Consolidated Financial Statements of

# DIXIE ENERGY TRUST

For the period from establishment on June 29, 2012 to December 31, 2012

# DIXIE ENERGY TRUST

(Expressed in Canadian dollars)

For the Period from Establishment on June 29, 2012 to December 31, 2012


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## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The management of Dixie Energy Ltd., as administrator on behalf of Dixie Energy Trust, is responsible for the preparation of the consolidated financial statements. The accompanied consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and include certain estimates that reflect management's best estimate and judgements. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly in all material respects.

KPMG LLP ("KPMG"), an independent firm of chartered accountants, was appointed as the external auditor. KPMG has been engaged to make an examination of the consolidated financial statements of Dixie Energy Trust for the period from the date of establishment on June 29, 2012 to December 31, 2012. KPMG was appointed to hold such office until the next annual general meeting of the unitholders of the Trust.

The Board of Directors has reviewed the consolidated financial statements including notes thereto with management and KPMG. The Board of Directors has approved the information contained in the consolidated financial statements.

| *"David G. Anderson"* | *"Kevin D. Dumba"* |
|---|---|
| David G. Anderson<br>President | Kevin D. Dumba<br>Chief Financial Officer |

April 30, 2013

## INDEPENDENT AUDITORS' REPORT

To the Directors of Dixie Energy Ltd., as administrator of Dixie Energy Trust

We have audited the accompanying consolidated financial statements of Dixie Energy Trust (the "Trust"), which comprise the consolidated statement of financial position as at December 31, 2012, the consolidated statements of operations and comprehensive loss, changes in unitholders' equity and cash flows for the period from establishment on June 29, 2012 to December 31, 2012, and notes, comprising a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Consolidated Financial Statements*

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

*Auditors' Responsibility*

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

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

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

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Trust as at December 31, 2012, and its consolidated financial performance and its consolidated cash flows for the period from establishment on June 29, 2012 to December 31, 2012 in accordance with International Financial Reporting Standards.

*"KPMG LLP, Chartered Accountants"*

April 30, 2013

Calgary, Canada

# DIXIE ENERGY TRUST

Consolidated Statement of Financial Position
(Expressed in Canadian dollars)
As at December 31, 2012

| | | |
|---|---|---|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | $ | 5,029,659 |
| Trade and other receivables | | 19,001 |
| Prepaid expenses and deposits | | 713,505 |
| Deferred trust unit issuance costs | | 13,510 |
| | | 5,775,675 |
| Exploration and evaluation assets (Note 5) | | 1,535,703 |
| Total assets | $ | 7,311,378 |
| Liabilities and Equity | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities (Note 6) | $ | 267,823 |
| Decommissioning liabilities (Note 7) | | 9,982 |
| | | 277,805 |
| Decommissionsing liabilities (Note 7) | | 16,554 |
| Unit based compensation (Note 10) | | 358,602 |
| | | 652,961 |
| Unitholders' Equity | | |
| Unitholders' capital (Note 9) | | 7,762,378 |
| Accumulated other comprehensive income | | 9,784 |
| Deficit | | (1,113,745) |
| | | 6,658,417 |
| Total liabilities and equity | $ | 7,311,378 |

*Subsequent events (Note 15)*

*Approved on behalf of the board of the Administrator, Dixie Energy Ltd.*

| *"David G. Anderson"* | *"Earl Fawcett"* |
|---|---|
| Director - David G. Anderson | Director - Earl Fawcett |

*The notes are an integral part of these consolidated financial statements.*

# DIXIE ENERGY TRUST

Consolidated Statement of Operations and Comprehensive Loss
(Expressed in Canadian dollars)
For the period from establishment on June 29, 2012 to December 31, 2012

| | | |
|---|---|---|
| Expenses | | |
| Evaluation and exploration expenses | $ | 286,510 |
| Finance charges | | 113 |
| General and administrative expenses (Note 13) | | 602,346 |
| Unit based compensation (Notes 9 & 10) | | 159,242 |
| | | 1,048,211 |
| Net loss before other items | | (1,048,211) |
| Other Items | | |
| Foreign exchange loss | | 13,667 |
| Impairment of exploration and evaluation assets | | (79,201) |
| | | (65,534) |
| Net loss | | (1,113,745) |
| Other comprehensive income for the period | | |
| Foreign currency translation gain | | 9,784 |
| Total comprehensive loss for the period | $ | (1,103,961) |
| Net loss per unit, basic and diluted (Note 9) | $ | (0.11) |

*The notes are an integral part of these consolidated financial statements.*

# DIXIE ENERGY TRUST

Consolidated Statement of Changes in Unitholders' Equity
(Expressed in Canadian dollars)
For the period from establishment on June 29, 2012 to December 31, 2012

| | Number of units | Trust capital | Accumulated other comprehensive income | Deficit | Unitholders' equity |
|---|---|---|---|---|---|
| Initial units issued on establishment on June 29, 2012 (Note 9) | 1 | $ 5 | $ - | $ - | $ 5 |
| Initial units repurchased and cancelled (Note 9) | (1) | (5) | - | - | (5) |
| Units issued for cash (Note 9) | 20,714,999 | 7,017,462 | - | - | 7,017,462 |
| Units issued on exploration and evaluation asset acquisitions (Notes 5 & 9) | 7,360,000 | 944,276 | - | - | 944,276 |
| Unit based compensation related to services rendered (Note 9(b)(iv)) | - | 171,000 | - | - | 171,000 |
| Fair value of brokers warrants issued (Note 9) | | (370,360) | - | - | (370,360) |
| Net loss | - | - | - | (1,113,745) | (1,113,745) |
| Foreign currency translation gain | - | - | 9,784 | - | 9,784 |
| Balance, December 31, 2012 | 28,074,999 | $ 7,762,378 | $ 9,784 | $ (1,113,745) | $ 6,658,417 |

*The notes are an integral part of these consolidated financial statements.*

# DIXIE ENERGY TRUST

Consolidated Statement of Cash Flows
(Expressed in Canadian dollars)
For the period from establishment on June 29, 2012 to December 31, 2012

| | | |
|---|---|---|
| Operating activities | | |
| Net loss | $ | (1,113,745) |
| Finance charges | | 113 |
| Foreign exchange | | 9,883 |
| Impairment of exploration and evaluation assets | | 79,201 |
| Unit based compensation recovery (Note 10) | | (11,758) |
| Unit based compensation related to services rendered (Note 9) | | 171,000 |
| Changes in non-cash working capital | | |
| Trade and other receivables | | (19,001) |
| Prepaid expenses and deposits | | (713,505) |
| Deferred trust unit issuance costs | | (13,510) |
| Accounts payable and accrued liabilities | | 267,825 |
| | | (478,191) |
| | | (1,343,497) |
| Financing activities | | |
| Issue of units, net of issuance costs | | 7,017,462 |
| Investing activities | | |
| Acquisition of exploration and evaluation assets (Note 5) | | (644,306) |
| Net increase in cash and cash equivalents, being the balance at December 31, 2012 | $ | 5,029,659 |
| Supplemental non-cash investing activities: | | |
| Units issued on exploration and evaluation assets acquisitions | $ | 944,276 |

*The notes are an integral part of these consolidated financial statements.*

## 1. Reporting entity and future operations

Dixie Energy Trust (the "Trust" or "Dixie") is an unincorporated open-ended limited purpose trust established under the laws of the Province of Alberta on June 29, 2012. The Trust was settled by the initial unitholder subscribing for one unit of the Trust for $5. The unit was repurchased by the Trust on August 17, 2012. The beneficiaries of the Trust are the unitholders.

The objective of the Trust is to create stable, consistent returns for investors through the acquisition and development of oil and natural gas reserves and production with low-risk exploitation potential, located primarily in the southern United States. Given its early stage of development, the Trust does not currently pay any distributions and has no plans to for the foreseeable future. The Trust and its wholly owned subsidiaries intend to develop its current portfolio of assets and to develop a well balanced portfolio of exploration and development projects over time.

Dixie Energy Ltd. (the "Administrator") has entered into a voting agreement which entitles unitholders of the Trust to elect 100% of the directors of the Administrator. The Administrator is therefore controlled exclusively by the unitholders of the Trust.

Olympia Trust Company, the Trustee of the Trust, has delegated much of the responsibility for conducting the Trust's affairs to the Administrator pursuant to an administrative services agreement. The Board of Directors of the Administrator performs services pursuant to the administrative services agreement on a cost recovery basis and no additional fees are payable by the Trust to the Administrator.

The Administrator meets the accounting definition of a special purpose entity and accordingly the Administrator has been consolidated based on the principles set out in SIC 12 Consolidation – Special Purpose Entities.

The Trust has no history of or current earnings and will be dependent upon equity issuances, debt financing, asset dispositions or entrance into joint arrangements with third parties to fund future activities. The Trust is a pre-production development-stage entity in the process of exploring their oil and gas properties in the United States and has not yet determined whether such properties contain economically recoverable reserves. The ability of the Trust to continue ongoing operations is dependent upon the existence of economically recoverable reserves and the ability of the Trust to complete exploration and development and to realize future profitable production.

Pursuant to the terms of an Administrative Services Agreement, the Administrator, a corporation incorporated under the *Business Corporations Act (Alberta)*, (ABCA) on June 28, 2012, is the administrator of the Trust and performs all general and administrative services that are or may be required or advisable, from time to time, for the Trust.

The head office, principal address and registered and records office of the Trust are located at Suite 400, 620 – 12th Avenue SW, Calgary, Alberta T2R 0H5.

## 2. Basis of Presentation

a) Statement of compliance

These consolidated financial statements are prepared and reported in Canadian dollars in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants (“CICA Handbook”). The CICA Handbook incorporates International Financial Reporting Standards (“IFRS”) and publicly accountable enterprises, such as the Trust, are required to apply such standards. These consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (“IASB”).

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

b) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments that have been measured at fair value. Throughout these notes to the consolidated financial statements, Dixie and its subsidiaries may be referred to collectively as the “Trust” or “Dixie” for purposes of convenience. These consolidated financial statements have been prepared for the period from inception on June 29, 2012 to December 31, 2012.

These consolidated financial statements are presented in Canadian dollars, except otherwise noted.

## 3. Significant accounting policies

(a) Basis of consolidation

The Trust has the following significant wholly owned subsidiaries whose financial position and results have been consolidated in the Trust’s consolidated financial statements:

| | | |
|---|---|---|
| Dixie Energy Holdings (Canada) Ltd. | Alberta | Alberta Corporation |
| Dixie Energy Holdings (US), Ltd. | United States | Delaware Corporation |
| Dixie Energy Holdings (Wiley Dome), LLC | United States | Delaware Corporation |
| Dixie Energy Holdings (Maple Branch), LLC | United States | Delaware Corporation |
| Dixie Energy Holdings (Strong Field), LLC | United States | Delaware Corporation |

The results of the above subsidiaries, together with the Administrator(as further described inNote 1) have been included in the consolidated statements. All of the entities have calendar year ends. The Administrator is not a legal subsidiary of the Trust.

(b) Cash and cash equivalents

Cash and cash equivalents include cash in banks and short-term investments with maturities of less than 90 days at purchase.

(c) Jointly controlled operations and jointly controlled assets

Many of the Trust's oil and natural gas activities involve jointly controlled assets. The consolidated financial statements include the Trust's proportionate share of the jointly controlled assets, liabilities, revenues and operating costs of the jointly controlled assets.

(d) Exploration and evaluation expenditures

In accordance with IFRS 6, pre-license costs, defined as those costs incurred before the legal right to explore has been acquired, are expensed in the period in which they are incurred. Exploration and evaluation costs of a type that are not sufficiently closely related to a specific resource to support capitalization are also expensed in the period in which they are incurred.

Exploration and evaluation costs associated with oil and gas exploration and investments are capitalized on a project by project basis (well, field or specific exploration licenses, as appropriate), pending determination of the technical feasibility and commercial viability of the project. Costs incurred include appropriate technical (geological and geophysical, or "G&G"), license acquisition and directly attributable operational overhead. Amounts recorded for these assets represent costs and are not intended to reflect present or future values.

The recoverability of all exploration and evaluation expenditures is dependent upon the discovery of economically recoverable reserves and future profitable production or proceeds from the disposition thereof. When proven reserves are assigned, the accumulated costs for the relevant area are tested for impairment and transferred from exploration and evaluation assets to property, plant and equipment and further classified as either "Developed Oil & Gas Assets" or "Production Facilities and Equipment" (tangible fixed assets), as appropriate.

(e) Oil and Gas Properties and Property, Plant and Equipment

Oil and gas properties are carried at cost, net of accumulated depletion and impairments, and include costs related to drilling development wells, well completions, infrastructure construction, successful E&E projects and estimated decommissioning liabilities.

Property, plant and equipment ("PP&E") are recognized at cost net of accumulated depreciation and impairments. Expenditures incurred to improve the capabilities of PP&E, extend their useful lives or replace significant components are capitalized. Maintenance and repairs are expensed as incurred.

Borrowing costs directly associated with the acquisition, construction or production of aqualifying asset is capitalized while the asset is being constructed or otherwise prepared for its intended productive use. All other borrowing costs are recognized as an expense in the period in which they are incurred. Administration and other general overhead costs related to the acquisition of oil and gas properties and PP&E are not capitalized to the asset but are expensed as incurred.

(f) Impairment – Exploration and evaluation assets

Exploration and evaluation assets are assessed for impairment if:

(i) Sufficient data exists to determine technical feasibility and commercial viability; or

(ii) Facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Sufficient data is considered to exist in order to determine the technical feasibility and commercial viability of extracting a resource when proved plus probable reserves are assigned. A review for indicators of impairment on a project by project basis (well, field or specific exploration licenses, as appropriate) is carried out, at least annually, to ascertain whether proved plus probable reserves have been assigned. If proved plus probable reserves have been assigned, exploration and evaluation assets attributable to those reserves are first tested for impairment (and any resulting impairment loss is recognized) and then reclassified from exploration and evaluation assets to oil and gas properties and amortized over the estimated life of the proved and probable reserves on a unit-of-production basis.

Exploration and evaluation costs for which technical feasibility had not yet been determined through the assignment of proved plus probable reserves are subject to technical, commercial and management review for indicators of impairment at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this intent no longer exists, such facts and circumstances might indicate that the carrying amount exceeds the recoverable amount. If this is the case, the costs are expensed. Costs associated with an exploratory dry hole are expensed immediately if commercially viable quantities of hydrocarbons are not found. Where a license is relinquished or project abandoned, the related costs are expensed. Where the Trust maintains an interest in a project, but the value of the project is considered to be impaired, a provision against the relevant capitalized costs will be provided.

For purposes of impairment testing, exploration and evaluation assets are allocated and added to the carrying amount of any oil and gas properties in the same cash-generating unit ("CGU") and the combined carrying amount is tested for impairment by comparing the carrying amount to the recoverable amount.

(g) Decommissioning Liabilities

Decommissioning liabilities include those legal or constructive obligations to retire assets such as well sites, gathering systems, natural gas processing plants and access roads at the end of their productive lives. The obligation is recognized when a property is acquired or a well is completed. The amount recognized on the balance sheet is the present value of estimated future expenditures required to settle obligation using a risk-free rate. A corresponding asset equal to the initial estimated liability is capitalized as part of the cost of the related long-lived asset. Changes in the estimated liability resulting from revisions to estimated timing or future decommissioning cost estimates are recognized as a change in the

decommissioning cost and related long-lived asset. Increases in the decommissioning liabilities resulting from the passage of time are recognized as finance expense in the statement of comprehensive loss.

Actual costs incurred to retire assets are charged against the decommissioning liability. Differences between the actual costs incurred and the liability accrued are recognized in earnings when reclamation of the area is completed.

Any adjustments to the provision arising from reassessment of the estimated cost of decommissioning are added to or deducted from, the cost of the related asset in the current period. If a decrease if the liability exceeds the carrying amount of the asset, the excess is recognized immediately in profit or loss.

(h) Leased assets

All of the Trusts leases are operating leases, which are not recognized on the Trust's balance sheet. Payments made under operating leases are recognized in the statement of operations on a straight-line basis over the term of the lease.

(i) Trust units

Trust units issued by the Trust provide the holder the option to redeem units. IAS 32 *"Financial Instruments: Presentation"* establishes the general principle that an instrument that provides the holder with the right to redeem the units for cash should be classified as a financial liability, unless it meets the conditions of IAS 32 for a puttable instruments. If a financial instrument meets the puttable instrument exemption criteria, then they are classified as equity. The Trust units are classified as equity as they meet the conditions in IAS 32 for puttable instruments.

(j) Trust unit issuance costs

Transaction costs directly attributable to the issuance of trust units are recognized as a deduction from equity. In addition to cash costs related to the issuance of units, the fair value of broker warrants issued on both placement of units are recognized as trust unit issuance costs.

(k) Loss per trust unit calculations

Net income per unit is calculated by dividing net income by the weighted average number of units outstanding. The Trust uses the treasury stock method to determine the dilution that would occur if Trust unit options and broker warrants were exercised in exchange for units. Under the treasury stock method, outstanding and exercisable instruments that will have a dilutive effect are included in the per-unit calculations, ordered from most dilutive to least dilutive. The dilutive effect of instruments is determined using the "if converted" method, whereby the outstanding instruments at the end of the period are assumed to have been converted at the beginning of the period or at the time, if issued during the period. Amounts charged to income or loss which relate to the outstanding instruments are added back to net

income for the dilutive calculation. The units issued upon conversion are included in the denominator of per-unit-basic calculations from the date of issue.

(l) Unit based compensation

The Trust grants Restricted Trust Units ("RTUs") to employees, directors, officers and certain direct and indirect service providers. RTUs entitle the holders to receive either the cash equivalent of one unit or one Trust unit, from the treasury or purchased on the secondary market, at the option of the trust, subject to the vesting provisions of the Restricted and Performance Incentive Award Plan (the "Plan"). The purpose of the Plan is to attract, retain and motivate eligible employees and service providers by enabling such persons to participate in the growth of the Trust.

The Trust uses the fair value method of valuing compensation expense associated with the Plan. The units issued pursuant to the Plan are not considered equity settled share based payments as the IAS 32 "puttable instrument exemption" does not extend to unit based compensation made by a Trust. Therefore RTUs issued subject to the Plan are treated in a manner similar to a cash settled unit based compensation arrangement. On grant date, the fair value of the RTUs is measured using a fair value model deemed as appropriate by management. The associated liability is re-measured at the end of each reporting unit and the changes in the fair value are recognized in the income statement. When cash payments are made to settle vested RTUs, the difference between the estimated liability and actual settlement cost is recognized in the income statement. Compensation expense is recognized over the vesting period of the Plan using graded vesting.

(m) Foreign currency

(i) *Foreign currency transactions.* Transactions in foreign currencies are translated to the respective functional currencies of Trust entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(ii) *Foreign operations.* The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to dollars at exchange

rates at the reporting date. The income and expenses of foreign operations are translated to dollars at exchange rates at the dates of the transactions.

Foreign currency differences are recognized in other comprehensive income. When a foreign operation is disposed of, the relevant amount in Accumulated Other Comprehensive Income (“AOCI”) (in the cumulative translation account) is transferred to profit or loss as part of the profit or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

(n) Financial instruments

(i) Financial Assets

Financial assets are classified into one of the following categories based on the purpose for which the asset was acquired. All transactions related to financial instruments are recorded on a trade date basis. The Trust's accounting policy for each category is as follows:

(ii) Loans and Receivables

These assets are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand. Loans and receivables are comprised of trade and other receivables. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue and subsequently carried at amortized cost, using the effective interest method, less any impairment losses. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

(iii) Available-For-Sale Financial Assets

Non-derivative financial assets not included in the above category are classified as available-for-sale. Available-for-sale investments are carried at fair value with changes in fair value recognized in accumulated other comprehensive loss. Where there is a significant or prolonged decline in the fair value of an available-for-sale financial asset (which constitutes objective evidence of impairment), the full amount of the impairment, including any amount previously recognized in other comprehensive loss, is recognized in profit or loss. If there is no quoted market price in an active market and fair value cannot be readily determined, available-for-sale investments are carried at cost.

Purchases and sales of available-for-sale financial assets are recognized on a trade date basis. On sale or impairment, the cumulative amount recognized in other comprehensive loss is reclassified from accumulated other comprehensive loss to profit or loss.

The Trust does not have any assets that are classified as available-for-sale.

(iv) Fair Value Through Profit or Loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Cash and cash equivalents, restricted cash, and deposits are examples of financial assets that the Trust would recognize as being at fair value through profit or loss.

Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 9. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in finance income or finance costs (as appropriate) in profit or loss.

Financial assets designated upon initial recognition at fair value through profit or loss are designated at their initial recognition date only if the criteria in IAS 39 are satisfied.

(v) Held to Maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Trust has the positive intention and ability to hold them to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest rate, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in finance income in the income statement. The losses arising from impairment are recognized in the statement of operations in finance costs. The Trust has not classified any of its financial assets as held to maturity.

(vi) Financial Liabilities

Financial liabilities are classified as other financial liabilities, based on the purpose for which the liability was incurred, and is comprised of accounts payable and accruals liabilities. These liabilities are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest method. This ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. Interest expense in this context includes

initial transaction costs and premiums payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

Accounts payable represent liabilities for goods and services provided to the Trust prior to the end of the period which are unpaid. Accounts payable are unsecured and are usually paid within 30 days of recognition.

(vii) Impairment on Financial Assets

At each reporting date, the Trust assesses whether there is objective evidence that a financial asset is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of the asset.

If a financial asset carried at amortized cost is impaired, the impairment is measured as the difference between the carrying value, or amortized cost of the asset, and the present value of the future cash flows discounted at the instrument's original effective interest rate. The impairment is recognized in earnings or loss. An impairment loss may be reversed if the reversal can be objectively related to an event occurring after the impairment loss recognition. For financial assets measured at amortized cost, the reversal is recognized in earnings or loss.

Individually significant financial assets are tested for impairment on an individual basis. Remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

(o) Provisions

A provision is recognized if, as a result of a past event, the Trust has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

(p) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Tax on income in interim periods is accrued using the tax rate that would be applicable to expected total annual earnings.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The Trust is a taxable entity under the Income Tax Act (Canada) ("Tax Act") and is currently taxable only on income that is not distributed or distributable to the unitholders. The Trust will at no time be a SIFT trust as defined in the Tax Act provided it complies with its investment restrictions. Investment restrictions contained in the formation documents provide that the Trust and its subsidiaries will only invest in entities that qualify as a "portfolio investment entity" and will not hold any "non-portfolio property" or "taxable Canadian property", each as defined in the Tax Act. It also intends to qualify as a "mutual fund trust" within the meaning of the Tax Act and will not be subject to the limit on non-resident ownership in the Tax Act as it will not own any "taxable Canadian property" as defined in the Tax Act.

(q) New standards and interpretations not yet adopted

Unless otherwise noted, the following revised standards and amendments are effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. The Trust is currently evaluating the impact of adopting these standards and amendments on its consolidated financial statements to determine whether it will early adopt as permitted.

*IFRS 9 – Financial Instruments*

On January 1, 2015, the Trust will be required to adopt IFRS 9, "*Financial Instruments*", which is the result of the first phase of the International Accounting Standards Board's ("IASB") project to replace IAS 13, "*Financial Instruments: Recognition and Measurement*". The new

standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that consolidates the classification categories into “amortized cost” and “fair value”.

The Trust intends to adopt IFRS 9 in its consolidated financial statements for the annual period beginning on January 1, 2015. Management is currently assessing the impact of adopting the new standard.

*IFRS 10 – Consolidation*

In June 2012, IASB issued IFRS 10, “*Consolidations*”, which replaces IAS 27, “*Consolidated and Separate Financial Statements*” and SIC-12 “*Consolidation – Special Purpose Entities*”, is applicable for year ends beginning on and after January 1, 2013. The standard requires entities to consolidate an investee when it has power over its investee, 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 the current IFRS 9, 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.

The Trust intends to adopt IFRS 10 in its consolidated financial statements for its year end beginning on January 1, 2013. Management is currently assessing the impact of adopting the new standard.

*IFRS 11 – Joint Arrangements*

IFRS 11, “*Joint Arrangements*”, 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*”.

The Trust intends to adopt IFRS 11 in its consolidated financial statements for its year end beginning on January 1, 2013. Management is currently assessing the impact of adopting the new standard.

*IFRS 12 - Disclosure of Interests in Other Entities*

IFRS 12 contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity.

The Trust intends to adopt IFRS 12 in its consolidated financial statements for its year end beginning on January 1, 2013. Management does not expect the amendments to have a

material impact on the consolidated financial statements, because of the nature of the Trust's interests in other entities.

*IFRS 13 - Fair Value Measurement*

IFRS 13, "*Fair Value Measurement*", is a comprehensive standard for fair value measurement and disclosure 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. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures.

The Trust intends to adopt IFRS 13 prospectively in its financial statements for its year end beginning on January 1, 2013. The extent of the impact of adoption of IFRS 13 has not yet been determined.

*IAS 1 - Presentation of Financial Statements*

The amendments require that an entity present separately the items of other comprehensive income ("OCI") that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. Consequently an entity that presents items of OCI before related tax effects will also have to allocate the aggregated tax amount between these categories.

The Trust intends to adopt the amendments in its financial statements for the annual period beginning on January 1, 2013. The extent of the impact of adoption of the amendments has not yet been determined.

*Amendments to Other Standards*

There have been amendments to existing standards, including IAS 27, "*Separate Financial Statements*" and IAS 28, "*Investments in Associates and Joint Ventures*". 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 to 13.

## 4. Significant accounting judgements, estimates and assumptions

The Trust makes estimates and assumptions about the future that affect the reported amounts of assets, liabilities, and the disclosure of contingent assets and liabilities. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Future confirming events may result in differences from these estimated assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in the statement of operations in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the consolidated financial statements within the next financial year are discussed below.

(i) Exploration and evaluation expenditures

In line with IFRS 6, pre-license costs, defined as those costs incurred before the legal right to explore has been acquired, are expensed in the period in which they are incurred. Exploration and evaluation costs of a type that are not sufficiently closely related to a specific resource to support capitalization are also expensed in the period in which they are incurred.

Exploration and evaluation costs associated with oil and gas exploration and investments are capitalized on a project by project basis (well, field or specific exploration licenses, as appropriate), pending determination of the technical feasibility and commercial viability of the project. Costs incurred include appropriate technical (geological and geophysical, or "G&G"), license acquisition and directly attributable operational overhead. Amounts recorded for these assets represent costs and are not intended to reflect present or future values.

The recoverability of all exploration and evaluation expenditures is dependent upon the discovery of economically recoverable reserves and future profitable production or proceeds from the disposition thereof. When proven reserves are assigned, the accumulated costs for the relevant area are tested for impairment and transferred from exploration and evaluation assets to property, plant and equipment and further classified as either "Developed Oil & Gas Assets" or "Production Facilities and Equipment" (tangible fixed assets), as appropriate.

(ii) Impairment – Exploration and evaluation expenditures

Exploration and evaluation assets are assessed for impairment if:

I. Sufficient data exists to determine technical feasibility and commercial viability; or

II. Facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Exploration and evaluation assets are transferred to "Property, Plant and Equipment" when sufficient data is considered to exist in order to determine the technical feasibility and commercial viability of extracting a mineral resource. These properties are then depleted over the estimated life of the proven and probable reserves on a unit-of-production basis.

Exploration and evaluation costs for which technical feasibility and commercial viability has not yet been determined are subject to technical, commercial and management review for

indicators of impairment at each reporting date to confirm the continued intent to develop or otherwise extract value from the discovery. When this intent no longer exists, such facts and circumstances might indicate that the carrying amount exceeds the recoverable amount. If this is the case, the costs are written off.

(iii) Decommissioning liabilities

Provisions are recognized for the future decommissioning and restoration of the Trust's oil and gas assets at the end of their economic lives. Assumptions have been made to estimate the future liability based on past experience and current economic factors which management believes are reasonable. However, the actual cost of decommissioning is uncertain and cost estimates may change in response to numerous factors including changes in legal requirements, technological advance, inflation and the timing expected decommissioning and restoration. There could be significant impact to earnings over the remaining economic life of the assets due to changes in cost estimates as new information becomes available. In addition, management determines the appropriate discount rate at the end of each reporting period. This discount rate, which is credit-adjusted risk free is used to calculate the present value of the estimated future cash outflows required to settle the obligation and may change in response to market factors.

(iv) Unit-based compensation

Use of the Black-Scholes Option Pricing model to estimate the fair value of the Trust's warrants and options to purchase trust units and restricted trust units (RTUs) requires the application of various assumptions including warrant and option lives, forfeiture rates, distributions and volatility of the market price of Dixie's trust units. Changes in any of these variables could have a material impact on the unit-based compensation liability and unit-based compensation expense. RTUs issued by the Trust have a either a performance threshold that must be met for the RTUs to vest or are subject to vesting over time. For the calculation of the value of the RTU liability, the Trust reduces the estimated value by a factor representing the probability that the RTUs will not vest. The risk factor is assessed at each reporting date, and changes in this risk factor could have a material impact on the compensation liability and expense.

(v) Classification of trust units as equity

Trust units issued by the Trust give the holder the right to put the units back to the issuer in exchange for cash. IAS 32 *"Financial Instruments: Presentation"* establishes the general principle that an instrument which gives the holder the right to put the instrument back to the issuer for cash should be classified as a financial liability, unless such instrument has all of the features and meets the conditions of the IAS 32 "puttable instrument exemption". If these "puttable instrument exemption" criteria are met, the instrument is classified as equity. The Trust has examined the terms and conditions of its Trust Indenture and classifies its

outstanding trust units as equity because the trust units meet the "puttable instrument exemption" criteria as there is no contractual obligation to distribute cash.

(vi) Income taxes

Accounting for income taxes is a complex process requiring management to interpret frequently changing laws and regulations and make judgements related to the application of tax law, estimate the timing of temporary difference reversals, and estimate the realization of tax assets. All tax filings are subject to subsequent government audits and potential reassessment. These interpretations and judgements and changes related to them impact tax provisions, deferred income tax assets and liabilities and net loss.

## 5. Exploration and evaluation assets

| | | |
|---|---|---|
| Balance, June 29, 2012 | $ | - |
| Acquired in exchange for shares (Note 9(b)(iii)) | | 944,276 |
| Additions | | 644,205 |
| Asset retirement cost | | 26,423 |
| Impairment | | (79,201) |
| Balance, December 31, 2012 | $ | 1,535,703 |

Exploration and evaluation assets relate to lease rights for undeveloped land in the Maple Branch and Strong Field and Wiley Dome prospects. As at December 31, 2012 the Trust recorded a $79,201 impairment against the Wiley Dome prospect.

## 6. Trade payables and accrued liabilities

| | | |
|---|---|---|
| Accounts payable and accrued liabilities | | |
| Due to related parties | $ | 18,961 |
| Other trade payables | | 119,149 |
| Non-trade payables and accrued liabilities | | 129,713 |
| | $ | 267,823 |

## 7. Decommissioning liabilities

| | | |
|---|---|---|
| Balance, June 29, 2012 | $ | - |
| Obligations incured due to drilling activity | | 26,039 |
| Accretion expense | | 113 |
| Change in estimated liability | | 384 |
| | | 26,536 |
| Less: current portion | | (9,982) |
| Balance, December 31, 2012 | $ | 16,554 |

The undiscounted cash flows estimated to settle the decommissioning liabilities associated with Dixie's oil and gas properties at December 31, 2012 are $ 27,500. The payments to settle these obligations are expected to occur between 2013 and 2027. The estimated payments have been inflated at 2% per annum and have been discounted using a risk free rate of 2.36%, depending on the estimated time to settle the decommissioning obligation.

## 8. Deferred tax assets and liabilities

(a) As at December 31, 2012, the Trust had the following losses and deductions available to reduce future years' income for tax purposes, the deferred income tax effect of which has not been recorded in the Consolidated Statement of Financial Position except to the extent necessary to offset related deferred income tax liabilities:

| | Year of expiry | Canada CDN | United States USD |
|---|---|---|---|
| Non-capital losses | 2032 | $ 410,860 | $ 493,994 |

(b) The income tax provision differs from the expected amount calculated by applying the trust's combined federal and state income tax rate of 35% as follows:

| | For the period of June 29, 2012 to December 31, 2012 |
|---|---|
| Loss before income taxes | $ (1,113,745) |
| Expected tax rate | 35% |
| | (389,811) |
| Add (deduct) effects of: | |
| Non-deductible Trust expenses | 39,314 |
| Unit based compensation | 55,735 |
| Foreign exchange and other | 19,149 |
| Benefit of deferred tax asset not recognized | 275,613 |
| Balance, December 31, 2012 | $ - |

(c) The components of the Trust's deferred tax asset (liability) are a result of the origination and reversal of temporary differences and are comprised of the following:

| | | |
|---|---|---|
| Deferred tax assets and liabilities are attributable to the following: | | |
| Deferred tax liabilities | | |
| Exploration and evaluation assets | $ | (137,160) |
| Deferred tax assets | | |
| Non-capital losses | | 127,872 |
| Unit issuance costs | | 9,288 |
| | $ | - |

| | | |
|---|---|---|
| Unrecognized deferred tax assets | | |
| Deferred tax assets have not been recognized in respect of the following: | | |
| Non-capital losses | $ | 904,854 |
| Unit issuance costs | | 957,084 |
| | $ | 1,861,938 |

## 9. Trust Capital

(a) *Authorized*

The Trust is authorized to issue an unlimited number of trust units. Each unit represents an equal, undivided beneficial interest in the net assets of the Trust, and all units rank equally and rateably with all other units. Unitholders are entitled to receive non-cumulative distributions from the Trust if, as, and when declared by the Trust.

Trust units are redeemable at any time and from time to time on demand by the Trust unitholders. The redemption price is equal to the lesser of: (i) 90% of the market price of the trust units for the last ten consecutive trading days; and (ii) 100% of the closing market price of the trust units.

The aggregate redemption price payable by the Trust in respect of any trust units tendered for redemption during any month shall be satisfied by way of cash payment on or before the fifth business day after the end of the calendar month following the calendar month in which the trust units were tendered for redemption; provided that trust unitholders shall not be entitled to receive cash upon the redemption of their units if:

(i) the total amount payable by the Trust in respect of such trust units and all other trust units tendered for redemption in the same calendar month exceeds $30,000;

(ii) the normal trading of the outstanding trust units is suspended or halted on any stock exchange on which the trust units are listed for trading or

(iii) the Trust or any affiliate thereof is, or after such redemption would be, in default under any credit facilities.

If a trust unitholder is not entitled to receive cash upon the redemption of trust units then the redemption price for each trust unit tendered for redemption shall be equal to the fair market value of a trust unit and shall be paid and satisfied by way of a distribution in specie of property of the Trust or by issuing unsecured subordinated promissory notes.

(b) *Trust units outstanding*

| | Number of Units | Amount |
|---|---|---|
| Issued for cash upon initial establishment of the Trust, June 29, 2012 (Note 9(b)(i)) | 1 | $ 5 |
| Repurchase of initial trust unit | (1) | (5) |
| Units issued for cash (Note 9(b)(ii)) | 5,499,999 | 275,000 |
| Units issued in exchange for petroleum natural gas assets (Note 9(b)(iii)) | 7,360,000 | 944,276 |
| Issue of units pursuant to private placement (Note 9(b)(iv)) | 380,000 | 190,000 |
| Issue of units pursuant to private placement (Note 9(b)(v)) | 14,810,000 | 7,405,000 |
| Issue of units (Note 9(b)(vi)) | 25,000 | 12,500 |
| Issuance costs (Note 9(d)) | | (1,064,398) |
| | 28,074,999 | $ 7,762,378 |

(i) On establishment of the Trust on June 29, 2012, an initial trust unit was issued for consideration of $5.00. On August 17, 2012 the Trust repurchased and cancelled the initial trust unit issued for consideration for $5.00.

(ii) On July 10, 2012 and August 17, 2012 the Trust issued 5,249,999 trust units and 250,000 trust units respectively to certain founding unitholders and trustees at $0.05 per trust unit for total net proceeds of $275,000.

(iii) On September 20, 2012, the Trust indirectly acquired, through Dixie US, working interests in oil and gas leases in the Southern US valued at US$967,000 which was the fair value of the assets. The Trust issued 7,360,000 trust units as payment valuing the trust units at approximately $0.13 per trust unit.

(iv) On October 25, 2012, the Trust issued 380,000 units to a consultant at an agreed upon issuance price of $0.05 per unit, for total net proceeds of $19,000. The fair value of the services provided was determined to be $190,000 and accordingly, the excess of the fair value of the services over the net proceeds of $171,000 have been recorded as consulting fees.

(v) On October 25, 2012 and November 14, 2012, the Trust completed a brokered private placement of 14,310,000 and 500,000 trust units respectively at $0.50 per trust unit, for total proceeds of $7,405,000.

As a condition to the closing of the brokered private placement the holders of trust units as of October 25, 2012 entered into a performance escrow agreement and deposited 90% of the trust units held as of such date, a total of 13,580,999, with an escrow agent. The escrowed trust units may not be sold, assigned, transferred, redeemed, surrendered or otherwise dealt with in any manner except as provided for by the performance escrow agreement.

The escrowed trust units held pursuant to the performance escrow agreement will be released from escrow as follows:

1) 15% on the date the Trust Units are listed on the CNSX, TSX Venture Exchange or Toronto Stock Exchange.

2) 45% provided that the trust units are listed on the TSX Venture Exchange or Toronto Stock Exchange, if (i) the Trust has achieved a three month average production greater than eight barrels of oil equivalent per day per million “Adjusted Units” (as defined in the performance escrow agreement) or (ii) the “Net Asset Value” (as defined in the performance escrow agreement) is greater than $0.50 per trust unit (the “Stage Two Release”).

3) 40% provided that the trust units are listed on the TSX Venture Exchange or Toronto Stock Exchange, if (i) the Trust has achieved a six month average production greater than 12 barrels of oil equivalent per day per million “Adjusted Units” (as defined in the performance escrow agreement) or (ii) the “Net Asset Value” (as defined in the performance escrow agreement) is greater than $0.80 per trust unit (the “Stage Three Release”)

4) 85% provided that the trust units are listed on the TSX Venture Exchange or Toronto Stock Exchange, if the Trust or its subsidiaries completes either: (i) an acquisition from an arms’ length party or (ii) a subsequent brokered financing of trust units for gross proceeds of more than $10 million or at a price per trust unit equal to or greater than $0.50. Upon the occurrence of such event(s) the Stage Two Release and Stage Three Release shall be deemed to have occurred.

If the Trust has not achieved one or more of the above release events prior to October 25, 2015, the performance escrow agent will return the remaining escrowed trust units to the Trust for cancellation.

(vi) On October 26, 2012, the Trust issued 25,000 trust units to a certain unitholder at $0.50 per trust unit for total net proceeds of $12,500.

(c) *Loss per unit*

| | | |
|---|---|---|
| Net Loss | $ | (1,113,745) |
| Weighted average number of units | | 10,218,182 |
| basic and diluted loss per unit | $ | (0.11) |

Diluted loss per unit is equal to basic loss per unit as there are no dilutive instruments outstanding.

(d) *Trust issuance costs*

In 2012, the Trust incurred trust unit issuance cost of $1,064,398 related to the offering of units. Of the $1,064,398, $518,350 was related to underwriter's fees, $175,688 were other cash costs and $370,360was the estimated value of the broker warrants issued at the date of the private placement as compensation for work undertaken to complete the private placement.

## 10. Unit based compensation

*Broker warrants – Private placement of Trust units*

As part of the private placement completed on October 25, 2012 and November 14, 2012, the Trust issued 1,001,700 and 35,000 broker warrants to the underwriter, respectively. The broker warrants vest immediately and are exercisable for a period of 2 years from the date of issue and it entitles the holder to acquire a Trust unit, with similar features to the units that were issued on October 25, 2012 and November 14, 2012 (Note 9(b)(v)), for $0.50 per unit. The fair value of the broker warrants issued on October 25, 2012 approximate $357,860 or $0.3573 per warrant, while the fair value of the broker warrants issued on November 14, 2012 approximate $12,500 or $0.3571 per warrant, on the grant date. The fair value of these broker warrants were determined using the Black-Scholes Option Pricing Model with the following assumptions: risk-free rate of 1.0899-1.1634%, expected life of 2 years, implied stock price volatility of 150% and nil dividend yield.

The weighted average remaining life of the units outstanding at December 31, 2012 was 1.82 years.

Any changes in the estimated fair value of the liability at the end of each reporting period based on the number of units outstanding, the unit price at the end of the reporting period and the number vested is recorded in the consolidated statement of operations.

These broker warrants were re-measured to fair value at the reporting date using the Black-Scholes Option Pricing Model with the following assumptions: risk-free rate of 1.1391 – 1.16%, expected life of 1.82 – 1.87 years, implied stock price volatility of 150% and nil dividend yield. The change in fair value of $11,758 has been recorded in the statement of operations.

The following schedule provides the continuity of unit based compensation:

| | Number of Units | Weighted average exercise price per unit |
|---|---|---|
| Balance, June 29, 2012 | - | $ - |
| Issued on October 25, 2012 | 1,001,700 | 0.50 |
| Issued on November 14, 2012 | 35,000 | 0.50 |
| Balance, December 31, 2012 | 1,036,700 | $ 0.50 |

The following is a summary of changes in unit based compensation liability from June 29, 2012 to December 31, 2012:

| | |
|---|---|
| Balance, June 29, 2012 | $ - |
| Fair value of broker warrants issued | 370,360 |
| Change in fair value | (11,758) |
| Balance, December 31, 2012 | $ 358,602 |

## 11. Financial Instruments and risk management

The Trust's financial instruments consist of cash and cash equivalents, trade and other receivables and trade payables and accruals. Fair values of financial assets and liabilities and discussion of risks associated with financial assets and liabilities are presented as follows:

| | Carrying Amount | Fair Value |
|---|---|---|
| **Financial Assets** | | |
| Fair value through profit and loss | | |
| Cash and cash equivalents | $ 5,029,659 | $ 5,029,659 |
| Loans and receivables | 19,001 | 19,001 |
| Trade and other receivables | | |
| **Financial liabilities** | | |
| Other financial liabilities | | |
| Accounts payable and accrued liabilities | 267,825 | 267,825 |

### Fair values

Fair values have been determined for measure and/or disclosure based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The carrying values of cash and cash equivalents, trade and other receivables and trade payables and accruals approximate fair value due to the short-term nature of the instruments. Due to the use of subjective judgments and uncertainties in the determination of fair values,

these values should not be interpreted as being realizable in immediate settlement of the financial instruments.

Fair Value Hierarchy

Financial instruments that are measured subsequent to initial recognition at fair value are grouped in Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities; and
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that included inputs for the asset or liability that are not based on observable marker data (unobservable inputs).

**Risk management**

The Trust is exposed to financial risks arising from its financial assets and liabilities, such as:

- Credit risk;
- Liquidity risk; and
- Foreign exchange risk.

*Credit risk*

Credit risk is the risk that one party to a financial instrument will cause a financial loss for another party by failing to discharge an obligation. The maximum exposure to credit risk at December 31, 2012 was as follows:

| | | |
|---|---|---|
| Cash and cash equivalents | $ | 5,029,659 |
| Trade and other receivables | | 19,001 |
| Total | $ | 5,048,660 |

(i) Cash and cash equivalents

The Trust limits its exposure to credit risk related to cash and cash equivalents by depositing its excess cash with financial institutions that have investment grade credit ratings.

(ii) Trade and other receivables

Trade and other receivables is comprised entirely of amounts receivable from a subscriber of units. All trade receivables are subject to normal risk associated with the oil and gas industry. All amounts as at December 31, 2012 were received subsequent to year-end.

*Liquidity risk*

Liquidity risk is the risk that the Trust will not be able to meet financial obligations as they become due. The Trust's financial position could be adversely affected if it failed to arrange financing for its capital expenditure programs. The Trust strives to maintain sufficient financial liquidity by forecasting cash flows for current and subsequent years to identify financing requirements on an ongoing basis. Dixie does not currently have any production revenue as its properties are still in the exploration and evaluation stage. The Trust's cash and cash equivalents at December 31, 2012 are expected to be sufficient to fund estimated cash expenditures approved and planned to date, including ongoing capital and general and administrative expenditures until at least, but not limited to, December 31, 2013. Long-term liquidity risk is higher due to the foreseeable need to raise further cash to fund future investing activities beyond December31, 2013. The Trust's ability to continue as a going concern is dependent upon its ability to fund its present and future capital requirements. Since the Trust does not currently earn any operating revenue and as its properties are still in the exploration and evaluation stage, the Trust will be dependent on external financing, share issuances, asset dispositions or entrance into joint arrangements to further fund its activities.

The following are the contractual maturities of financial liabilities as at December 31, 2012:

| | Carrying amount | Contractual cash flows | Less than one year | One-two years | Two-five years | More than five years |
|---|---|---|---|---|---|---|
| Financial liabilities | | | | | | |
| Trade payables and accruals | $ 267,823 | $ 267,823 | $ 267,823 | $ - | $ - | $ - |
| Decommissioning liabilities | 26,536 | 27,500 | 9,982 | - | - | 16,554 |
| | $ 294,359 | $ 295,323 | $ 277,805 | $ - | $ - | $ 16,554 |

*Foreign exchange risk*

Foreign exchange risk arises from the changes in foreign exchange rates that may affect the fair value or future cash flows of the Trust's financial assets or liabilities. For the Trust it is the CDN/US dollar exchange rate which presents the most risk as the Trust's operating cash flows are denominated in U.S. dollars. An increase in the value of the Canadian dollar as compared to the U.S. dollar will reduce the net cash flow from the oil and gas operations. The Trust's distributions to its unitholders, if any, and most of the Trust's general and administrative expenses are denominated in Canadian dollars and therefore not impacted by changes in foreign exchange.

As at December 31, 2012, the Trust did not hold any foreign exchange contracts to mitigate the effects of fluctuating CDN/US dollar exchange rates.

The following financial instruments were denominated in US dollars at December 31, 2012:

| | USD | CAD Equivalent |
|---|---|---|
| Cash and cash equivalents | $ 2,441,043 | $ 2,428,594 |
| Accounts payable and accrued liabilities | (13,252) | (13,184) |

The average exchange rate for the period from inception of June 29, 2012 to December 31, 2012 was US$1.00 equal to C$0.9935 and the exchange rate at December 31, 2012 was US$1.00 equal to C$0.9949.

Sensitivity Analysis

A $0.01 change in the CDN/US dollar exchange rate would have changed the net loss by approximately$24,278for the period from inception of June 29, 2012 to December 31, 2012. This analysis assumes that all other variables remain constant.

## 12. Capital Disclosures

The Trust considers its capital structure to include working capital and unitholders' equity. The Trust's objectives when managing capital are to ensure the Trust will have sufficient financial capacity, liquidity, and flexibility to fund the Trust's operations, growth, and proposed acquisition and development of oil and gas assets. In order to maintain or adjust the capital structure, the Trust may issue units, engage in external debt financial and adjust its capital expenditure programs, as required.

The Trust's objectives when managing capital are: (i) to maintain a flexible capital structure, which optimizes the cost of capital at acceptable risk; (ii) to maintain sufficient working capital to meet its investment objectives; and (iii) to maintain investor, creditor and market confidence in order to sustain the future development of the business. The Trust's unit capital is not subject to external restrictions.

## 13. General and administrative expenses

| | For the period of June 29, 2013 to December 31, 2012 |
|---|---|
| Wages, benefits and management fees | $ 138,877 |
| Office costs | 14,578 |
| Legal, accounting and consulting | 448,891 |
| | $ 602,346 |

## 14. Related parties

The following is a summary of the Trust's related party transactions during the period:

*Transactions*

During the period, the Trust incurred $48,276 in legal fees with a law firm in which a Director of a subsidiary of the Trust is a partner. At December 31, 2012, $13,184 of these fees is in trade and other payables.

During the period, the Trust acquired an additional working interest in an oil well being drilled in the Maple Branch prospect, from a company controlled by a director and officer of the Administrator of the Trust for $74,010. At December 31, 2012, $nil was in trade and other payables.

These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration that was established and agreed to by the related parties.

*Key management*

Key management personnel are comprised of all officers and directors of the Administrator of the Trust. Compensation of key management personnel was as follows:

| | |
|---|---|
| Management and consulting fees | $ 166,702 |

At December 31, 2012, $5,777 of these fees are in trade and other payables.

## 15. Subsequent events

(a) Acquisition of VisionSky Corp.

Subsequent to year end, the Trust completed its acquisition of VisionSky Corp. ("VisionSky") by way of a plan of arrangement (the "Arrangement"). The Arrangement resulted in the exchange of 16,251,280 VisionSky shares, 1,615,128 VisionSky options and 15,000,000 VisionSky warrants for 2,031,411 Trust units, 201,890 Trust options and 1,775,000 Trust warrants respectively on the basis of 0.125 of a Trust security for each VisionSky security held.

The Trust options are intended to provide the holders of VisionSky options with equivalent value as of the date of the exchange, and they entitle the holders thereof to purchase Trust units at a weighted average exercise price of $0.80 per Trust unit. The Trust warrants are intended to provide holders of VisionSky warrants with equivalent value as of the date of the exchange, and they entitle the holders thereof to purchase Trust units at an exercise price of $0.80 per Trust unit.

Subsequent to the exchange of VisionSky warrants for Trust warrants, 50,000 Trust warrants were exercised for 50,000 Trust units for proceeds of $40,000. As per the original terms and conditions, the balance of the unexercised Trust warrants expired on March 7, 2013.As per an agreement with the VisionSky optionholders, the balance of any unexercised Trust options expired on April 29, 2013.

(b) Subsequent to year end, 2013, the Trust paid cash of US$750,000 to acquire a 5% working interest in the Pruet Godwin 31-3 well in the Brooklyn Field, Conecuh County, Alabama.

(c) On April 25, 2013 Dixie announced that it had entered into a purchase and sale agreement to acquire 100% of the working interest in certain oil and gas leases and related assets contiguous to Dixie's existing oil and gas leases in the Maple Branch prospect (“Additional Maple Branch Leases”). The purchase price of the Additional Maple Branch Leases is US$22,932,320 cash, subject to adjustment, and the grant of certain overriding royalty interests to the vendor. Closing is subject to the completion of due diligence and is scheduled to occur on or before May 23, 2013.

In the event the Trust fails to close, in breach of the agreement, the Trust will forfeit a US$250,000 non-refundable deposit it has paid as liquidation damages and the agreement shall be deemed terminated with no further liabilities or other obligation. In the event closing does not occur as a result of material title deficiencies the deposit will be refunded to the Trust and the agreement shall be deemed terminated with no further liabilities or other obligation.

(d) On April 25, 2013 Dixie announced it had entered into a non-binding letter of intent to purchase a private company (“Privateco”) for a purchase price of $12,100,000 consisting of $2,500,000 cash and $9,600,000 in trust units to be issued at a deemed price of $0.80 per trust unit, for a total issuance of 12,000,000 trust units. Privateco currently holds a working interest in certain oil and gas leases, wells and related infrastructure, including: (i) a 10% interest in the Maple Branch prospect including a 10% working interest in the Holliman 7-13H No.1 and Holliman 7-13H No.2 wells; (ii) a 10% working interest in a producing oil well located in the Brooklyn Field in Conecuh County, Alabama; and (iii) a 25% working interest in certain oil and gas leases in the Brooklyn Field prospect. The Brooklyn Field prospect is located south of existing vertical wells producing out of the Smackover formation. As of April 25, 2013 the Privateco had production of approximately 96 boepd (97% oil).

(e) On April 25, 2013 Dixie announced it had entered into a memorandum of understanding setting forth the terms on which Dixie and other working interest owners in the Maple Branch prospect may combine and reallocate certain of their respective interests in the Maple Branch prospect, including the Additional Maple Branch Leases to be acquired by Dixie (the "Proposed Maple Branch Pooling").