MONARCH ENERGY LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

DAVIDSON & COMPANY LLP Chartered Accountants A Partnership of Incorporated Professionals

AUDITORS' REPORT

To the Shareholders of
Monarch Energy Limited

We have audited the consolidated balance sheets of Monarch Energy Limited as at September 30, 2010 and 2009 and the consolidated statements of operations, 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 consolidated 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.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada　　　　Chartered Accountants

January 24, 2011

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MONARCH ENERGY LIMITED

Consolidated Balance Sheets

As at September 30

	2010	2009
Assets		
Current assets:		
Cash	$ 428,926	$ 20,077
Amounts receivable	11,310	21,331
Prepaid expenses	10,000	772
	450,236	42,180
Equipment (note 5)	1,997	2,883
Reclamation bond	27,634	27,534
Petroleum and natural gas properties (note 6)	-	603,041
	$ 479,867	$ 675,638
Liabilities and Shareholders' Deficiency		
Current liabilities:		
Accounts payable and accrued liabilities	$ 1,592,369	$ 1,640,472
Due to related parties (note 9)	103,008	82,932
	1,695,377	1,723,404
Asset retirement obligation (note 7)	57,932	51,300
	1,753,309	1,774,704
Shareholders' deficiency:		
Capital stock (note 8(b))	15,943,341	15,943,341
Contributed surplus (note 8(b))	1,271,009	1,271,009
Deficit	(18,487,792)	(18,313,416)
	(1,273,442)	(1,099,066)
	$ 479,867	$ 675,638

Nature and continuance of operations (note 1)

Subsequent events (note 13)

Approved on behalf of the Board:

"Michael Turko" Director *"George Langdon"* Director

See accompanying notes to consolidated financial statements.

MONARCH ENERGY LIMITED

Consolidated Statements of Operations, Comprehensive Loss and Deficit

Years ended September 30

	2010	2009
Revenue		
Petroleum and natural gas sales	$ 169,875	$ 236,576
Royalties	(15,034)	(13,454)
	154,841	223,122
Expenses		
Accretion of asset retirement obligation (Note 7)	6,632	5,850
Consulting	11,547	144,832
Depletion (Note 6)	45,406	24,460
Depreciation	886	1,530
Directors' fees	-	22,222
Filing fees	12,194	13,867
Foreign exchange gain	(60,365)	(395,502)
Investor relations	1,446	22,645
Management fees	52,500	75,000
Office and miscellaneous	5,124	11,581
Printing	1,559	1,250
Production expenses	188,016	277,736
Professional fees	93,522	89,279
Project evaluation	27,242	-
Rent	25,403	21,266
Stock-based compensation (Note 8(b))	-	5,300
Transfer agent fees	9,856	11,007
Transportation costs	6,306	1,872
Travel	368	1,201
	427,642	335,396
Loss before other items	(272,801)	(112,274)
Other items		
Interest income	154	456
Gain on sale of asset	98,271	-
Write-off of petroleum and natural gas properties (Note 6)	-	(7,244,024)
	98,425	(7,243,568)
Loss and comprehensive loss for the year	(174,376)	(7,355,842)
Deficit, beginning of year	(18,313,416)	(10,957,574)
Deficit, end of year	$ (18,487,792)	$ (18,313,416)
Loss per share, basic and diluted	$ (0.00)	$ (0.16)
Weighted average number of common shares outstanding, basic and diluted	53,226,852	46,538,789

See accompanying notes to consolidated financial statements.

MONARCH ENERGY LIMITED

Consolidated Statements of Cash Flows

Years ended September 30

	2010	2009
Cash flows used in operating activities:		
Loss for the year	$ (174,376)	$ (7,355,842)
Items not involving cash:		
Accretion of asset retirement obligation	6,632	5,850
Depletion	45,406	24,460
Depreciation	886	1,530
Stock-based compensation	-	5,300
Write-off of petroleum and natural gas properties	-	7,244,024
Unrealized gain on foreign exchange	(73,731)	(169,441)
Gain on sale of asset	(98,271)	-
Changes in non-cash operating working capital:		
Amounts receivable	10,021	25,240
Prepaid expenses	(9,228)	91
Accounts payable and accrued liabilities	12,077	20,154
Due to related parties	33,627	-
Reclamation bond	(100)	(338)
Net cash used in operating activities	(247,057)	(198,972)
Cash flows from financing activities:		
Issuance of shares for cash, net of costs	-	131,491
Increase in amounts due to related parties	-	21,881
Net cash from financing activities	-	153,372
Cash flows from (used in) investing activities:		
Disposal of petroleum interest, net of commission	655,906	-
Additions to petroleum and natural gas properties	-	(22,870)
Net cash from (used in) investing activities	655,906	(22,870)
Increase (decrease) in cash	408,849	(68,470)
Cash, beginning of year	20,077	88,547
Cash, end of year	$ 428,926	$ 20,077
Supplementary information:		
Income taxes paid	$ -	$ -
Interest paid	-	-

Supplemental disclosure with respect to cash flows (note 10)

See accompanying notes to consolidated financial statements.

1. NATURE AND CONTINUANCE OF OPERATIONS

Monarch Energy Limited ("the Company") was incorporated in British Columbia and is engaged in the exploration and development of petroleum and natural gas properties.

These consolidated financial statements have been prepared assuming the Company will continue on a going-concern basis. The Company has incurred losses since inception and the ability of the Company to continue as a going-concern depends upon its ability to develop profitable operations and to continue to raise adequate financing.

The current market conditions and volatility increase the uncertainty of the Company's ability to continue as a going concern given the need to both curtail expenditures and to raise additional funds. The Company is experiencing, and has experienced, negative operating cash flows. The Company will continue to search for new or alternate sources of financing but anticipates that the current market conditions may impact the ability to source such funds.

There can be no assurance that the Company will be able to continue to raise funds in which case the Company may be unable to meet its obligations. Should the Company be unable to realize on its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts recorded on the balance sheets.

Subsequent to year end, the Company consolidated its common shares on the basis of one new share for every 1.75 old shares held (Note 13). All references to share amounts have been retroactively restated to reflect the consolidation.

	2010	2009
Working capital deficiency	$ (1,245,141)	$ (1,681,224)
Deficit	(18,487,792)	(18,313,416)

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies adopted by the Company are as follows:

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 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.

Principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Monoil Limited and, Monoil UK Limited.

All intercompany balances have been eliminated upon consolidation.

2. SIGNIFICANT ACCOUNTING POLICIES (continued):

Foreign currency translation

The Company's foreign operations are of an integrated nature. Monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date and non-monetary assets and liabilities are translated at historical exchange rates. Revenues and expenses are translated at rates of exchange prevailing on the dates of the underlying transaction. Exchange gains and loses arising on translation are included in the statement of operations.

Cash and equivalents

Cash is comprised of cash on hand and demand deposits.

Cash equivalents are short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

Financial instruments

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. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income. 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.

The Company has classified its cash as held-for-trading. Amounts receivable are classified as loans and receivables and accounts payable and accrued liabilities and due to related parties are classified as other liabilities, all of which are measured at amortized cost.

The CICA Handbook Section 3862, Financial Instruments – Disclosures, and Section 3863, Financial Instruments - Presentation, revised and enhanced disclosure requirements while carrying forward presentation requirements. These new sections placed increased emphasis on disclosure about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

Disclosure is also required on the inputs used in making fair value measurements, including their classification within a hierarchy that prioritizes their significance. 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 has included disclosure recommended by this section in Note 3 to these consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (continued):

Petroleum and natural gas properties

The Company follows the full cost method of accounting for petroleum and natural gas operations. Under this method, all costs associated with the acquisition of, exploration for and development of petroleum and natural gas reserves are capitalized in cost centers on a country-by-country basis. Such costs include property acquisition costs, geological and geophysical studies, carrying charges on non-producing properties, costs of drilling productive wells, and overhead expenses directly related to these activities.

Depletion is calculated for producing properties by using the unit-of-production method based on estimated proved reserves, before royalties, as determined by management of the Company or independent consultants. Sales or dispositions of petroleum and natural gas properties are credited to the respective cost centers and a gain or loss is recognized when all properties in a cost center have been disposed of, unless such sale or disposition significantly alters the relationship between capitalized costs and proved reserves of petroleum and natural gas attributable to the cost center. Costs of abandoned properties are accounted for as adjustments of capitalized costs and written off to expense.

Undeveloped properties are excluded from the depletion calculation until the quantities of proved reserves can be determined.

A ceiling test is applied to each cost center and for the aggregate of all cost centers by comparing the net capitalized costs to the estimated future net revenues from production of estimated proved reserves without discount, plus the costs of unproved properties net of impairment. Any excess capitalized costs are written off to expense. Further, the ceiling test for the aggregate of all cost centers is required to include the effects of future removal and site restoration costs, general and administrative expenses, financing costs and income taxes. The calculation of future net revenues is based upon prices, costs and regulations in effect at each year end.

Unproved properties are assessed for impairment on an annual basis by applying factors that rely on historical experience. In general, the Company may write-off any unproved property under one or more of the following conditions:

a) there are no firm plans for further drilling on the unproved property;

b) negative results were obtained from studies of the unproved property;

c) negative results were obtained from studies conducted in the vicinity of the unproved property; or

d) the remaining term of the unproved property does not allow sufficient time for further studies or drilling.

Asset retirement obligations

The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability.

2. SIGNIFICANT ACCOUNTING POLICIES (continued):

Asset retirement obligations (continued):

Changes in the liability for an asset retirement obligation due to the passage of time will be measured by applying an interest method of allocation. The amount will be recognized as an increase in the liability and an accretion expense in the statement of operations. Changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease in the carrying amount of the liability for an asset retirement obligation and the cost of the related long-lived asset.

Impairment of long-lived assets

A long-lived asset is tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of a long-lived asset exceeds its fair value. For purposes of recognition and measurement of an impairment loss, a long-lived asset is grouped with other assets and liabilities to form an asset group at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Estimates of future cash flows used to test recoverability of a long-lived asset include only the future cash flows that are directly associated with, and that are expected to arise as a direct result of, its use and eventual disposition.

Amortization

Equipment is recorded at cost less accumulated amortization. Depreciation of computer equipment is provided at 45% per annum and office equipment is provided at 20% per annum, both on a declining balance basis.

Future income taxes

Future income taxes are calculated using the asset and liability method. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

Stock-based compensation

The Company recognizes compensation expense for all stock options granted, using the fair value based method of accounting.

Any cash paid on the exercise of stock options is added to the stated value of common shares.

2. SIGNIFICANT ACCOUNTING POLICIES (continued):

Loss per share

Basic loss per share has been calculated using the weighted average number of common shares outstanding during the year. Diluted loss per share has been calculated using the weighted average number of common shares that would have been outstanding during the respective period had all of the stock options and warrants outstanding at year-end having a dilutive effect been converted into shares at the beginning of the year and the proceeds used to repurchase the Company's common shares at the average market price for the year. Since the Company is in a loss position this would be anti-dilutive, therefore, diluted loss per share is the same as basic loss per share.

Revenue recognition

Revenue from oil and gas operations is recognized when oil and natural gas are shipped, title passes and collection of the sale is reasonably assured.

Comparative figures

Certain comparative figures have been reclassified, where applicable, to conform with the current year's presentation.

Flow-through common shares

Canadian tax legislation permits a company to issue flow-through shares whereby the deduction for tax purposes relating to qualified resource expenditures is claimed by the investors rather than the Company. Recording these expenditures for accounting purposes gives rise to taxable temporary differences.

Effective March 19, 2004, the Emerging Issues Committee of the Canadian Institute of Chartered Accountants requires that, when flow-through expenditures are renounced, a portion of the future income tax assets that were not recognized in previous years, due to the recording of a valuation allowance, be recognized as a recovery of income taxes in the statement of operations.

Adoption of new accounting standards

Effective for the year ended September 30, 2010, the Company adopted new accounting standards that were issued by the Canadian Institute of Chartered Accountants ("CICA"), as listed below. These standards were adopted on a prospective basis and are primarily related to disclosures. There were no adjustments recorded to the opening balance sheet items or deficit as a result of the Company's initial adoption of these standards.

Goodwill and intangible assets

Effective October 1, 2009, the Company adopted the CICA Handbook Section 3064, "Goodwill and Intangible Assets", which replaced 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 adoption of this standard did not have a significant effect on these financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (continued):

Adoption of new accounting standards (continued):

Business combinations, consolidated financial statements and non-controlling interest

Effective October 1, 2009, the Company adopted the CICA Handbook Section 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-Controlling Interests". These sections replaced the former Section 1581, "Business Combinations", and Section 1600, "Consolidated Financial Statements", and establish a new section for accounting for a non-controlling interest in a subsidiary. Section 1582 establishes standards for the accounting for a business combination, and states that all assets and liabilities of an acquired business will be recorded at fair value. Obligations for contingent considerations and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. It provides the Canadian equivalent to IFRS 3, Business Combinations (January 2008).

Section 1601 establishes standards for the preparation of consolidated financial statements.

Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in the preparation of consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS International Accounting Standards ("IAS") 27, Consolidated and Separate Financial Statements.

These standards are effective January 1, 2011, however early adoption is permitted. The Company adopted these sections on October 1, 2009, and the adoption of these sections did not have a significant effect on the Company's financial statements.

Future accounting policies

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 strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's existing GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. For the Company the transition date will be October 1, 2011 and this will require the restatement for comparative purposes of amounts reported by the Company for the year ended September 30, 2011. The Company has completed the diagnostic phase of planning for the implementation of IFRS. It has determined that the principal areas of impact will be IFRS 1 – first time adoption; presentation of financial statements; asset retirement obligations; impairment of assets; flow through shares and share-based payments. The Company expects its detailed analysis of relevant IFRS requirements and of IFRS 1 will be complete by the end of its fiscal quarter ending June 30, 2011, along with its determination of changes to accounting policies and choices to be made. The Company has not yet reached the stage where a quantified impact of conversion on its financial statements can be measured. The Company expects to complete its quantification of financial statement impacts by the end of its fiscal year ending September 30, 2011.

3. FINANCIAL INSTRUMENTS

The fair value of the Company's amounts receivable, accounts payable and accrued liabilities, and due to related parties, approximate carrying value, which is the amount recorded on the consolidated balance sheet. The Company's other financial instrument, cash, under the fair value hierarchy are based on level one quoted prices in active markets for identical assets or liabilities.

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 loss associated with a counterparty's inability to fulfill its payment obligations. The Company believes it has no significant credit risk. Receivables consist primarily of input tax credits receivable from the Government of Canada.

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 a cash balance of $428,926 to settle current liabilities of $1,695,377. The Company expects to fund these liabilities through the issuance of capital stock.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

a) Interest rate risk

The Company has cash balances. The Company is not at a significant risk to fluctuating interest rates. 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 banks. As of September 30, 2010, the Company did not have any investments in investment-grade short-term deposit certificates.

b) Foreign currency risk

As at September 30, 2010, the Company's expenditures are predominantly in Canadian dollars, and any future equity raised is expected to be predominantly in Canadian dollars. As at September 30, 2010, the Company had two subsidiaries in the United Kingdom with accounts payable of £833,123. A 10% change in the Canadian dollar against the British Pound would affect net loss for the year by $135,574.

3. FINANCIAL INSTRUMENTS (continued):

Market risk (continued):

c) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of oil and gas, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

4. CAPITAL MANAGEMENT

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, 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. In the management of capital, the Company includes components of shareholders' deficiency and cash balances.

The Company is dependent upon external financings to fund activities. In order to carry out planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional funds 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.

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.

5. EQUIPMENT

	2010			2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer equipment	$ 5,264	$ 4,480	$ 784	$ 5,264	$ 3,838	$ 1,426
Office equipment	2,679	1,466	1,213	2,679	1,222	1,457
	$ 7,943	$ 5,946	$ 1,997	$ 7,943	$ 5,060	$ 2,883

6. PETROLEUM AND NATURAL GAS PROPERTIES

	2010	2009
Unproved properties – United Kingdom		
North Sea Project (Quad 41/42))		
Geological and geophysical	$ -	$ 16,565
Drilling and testing	-	2,160,958
Consulting	-	15,625
	-	2,193,148
Written off	-	(2,193,148)
	-	-
North Sea Project (Quad 15/18a)		
Consulting	52,451	52,451
Drilling and testing	3,902,202	3,902,202
Travel	1,516	1,516
	3,956,169	3,956,169
Written off	(3,398,534)	(3,398,534)
	557,635	557,635
Disposal of interest	(557,635)	-
	-	-
North Sea Project (Quad 30)		
Finder's fee	-	72,000
Seismic acquisition	-	1,569,342
Miscellaneous	-	11,000
	-	1,652,342
Written off	-	(1,652,342)
	-	-
Proved property - Canada		
Lyle/Thorn Areas		
Geological, geophysical and land	121,076	121,076
Asset retirement obligations	37,352	37,352
	158,428	158,428
Depletion	(158,428)	(113,022)
	-	45,406
	$ -	$ 603,041

6. PETROLEUM AND NATURAL GAS PROPERTIES (continued):

During the current fiscal year, the Company sold its interest in the North Sea Project (Quad 15/18a) to a third party for US $675,045. The Company paid a commission of US $56,250 associated with the sale. A gain of $98,271 was recorded as a result of the sale.

7. ASSET RETIREMENT OBLIGATION

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

	2010	2009
Asset retirement obligation, beginning of year	$ 51,300	$ 47,984
Adjust obligation on disposition of property	-	(2,534)
Accretion expense	6,632	5,850
Asset retirement obligation, end of year	$ 57,932	$ 51,300

The undiscounted amount of cash flows, required over the estimated reserve life of the underlying assets, to settle the obligation, adjusted for inflation, is estimated at $60,906 (2009 - $60,906). The obligation was calculated using a credit-adjusted risk free discount rate of 10% and an inflation rate of 2%. It is expected that this obligation will be funded from general Company resources at the time the costs are incurred with the majority of costs expected to occur between 2011 and 2015.

8. CAPITAL STOCK AND CONTRIBUTED SURPLUS

a) Authorized capital stock: unlimited number of common shares without par value

b) Common shares issued and outstanding:

	Number of Shares	Capital Stock	Contributed Surplus
Balance, September 30, 2008	44,083,995	$ 15,811,850	$ 1,209,042
Private placement at $0.01 per share, net of costs[(i)]	9,142,857	131,491	-
Stock-based compensation	-	-	5,300
Forgiveness of debt from director	-	-	56,667
Balance, September 30, 2009 and 2010	53,226,852	$ 15,943,341	$ 1,271,009

(i) During the fiscal year ended September 30, 2009, the Company completed a private placement of 9,142,857 common shares of the Company at $0.0175 per share for gross proceeds of $160,000. The Company paid cash finder's fees of $2,700 and incurred issuance costs of $25,809.

Share purchase warrants

The Company had no outstanding share purchase warrants for the fiscal years ending September 30, 2010 and 2009.

8. CAPITAL STOCK AND CONTRIBUTED SURPLUS (continued):

Share purchase warrants (continued):

The continuity of share purchase warrants for 2009 is as follows:

Expiry Date	Exercise Price	September 30, 2008	Issued	Exercised	Expired	September 30, 2009
December 8, 2008	$ 0.53	2,142,857	-	-	(2,142,857)	-
December 8, 2008	0.53	302,000	-	-	(302,000)	-
May 1, 2009	0.79	5,741,429	-	-	(5,741,429)	-
May 1, 2009	0.79	1,060,343	-	-	(1,060,343)	-
July 24, 2009	0.79	3,523,343	-	-	(3,523,343)	-
July 24, 2009	0.79	547,371	-	-	(547,371)	-
		13,317,343	-	-	(13,317,343)	-
Weighted average exercise price		$ 0.74	-	-	$ (0.74)	-

Stock options

The Company has a stock option plan under which it is authorized to grant options to directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common shares of the Company. Under the plan, the exercise price of each option equals the market price, minimum price, or a discounted price of the Company's shares as calculated on the date of grant. The options can be granted for a maximum term of 5 years. Options issued to consultants vest at 25% every three months. Options to directors and employees fully vest immediately upon granting but the common shares on exercise are subject to a four month hold period from the date of grant.

The continuity of common share stock options for 2010 is as follows:

Expiry Date	Exercise Price	September 30, 2009	Granted	Exercised	Cancelled/ Expired	September 30, 2010
October 23, 2011	$ 0.35	485,714	-	-	-	485,714
March 11, 2012	0.53	371,429	-	-	-	371,429
May 21, 2012	0.53	757,143	-	-	-	757,143
		1,614,286	-	-	-	1,614,286
Weighted average exercise price		$ 0.47	-	-	-	$ 0.47

As at September 30, 2010, all options were fully vested.

8. CAPITAL STOCK AND CONTRIBUTED SURPLUS (continued):

Stock options (continued):

The continuity of common share stock options for 2009 is as follows:

Expiry Date	Exercise Price	September 30, 2008	Granted	Exercised	Cancelled/ Expired	September 30, 2009
August 10, 2010	$ 0.21	85,714	-	-	(85,714)	-
October 23, 2011	0.35	742,857	-	-	(257,143)	485,714
March 11, 2012	0.53	614,286	-	-	(242,857)	371,429
April 19, 2009	0.53	85,714	-	-	(85,714)	-
May 21, 2012	0.53	1,134,286	-	-	(377,143)	757,143
February 15, 2009	0.53	114,286	-	-	(114,286)	-
December 31, 2008	0.32	114,286	-	-	(114,286)	-
April 5, 2014	0.18	-	428,571	-	(428,571)	-
February 28, 2011	0.18	-	285,714	-	(285,714)	-
		2,891,429	714,285	-	(1,991,428)	1,614,286
Weighted average exercise price		$ 0.46	$ 0.18	-	$ (0.35)	$ 0.47

At September 30, 2010, the weighted average remaining contractual life of the stock options is 1.4 years (2009 – 2.2 years) and the weighted average exercise price is $0.47 (2009 - $0.47).

Stock-based compensation

The Company measures compensation costs using the fair value-based method for employee and non-employee stock options. Compensation costs have been determined based on the fair value of the options at the grant date using the Black-Scholes option-pricing model. Compensation expense of $Nil (2009 - $5,300) was recorded in the statement of operations in the year ended September 30, 2010 as no options were issued. The weighted average fair value of the options granted during the year ended September 30, 2010 is $Nil (2009 - $0.018).

The following weighted average assumptions were used for the Black-Scholes valuation of stock options granted or revalued during the year:

	2010	2009
Risk-free interest rate	-	1.00%
Expected life of options	-	2 years
Annualized volatility	-	166%
Dividend rate	-	0%

9. RELATED PARTY TRANSACTIONS AND BALANCES

The amounts charged to the Company for the services provided have been determined by negotiation among the parties and, in certain cases, are covered by signed agreements. These transactions were in the normal course of operations and were measured at the exchange value, which represented the amount of consideration established and agreed to by the related parties.

The Company entered into the following transactions with related parties:

a) Paid or accrued consulting fees totalling $Nil (2009 - $70,214) to past and present directors of the Company.

b) Paid or accrued management fees totalling $52,500 (2009 - $75,000) to a company controlled by a director of the Company.

c) Paid or accrued director fees of $Nil (2009 - $22,222).

d) Paid or accrued accounting fees of $Nil (2009 - $27,000) to a former officer.

e) Reimbursed office costs of $Nil (2009 - $5,000) to a former director.

f) Paid or accrued rent of $Nil (2009 - $7,220) to a former director.

g) Amounts due to related parties consist of $103,008 (2009 - $89,932) to companies controlled by current and former directors of the Company.

h) Directors forgave $Nil (2009 - $56,667) owed to them in director fees. This amount has been recorded in contributed surplus.

i) Granted Nil stock options (2009 – 1,250,000) to directors and consultants of the Company with a fair value of $Nil (2009 - $5,300).

These amounts due to related parties are non-interest bearing, with no fixed terms of repayment. The fair values of the amounts due to related parties cannot be determined as there are no specific terms of repayment.

10. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The significant non-cash transaction for the year ended September 30, 2010 and 2009 is as follows:

a) $Nil (2009 - $56,667) due to directors was forgiven during the year and is recorded in contributed surplus.

11. INCOME TAXES

A reconciliation of income taxes (recovery) at statutory rates with the reported taxes is as follows:

	2010	2009
Loss before income taxes	$ (174,376)	$ (7,355,842)
Expected income tax recovery	$ (50,351)	$ (2,219,037)
Non-deductible expenses	15,282	11,375
Deductible items	(126,944)	(81,361)
Write-off of oil and gas properties	-	2,185,304
Differences in foreign tax rates	14,331	8,521
Unrecognized benefits of non-capital losses	147,682	95,198
Total income tax recovery	$ -	$ -

Details of future income tax assets are as follows:

	2010	2009
Equipment	$ 34,010	$ 33,789
Share issuance costs	67,628	134,697
Non-capital losses available for future periods	767,351	690,181
Resource expenditures	240,548	3,625,414
Other	-	-
	1,109,537	4,484,081
Valuation allowance	(1,109,537)	(4,484,081)
Net future income tax assets	$ -	$ -

The Company has incurred operating losses for Canadian income tax purposes of approximately $3,069,000 which can be carried forward to reduce taxable income in future years. Unless utilized, these losses will expire through 2030. Subject to certain restrictions, the Company also has resource expenditures available to reduce taxable income in future years. Future tax benefits, which may arise as a result of these losses, have not been recognized in these financial statements and have been offset by a valuation allowance.

12. SEGMENTED INFORMATION

The Company operates in one reportable operating segment, being petroleum and natural gas exploration and development, and in the following geographic areas:

	Canada	Great Britain	Total
2010			
Revenue for the year	$ 169,875	$ -	$ 169,875
Income (loss) for the year	(356,354)	181,978	(174,376)
Capital assets	29,631	-	29,631
2009			
Revenue for the year	$ 223,122	$ -	$ 223,122
(Loss) for the year	(505,039)	(6,850,803)	(7,355,842)
Capital assets	75,823	557,635	633,458

13. SUBSEQUENT EVENTS

a) Subsequent to September 30, 2010, the Company entered into an agreement to sell its UK subsidiary Monoil Limited and, Monoil's wholly owned subsidiary Monoil UK Limited, to a third party. For the consideration of USD$1, the third party company will assume all interests or equity of any person (including any right to acquire, option or right of pre-emption) or any mortgage, charge, pledge, lien, assignment, hypothecation, security, interest, title, retention or any other security or arrangement.

b) Subsequent to September 30, 2010, the Company entered into a Letter of Intent with Tectonics Inc. ("Tectonics"), of Calgary, Alberta, for the acquisition of an interest in mineral properties located on and offshore Long Point, on the Port au Port Peninsula, Newfoundland and Labrador. The acquisition will be a related party transaction, as the principal of Tectonics is George S. Langdon, who is the President and a director of the Company. Accordingly the acquisition will also be subject to approval by the disinterested shareholders of the Company.

The Company will purchase a 60% working interest (subject to a 2% net smelter royalty) in certain mineral licenses. The Company will enter into a joint venture with the holder of the remaining 40% interest for the exploration and development of the licensed area. The consideration payable by the Company will be the issuance to Tectonics of 39,450,000 common shares, following a 1.75:1 consolidation.

The acquisition and related matters have been approved by the TSX Venture Exchange.

c) Subsequent to September 30, 2010, the Company consolidated its common shares on the basis of one new share for every 1.75 old shares. As at September 30, 2010, the number of unconsolidated outstanding common shares was 93,146,991. The number of common shares outstanding following the consolidation are 53,226,852.