BERKLEY RESOURCES INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2009 and 2008

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements and other financial information included in the financial statements are the responsibility of, and have been prepared by, the management of Berkley Resources Inc. (the "Company"). To fulfill this responsibility, the Company maintains appropriate systems of internal control, policies and procedures. These systems of internal control, policies and procedures help ensure that the Company's reporting practices and accounting and administrative procedures provide reasonable assurance that the financial information is relevant, reliable, and accurate, and that assets are safeguarded and transactions are executed in accordance with proper authorization. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. When alternative methods exist, the Company has chosen those that it deems most appropriate in the circumstances, in order to ensure that the financial statements are presented fairly in all respects. Where appropriate, these financial statements reflect estimates based on judgments of management.

Meyers Norris Penny LLP, the independent auditors, have examined the financial statements of the Company. The independent auditors' responsibility is to express a professional opinion on the fairness of the financial statements. The auditors' report outlines the auditors' opinion and the scope of their examination and their report follows.

The financial statements have also been reviewed by the Directors of Berkley Resources Inc. and by its Audit Committee. The Audit Committee is comprised of independent directors, and meets periodically during the year with the independent auditors and management. The independent auditors have full and unrestricted access to the Audit Committee.

"Signed"

Matthew Wayrynen
Chief Executive Officer

"Signed"

Pamela Lynch
Chief Financial Officer

April 26, 2010

AUDITORS' REPORT

To the Shareholders of Berkley Resources Inc.:

We have audited the balance sheets of Berkley Resources Inc. (the "Company") as at December 31, 2009 and 2008 and the statements of operations and comprehensive loss, deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Meyers Norris Penny LLP

Calgary, Canada
April 26, 2010

Chartered Accountants

BERKLEY RESOURCES INC.
BALANCE SHEETS
As at December 31

		2009		2008
ASSETS				
Current Assets				
Cash and cash equivalents	$	839,811	$	86,453
Accounts receivable		117,895		176,071
Share subscriptions receivable		191,000		-
Taxes recoverable		12,120		14,219
Prepaid expenses		65,227		17,595
		1,226,053		294,338
Oil and gas property and equipment (Note 4)		3,903,544		5,852,540
Other property and equipment (Note 5)		1,207		1,497
		3,904,751		5,854,037
	$	5,130,804	$	6,148,375
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities	$	220,776	$	1,484,967
Due to related parties (Note 10a)		152,308		19,609
		373,084		1,504,576
Asset retirement obligation (Note 6)		144,838		198,656
		517,922		1,703,232
SHAREHOLDERS' EQUITY				
Share Capital (Note 7)		13,219,091		12,683,811
Contributed Surplus (Note 8)		1,733,013		1,183,554
Deficit		(10,339,222)		(9,422,222)
		4,612,882		4,445,143
	$	5,130,804	$	6,148,375

Going concern (Note 1)
Subsequent events (Note 14)

Approved by the Directors:

"Matt Wayrynen" Director *"Tyrone Docherty"* Director

The accompanying notes form an integral part of these financial statements.

BERKLEY RESOURCES INC.
STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
For the Years Ended December 31

		2009		2008
OIL AND GAS REVENUE				
Petroleum and natural gas sales	$	600,452	$	1,560,485
Royalty expense		(138,443)		(298,199)
Net oil and gas revenue		462,009		1,262,286
Oil and gas production expenses				
Operating costs		336,483		499,804
Amortization, depletion and accretion		430,431		670,341
		766,914		1,170,145
NET OIL AND GAS INCOME (LOSS)		(304,905)		92,141
GENERAL AND ADMINISTRATIVE EXPENSES				
Administrative, office services and premises		137,767		239,947
Stock-based compensation		13,920		81,501
Management fees		323,822		212,775
Consulting fees		23,833		11,009
Professional fees		84,135		111,230
Filing and transfer agent fees		25,420		18,989
Shareholder information		3,373		8,852
Amortization		289		1,551
		(612,559)		(685,854)
OTHER INCOME (EXPENSES)				
Interest expense		-		(16,200)
Write-down of receivable		-		(73,202)
Interest and other income		464		4,043
		464		(85,359)
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	$	(917,000)	$	(679,072)
BASIC AND DILUTED NET LOSS PER SHARE	$	(0.04)	$	(0.03)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING FOR THE YEAR		24,570,152		22,484,668

The accompanying notes form an integral part of these financial statements.

BERKLEY RESOURCES INC.
STATEMENTS OF DEFICIT
For the Years Ended December 31

		2009		2008
DEFICIT, beginning of year	**$**	**(9,422,222)**	$	(8,743,150)
Net loss and comprehensive loss for the year		**(917,000)**		(679,072)
DEFICIT, end of year	**$**	**(10,339,222)**	$	(9,422,222)

The accompanying notes form an integral part of these financial statements.

BERKLEY RESOURCES INC.
STATEMENTS OF CASH FLOWS
For the Years Ended December 31

		2009		2008
CASH PROVIDED BY (USED IN) FROM CONTINUING OPERATIONS				
OPERATING ACTIVITIES				
Net loss and comprehensive loss for the year	**$**	**(917,000)**	$	(679,072)
Items not requiring cash in the year				
Amortization, depletion and accretion		**430,720**		671,892
Fair value of options issued for services		**2,319**		7,009
Stock-based compensation		**13,920**		81,501
		(470,041)		81,330
Change in non-cash working capital (Note 13)		**(233,962)**		(601,142)
		(704,003)		(519,812)
INVESTING ACTIVITIES				
Proceeds on disposition of oil and gas property		**1,489,900**		300,000
Purchase of oil and gas property and equipment		**(25,152)**		(1,308,368)
Change in non-cash working capital (Note 13)		**(1,075,887)**		1,166,846
		388,861		158,478
FINANCING ACTIVITIES				
Issuance of common shares (net of issue costs)		**1,068,500**		400,730
Increase in cash and cash equivalents		**753,358**		39,396
Cash and cash equivalents, beginning of year		**86,453**		47,057
Cash and cash equivalents, end of year	**$**	**839,811**	$	86,453
Cash and cash equivalents are comprised of:				
Cash		**734,811**		86,453
Cash held in trust		**105,000**		-
	$	**839,811**	$	86,453

No income taxes or interest paid during the year (2008 - $nil).

The accompanying notes form an integral part of these financial statements.

1. Nature of Operations and Going Concern

Berkley Resources Inc. (the "Company" or "Berkley") was created on the amalgamation of Fortune Island Mines Ltd., Kerry Mining Ltd. and Berkley Resources Ltd. under the Company Act (British Columbia) on July 18, 1986. The Company is in the business of acquisition, exploration, development and production from petroleum and natural gas interests in Alberta and Saskatchewan, Canada.

These financial statements have been prepared on the basis of accounting principles applicable to a going concern which assumes that Berkley will continue in operation for the foreseeable future in regards to its oil and gas operations and will be able to realize its assets and discharge its liabilities in the normal course of operations.

Adverse conditions and events cast substantial doubt upon the validity of this assumption. The Company has incurred significant operating losses over the past several fiscal years. As at December 31, 2009, the Company had working capital of $852,969 (2008 – working capital deficit of $1,210,238) and accumulated deficit of $10,339,222 (2008 - $9,422,222).

The Company's ability to continue as a going concern is dependent upon its ability to raise additional capital through the issuance of treasury shares or debt and achieve profitable operations in the future. The management of the Company has developed a strategy to address this uncertainty, including additional equity and/or debt financing; however, there are no assurances that any such financing can be obtained on favourable terms, if at all.

If the going concern assumption were not appropriate for these financial statements, then adjustments would be necessary in the carrying values of assets and liabilities, reported revenues and expenses, and the balance sheet classifications used.

2. Significant Accounting Policies

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (``GAAP``). Significant accounting policies are summarized below:

a) Basis of presentation

The accompanying financial statements are stated in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles.

b) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks and cash held in trust.

c) Revenue recognition

Revenue from the sale of crude oil, natural gas and liquids is recognized when title passes to the third party purchaser, delivery has taken place and collection is reasonably assured. The Company assesses third party purchaser credit worthiness, both before entering into contracts and throughout the revenue recognition process.

d) Oil and gas property and equipment

Berkley follows the full cost method of accounting for oil and gas property and equipment whereby all costs of acquiring, exploring for and developing oil and gas reserves are capitalized. Such costs include land acquisition costs, geological and geophysical expenses, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells, costs of production equipment and overhead charges relating to acquisition, exploration and development activities. The Company does not capitalize interest or administrative expenses.

2. Significant Accounting Policies - *Continued*

d) Oil and gas property and equipment - *continued*

Capitalized costs of proven reserves and oilfield equipment are depleted using a unit of production method based upon estimated proven reserves before royalties. For purposes of this calculation, reserves are converted to common units on the basis that six thousand cubic feet of natural gas is equivalent to one barrel of oil.

Costs of acquiring and evaluating unproved properties are initially excluded from depletion calculations. These unevaluated properties are assessed periodically to ascertain whether impairment has occurred. When proved reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion calculations.

Unless a significant amount of reserves are involved, proceeds received from the disposition of oil and gas properties are credited to the relevant cost centre unless this results in a change of 20% or more in the depletion rate. In the event of a significant sale of reserves, a proportionate amount of cost and accumulated depletion, based upon the ratio of reserves sold to total reserves, is removed from the appropriate cost centre and the resultant profit or loss taken into earnings.

The Company performs a ceiling test in a two-stage test performed at least annually:

i) Impairment is recognized if the carrying value of the oil and gas assets less accumulated depletion and amortization and the lesser of cost and fair value of unproven properties exceeds the estimated future cash flows from proved oil and gas reserves, on an undiscounted basis, using forecast prices and costs.

ii) If impairment is indicated by applying the calculations described in i) above, the Company will measure the amount of the impairment by comparing the carrying value of the oil and gas assets less accumulated depletion and amortization and the lesser of cost and fair value of unproven properties to the estimated future cash flows from the proved and probable oil and gas reserves, discounted at the Company's risk-free rate of interest, using forecast prices and costs. Any impairment is included in earnings for the year.

Substantially all of the Company's oil and gas interests are conducted jointly with others. The financial statements reflect only the Company's share of assets, liabilities, and operations.

e) Asset retirement obligation

The recognition of the fair value of obligations associated with the retirement of tangible long-lived assets are recorded in the period the asset is put to use, with the corresponding increase to the carrying amount of the related asset. The obligations recognized are statutory, contractual or legal obligations. The liability is accreted over time for changes in the fair value of the liability through charges to asset retirement accretion which is included in amortization, depletion, and accretion expense. The costs capitalized to the related assets are amortized to earnings in a manner consistent with the depreciation and amortization of the underlying assets. Revisions to the estimated timing of cash flows or to the original estimated undiscounted costs could also result in an increase or decrease to the obligation. Actual costs incurred upon settlement of the retirement obligation are charged against the obligation to the extent of the liability recorded.

f) Other property and equipment

Other property and equipment consist of computer equipment and furniture, fixtures and equipment and are amortized at the following rates per annum by the declining balance method:

Computer equipment	30%
Furniture, fixtures and equipment	20%

2. Significant Accounting Policies - *Continued*

g) Financial instruments

The Company's financial instruments include cash and cash equivalents, accounts receivable, share subscriptions receivable, due to related parties, and accounts payable and accrued liabilities. Upon initial recognition, all financial instruments are recorded on the balance sheet at fair value. The carrying values of these financial instruments approximate their fair values. Subsequent measurement is then based on the financial instruments being classified into one of five categories: held for trading, held to maturity, loans and receivables, available for sale and other liabilities. The Company has designated its cash and cash equivalents as held for trading which is measured at fair value. Gains and losses related to periodic revaluation are recorded to net income or loss. Accounts receivable are classified as loans and receivables and are measured at amortized cost determined using the effective interest method. Accounts payable and accrued liabilities, due to related parties and the revolving line of credit are classified as other liabilities and are measured at amortized cost determined using the effective interest method.

h) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The amounts recorded for depletion and depreciation of petroleum and natural gas properties, the provision for asset retirement obligations, valuation allowances for future income tax assets and stock-based compensation expense are based on estimates. The ceiling test is based on estimates of proven reserves, production rates, oil and gas prices and other relevant assumptions. 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.

i) Stock-based compensation

Stock-based compensation expense is recorded for the estimated fair value of stock options granted. The estimated fair value of the options at the date of grant is accrued and charged to operations, with an offsetting credit to contributed surplus, on a straight-line basis over the vesting period. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital. In the event that vested options expire, previously recognized compensation expense associated with such stock options is not reversed. In the event that unvested options are cancelled, previously recognized compensation expense associated with such options is reversed.

j) Net loss per share

Basic net loss per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the period. The computation of diluted net loss per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on loss per share. The dilutive effect of convertible securities is reflected in diluted net loss per share by application of the "if converted" method. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted net loss per share by application of the treasury stock method. This method assumes the proceeds from the exercise of dilutive options and warrants are used to purchase common shares at the weighted average market price during the period.

2. Significant Accounting Policies – *Continued*

k) Income taxes

The Company follows the asset and liability method of accounting for future income taxes. Under this method, future income tax assets and liabilities are recorded based on temporary differences between the carrying amount of balance sheet items and their corresponding tax bases. In addition, the future benefits of income tax assets, including unused tax losses, are recognized, subject to a valuation allowance, to the extent that it is more likely than not that such future benefits will ultimately be realized. Future income tax assets and liabilities are measured using enacted tax rates and laws expected to apply when the tax liabilities or assets are to be either settled or realized.

l) Flow-through shares

Canadian Income Tax Legislation permits an enterprise to issue securities referred to as flow-through shares, whereby the investor can claim the tax deductions arising from the renunciation of the related resource expenditures. When resource expenditures are renounced to the investors, future income tax liabilities are recognized thereby reducing share capital.

m) Recent accounting pronouncements:

The CICA issued Handbook Section 1582 *Business Combinations*, which replaces Section 1581. This new standard aligns accounting for business combinations under Canadian GAAP with IFRS and is effective for business combinations entered into on or after January 1, 2011. Early adoption is permitted. The new standard requires assets and liabilities acquired in a business combination, contingent consideration and certain acquired contingencies to be measured at their fair values as of the acquisition date. This standard is not expected to have a material impact on the financial statements.

Handbook Section 1601 *Consolidated Financial Statements* and Handbook Section 1602 *Non-Controlling Interests*. These new sections will replace Handbook Section 1600 *Consolidated Financial Statements* and establish standards for the preparation of consolidated financial statements and accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination, and is effective for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. Early adoption is permitted. This standard is not expected to have a material impact on the financial statements.

International Financial Reporting Standards ("IFRS")

The Accounting Standards Board ("AcSB") has announced that Canadian publicly accountable enterprises will be required to adopt IFRS effective for periods beginning on or after January 1, 2011. Although IFRS employs a conceptual framework that is similar to Canadian GAAP, there are significant differences in recognition, measurement, and disclosure. Berkley is undertaking a project to assess the potential impact of the transition to IFRS and is developing a plan to ensure compliance with the new standards.

The Company's initial phase of implementation will include a diagnostic analysis of its accounting data and a high-level assessment of key areas that may be impacted by the adoption of IFRS. This analysis will identify priority areas to be evaluated in the next phase. This phase will include an in-depth analysis of accounting policy alternatives available under IFRS as well as the determination of changes required to existing information systems and business processes. The Company continues to assess the impact of the conversion on internal controls over financial reporting and disclosure controls and procedures and will continue to invest in training and resources throughout the transition period.

3. Accounting Changes

During the year ended December 31, 2009, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA"). These accounting policy changes were adopted on a prospective basis with no restatement of prior period financial statements:

CICA Handbook Section 3064, *Goodwill and Intangible Assets,* which replaced Handbook Section 3062, Goodwill and Other Intangible Assets. This new standard introduces guidance for the recognition, measurement and disclosure of goodwill and intangible assets, including internally generated intangible assets. The standard also harmonizes Canadian standards with IFRS and applies to interim and annual financial statements for fiscal years beginning on or after October 1, 2008. The adoption of this standard has had no impact on the Company's financial statements.

CICA Handbook Section 3862 *Financial Instruments - Disclosures*. The amendments provide for enhanced disclosures on liquidity risk and require disclosures on fair value measurements of financial instruments. These requirements harmonize Canadian standards with IFRS and apply to annual financial statements for fiscal years ending after September 30, 2009. The adoption of this standard has had no impact on the Company's financial statements.

4. Oil and Gas Property and Equipment

	2009	2008
Oil and gas property and equipment, cost	**$ 17,951,902**	$ 19,478,667
Less: Accumulated amortization, depletion and impairment	**(14,048,358)**	(13,626,127)
	$ 3,903,544	$ 5,852,540

At December 31, 2009, oil and gas property and equipment includes the cost of unproven properties of approximately $379,129 (2008 - $947,823), which are currently not subject to depletion.

On March 6, 2009, the Company announced it had executed a participation agreement with an Alberta-based oil and gas company (the "Seller"), whose management is related to a Director of Berkley, to participate in drilling an exploratory well in the Ferrier area of west-central Alberta. Under the terms of the agreement, effective October 1, 2008, Berkley was to pay an aggregate $1,200,000 for an 18% interest in the well. The Company claimed $1,200,000 in Canadian Exploration Expense renunciation in 2008 to meet the Company's flow-through share renunciation commitment. On March 1, 2009, the Company assigned 25% of its existing 50% interest in a project to the Seller, valued at $350,000, to reduce the amount owed to $850,000. On March 16, 2009, the Company determined that it was unable to raise the remaining proceeds for the purchase and transferred its 18% interest back to the Seller to reduce the payable to $nil.

During 2009, the Company disposed of certain non-core properties for proceeds of $289,900 (2008 – $300,000).

4. Oil and Gas Property and Equipment - *Continued*

The benchmark prices, on which the ceiling test is based, are as follows:

Year	Crude Oil Edmonton PAR CDN$/bbl	Natural Gas AECO CDN$/mcf
2010	77.55	5.80
2011	84.45	6.70
2012	88.90	7.05
2013	93.45	7.45
2014	101.05	7.55
2015	108.85	7.74
2016	116.95	7.90
2017	119.30	8.25
2018	121.70	8.55
2019	124.10	8.85

Benchmark prices increase at a rate of 2% per year for both oil and gas after 2019.

For the year ended December 31, 2009, no ceiling test write-down was required (2008 - $nil).

During the year ended December 31, 2009, two property areas produced more than 86.8% (2008 – 89%) of the total oil and gas revenue. There is no guarantee that this revenue will continue in future periods.

5. Other Property and Equipment

	Cost	Accumulated Amortization	**Net 2009**	Net 2008
Computer equipment	$ 28,760	$ (28,656)	$ **104**	$ 143
Furniture, fixtures and equipment	8,521	(7,418)	**1,103**	1,354
	$ 37,281	$ (36,074)	$ **1,207**	$ 1,497

6. Asset Retirement Obligation

The following table sets out the activity for the Company's asset retirement obligation:

	2009	2008
Asset retirement obligations, beginning of year	**$ 198,656**	$ 140,150
Accretion	**8,200**	5,941
Disposition of working interest	**(62,018)**	(62,017)
Effect of change in estimate	**-**	114,582
Asset retirement obligations, end of year	**$ 144,838**	$ 198,656

6. Asset Retirement Obligation - *Continued*

The Company estimates the total undiscounted amount of cash flows required to settle its asset retirement obligation is approximately $282,472 (2008 – $332,850) which will be incurred between 2010 and 2030. The majority of these obligations will be incurred between 2016 and 2018. The asset retirement obligation assumes a credit adjusted discount rate of 6% (2008 – 6%) and an inflation rate of 1.5% (2008 – 1.5%).

Effective October 1, 2009, the Company sold its remaining 10% working interest in the Senex Lands to an Alberta-based oil and gas company for aggregate proceeds of $223,080, consisting of $150,000 in cash and forgiveness of debt for approximately $73,080 owing by the Company for joint interest billings.

7. Share Capital

a) Authorized:

Unlimited common shares, without par value

	December 31, 2009			December 31, 2008		
Issued and fully paid:	**Number of Shares**		**Amount**	Number of Shares		Amount
Balance, beginning of year	**23,696,042**	$	**12,683,811**	21,451,608	$	12,347,593
Issued in the year for cash:						
Pursuant to private placements:						
- non flow-through for cash	**21,370,000**		**1,068,500**	2,244,434		404,000
Share issuance costs	**-**		**-**	-		(3,270)
Fair value of private placement warrants	**-**		**(533,220)**	-		(64,512)
Balance, end of year	**45,066,042**	$	**13,219,091**	23,696,042	$	12,683,811

On December 16, 2009, the Company closed a non-brokered private placement of 21,370,000 units at a price of $0.05 per unit for gross proceeds of $1,068,500. Each unit consists of one common share and one non-transferable share purchase warrant. Each share purchase warrant will entitle the holder to purchase one additional share at a price of $0.10 for one year. The fair value of the warrants was estimated to be $533,220. The fair value was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions: risk free interest rate of 1.1%, dividend yield of 0%, volatility factor of 145%, and an average life of one year. Should these warrants be exercised the applicable amount of contributed surplus will be transferred to share capital.

On July 18, 2008, the Company closed a non-brokered private placement of 2,244,434 units at a price of $0.18 per unit for gross proceeds of $404,000. Share issuance costs of $3,270 were incurred in relation to the private placement. An additional 555,000 units were issued to a Director of the Company during 2008 but these units were subsequently terminated during 2008. Each unit consists of one common share and one non-transferable share purchase warrant. Each share purchase warrant will entitle the holder to purchase one additional share at a price of $0.30 for one year. The fair value of the warrants was estimated to be $64,512. This fair value was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions: risk free interest rate of 3.10%, dividend yield of 0%, volatility factor of 84%, and an average life of one year. None of the warrants were exercised prior to expiry on July 18, 2009.

7. Share Capital - *Continued*

b) Warrants

	2009		2008	
	Number of Shares Subject to Warrants	**Exercise price range**	Number of Shares Subject to Warrants	Exercise price range
Outstanding, beginning of year	**2,119,999**	**$0.30/$1.00**	220,000	$1.00
Issued	**21,370,000**	**$0.10**	1,899,999	$0.30
Expired	**(2,119,999)**	**$0.30/$1.00**	-	-
Outstanding, end of year	**21,370,000**	**$0.10**	2,119,999	$0.30/$1.00

During the year ended December 31, 2008, an additional 344,445 warrants were issued to Directors of the Company but these warrants were subsequently cancelled during 2008. At December 31, 2009 the following share purchase warrants were outstanding:

Exercise price Range	Expiry date	**2009 Number of Warrants**	2008 Number of Warrants
$1.00	January 12, 2009	**-**	220,000
$0.30	July 16, 2009	**-**	1,899,999
$0.10	December 16, 2011	**21,370,000**	-
		21,370,000	2,119,999

c) Stock options

At the Company's AGM, the Company proposed a resolution to its shareholders to adopt a 2009 Stock Option Plan (the "Plan") which provides for the granting of options to acquire up to 10% of the Company's issued and outstanding shares. The Plan provides for the granting of options to employees and service providers, with no single optionee to be granted options in excess of 5% of the number of issued shares of the Company. All options are to be granted at fair value and the term of the options granted is not to exceed five years. The shareholders of the Company did not approve the new Stock Option Plan and no new stock options were granted during the period, however; a total of 1,267,500 options had been granted and are outstanding at December 31, 2009 under the prior plan (2008 – 1,815,000). Options granted under the prior plan are fully vested at December 31, 2009 (2008 – 1,745,000).

7. Share Capital - *Continued*

c) Stock options - *continued*

	December 31, 2009		December 31, 2008	
	Number of shares subject to option	**Weighted average exercise price per option**	Number of shares subject to option	Weighted average exercise price per option
Balance outstanding, beginning of year	**1,815,000**	**$0.71**	2,550,500	$0.66
Activity in the year:				
Expired	**(237,500)**	**$0.80**	(727,500)	$0.53
Cancelled	**(310,000)**	**$0.74**	(8,000)	$0.76
Balance outstanding, end of year	**1,267,500**	**$0.69**	1,815,000	$0.71
Exercisable, end of year	**1,267,500**	**$0.69**	1,745,000	$0.72

A summary of stock options outstanding is as follows:

		Number of Shares Remaining Subject to Option at End of Year	
Exercise Price Per Share	**Expiry Date**	**December 31, 2009**	December 31, 2008
$0.81	October 19, 2009	**-**	200,000
$0.77	October 29, 2009	**-**	37,500
$0.90	December 23, 2010	**477,500**	637,500
$0.56	September 21, 2011	**440,000**	590,000
$0.55	July 4, 2012	**350,000**	350,000
		1,267,500	1,815,000

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

8. Contributed Surplus

		2009		2008
Balance, beginning of year	**$**	**1,183,554**	$	1,030,532
Stock-based compensation on vested options		**13,920**		81,501
Stock-based compensation on vested options for consulting services		**2,319**		7,009
Fair value of issued warrants (note 7a)		**533,220**		64,512
Balance, end of year	**$**	**1,733,013**	$	1,183,554

During 2008, the Company issued 2,244,444 units at $0.18 per unit for total proceeds of $404,000 with each unit consisting of one common share of the Company and one warrant exercisable to July 18, 2009 at $0.30 per warrant. Management determined that $0.034 of the $0.18 unit price was applicable to the warrant, therefore $64,512 of total proceeds was been reflected in contributed surplus. None of these warrants were exercised prior to their expiry on July 18, 2009.

9. Income Taxes

a) Reconciliation of accounting and taxable income, for the years ended December 31 are as follows:

		2009		2008
Net loss for the year before taxes	**$**	**(917,000)**	$	(679,072)
Combined federal and provincial income tax rate		**29.00%**		29.50%
Computed income tax expense (reduction)		**(265,930)**		(200,326)
Increase (decrease) resulting from				
Stock-based compensation		**4,709**		24,043
Interest and penalties		**-**		12,154
Meals and entertainment		**657**		1,012
Tax adjustment from rate change and other		**21,729**		16,093
Change in valuation allowance		**238,835**		147,024
Recovery of income taxes	**$**	**-**	$	-

9. Income Taxes - *Continued*

b) The components of the future income tax asset (liability) balances for the years ended December 31, are as follows:

		2009		2008
Future income tax assets				
Non-capital losses	**$**	**241,687**	$	322,967
Share issuance costs		**16,466**		43,828
Property and equipment		**1,131,037**		769,042
Asset retirement obligation		**38,763**		53,167
Cumulative eligible capital		**1,505**		1,619
Valuation allowance		**(1,429,458)**		(1,190,623)
Future income tax asset (liability)	**$**	**-**	$	-

Future income tax assets are recorded when it is more likely then not, that they will be recovered in future periods. A full valuation allowance has been taken on the future income tax assets as this criteria has not been met.

c) The Company has non-capital losses which may be applied to reduce future years' taxable income. At December 31, 2009, these losses expire as follows:

2014		79,292
2015		208,700
2026		581,795
2028		33,275
	$	903,062

d) Canadian development and exploration expenditures

As at December 31, 2009, the Company had $7,118,746 (2008 - $8,727,549) of unused Canadian exploration and development expenses available to offset future taxable income of the Company. The tax benefit of these expenses carry forward indefinitely.

10. Related Party Transactions

a) Due to related parties consists of $118,012 (2008 - $12,500) due to Directors of the Company for Directors fees, consulting fees and expenses; and $34,296 (2008 - $7,109) to a private company owned by public companies having common Directors that provide administrative services, office supplies and accounting services.

b) Management and consulting fees totalling $180,773 were paid to Directors and their private companies in 2009 (2008 - $192,000); and rent expense totalling $19,130 (2008 - $33,750) was paid to a company whose management is related to a Director of the Company.

c) Current and/or former Directors and Officers and companies controlled by Directors subscribed for 2,150,000 shares of the Company for total proceeds of $107,500 (2008 – 870,001 shares and $156,600).

10. Related Party Transactions - *Continued*

d) The Company takes part in a cost sharing arrangement to reimburse Oniva International Services Corporation ("Oniva"), a private company owned by public companies having common Directors, for a variable percentage of its overhead expenses, to reimburse 100% of its out-of-pocket expenses incurred on behalf of the Company, and to pay a percentage fee based on the total overhead and corporate expenses. The agreement may be terminated with one-month notice by either party.

   Administrative services, office supplies and accounting charges totalling $67,143 were paid to Oniva during 2009 (2008 - $90,222).

The transactions were in the normal course of operations and agreed to by the related party and the Company and have had been measured at the exchange amount.

11. Risk Management

The carrying values of financial assets and liabilities approximate their fair value due to their short periods to maturity. The Company is not exposed to significant currency risk on its financial instruments.

During the year, the Company had access to a line of credit facility which had a limit of $50,000 (2008 - $50,000). The line of credit was terminated during the year and is no longer available to the Company at year end. There was no additional exposure to interest rate risk in 2008 or 2009 as the line of credit was never drawn upon.

The Company manages its exposure to financial risks by operating in a manner that minimizes its exposure to the extent practical. The main financial risks affecting the Company are discussed below:

(a) Credit Risk

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date. The Company considers this risk to be limited.

(b) Liquidity Risk

Liquidity risk includes the risk that, as a result of our operational liquidity requirements:
• The Company will not have sufficient funds to settle transactions on the due date;
• The Company will be forced to sell financial assets at a value which is less than what they are worth; or
• The Company may be unable to settle or recover a financial asset at all.

The Company considers this risk to be limited.

(c) Commodity Price Risk

Commodity price risk is the risk that the cash flows and operations of the Company will fluctuate as a result of changes in commodity prices. Significant changes in commodity prices can also impact the Company's ability to raise capital or obtain additional debt financing. Commodity prices for crude oil are impacted by world economic events that dictate the levels of supply and demand.

The Company's financial performance is closely linked to crude oil and natural gas prices. While the Company may employ the use of financial instruments in the future to manage these price exposures, it currently does not have enough producing wells to hedge its production, and its crude oil and natural gas liquids are sold into spot markets.

12. Capital Disclosures

The Company defines its capital to include the following:

	As at December 31,	
	2009	2008
Cash and cash equivalents	**839,811**	86,453
Shareholders` equity	**4,612,882**	4,445,143

The Company's objective is to maintain access to sources of capital with which to finance its operations. The Company manages its capital structure and makes changes to it in light of changes in economic conditions and the risk characteristics of the underlying investments. The Company will balance its overall capital structure through new share issues or by undertaking other activities as deemed appropriate in the specific circumstances. The Company is not subjected to any externally imposed capital requirements.

13. Supplemental Cash Flow Information

	2009	2008
Change in non-cash working capital items:		
Accounts receivable	**58,176**	71,301
Share subscriptions receivable	**(191,000)**	-
Taxes recoverable	**2,099**	(2,051)
Prepaid expenses	**(47,632)**	(11,475)
Accounts payable and accrued liabilities	**(1,264,191)**	502,581
Due to related parties	**132,699**	5,348
Net change in non-cash working capital items	**(1,309,849)**	565,704
Amounts relating to operating activities	**(233,962)**	(601,142)
Amounts relating to investing activities	**(1,075,887)**	1,166,846

14. Subsequent Events

On February 1, 2010, the Company completed a share for debt settlement with certain of its creditors. The debt settlement allowed the Company to extinguish approximately $53,672 in outstanding debt through the issuance of 1,074,440 common shares of the Company.

15. Comparative Numbers

Certain of the comparative numbers for the year ended December 31, 2008 have been reclassified to be consistent with the presentation in the current year.