per share amounts, unaudited)	**Previous GAAP**	IFRS Adjustments E&E	IFRS Adjustments DD&A	IFRS Adjustments ARO	**IFRS**
		(Note 16a)	(Note 16b)	(Note 16d)	
Revenue, Net of Royalties	$ 762	$ -	$ -		$ 762
Expenses					
Operating and transportation	402				402
Overhead	98				98
Stock based compensation	11				11
Interest expense	27			(1)	26
Foreign exchange loss (gain)	4				4
Depletion, depreciation and amortization	346			(13)	333
	888	-	-	(14)	874
Loss before income tax	(126)	-	-	14	(112)
Income tax					
Deferred tax expense (recovery)	5			2	7
Total income tax (recovery)	5	-	-	2	7
Net income (loss) and comprehensive income (loss)	(131)	-	-	12	(119)

Consolidated Statement of Operations and Comprehensive Loss

Twelve Months Ended December 31, 2010

($ Thousands, except per share amounts, unaudited)	Previous GAAP	IFRS Adjustments E&E	DD&A	ARO	IFRS
		(Note 16a)	(Note 16b)	(Note 16d)	
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)	(16)	1,218
	3,949	-	(90)	(16)	3,843
Loss before income tax	(1,057)	-	90	16	(951)
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	(785)

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, 2010. The Company took an impairment of the exploration and evaluation assets at January 1, 2010, of $15,000. As at March 31, 2011, the Company's exploration and evaluation assets were approximately $566,000.

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 and the three months ended March 31, 2011, 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 $243,000 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 $243,000. 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 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

Under previous GAAP, the Company adopted the fair value method for accounting for stock based compensation whereby the fair value of the option granted is estimated on the date of the grant using the Black-Scholes option pricing model. Using the fair value method, compensation costs of stock based compensation are estimated and charged to earnings over the vesting period of the options. IFRS requires the same method so no changes were required in transition.

(f) 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, 2010.

(g) Employee Compensation

Employee benefits include all forms of consideration given by the Company in exchange for services rendered by employees. Salaries and short-term employee benefits included in operating and general and administrative expenses for the three month period ended March 31, 2011 were $27,000 (March 31, 2010 - nil).

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