McLaren Resources Inc.

(An Exploration Stage Enterprise)

FINANCIAL STATEMENTS
(Expressed in Canadian Dollars, unless otherwise stated)

SEPTEMBER 30, 2010 and 2009

McLAREN RESOURCES INC.
(An Exploration Stage Enterprise)

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AUDITORS' REPORT

To the Shareholders of
McLaren Resources Inc.:

We have audited the balance sheets of McLaren Resources Inc. as at September 30, 2010 and 2009 and the statements of loss, comprehensive loss and 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 September 30, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed) "Edmund Cachia & Co. LLP"
Chartered Accountants
Licensed Public Accountants

Toronto, Canada
November 8, 2010

McLaren Resources Inc.
(an exploration stage enterprise)
BALANCE SHEETS
AS AT SEPTEMBER 30,

		2010		2009
ASSETS				
Current				
Cash and cash equivalents	**$**	**272,291**	$	1,411,493
Restricted cash held in trust (Note 3)		**550,000**		-
Marketable securities (Note 7)		**11,954**		-
Accounts receivable		**65,827**		49,973
Prepaid expenses		**300**		-
		900,372		1,461,466
Deferred petroleum and natural gas exploration costs (Note 3)		**150,000**		896,551
Royalty interest (Note 13)		**1**		1
Fixed assets (Note 4)		**1,178**		1,258
	$	**1,051,551**	$	2,359,276
LIABILITIES				
Current				
Accounts payable and accrued liabilities	**$**	**37,946**	$	36,100
SHAREHOLDERS' EQUITY				
Share capital (Note 5(a))		**4,639,246**		4,525,346
Contributed surplus (Note 6)		**461,045**		310,405
Deficit		**(4,086,686)**		(2,512,575)
		1,013,605		2,323,176
	$	**1,051,551**	$	2,359,276

NATURE OF OPERATIONS AND COMMITMENTS (Notes 1, 3 and 15)

Approved on behalf of the board:

"Ivan Buzbuzian" Director

"Michael Meredith" Director

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

McLaren Resources Inc.

(an exploration stage enterprise)

STATEMENTS OF LOSS, COMPREHENSIVE LOSS AND DEFICIT
FOR THE YEARS ENDED SEPTEMBER 30,

	2010	2009	Cumulative from the date of commencement of exploration stage October 1, 2005
Expenses			
Consulting fees	$ **105,786**	$ 64,287	$ 485,797
Directors' fees	**30,000**	4,800	34,800
Management fees	**125,500**	155,502	580,282
Office, general and administrative	**78,624**	100,920	417,047
Oil and gas pre-acquisition and property evaluation costs (Note 2)	**26,025**	-	693,447
Amortization	**375**	447	1,382
Investor relations	**37,869**	49,399	190,078
Professional fees (Note 8)	**141,364**	538,400	799,402
Foreign exchange gain	**(2,372)**	(11,259)	(4,890)
Stock-based compensation (Note 5(c))	**150,640**	-	517,234
Licenses, taxes and fees	**1,520**	-	1,520
Part XII.6 interest and taxes (Note 15(f))	**2,550**	-	2,550
Loss before undernoted items	**697,881**	902,496	3,718,649
Other			
Impairment of deferred petroleum and natural gas exploration costs (Note 3)	**970,787**	-	970,787
Write-down of royalty interest	**-**	-	117,560
Interest and other income (Note 8)	**(38,457)**	(17,124)	(172,329)
Recovery of oil and gas pre-acquisition costs	**-**	-	(646,847)
Loss before income tax	**1,630,211**	885,372	3,987,820
Future income tax (recovery) (Note 9(b))	**(56,100)**	-	(56,100)
Net loss and comprehensive loss for the year	$ **1,574,111**	$ 885,372	$ 3,931,720
Deficit, beginning of year	**2,512,575**	1,627,203	
Deficit, end of year	$ **4,086,686**	$ 2,512,575	
Loss per share			
Basic and diluted loss per common share	$ **(0.08)**	$ (0.05)	
Weighted average number of common shares outstanding	**19,581,781**	18,944,281	

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

McLaren Resources Inc.
(an exploration stage enterprise)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30,

	2010	2009	Cumulative from the date of commencement of exploration stage October 1, 2005
Cash flows from operating activities			
Net loss for the year	**$ (1,574,111)**	$ (885,372)	$ (3,931,720)
Add items not affecting cash:			
Amortization	**375**	447	1,382
Stock-based compensation	**150,640**	-	517,234
Write-down of royalty interest	**-**	-	117,560
Impairment of deferred petroleum and natural gas exploration costs	**970,787**	-	970,787
Recovery of bad debts through receipt of shares	**(11,954)**	-	(11,954)
Future income tax (recovery)	**(56,100)**	-	(56,100)
Net changes in working capital balances:			
Increase in accounts receivable	**(15,854)**	(6,512)	(58,504)
(Increase) decrease in prepaid expenses	**(300)**	18,026	(300)
Increase in accounts payable and accrued liabilities	**1,846**	5,350	9,587
Increase in restricted cash held in trust	**(550,000)**	-	(550,000)
Cash flows used in operating activities	**(1,084,671)**	(868,061)	(2,992,028)
Cash flows from investing activities			
Purchase of fixed assets	**(295)**	(538)	(2,560)
Deferred petroleum and natural gas exploration costs	**(224,236)**	(248,188)	(1,120,787)
Proceeds on disposal of mineral property	**-**	-	50,000
Royalty interest costs	**-**	-	(87,561)
Cash flows used in investing activities	**(224,531)**	(248,726)	(1,160,908)
Cash flows from financing activities			
Issue of common shares	**170,000**	-	4,560,624
Share issue cost	**-**	-	(109,802)
Loan payable repayment	**-**	-	(30,000)
Cash flows provided from financing activities	**170,000**	-	4,420,822
Net (decrease) increase in cash position	**(1,139,202)**	(1,116,787)	267,886
Cash and cash equivalents, beginning of year	**1,411,493**	2,528,280	4,405
Cash and cash equivalents, end of year	**$ 272,291**	$ 1,411,493	$ 272,291

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

1. NATURE OF OPERATIONS AND GOING CONCERN CONSIDERATIONS:

McLaren Resources Inc. (the "Company") was incorporated on July 13, 1999 under The Business Corporations Act (Ontario).

The Company is engaged in the acquisition, exploration and development of petroleum and natural gas properties. The recovery of amounts capitalized as resource properties is dependant upon the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete the necessary exploration and development, and obtaining future profitable production or proceeds from the disposition thereof.

These financial statements have been prepared on a going concern basis, which assumes continuity of operations and realization of assets and the settlement of liabilities in the normal course of business.

As at September 30, 2010, the Company has net working capital of $862,426 (2009 - $1,425,366) and incurred a net loss of $1,574,111 (2009 - $885,372). The Company is in the exploration stage has no proven reserves or production relating to its operations. The application of the going concern assumption is dependent upon the Company's ability to generate future profitable operations and obtain necessary financing to do so.

Management plans on securing additional financing through the issue of new equity and entering into joint venture arrangements. Nevertheless, there is no assurance that these initiatives will be successful.

Management believes the going concern assumption to be appropriate for these financial statements. If the going concern assumption was not appropriate, adjustments might be necessary to the carrying value of the assets and liabilities, reported revenues and expenses, and the balance sheet classifications used in the financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES:

MEASUREMENT UNCERTAINTY

The financial statements of the Company have been prepared in accordance with generally accepted accounting principles in Canada. Precise determination of amounts of some assets and liabilities is dependent on future events. This requires that management make estimates in the preparation of financial statements. Actual results could vary from the estimates.

Management has made a number of significant estimates and valuation assumptions, including the recoverability of investments and petroleum and natural gas interests, estimated useful life of fixed assets, the existence of an asset retirement obligation, stock-based compensation valuations, values ascribed to related party transactions and future income tax assets and liabilities. These estimates and assumptions are based on present conditions and management's planned course of action as well as assumptions about future business and economic conditions. Should the underlying estimates change, the recorded amounts could change by a material amount.

2. **SIGNIFICANT ACCOUNTING POLICIES (continued):**

DEFERRED PETROLEUM AND NATURAL GAS EXPLORATION COSTS

The Company follows the full cost method of accounting for oil and gas exploration expenditures, wherein all costs related to the exploration of oil and gas properties are capitalized. Costs capitalized include acquisition costs, geological and geophysical expenditures, rentals on undeveloped properties, costs of drilling productive and non-productive wells, overhead directly related to exploration activities and lease of well equipment. Costs capitalized will be depleted using the unit-of-production method based on proven gross oil and natural gas reserves determined by the Company and independent engineers.

The Company is in the process of exploring off-shore oil and gas properties and has not yet determined the amount of reserves available in its properties. Management's estimate of probable reserves and resources are subject to risks and uncertainties affecting the recoverability of the Company's investment in deferred petroleum and natural gas exploration costs. Although management has made its best estimate of these factors based on current conditions, it is possible that changes could occur that could materially affect management's estimate of the recoverability of deferred costs and the need for asset impairment write-downs.

All long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying value may not be recoverable. If it is determined that the carrying value is not recoverable and exceeds its fair value, a write-down to the fair value amount is made by a charge to loss.

CASH AND CASH EQUIVALENTS

Cash and short-term investments with a remaining maturity of three months or less at the date of acquisition are classified as cash and cash equivalents.

INCOME TAXES

Future income tax assets and liabilities are determined based on differences between the financial statements carrying values and their respective income tax basis generally using the enacted income tax rates at each balance sheet date. Future income tax assets also arise from unused loss carry forwards and other deductions. The amount of the future income tax asset recognized is limited to the amount that is more likely than not to be realized. The estimated realizable amount is reviewed annually and adjusted, if necessary, by use of a valuation allowance.

STOCK-BASED COMPENSATION

The Company has a stock option plan, which is described in note 5(c). The Company records compensation expense in the financial statements for stock options granted to employees, directors, and consultants using the fair value method. Under this method, the fair value of stock options granted are estimated using the Black-Scholes option pricing model and are recorded at fair value on the date of grant and the associated expense is amortized over the vesting period with a corresponding credit to contributed surplus. When stock options are exercised, the proceeds, together with the amount recorded in contributed surplus, are recorded in share capital.

The Black-Sholes option pricing model is used to calculate the fair value of share purchase options at the date of grant. Option pricing models require the input of highly subjective assumptions, including the expected price volatility. Changes in these assumptions can materially affect the fair value estimate.

2. **SIGNIFICANT ACCOUNTING POLICIES (continued):**

LOSS PER SHARE

Basic loss per share is computed using the weighted average number of common shares outstanding during the year. Diluted loss per share is calculated giving effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares using the treasury stock method. The treasury stock method assumes that proceeds received from the exercise of stock options and warrants are used to redeem common shares at the prevailing market value. Diluted loss per share is not presented when the effect of the computations are anti-dilutive due to losses incurred. Accordingly, there is no difference in the amounts presented for basic and diluted loss per share.

REVENUE RECOGNITION

The Company recognizes investment and other revenue as it is earned.

ASSET RETIREMENT OBLIGATION

The fair value of the liability for an asset retirement obligation is recorded when it is incurred or can be reasonably estimated, and the corresponding increase to the asset is depreciated over the life of the asset. The liability is increased over time to reflect an accretion element considered in the initial measurement at fair value. At September 30, 2010, the Company has not incurred or committed any asset retirement obligations related to the development of its exploration properties.

JOINT OPERATIONS

Certain of the Company's exploration activities are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

FLOW-THROUGH FINANCING

The Company has financed a portion of its exploration activities through the issue of flow through shares, which transfers the tax deductibility of exploration expenditures to the investor. Proceeds received on the issue of such shares have been credited to capital stock and the related exploration costs capitalized as deferred costs. Resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced and temporary taxable differences created by the renunciation will give rise to future income taxes payable and will reduce share capital.

When the Company renounces flow-though expenditures, a portion of the Company's future income tax assets not recognized in previous years, due to the recording of a valuation allowance, will be recognized as a recovery of future income taxes in the statement of loss, comprehensive loss and deficit.

2. **SIGNIFICANT ACCOUNTING POLICIES (continued):**

FIXED ASSETS

Fixed assets are stated at cost. Amortization is provided on the diminishing balance basis at the following annual rate:

Computer and office equipment…………………………………..20%

OIL AND GAS PRE-ACQUISITION AND PROPERTY EVALUATION COSTS

The Company incurs pre-acquisition and property evaluation costs investigating potential property acquisitions. If the Company determines that a specific property acquisition will not be culminated, the costs associated with the specific property are charged to operations in the current period.

FINANCIAL INSTRUMENTS

The Company follows the recommendations of the CICA Handbook Section 1530 "Comprehensive Income", Section 3251 "Equity", Section 3855 "Financial Instruments – Recognition and Measurement", Section 3861 "Financial Instruments – Disclosure and Presentation" and Section 3865 "Hedges". These sections, which apply to fiscal years beginning on or after October 1, 2006, provide requirements for the recognition and measurement of financial instruments and on the use of hedge accounting. Section 1530 establishes standards for reporting and presenting comprehensive income which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income but that are excluded from net income calculated in accordance with Canadian generally accepted accounting principles.

Under Section 3855, all financial instruments are classified into one of five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured in the balance sheet at fair value except for loans and receivables, held-to maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification as follows: (1) held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income; (2) available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired; and (3) all derivative instruments, including embedded derivatives, are recorded in the balance sheet at fair value unless they qualify for the normal sale normal purchase exemption and changes in their fair value are recorded in income unless cash flow hedge accounting is used, in which case changes in fair value are recorded in other comprehensive income.

The Company classifies its cash and cash equivalents and restricted cash held in trust as held-for-trading. Accounts receivable are classified as loans and receivables. Accounts payable and accrued liabilities are classified as other financial liabilities, all of which are measured at amortized cost. Marketable securities are classified as available-for-sale securities with no active market and are therefore recorded at cost.

2. **SIGNIFICANT ACCOUNTING POLICIES (continued):**

FINANCIAL INSTRUMENTS (continued)

Section 3855 also provides guidance on accounting for transaction costs incurred upon the issuance of debt instruments or modification of a financial liability. The Company has chosen to recognize all transaction costs to the statement of operations on all financial liabilities that have been designated as other than held for-trading.

Effective October 1, 2008, the Company adopted CICA Handbook Section 3862, Financial Instruments – which increases the disclosures currently required to enable users to evaluate the significance of financial instruments for an entity's financial position and performance, including disclosures about fair value. CICA Handbook Section 3863, Financial Instruments – Presentation, replaces the existing requirements on the presentation of financial instruments, which have been carried forward unchanged. Refer to note 12 for the recommended disclosures.

In 2009, the CICA amended Section 3862, "Amendment to Financial Instruments – Disclosures" to require disclosures about the inputs to fair value measurements, including their classification within a hierarchy that prioritizes the inputs to fair value measurement.

The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
Level 3 – Inputs that are not based on observable market data

The Company categorizes its financial instruments which is comprised of cash and restricted cash, as level 1.

IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

CUMULATIVE INFORMATION FOR DEVELOPMENT STAGE COMPANIES

The Company has adopted CICA Handbook Accounting Guideline #11 with respect to financial statement presentation for exploration stage companies. Accordingly, the statements of loss, comprehensive loss and deficit and cash flows have been altered to include a column outlining the cumulative revenues, expenses and cash flows from the date of commencement of exploration stage activities, being October 1, 2005, to the period end date of the financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (continued):

SHARE CAPITAL

Common shares issued for non-monetary consideration are recorded at their fair market value based upon the price per share paid in the most recent prior sale of shares for cash.

Costs incurred to issue common shares are deducted from share capital.

TRANSLATION OF FOREIGN CURRENCIES

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the balance sheet date. Non-monetary assets and liabilities are translated into Canadian dollars at approximate exchange rates prevailing at the transaction date. Revenue and expenses are translated at average exchange rates prevailing during the year. The resulting gains and losses are included in loss for the year.

CHANGES IN ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS

FINANCIAL STATEMENT CONCEPTS

CICA Handbook Section 1000 has been amended to focus on the capitalization of costs that meet the definition of an asset and de-emphasizes the matching principle. The revised requirements are effective for annual and interim financial statements relating to fiscal year beginning on or after October 1, 2008. Accordingly, the Company adopted the new standards for its fiscal year beginning October 1, 2008. This adoption has not resulted in a significant impact on the Company's financial statements.

GENERAL STANDARDS ON FINANCIAL STATEMENT PRESENTATION

CICA Section 1400, "General Standards on Financial Statement Presentation", has been amended to include requirements to assess and disclose an entity's ability to continue as a going concern. The changes are effective for interim and annual financial statements beginning on or after January 1, 2008. The Company has included disclosures recommended by this new standard in note 1 to these financial statements.

GOODWILL AND INTANGIBLE ASSETS

The CICA issued the new Handbook Section 3064, "Goodwill and Intangible Assets", which will replace Section 3062, "Goodwill and Other Intangible Assets". The new standard establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of pre-production and start-up costs and requires that these costs be expensed as incurred. The new standard applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008.

Effective October 1, 2008, the Company adopted Section 3064 "Goodwill and intangible assets" which establishes revised standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. The adoption of this new standard did not have an impact on the Company's financial statements.

2. **SIGNIFICANT ACCOUNTING POLICIES (continued):**

CHANGES IN ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS (continued)

MINING EXPLORATION COSTS

On March 27, 2009, the CICA approved EIC 174, "Mining Exploration Costs". This EIC provides guidance on capitalization of exploration costs related to exploration properties in particular and on impairment of long-lived assets in general. The application of this accounting standard resulted in an impairment of the Company's deferred petroleum and natural gas exploration costs amounting to $970,787 (2009 - $nil), in aggregate, during the year ended September 30, 2010.

CREDIT RISK AND THE FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

In January 2009, the CICA issued EIC 173 "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". The committee reached a consensus that a company's credit risk and the credit risk of its counterparties should be considered when determining the fair value of its financial assets and financial liabilities, including derivative instruments. The transitional provisions resulting from the implementation of EIC 173 require the abstract to be applied retrospectively without restatement of prior periods. The Company adopted this EIC effective January 20, 2009. The adoption of the EIC did not have a significant impact on the Company's financial statements.

FUTURE ACCOUNTING CHANGES

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian generally accepted accounting principles ("Canadian GAAP") with IFRS over an expected five year transitional period. The AcSB announced in February 2008 that 2011 will be the changeover date for publicly-listed companies to use IFRS, replacing Canadian GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ending September 30, 2011. The Company has begun an internal diagnostic review to understand, identify and assess the overall effort required to produce financial information under IFRS, however, at this time, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

3. DEFERRED PETROLEUM AND NATURAL GAS EXPLORATION COSTS AND COMMITMENTS:

Accumulated deferred petroleum and natural gas exploration costs have been incurred as follows:

September 30, 2010	Balance, beginning of year	Acquisition	Exploration	Write-downs	Balance, end of year
NORTH SEA, NETHERLANDS					
North Sea exploration blocks	$ 896,551	$ -	$ 74,236	$ (970,787)	$ -
WESTERN NEWFOUNDLAND, CANADA					
Exploration license 1070	-	150,000	-	-	150,000
	$ 896,551	$ 150,000	$ 74,236	$ (970,787)	$ 150,000

September 30, 2009	Balance, beginning of year	Acquisition	Exploration	Write-downs	Balance, end of year
NORTH SEA, NETHERLANDS					
North Sea exploration blocks	$ 648,363	$ -	$ 248,188	$ -	$ 896,551

WESTERN NEWFOUNDLAND, CANADA: EXPLORATION LICENSE 1070 (“EL 1070”)

On December 3, 2009, the Company entered into a Strategic Arrangement (the “Arrangement”) with Canadian Imperial Venture Corp. (“CIVC”) and Shoal Point Energy Limited (“SPE”) to explore for petroleum in the Green Point Shale (“GPS”) area, both onshore and near shore throughout Western Newfoundland. SPE will be the designated Operator of the group. At the time of the transaction, SPE and the Company had a common officer.

Pursuant to the Arrangement, the Company will have the right to farm-in to certain “shallow” exploration rights in Exploration License 1070, divided into 16 blocks comprising approximately 137,000 acres, currently owned by SPE (61.5%) and CIVC (38.5%) in Port au Port Bay. In addition, the Company will have the right to participate in a planned 3-well program. The Company will pay 32% of the cost of the well to earn a 16% working interest in the block on which the well is drilled. In the event the Company participates in all 3 wells, the Company will have the right to pre-empt and match the terms of any third party offer on remaining blocks in EL 1070.

The Company, SPE and CIVC have also agreed to establish an Area of Mutual Interest (“AMI”) for lands outside of EL 1070 which are not currently held by the above noted parties and which are potentially prospective. SPE will be designated Operator of the AMI and in the event an interest is acquired, ownership will be divided as follows: SPE 45%, CIVC 30%, and McLaren 25%. In addition, the Company will provide a financial facility of up to $275,000 for the purpose of acquiring new lands acquired in the AMI.

3. **DEFERRED PETROLEUM AND NATURAL GAS EXPLORATION COSTS AND COMMITMENTS (continued):**

WESTERN NEWFOUNDLAND, CANADA: EXPLORATION LICENSE 1070 ("EL 1070") (continued)

On February 10, 2010, the Company entered into a separate Letter of Agreement with SPE and CIVC to acquire the rights to farm-in to the remaining "shallow rights" on EL 1070 by participating in the first well per block proposed by SPE in any 8 of the remaining un-drilled blocks. The Company will pay 32% of the cost of each earning well and will earn a 16% working interest in the relevant block. In consideration for entering into the Letter of Agreement, the Company paid SPE a non-refundable option fee of $150,000 and the parties agreed to enter into a definitive agreement which will include standard operating and accounting procedures.

On March 15, 2010, the Company entered into an Amendment to Letter Agreement, whereby, the February 10, 2010 option agreement mentioned above was amended to allow the Company to participate in any 11 of the 15 blocks created under EL 1070. In addition, the Company's obligation to fund 32% of the cost of each earning well for a 16% interest is applicable only to the Authority for Expenditure costs of the first earning well drilled on a block. Thereafter, the Company is only obligated to pay 16% of any further drilling and development costs to earn a 16% interest in respect of the block.

On September 29, 2010, the Company entered into a Purchase and Sale Agreement (the "Agreement") with SPE and CIVC to acquire a 5% working interest in the EL 1070 property comprising a total area of approximately 254,500 acres in Western Newfoundland. In consideration of the acquisition, the Company made a payment of $550,000 to CIVC and SPE. Upon signing of the Agreement, the gross purchase price of $550,000 was placed in trust with the Company's solicitors. Among other things, upon the drilling operator, Dragon Lance Management Corp. obtaining the necessary permits and a drilling rig, $200,000 will be released to SPE and CIVC, and upon spudding of a test well on EL1070, the remaining $350,000 will be released from trust. In the event SPE and CIVC do not proceed with the Agreement or a test well has not been spudded by January 15, 2011 or the expiry of License EL1070, whichever comes later, the aggregate purchase price shall be returned to the Company.

The 5% working interest in the EL1070 received by the Company includes the cost of the first well to be drilled, subject to overruns.

The Agreement also terminates all the aforementioned Letter Agreements between the three parties. However, the Agreement of Mutual Interest that was created under the Agreements will survive and the Company will retain its right to participate with the group in future land acquisitions in the AMI area in West Newfoundland and the entry fee charged to the Company under the AMI was reduced from $275,000 to $50,000.

EL 1070 is subject to a 1.38% gross overriding royalty on all future production from the property and government royalty payment obligations as set out by the government regulators.

Refer to note 15 for additional information with respect to Exploration License 1070.

3. **DEFERRED PETROLEUM AND NATURAL GAS EXPLORATION COSTS AND COMMITMENTS (continued):**

NORTH SEA LEASES, NETHERLANDS

The Company entered into a joint venture with Ascent Resources PLC ("Ascent") in November 2005, whereby the Company acquired a 45% beneficial interest and a 62.5% paying interest in four offshore petroleum blocks in the Netherlands sector of the North Sea.

Energie Beheer Netherlands BV ("EBN"), the Dutch State-owned oil and gas company, exercised its back in right to acquire a 40% interest in the four exploration blocks, and will participate in the exploration of the licensed areas. As a result, the Company's beneficial interest in the exploration blocks was reduced to 27% and its paying interest to 37.5%. The exploration block licenses are for a term up to August 2011.

During the year ended September 30, 2010, the Company decided to relinquish two of the four offshore petroleum exploration blocks held by the Company in the North Sea. In addition, on June 29, 2010, the Company decided to dispose of its 27% interest in the two remaining North Sea blocks for a 3% net profit interest and a cash payment of $125,000, in aggregate, conditional upon further extension of the licenses. As at September 30, 2010, the license extension has not been granted.

As a result of the Company's decision to no longer pursue the business opportunities in the North Sea leases, an impairment charge in the amount of $970,787 was made during the year ended September 30, 2010.

SOUTH SUMATRA PERMITS, INDONESIA

The Company negotiated a net 31.5% interest in six exploration permits in South Sumatra, Indonesia. During the year ended September 30, 2007, the Company was reimbursed for its oil and gas pre-acquisition costs relating to the exploration and development of business opportunities in Indonesia, totaling $646,847. As part of the transaction, the Company maintained a 5% carried interest, capped at $5 million, payable only if the business opportunity is fully funded and reaches commercial production, on those activities related to properties identified in the Participation Agreement (with Amendments) entered into by the Company and PT Ephindo in December 2006.

During the year ended September 30, 2010, the Company agreed to reduce its net carried interest in the Indonesian concessions to 2%, capped at $2 million in exchange for the beneficial owner of a certain portion of the Indonesian concession blocks having arranged an earn in arrangement with an arms length third party by which the third party has committed to incur exploration expenditures of up to US $3,243,500 on these concessions.

Refer to note 14(b) for additional information with respect to the business opportunities in Indonesia.

4. **FIXED ASSETS:**

			2010	2009
	Cost	Accumulated amortization	Net book value	Net book value
Computer and office equipment	$ 2,560	$ 1,382	$ 1,178	$ 1,258

5. **CAPITAL STOCK:**

a) Authorized

Unlimited number of common shares;

b) Issued

Common shares

	2010		2009	
	Shares	Amounts	Shares	Amounts
Balance, beginning of the year	18,944,281	$4,525,346	18,944,281	$4,525,346
Flow-through shares issued for cash on private placement, December 31, 2009 (i)	850,000	170,000	-	-
less: Tax effect of renunciation associated with flow-through shares	-	(56,100)	-	-
Balance, end of the year	19,794,281	$4,639,246	18,944,281	$4,525,346

(i) Year ended September 30, 2010:

On December 31, 2009, the Company completed a non-brokered private placement of 850,000 flow-through common shares at $0.20 per share for gross proceeds of $170,000.

c) Stock options

The Company maintains a Stock Option Plan (the "Plan") for the benefit of directors, officers, employees, consultants and other service providers of the Company in order to assist the Company in attracting, retaining, and motivating such persons by providing them with the opportunity, through stock options to acquire an increased proprietary interest in the Company. Under the Plan, stock options are non-assignable and may be granted for a term not exceeding five years. The number of common shares that may be reserved for issuance to any one person must not exceed 5% of the outstanding common shares. The stock options are non-transferable.

5. **CAPITAL STOCK (continued):**

c) Stock options (continued)

A summary of the Company's stock option plan as of September 30, 2010 and 2009 and changes during the years, are presented below:

	2010		2009	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance outstanding beginning of the year	200,000	$ 0.50	1,375,000	$ 0.50
Activity during the year:				
Granted	1,400,000	0.20	-	-
Forfeited/cancelled	-	-	(1,175,000)	0.50
Balance outstanding end of the year	1,600,000	$ 0.24	200,000	$ 0.50

On December 30, 2009, the Company granted 1,400,000 options exercisable at $0.20 per share, expiring December 30, 2014, to officers, directors and consultants.

The fair value of each option was estimated on the date of grant. Under Black Scholes, the options issued during the year ended September 30, 2010 have been valued at $150,640 (2009 - $nil) and expensed to loss, using the following assumptions at the measurement date:

	2010	2009
Risk free interest rate	2.74%	-
Expected life	5 years	-
Price volatility	100%	-
Dividend yield	nil	-

The following table summarizes the options outstanding and exercisable at September 30, 2010:

Number of Options	**Exercise Price**	Expiry Date
200,000	0.50	February 5, 2013
1,400,000	0.20	December 30, 2014
1,600,000		

6. **CONTRIBUTED SURPLUS:**

Contributed surplus is comprised of the following:

	2010	2009
Balance, beginning of the year	$ 310,405	$ 310,405
Stock-based compensation cost	150,640	-
Balance, end of the year	$ 461,045	$ 310,405

7. **MARKETABLE SECURITIES:**

During the year ended September 30, 2010, the Company acquired 59,772 common shares of Shoal Point Energy Limited ("Shoal Point").

At September 30, 2010, the market value of the shares was not determinable as Shoal Point is a private company with no quoted market price in an active market and is therefore recorded at cost (less any impairment charges).

Shoal Point and the Company were related parties by virtue of a common officer at the time the shares were received.

8. **RELATED PARTY TRANSACTIONS:**

During the year ended September 30, 2010, officers and directors, and companies controlled by them, charged consulting fees and management fees to the Company in the amount of $123,000 (2009 - $88,000). Accounts payable and accrued liabilities at September 30, 2010 includes $nil (2009 - $1,325) owing to them.

During the year ended September 30, 2010, officers and directors, and companies controlled by them, charged directors fees to the Company in the amount of $30,000 (2009 - $4,800). Accounts payable and accrued liabilities at September 30, 2010 includes $nil (2009 - $2,400) owing to them.

During the year ended September 30, 2010, the Company reimbursed certain directors, officers and individuals and companies related to directors of the Company at the time of the transaction, for corporate costs paid directly by them. These reimbursements were at cost and aggregated $22,635 (2009 - $24,951). Accounts payable and accrued liabilities at September 30, 2010 includes $259 (2009 - $nil) owing to them.

During the year ended September 30, 2010,the Company was charged $78,731 (2009 - $121,011) by a law firm of which an officer of the Company is a partner. Accounts payable and accrued liabilities at September 30, 2010 includes $3,645 (2009 - $7,222) owing to the law firm of which an officer of the Company is a partner.

During the year ended September 30, 2010, management fees were charged by former Chief Financial Officers' in the amount of $7,500 (2009 - $25,002).

8. RELATED PARTY TRANSACTIONS (continued):

During the year ended September 30, 2010, consulting fees were charged by an individual related to an officer of the Company amounting to $nil (2009 - $1,200).

During the year ended September 30, 2010, the Company charged $35,000 (2009 - $nil) to a company with a common director for assisting in culminating an arrangement to dispose of certain concession blocks in Indonesia. This revenue is included in other income.

As at September 30, 2010, accounts receivable includes $39,375 (2009- $nil) due from a company with a director who is also a director and officer of the Company.

During the year ended September 30, 2010, legal fees were paid on behalf of certain directors and a shareholder of the Company in the amount of $nil (2009 - $356,437) related to the allegation of oppressive conduct legal proceedings and the dispute among the former board of directors over the general direction of the Company which resulted in a dissident shareholders meeting (see note 14).

As at September 30, 2010, accounts receivable includes $nil (2009 - $12,075) due from a company with a common officer.

See notes 3 and 7 for additional related party information, unless otherwise stated.

These transactions, stated above, are in the normal course of operations and are measured at the exchange amount of consideration established and agreed to by the related parties.

The authority of some payments made to certain individuals who were directors of the Company at the time of the transactions, and companies related to them, have been challenged in an oppression application (see note 14). During the year, total payments made to those individuals and companies are noted below.

> During the year ended September 30, 2010, a former officer of the Company charged management fees in the amount of $nil (2009- $62,500). As at September 30, 2010, accounts payable includes $nil (2008- $688) owing to this former officer.
>
> During the year ended September 30, 2010, the Company was charged $nil (2009- $15,000) for investor relations services by a company controlled by an individual related to a former director of the Company. Accounts payable at September 30, 2010 includes $nil (2009- $2,625) owing to this former related party.
>
> During the year ended September 30, 2010, rent of $nil (2009- $18,750) was paid to a company with a director who was also a former director of the Company and an officer who is related to a former director of the Company.
>
> During the year ended September 30, 2010, the Company was charged $nil (2009- $7,500) for corporate administrative services by a company controlled by an individual related to a former director of the Company.

On July 27, 2009, settlements were reached with companies related to a former director of the Company with respect to the above noted oppression application. As a result, no further amounts in respect of each contract will be challenged by the Company nor does the Company have any further commitments and/or encumbrances under such contracts. Total settlement payments made to the companies amounted to $13,000, in aggregate.

9. INCOME TAXES:

(a) At September 30, 2010, the Company has non-capital losses of approximately $2,759,989 that can be used to reduce future taxable income. These losses expire as follows:

2011	-	$ 14,752
2015	-	126,599
2016	-	184,151
2027	-	487,834
2028	-	307,391
2029	-	949,478
2030	-	689,784
		$ 2,759,989

The benefit of these losses have not been recognized in these financial statements.

(b) Income tax expense (recovery) varies from the amounts that would be computed by applying current rates to loss before income taxes, as shown in the following table:

	2010	2009
Net loss before income taxes	$ (1,630,211)	$ (885,372)
Combined federal and provincial income tax rates	33%	33%
Expected income tax expense (recovery)	(537,970)	(292,173)
Differences resulting from:		
Non-deductible stock-based compensation	49,711	-
Other items	(20,116)	(21,302)
Tax effect of reversal of temporary differences	11,951	-
Loss not tax benefited	-	313,475
Change in valuation allowance	440,324	-
Future income tax (recovery)	$ (56,100)	$ -

(c) The tax effects of temporary differences that give rise to future income tax assets at September 30, 2010 and 2009 are as follows:

	2010	2009
Future tax assets:		
Share issue costs	$ 21,924	$ 43,848
Fixed assets, excess of tax basis over carrying value	303	276
Non-capital losses	910,796	712,835
Deferred petroleum and natural gas exploration costs, excess of tax basis over carrying value	264,260	-
	1,197,283	756,959
Less: valuation allowance	(1,197,283)	(756,959)
Net asset	$ -	$ -

10. SEGMENTED INFORMATION:

The Company operates in one operating segment, that being the acquisition, exploration and development of petroleum and natural gas properties. No revenue has been generated by these properties. Segmented geographic information is as follows:

The following tables allocates total assets by segment:

	September 30, 2010		
	Canada	North Sea	Total
Current assets	$ 900,372	$ -	$ 900,372
Deferred petroleum and natural gas exploration costs	150,000	-	150,000
Other	1,179	-	1,179
	$ 1,051,551	$ -	$ 1,051,551

	September 30, 2009		
	Canada	North Sea	Total
Current assets	$ 1,461,466	$ -	$ 1,461,466
Deferred petroleum and natural gas exploration costs	-	896,551	896,551
Other	1,259	-	1,259
	$ 1,462,725	$ 896,551	$ 2,359,276

The following tables allocates net loss by segment:

	2010	2009
Canada	$ 603,324	$ 885,372
North Sea	970,787	-
Net loss for the year	1,574,111	885,372

11. CAPITAL MANAGEMENT:

The Company considers its capital to include components of shareholders' equity.

The Company's objectives in managing its capital are: to maintain adequate levels of funding to support its expenditures arising from the Company's investments; to safeguard the Company's ability to continue as a going concern in order to pursue the exploration of its properties; to maintain a flexible capital structure for its projects for the benefit of its stakeholders; to maintain corporate and administrative functions necessary to support the Company's operations and corporate functions; and to seek out and acquire new projects of merit.

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company in order to support the acquisition, exploration and development of petroleum and natural gas properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

11. CAPITAL MANAGEMENT (continued):

The properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

The Company's investment policy is to invest its cash in low risk, highly liquid, short-term interest bearing investments, selected with regards to the expected timing of upcoming expenditures.

The Company expects its current capital resources will be sufficient to carry out its exploration plans and operations through its current operating period. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the year ended September 30, 2010 . The Company is not subject to externally imposed capital requirements.

12. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS:

Fair value
The Company's financial instruments included on the balance sheet as at September 30, 2010 and 2009 are comprised of cash and cash equivalents, restricted cash held in trust, accounts receivable, and accounts payable and accrued liabilities. The Company records its financial instruments at their carrying amounts which approximates fair value, unless otherwise disclosed in the financial statements. The carrying amounts approximate fair values due to the short-term maturities of these financial instruments.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk
Credit risk is the risk of financial loss to the Company if a customer or counter party to a financial instrument fails to meet its contractual obligations.

The Company's credit risk is primarily attributable to cash and cash equivalents, restricted cash held in trust and accounts receivable included in current assets. The Company has no significant concentration of credit risk arising from operations. Cash and cash equivalents consist of bank deposits and a guaranteed investment certificate, which have been invested with or purchased from a Canadian chartered bank, from which management believes the risk of loss to be remote.

As at September 30, 2010, the Company's receivables consisted of $21,452 (2009 - $37,898) due from the Canadian government and $44,375 (2009 - $12,075) from other debtors. The Company's receivables are normally collected within a 60-90 day period. The Company is exposed to credit risk with regards to debtors refusing payment and the government denying the Company claims as filed.

12. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (continued):

Credit risk (continued)
The Company establishes an allowance for doubtful accounts as determined by management based on their assessed collectability therefore, the carrying value amount of accounts receivable generally represents the maximum credit exposure. The Company believes that its counterparties currently have the financial capacity to settle outstanding obligations in the normal course of business. During the year ended September 30, 2010, receivables in the amount of $44,375 were past due; however, prior to year-end the counterparties promised to repay the amounts during the year ended September 30, 2011.

The Company's maximum exposure to credit risk as at September 30, 2010 is the carrying value of cash and cash equivalents, restricted cash held in trust and accounts receivable.

Liquidity risk
The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at September 30, 2010, the Company had cash and cash equivalents of $272,291 (September 30, 2009 - $1,411,493) to settle current liabilities of $37,946 (September 30, 2009 - $36,100). The ability of the Company to manage its working capital and continue as a going concern is dependent on its ability to secure additional equity or other financing. All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

Market risk
(a) *Interest rate risk*
The Company has cash and cash equivalent balances bearing fixed interest rates and no interest bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its bank. As at September 30, 2010, if interest rates had changed by 1% with all other variables held constant, the loss for the year and equity would vary by approximately $nil (2009 - $15,000) as a result of the change in interest revenue earned from cash and cash equivalents.

(b) *Foreign currency risk*
The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. From time to time, the Company funds certain operations, exploration and administrative expenses in Euros on a cash call basis using Euro currency converted from its Canadian dollar bank accounts held in Canada. Management believes the foreign exchange risk derived from currency conversions is negligible and therefore does not hedge its foreign exchange risk.

(c) *Price risk*
The Company is exposed to price risk with respect to commodity prices. Changes in commodity prices will impact the economics of development of the Company's petroleum properties. The Company monitors commodity prices to determine the appropriate course of action to be taken by the Company.

As at September 30, 2010, the carrying value amounts of the Company's financial instruments approximates their fair value, unless otherwise stated.

The Company does not hold significant balances in foreign currencies to give rise to exposure to foreign exchange risk.

Price risk is remote since the Company is not a revenue producing entity.

13. ROYALTY INTEREST:

During 2005, the Company purchased a beneficial 5% net smelter royalty interest ("NSR") on the Zenda Property in Kern County, California, U.S.A. During 2007, the Company paid its remaining contractual obligation regarding the purchase of the NSR and wrote-down the carrying value of the NSR interest due to lack of progress in bringing the property into commercial production.

14. COMMITMENTS AND CONTINGENCIES:

a) As at September 30, 2010, the Company's only significant commitment was with respect to its obligation to fund its investment in its Newfoundland lease. See note 3 for additional commitment information with respect to the Company's investment in its Newfoundland lease.

b) The structure of the transaction for the recovery of its pre-acquisition costs related to its Indonesian assets (note 3) does not remove the Company's potential liability in the event of obligations incurred but not paid by the company who reimbursed the Company for its pre-acquisition costs. In the event of a default by the company, the Company could remain liable for the obligations incurred.

c) On April 19, 2010, the Company entered into a non-exclusive consulting agreement with a company to assist the Company on a best efforts basis to identify candidates of equity and/or debt financing and/or to identify strategic or Joint Venture Partners to the Company, among other things. In consideration for signing the agreement, an engagement fee of $20,000 was paid on signing the agreement and a monthly consulting fee of $10,000 is due for a period of six months upon completion of a financing. In addition, the consultant is entitled to fees ranging from 2%-8%, depending on the form of the financing, payable out of any gross proceeds raised. The agreement is in effect for one year at which point it may be extended for successive periods on terms agreed on by both parties.

d) On September 13, 2010, the Company entered into a non-exclusive consulting agreement with a company to render, among other things, corporate finance services; such as, assisting in financing the Company of up to $250,000. As compensation for entering into the agreement, an engagement fee of $15,000 is payable, of which $5,000 will be paid monthly. In addition, a finder's fee or success fee of 8% is payable to the consultant for amounts raised up to $250,000 and stock options to purchase 20,000 shares of the company per month at a price of $0.15 per share exercisable one year from the date of grant. The agreement continues for a three month period.

e) On February 17, 2009, the Ontario Securities Commission (the "Commission") issued a Notice of Order (Permanent Cease Trade Order) against the Company for failure to file annual financial statements and related Management Discussion and Analysis (MD&A) for the year ended September 30, 2008 with the Commission and its shareholders. Subsequent to the Cease Trade Order being issued, the Company filed the annual financial statements and MD&A for the year ended September 30, 2008, among other things, and the Commission revoked the Cease Trade Order issued against the Company on December 18, 2009.

The Company failed to file the above noted disclosures because of an ongoing dispute among the board of directors as to the general direction of the Company and the composition of its management team. Accordingly, among other things, a new slate of directors was elected. Furthermore, certain events and related facts leading up to the meeting are described below.

14. **COMMITMENTS AND CONTINGENCIES (continued):**

On January 13, 2009, the Company announced that the Board of Directors of the Company was at odds as to the future direction of the Company and that the positions were evenly divided between the four directors.

The Company announced that a dissident shareholders meeting had been called for February 26, 2009. The Company also announced that a legal proceeding had been commenced before the Ontario Superior Court of Justice (the "Court.") in which allegations of oppressive conduct were being asserted by two of the Directors (Victor Childs and John Holko) against the other two Directors (Gregory Liddy and Brian Berner) and the Company. Gregory Liddy and Brian Berner have advised the Company and the Court that in the context of that proceeding, a counter application for oppressive conduct would be brought against Victor Childs and John Holko.

On January 16, 2009, by way of a Court order, the meeting date for the dissident shareholders meeting was moved from February 26, 2009 to March 10, 2009. The legal proceeding regarding allegations of oppressive conduct was adjourned until after the March 10, 2009 shareholders meeting. Since the shareholders meeting, no further steps or proceedings have been taken in respect of the oppression application.

The dissident shareholders meeting was held March 10, 2009 with a result that a new Board of Directors, including Victor Childs and John Holko, was elected and new management of the Company was appointed.

On December 2, 2008, a letter was sent to the Company's bank, on behalf of two of the Company's Directors, indicating a dispute among the directors regarding the signing authorities on the Company's bank account. Consequently the Company's bank placed the Company's bank account on a full hold until documentation evidencing the resolution of the dispute was provided to the Company's bank. Following the election of the new Board of Directors and the appointment of new management, the Company restored normal banking operations.

f) Minimum cash expenditures on Canadian exploration and development.

The Company is committed to spend proceeds of a flow-through share issuance resulting from a private placement of 850,000 flow through shares in December 2009 (2009 - nil) (note 5(b)(i)). The stock qualified as flow-through shares under the Income Tax Act (Canada) and the corresponding expenditures are to be made by the Company on or before December 31, 2010.

The Company is partly financed by the issuance of flow-through shares. However, there is no guarantee that the funds spent by the Company will qualify as Canadian exploration expenses, even if the Company has committed to take all the necessary measure for this purpose.

At September 30, 2010, the Company accrued a liability of $2,550 for Part XII.6 interest charged on unspent flow-through funds which were raised and renounced to the subscribers in December 2009 and are to be fully spent in accordance with the Income Tax Act (Canada) through to December 31, 2010.

15. **SUBSEQUENT EVENT:**

On November 8, 2010, by mutual agreement, the purchase and sale agreement between SPE, CIVC and the Company regarding the purchase of a 5% working interest in Exploration License 1070 in Newfoundland and the Company's participation interest under the AMI agreement, was terminated (refer to note 3). Pursuant to the Termination Agreement, the Company will be reimbursed by SPE for its original option fee of $150,000 (received) paid in consideration for entering into a Letter of Agreement to acquire rights to farm-in to certain "shallow rights" in Exploration License 1070. The Company will also receive 750,000 common shares and 250,000 warrants of SPE. Each warrant entitles the Company to purchase one common share of SPE for $0.28 expiring on November 8, 2012. In addition, the aggregate funds of $550,000 held in trust with the Company's solicitors, pursuant to the purchase and sale agreement, have been released back to the Company.