Consolidated Financial Statements
For the Period Ended February 28, 2011
(Unaudited)
(Expressed in Canadian Dollars)

Notice to Reader

Management has compiled the accompanying unaudited interim consolidated financial information of Eagleford Energy Inc. consisting of the Consolidated Balance Sheet as at February 28, 2011, Consolidated Statements of Loss, Comprehensive Loss and Deficit, Consolidated Statements of Shareholders' Equity and Consolidated Statements of Cash Flows for the six and three months ended February 28, 2011 and 2010 and notes thereto stated in Canadian Dollars unless otherwise noted. Eagleford Energy Inc.'s independent auditor has not performed a review of these unaudited interim consolidated financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

1 King Street West, Suite 1505, Toronto, ON, Canada Telephone: 416 364 4039, Facsimile: 416 364-8244

EAGLEFORD ENERGY INC

Unaudited Consolidated Balance Sheets
(Expressed in Canadian Dollars)

	February 28, 2011	August 31, 2010
Assets		
Current		
Cash and cash equivalents	$ 87,127	$ 43,776
Marketable securities (Note 5)	1	1
Accounts receivable	116,011	53,060
Due from related party (Note 9)	-	1,325
	203,139	98,162
Oil and gas interests (Note 6)		
Developed	302,373	314,000
Undeveloped	7,725,791	5,695,290
	8,028,164	6,009,290
	$ 8,231,303	$ 6,107,452
Liabilities and Shareholders' Equity		
Current		
Accounts payable (Note 9)	$ 569,495	$ 488,741
Secured notes payable (Note 11)	1,105,377	186,183
Shareholder loans (Note 9)	2,310,124	57,500
Loan payable (Note 10)	110,000	110,000
	4,094,996	842,424
Long term		
Secured note payable (Note 11)	-	1,021,344
Asset retirement obligation (Note 7)	20,792	3,907
	20,792	1,025,251
Total Liabilities	4,115,788	1,867,675
Shareholders' Equity		
Share Capital (Note 8)	3,976,806	3,817,184
Warrants (Note 8)	2,024,705	2,096,078
Contributed surplus (Note 8)	46,601	43,750
Deficit	(1,932,597)	(1,717,235)
	4,115,515	4,239,777
	$ 8,231,303	$ 6,107,452

Going Concern (Note 1)
Related Party Transactions and Balances (Note 9)
Contractual Obligations and Commitments (Note 14)
Subsequent Events (Note 15)

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements

EAGLEFORD ENERGY INC

Unaudited Consolidated Statements of Loss, Comprehensive Loss and Deficit
(Expressed in Canadian Dollars)

	Three Months Ended February 28, 2011	Three Months Ended February 28, 2010	Six Months Ended February 28, 2011	Six Months Ended February 28, 2010
Oil and Gas operations				
Revenue	$ 18,936	$ 36,461	$ 36,035	$ 62,720
Operating costs	21,130	26,697	40,948	56,644
Depletion	5,885	9,242	11,627	19,008
	27,015	35,939	52,575	75,652
Income (loss) from oil and gas operations	(8,079)	522	(16,540)	(12,932)
Expenses				
Management fees (Note 9)	18,750	7,500	18,750	15,000
Office and general	2,250	851	6,097	1,368
Professional fees	79,541	8,824	136,649	62,758
Transfer and registrar costs	29,530	14,278	47,567	16,202
Head office services	31,914	5,815	57,871	8,815
Salaries and wages	18,261	-	37,505	-
Foreign exchange gain	(138,168)	-	(174,278)	-
Expense recovery	-	-	(35,519)	-
Interest	66,213	-	104,180	-
	108,291	37,268	198,822	104,143
Operating loss for the period	(116,370)	(36,746)	(215,362)	(117,075)
Interest	-	-	-	30
Net loss and comprehensive loss for the period	(116,370)	(36,746)	(215,362)	(117,045)
Deficit, beginning of period	(1,816,227)	(1,108,825)	(1,717,235)	(1,028,526)
Deficit, end of period	$ (1,932,597)	$ (1,145,571)	$ (1,932,597)	$ (1,145,571)
Loss per share, basic and diluted	$ (0.004)	$ (0.002)	$ (0.007)	$ (0.005)
Weighted average shares outstanding	30,905,844	24,232,559	30,781,046	24,232,559

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements

EAGLEFORD ENERGY INC

Unaudited Consolidated Statements of Shareholders' Equity
(Expressed in Canadian Dollars)

For the Six Months Ended February 28, 2011

	SHARE CAPITAL		WARRANTS		CONTRIBUTED SURPLUS	DEFICIT	TOTAL
	Number	Amount	Number	Amount			
Balance, August 31, 2010	29,751,026	$ 3,817,184	16,445,053	$ 2,096,078	$ 43,750	$ (1,717,235)	$ 4,239,777
Warrants exercised	1,350,247	159,622	(1,350,247)	(35,854)			123,768
Warrants cancelled			(54,645)	(35,519)			(35,519)
Imputed interest					2,851		2,851
Net loss for the period						(215,362)	(215,362)
Balance, February 28, 2011	31,101,273	$ 3,976,806	15,040,161	$ 2,024,705	$ 46,601	$ (1,932,597)	$ 4,115,515

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements

EAGLEFORD ENERGY INC

Unaudited Consolidated Statement of Cash Flows
(Expressed in Canadian Dollars)

	Three Months Ended February 28, 2011	Three Months Ended February 28, 2010	Six Months Ended February 28, 2011	Six Months Ended February 28, 2010
Cash provided by (used in)				
Operating activities				
Net loss for the period	$ (116,370)	$ (36,746)	$ (215,362)	$ (117,045)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depletion	5,885	9,242	11,627	19,008
Accretion	254	73	393	136
Imputed interest	1,418	-	2,851	-
Unrealized foreign exchange gain	(59,588)	-	(102,151)	-
Expense recovery	-	-	(35,519)	-
Changes in non-cash working capital balances:				
Accounts receivable	(8,985)	(3,546)	(62,951)	(6,718)
Due from related party	-	-	1,325	-
Accounts payable	(284,229)	(20,384)	80,755	(14,960)
Income taxes payable	-	(10,215)	-	(10,215)
	(461,615)	(61,576)	(319,032)	(129,794)
Investing activities				
Oil and gas interests, net	(386,403)	-	(2,014,009)	-
Financing activities				
Warrants exercised	46,767	-	123,768	-
Shareholder loans	615,344	-	2,252,624	-
	662,111	-	2,376,392	-
Increase (decrease) in cash for the period	(185,907)	(61,576)	43,351	(129,794)
Cash, beginning of period	273,034	104,687	43,776	172,905
Cash, end of period	$ 87,127	$ 43,111	$ 87,127	$ 43,111
Cash consists of:				
Cash	$ 87,127	$ 43,111	$ 87,127	$ 43,111

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements

1. Nature of Business

The Company's business focus consists of acquiring, exploring and developing oil and gas interests. The recoverability of the amount shown for these properties is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete exploration and development, and future profitable production or proceeds from disposition of such property. In addition the Company holds a 0.3% net smelter return royalty on 8 mining claim blocks located in Red Lake, Ontario which is carried on the consolidated balance sheets at nil.

Going Concern

These consolidated financial statements have been prepared on a going concern basis which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. The Company plans to obtain additional financing by way of debt or the issuance of common shares or some other means to service its current working capital requirements, any additional or unforeseen obligations or to implement any future opportunities. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due. These consolidated financial statements do not include any adjustments for this uncertainty.

The Company has accumulated significant losses and negative cash flows from operations in recent years which raises doubt as to the validity of the going concern assumption. As at February 28, 2011, the Company had a working capital deficiency of $3,891,857 and an accumulated deficit of $1,932,597. Management of the Company does not have sufficient funds to meet its liabilities for the ensuing twelve months as they fall due. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. The Company's ability to continue operations and fund its liabilities is dependent on management's ability to secure additional financing and cash flow. Management is pursuing such additional sources of financing and cash flow to fund its operations and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future. Management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying consolidated financial statements.

2. Significant Accounting Policies

Eagleford Energy Inc.'s ("Eagleford" or the "Company") unaudited consolidated financial statements for the period ended February 28, 2011 and 2010 include the accounts of the Company and its two wholly owned subsidiaries1354166 Alberta Ltd.("1354166 Alberta") and Dyami Energy LLC ("Dyami Energy") from the date of acquisition August 31, 2010.

The unaudited interim consolidated financial statements of Eagleford have been prepared in accordance with accounting principles generally accepted in Canada using the same accounting policies and methods as those disclosed in the audited consolidated financial statements for the year ended August 31, 2010.

For the period ended February 28, 2011 and 2010, the preparation of our unaudited interim consolidated financial statements in accordance with US GAAP would not have resulted in material differences to the consolidated balance sheet or consolidated statement of loss, comprehensive loss and deficit from our unaudited interim consolidated financial statements prepared using Canadian GAAP.

These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes for the fiscal year ended August 31, 2010. In the opinion of management, all adjustments considered necessary for the fair presentation have been included in these unaudited interim financial statements. Operating results for the period ended February 28, 2011 are not indicative of the results that may be expected for the full year ended August 31, 2011.

Principles of Consolidation
On November 12, 2009, the Company's wholly owned subsidiary 1406768 Ontario Inc. changed its name to Eagleford Energy Inc. On November 30, 2009 the Company amalgamated with Eagleford Energy Inc. and upon the amalgamation the entity's new name became Eagleford Energy Inc. The consolidated financial statements include the accounts of Eagleford, the legal parent, together with its wholly-owned subsidiaries, 1354166 Alberta Ltd. an Alberta operating company and Dyami Energy LLC a Texas limited liability exploration stage company. All inter-company accounts transactions have been eliminated on consolidation.

Oil and Gas Interests
The Company follows the successful efforts method of accounting for its oil and gas interest. Under this method, costs related to the acquisition, exploration, and development of oil and gas interests are capitalized. The Company carries as an asset, exploratory well costs if a) the well found a sufficient quantity of reserves to justify its completion as a producing well and b) the Company is making sufficient progress assessing the reserves and the economic and operating viability of the project. If a property is not productive or commercially viable, its costs are written off to operations. Impairment of non-producing properties is assessed based on management's expectations of the properties.

Depletion and Depreciation
Depletion of petroleum and natural gas properties and depreciation of production equipment are calculated on the unit of production basis based on:

(a) total estimated proved reserves calculated in accordance with National Instrument 51-101, Standards of Disclosure for Oil and Gas Activities;

(b) total capitalized costs, excluding undeveloped lands and unproved costs, plus estimated future development costs of proved undeveloped reserves; and

(c) relative volumes of petroleum and natural gas reserves and production, before royalties, converted at the energy equivalent conversion ratio of six thousand cubic feet of natural gas to one barrel of oil.

Impairment Test
The Company performs an impairment test calculation in accordance with the Canadian Institute of Chartered Accountants' successful efforts method guidelines, including an impairment test on undeveloped properties. The recovery of costs is tested by comparing the carrying amount of the oil and natural gas assets to the reserves report. If the carrying amount exceeds the recoverable amount, then impairment would be recognized on the amount by which the carrying amount of the assets exceeds the present value of expected cash flows using proved plus probable reserves and expected future prices and costs. At February 28, 2011 the Company recorded an impairment of Nil (August 31, 2010 - $54,630).

Revenue Recognition
Revenues associated with the sale of crude oil and natural gas are recorded when the title passes to the customer. The customer has assumed the risks and rewards of ownership, prices are fixed or determinable and collectability is reasonably assured. The Company does not enter into ongoing arrangements whereby it is required to repurchase its products, nor does the Company provide the customer with a right of return.

Royalties
As is normal to the industry, the Company's future production is subject to crown royalties. These amounts are reported net of related tax credits.

Transportation
Costs paid by the Company for the transportation of natural gas, crude oil and natural gas liquids from the wellhead to the point of title transfer are recognized when the transportation is provided.

Environmental and Site Restoration Costs
The Company recognizes an estimate of the liability associated with an asset retirement obligation ("ARO") in the financial statements at the time the liability is incurred. The estimated fair value of the ARO is recorded as a long-term liability with a corresponding increase in the carrying amount of the related asset. The capitalized amount is depleted on a straight-line basis over the estimated life of the asset. The liability amount is increased

each reporting period due to the passage of time and the amount of accretion to operations in the period. The ARO can also increase or decrease due to changes in the estimates of timing of cash flows or changes in the original estimated undiscounted cost. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded.

Foreign Currencies
Monetary assets and liabilities denominated in currencies other than Canadian dollars are translated at exchange rates in effect at the balance sheet date. Non-monetary items are translated at historical rates. Revenue and expense items are translated at the average rates of exchange for the year. Exchange gains and losses are included in the determination of net income for the year.

Marketable Securities
At each financial reporting period, the Company estimates the fair value of investments which are held-for-trading, based on quoted closing bid prices at the consolidated balance sheet dates or the closing bid price on the last day the security traded if there were no trades at the consolidated balance sheet dates and such valuations are reflected in the consolidated financial statements. The resulting values for unlisted securities whether of public or private issuers, may not be reflective of the proceeds that could be realized by the Company upon their disposition. The fair value of the securities at February 28, 2011 was $1 (August 31, 2010 - $1)

Financial Instruments
All financial instruments are recorded initially at estimated fair value on the balance sheet and classified into one of five categories: held for trading, held to maturity, available for sale, loans and receivables and other liabilities. Cash and cash equivalents, and marketable securities are classified as held for trading and measured at estimated fair value. Accounts receivable and due from related party are classified as loans and receivables and measured at amortized cost. Accounts payable, loan payable, shareholder loans and secured notes payable are classified as other liabilities and measured at amortized cost.

The Company does not enter into derivative contracts (commodity price, interest rate or foreign currency) in order to manage risk. The Company does not utilize derivative contracts for speculative purposes, has not designated any derivative contracts as hedges, and has not recorded any assets or liabilities as a result of embedded derivatives.

The estimated fair value of cash and cash equivalents, accounts receivable and accounts payable approximate their carrying amounts due to their short terms to maturity.

Cash and cash equivalents
Cash and cash equivalents include bank accounts, trust accounts, and term deposits with maturities of less than three months.

Accounting Estimates
The preparation of the consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and the disclosures of revenues and expenses for the reported year. Actual results may differ from those estimates.

The amounts recorded for depletion and amortization of oil and gas properties and the valuation of these properties, are based on estimates of proved and probable reserves, production rates, oil and gas prices, future costs and other relevant assumptions. The effect on the consolidated financial statements of changes in estimates in future periods could be significant.

Income Taxes
The Company accounts for income taxes under the asset and liability method. Under this method, future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial reporting and tax bases of assets and liabilities and available loss carry forwards and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to be reversed. A valuation allowance is established to reduce tax assets if it is more likely than not that all or some portions of such tax assets will not be realized.

Non-Monetary Transactions
Transactions in which shares or other non-cash consideration are exchanged for assets or services are measured at the fair value of the assets or services involved in accordance with Section 3831 ("Non-monetary Transactions") of the Canadian Institute of Chartered Accountants Handbook ("CICA Handbook").

Stock-Based Compensation
The Company has a stock-based compensation plan. Any consideration received on the exercise of stock options or sale of stock is credited to share capital. The Company records compensation expense and credits contributed surplus for all stock options granted. Stock options granted during the year are accounted for in accordance with the fair value method of accounting for stock-based compensation. The fair value for these options is estimated at the date of grant using the Black-Scholes option pricing model.

Loss Per Share
Basic loss per share is calculated by dividing the loss for the year by the weighted average number of common shares outstanding during the year. Diluted loss per share is computed using the treasury stock method. Under this method, the diluted weighted average number of shares is calculated assuming the proceeds that arise from the exercise of stock options and other dilutive instruments are used to repurchase the Company's shares at their weighted average market price for the period.

Warrants
When the Company issues units under a private placement comprising common shares and warrants, the Company follows the relative fair value method of accounting for warrants attached to and issued with common shares of the Company. Under this method, the fair value of warrants issued is estimated using a Black-Scholes option price model. The fair value is then related to the total of the net proceeds received on issuance of the common shares and the fair value of the warrants issued therewith. The resultant relative fair value is allocated to warrants from the net proceeds and the balance of the net proceeds is allocated to the common shares issued.

3. Change in Accounting Policy and Future Accounting Changes

(a) EIC Credit Risk
In January 2009, the CICA's EIC concluded that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. The application of incorporating credit risk into the fair value should result in entities re-measuring the financial assets and financial liabilities as at the beginning of the period of adoption. This abstract should be applied retrospectively without restatement of prior periods to all financial assets and liabilities measured at fair value in interim and annual financial statements for periods ending on or after January 20, 2009. Retrospective application with restatement of prior periods is also permitted. The adoption of this standard did not impact the financial position or results of operations of the Company.

(b) Financial Instruments – Disclosures
In June 2009, the Canadian Accounting Standards Board ("AcSB") issued the amendments to CICA Handbook Section 3862, Financial Instruments - Disclosures, which reflect the corresponding amendments made by the International Accounting Standards Board to IFRS 7, Financial Instruments: Disclosures, in March 2009. The amendments require that all financial instruments measured at fair value be presented into one of the three hierarchy levels set forth below for disclosure purposes.

Each level is based on the transparency of the inputs used to measure the fair value of assets and liabilities.

(i) Level 1: Inputs are unadjusted quoted prices of identical instruments in active markets.

(ii) Level 2: Valuation models which utilize predominately observable market inputs.

(iii) Level 3: Valuation models which utilize predominately non-observable market inputs.

The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value. The amendments to Section 3862 also require additional disclosure relating to the liquidity risk associated with financial instruments. The amendments improve disclosure of financial instruments specifically as it relates to fair value measurements and liquidity risk. The adoption of the amendments did not impact the Company's financial position or results of operations.

All financial instruments of the Company are classified under level 1 of the financial instrument hierarchy.

(c) Goodwill and Intangible Assets
During fiscal 2010 the Company adopted Section 3064, "Goodwill and Intangible Assets". This section replaces Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development Costs". Various changes have made to other sections of the CICA Handbook for consistency purposes. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The adoption of this standard did not have an impact on the Company's financial statements.

(d) General Standard of Financial Statement Presentation
During fiscal 2010, the Company adopted amended Section 1400, "General Standard of Financial Statement Presentation" which includes requirements to assess and disclose the Company's ability to continue as a going concern. The adoption of this new section did not have an impact on the Company's financial statements.

(e) Future Accounting Changes
Business Combinations, Consolidated Financial Statements and Non-controlling Interests – The CICA issued three new accounting standards in January 2009: section 1582, Business Combinations, section 1601, Consolidated Financial Statements, and section 1602, Non-controlling interests. These new standards will be effective for fiscal years beginning on or after January 1, 2011. The Company is in the process of evaluating the requirements of the new standards.

Section 1582 replaces section 1581, and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to International Financial Reporting Standard IFRS 3 – Business Combinations. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.

Sections 1601 and 1602 together replace 1600 – Consolidated Financial Statements, Section 1601, establishes standards for the preparation of consolidated financial statements. Section 1601 applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011.

Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of International Financial Reporting Standard IAS 27 - Consolidated and Separate Financial Statements and applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011.

In December 2009, the CICA issued EIC 175 – "Multiple Deliverable Revenue Arrangements" replacing EIC 142 – "Revenue Arrangements with Multiple Deliverables". This abstract was amended to: (1) provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and the consideration allocated; (2) require, in situations where a vendor does not have vendor-specific objective evidence ("VSOE") or third-party evidence of selling price, that the entity allocate revenue in an arrangement using estimated selling prices of deliverables; (3) eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method; and (4) require expanded qualitative and quantitative disclosures regarding significant judgments made in applying this guidance. The accounting changes summarized in EIC 175 are effective for fiscal periods beginning on or after January 1, 2011, with early adoption permitted. Adoption may either be on a prospective basis or by retrospective application. If the Abstract is adopted early, in a reporting period that is not the first reporting period in the entity's fiscal period, it must be applied retrospectively from the beginning of the Company's fiscal period of adoption. The Company expects to adopt EIC 175 effective January 1, 2011. The Company does not believe the standard will have a material impact on its consolidated financial statements.

In February 2008, the Accounting Standards Board "(AcSB)" confirmed that the use of IFRS will be required in 2011 for publicly accountable enterprises in Canada. In April 2008, the AcSB issued an IFRS Omnibus Exposure

Draft proposing that publicly accountable enterprises be required to apply IFRS, in full and without modification, for fiscal years beginning on or after January 1, 2011. The Company will issue its initial unaudited consolidated financial statements under IFRS including comparative information for the period ending November 30, 2011.

The eventual changeover to IFRS represents changes due to new accounting standards. The transition from current Canadian GAAP to IFRS is a significant undertaking that may materially affect the Company's reported financial position and results of operations.

The Company is assessing the potential impacts of this changeover and is developing its IFRS changeover plan, which will include project structure and governance, resourcing and training, analysis of key GAAP differences and a phased plan to assess accounting policies under IFRS as well as potential exemptions to the initial adoption of IFRS as permitted by IFRS Statement 1.

4. Segmented Information

The Company's only segment is oil and gas exploration and production and includes two geographic areas, Canada and the United States. The accounting policies applied to Eagleford's operating segments are the same as those described in the summary of significant accounting policies.

Geographic information:

The following is segmented information the period ended February 28, 2011 and 2010:

	February 28, 2011		February 28, 2010	
	Interest and other income	Net income (loss)	Interest and other income	Net income (loss)
Canada	$ -	$ (142,572)	$ 30	$ (117,045)
United States	-	(72,790)	-	-
Total	**$ -**	**$ (215,362)**	$ 30	$ (117,045)

The following is segmented information as at February 28, 2011 and August 31, 2010:

	As at February 28, 2011		As at August 31, 2010	
	Oil and gas interests	Other assets	Oil and gas interests	Other assets
Canada	$ 302,373	$ 130,543	$ 314,000	$ 68,141
United States	7,725,791	72,596	5,695,290	30,021
Total	**$ 8,028,164**	**$ 203,139**	$ 6,009,290	$ 98,162

5. Marketable Securities

	February 28, 2011
Investments in quoted companies (market value $1) (August 31, 2010 - $1)	**$ 1**

6. Oil and Gas Interests

	February 28, 2011
Developed-Alberta, Canada	
Net book value at August 31, 2010	$ 314,000
Depletion	(11,627)
Total developed, Alberta Canada	302,373
Undeveloped-Texas USA	
Net book value at August 31, 2010	5,695,290
Exploration expenditures	2,014,009
Estimated asset retirement obligation	16,492
Total undeveloped, Texas, USA	7,725,791
Total developed and undeveloped	**$ 8,028,164**

Alberta, Canada

The Company has a 0.5% non convertible gross overriding royalty in a natural gas well located in the Haynes area of Alberta and a 5.1975% interest in a natural gas unit located in the Botha area of Alberta, Canada.

Mathews Lease, Zavala County, Texas, USA

On June 14, 2010, Eagleford acquired a 10% working interest before payout and a 7.5% working interest after payout of production revenue of $15 million in a mineral lease comprising approximately 2,629 gross acres of land in Zavala County, Texas (the "Matthews Lease") for consideration of $212,780.

On August 31, 2010 the Company acquired all of the issued and outstanding membership interests of Dyami Energy an exploration stage company and as such its unproved properties are not included in the costs subject to depletion. The Company's unproved oil and gas properties include its interests in the Matthews Lease and the Murphy Lease.

Dyami Energy holds a 75% working interest before payout and a 61.50% working interest after payout of production revenue of $12.5 million in the Matthews Lease.

The royalties payable under the Matthews Lease are 25%.

Dyami Energy acquired its interest in the Matthews Lease through a Purchase and Sale Agreement dated effective February 23, 2010 (the "Agreement"). Under the terms of the Agreement, Dyami Energy has the following commitments:

(a) On or before August 23, 2010 Dyami Energy shall commence operations to drill an Initial Test Well on Matthews Lease to a depth of not less than 3,000 feet below the surface or to the base of the San Miguel "D" formation;

(b) On or before July 8, 2011, Dyami Energy shall commence operations to perform an injection operation (by use of steam, nitrogen or other) in the San Miguel formation on the Initial Test Well or any other well located on the Matthews Lease or, all of the interest acquired by Dyami Energy in the Matthews Lease shall be forfeited without further consideration;

(c) On or before January 1, 2011, Dyami Energy shall commence a horizontal well to test the Eagle Ford Shale formation with a projected lateral length of not less than 2,500 feet (the "Second Test Well").

Dyami Energy's 15% working interest partner in the Matthews Lease has an obligation to participate in each of the operations provided for in (a), (b) and (c) above and if the partner fails to bear its share of the costs of such operations, the partner shall forfeit its interest in and to the well and the applicable spacing unit.

In August 2010, Dyami Energy commenced operations to drill its Dyami/Matthews #1-H well on the Matthews Lease to a measured depth of 8,563 feet, of which 5,114 feet was vertical depth into the Del Rio formation. The well was whipstocked at the top of the Austin Chalk formation and drilled with an 800 foot curve and extended horizontally 3,300 feet into the Eagle Ford shale formation and accordingly Dyami Energy satisfied (a) and (c) above.

The Dyami/Matthews #1-H well was logged and 36 sidewall cores were taken from 4 key formations, the San Miguel, the Austin Chalk, the Eagle Ford and the Buda. The logs were interpreted by Weatherford International Ltd and the sidewall cores were analyzed by Core Laboratories and Weatherford and based on those results the Company is formulating a detailed frac design and completion plan for the Dyami/Matthews #1 H well.

Dyami Energy is the designated operator under the provisions of the Matthews Lease Operating Agreement.

The Matthews Oil and Gas Lease has a primary term of three years commencing April 12, 2008, unless commercial production is established from a well or lands pooled therewith or the lessee is then engaged in actual drilling or reworking on any well within 90 days thereafter. The lease shall remain in force so long as the drilling or reworking is processed without cessation of more than 90 days. Once production is established and maintained, the lease is held by production so long as a new well is commenced within 180 days of completion of the prior well, which is defined as 15 days following reaching total depth in a well or the total length of a

horizontal well. If the lessee has completed a well as a producer or abandoned a well within forty-five days prior to the expiration of the primary term, the lessee may extend the lease by commencing a well within ninety days following the end of the primary term (see Note 15 Subsequent Events).

Murphy Lease, Zavala County, Texas, USA

Dyami Energy holds a 100% working interest in a mineral lease comprising approximately 2,637 acres of land in Zavala County, Texas (the "Murphy Lease") subject to a 10% carried interest on the drilling costs from surface to base of the Austin Chalk formation, and a 3% carried interest on the drilling costs from the top of the Eagle Ford shale formation to basement on the first well drilled into a serpentine plug and for the first well drilled into a second serpentine plug, if discovered. Thereafter Dyami Energy's working interests range from 90% to 97%. The royalties payable under the Murphy Lease are 25%.

Dyami Energy acquired its interest in the Murphy Lease through an Assignment Agreement dated effective February 3, 2010 (the "Assignment Agreement"). The Murphy Oil and Gas Mineral Lease ("Mineral Lease Agreement') has a primary term of three years commencing on February 2, 2010. Under the terms of the Assignment Agreement and the Mineral Lease Agreement, Dyami Energy has the following commitments:

a) to commence drilling (spud) a well to a depth to sufficiently test the Eagle Ford Shale formation by August 3, 2010 or pay a lease delay payment of US $25 per acre or US$65,925 in the aggregate (paid July 28, 2010) to extend the period to commence drilling for 180 days to January 30, 2011.

b) During the development of the Murphy Lease, Dyami Energy is required to commence drilling a well within 180 days, or otherwise re-assign all acreage not earned in a producing unit or units on the Murphy Lease. Likewise, if a producing well ceases to produce, and such well is not timely re-worked or re-drilled within a 180 day period, Dyami Energy shall also be required to re-assign the unit acreage.

c) Three years after the cessation of continuous drilling, all rights below the deepest producing horizon in each unit then being held by production, shall be released and re-assigned to the Lessor, unless the drilling of another well has been proposed on said unit, approved in writing by Lessor, and timely commenced.

On January 20, 2011 the Company spud its 100% working interest Murphy/Dyami #1 test well on its 2,637 gross acre Murphy Lease located in Zavala County, Texas. The well was drilled to to a vertical depth of 4,588 feet into the Buda formation. The well was logged and sidewall cores were taken from 5 key formations the Escondido, the Serpentine, the Eagle Ford shale, the Georgetown and the Buda. The logs were interpreted by Weatherford International Ltd. and the sidewall cores have been analyzed by Core Laboratories and the Company is formulating a completion program.

As of February 28, 2011, all of Company's investments in oil and gas properties located within the United States are contained in one cost center. As no proven reserves related to these properties have been identified, the properties are classified as "exploratory prospects" and are not currently subject to depletion and amortization.

7. Asset Retirement Obligation

The Company's asset retirement obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Company estimates the total undiscounted amount of cash flow required to settle its asset retirement obligations at February 28, 2011 was approximately $25,769 which will be incurred between fiscal 2011 and 2029 (August 31, 2010 $8,568). A credit-adjusted risk-free rate of 7.9 percent and an annual inflation rate of 1.9 percent were used to calculate the future asset retirement obligation.

	Amount
Balance, August 31, 2010	$ 3,907
Accretion expense	393
Additions	16,492
Balance, February 28, 2011	**$ 20,792**

8. Share Capital and Contributed Surplus

Authorized:
Unlimited number of common shares
Unlimited non-participating, non-dividend paying, voting redeemable preference shares
Issued:

Common Shares	Number	Amount
Balance August 31, 2010	29,751,026	$ 3,817,184
Exercise of warrants (note a)	1,350,247	159,622
Balance February 28, 2011	**31,101,273**	**$ 3,976,806**

The following table summarizes the changes in warrants for the period ended February 28, 2011:

		2011
Warrants	**Number of Warrants**	**Weighted Average Price**
Outstanding August 31, 2010	16,445,053	$0.22
Exercised (note a)	(1,350,247)	$0.9
Cancelled (note b)	(36,430)	US $1.00
Cancelled (note b)	(18,215)	US $1.50
Outstanding February 28, 2011	**15,040,161**	**$0.23**

(a) During the six month period ended February 28, 2011, 500,000 common share purchase warrants were exercised at $0.07 expiring February 5, 2014 for proceeds of $35,000. The amount allocated to warrants based on relative fair value using the Black Scholes model was $12,000; 600,000 common share purchase warrants were exercised at $0.07 expiring February 27, 2014 for proceeds of $42,000. The amount allocated to warrants based on relative fair value using the Black Scholes model was $14,400; 25,247 common share purchase warrants were exercised at $0.07 expiring February 27, 2014 for proceeds of $1,768. The amount allocated to warrants based on relative fair value using the Black Scholes model was $640; and 225,000 common share purchase warrants were exercised at $0.20 expiring April 14, 2011 for proceeds of $45,000. The amount allocated to warrants based on relative fair value using the Black Scholes model was $8,815.

(b) On November 5, 2010, the Company terminated the agreement dated June 10, 2010 with Gar Wood Securities, LLC ("Gar Wood") to act as Investment Banker/Financial Advisor to the Company for a period of two years. As a result 36,430 warrants were cancelled out of the 333,333 warrants issued, exercisable at $1.00 expiring December 10, 2011 and 18,215 warrants were cancelled out of the 166,667 warrants issued exercisable at $1.50 expiring June 10, 2012. The amount allocated to warrants based on relative fair value using the Black Scholes model was $23,315 and $12,204 respectively.

The following table summarizes the outstanding warrants as at February 28, 2011:

Number of Warrants	Exercise Price	Expiry Date	Warrant Value ($)
2,350,000	$0.20	April 14, 2011	$ 92,061
1,000,256	$0.07	February 25, 2014	24,006
9,535,317	$0.07	February 27, 2014	228,813
296,903	US$1.00	December 10, 2011	191,057
148,452	US $1.50	June 10, 2012	99,935
1,709,233	US$1.00	August 31, 2014	1,388,833
15,040,161			**$ 2,024,705**

The fair value of the warrants was estimated on the date of issue using the Black-Scholes pricing model.

Weighted Average Shares Outstanding	Three Months Ended February 28,		Six Months Ended February 28,	
	2011	2010	2011	2010
Weighted average shares outstanding, basic	30,905,844	24,232,559	30,781,046	24,232,559
Dilutive effect of warrants	15,235,590	16,335,820	15,384,540	16,335,820
Weighted average shares outstanding, diluted	46,141,434	40,568,379	46,165,586	40,568,379

The effects of any potential dilutive instruments on loss per share related to the outstanding warrants are anti-dilutive and therefore have been excluded from the calculation of diluted loss per share.

Stock Option Plan

The Company has a stock option plan to provide incentives for directors, officers and consultants of the Company. The maximum number of shares, which may be set aside for issuance under the stock option plan, is 6,170,205 common shares. To date, no options have been issued.

Contributed Surplus

Contributed surplus transactions for the respective periods are as follows:

		Amount
Balance, August 31, 2010	$	43,750
Imputed interest (see Note 9 Related Party Transactions)		2,851
Balance, February 28, 2011	**$**	**46,601**

9. Related Party Transactions and Balances

The following transactions with individuals related to the Company arose in the normal course of business have been accounted for at the exchange amount being the amount agreed to by the related parties, which approximates the arms length equivalent value.

For the six months ended February 28, 2011 the Company paid management fees to the former President, Sandra Hall of $ Nil (February 28, 2010 $15,000).

At February 28, 2011 the Company has a secured note payable to Source Re Work Program, Inc. (“Source”) in the amount of $170,433 (US$175,000) (see Note 15 Subsequent Events). Eric Johnson is the Vice President of Operations for Dyami Energy, the President of Source, and a shareholder of the Company. At February 28, 2011 accrued interest of $4,340 is included in accounts payable. During the six months ended February 28, 2011 the Company received $1,325 from Source for expenditures relating to the Matthews Lease. At February 28, 2011 accrued salary to Eric Johnson is $37,505 which is included in accounts payable.

At February 28, 2011 the Company has a secured promissory note in the amount of $934,944 (US$960,000) payable to Benchmark Enterprises LLC (“Benchmark`”). Benchmark is a shareholder of the Company. For the period ended February 28, 2011 accrued interest payable to Benchmark of $55,588 is included in accounts payable.

At February 28, 2011 included in accounts payable is $41,311 due to Gottbetter & Partners LLP for legal fees. Gottbetter Capital Group, Inc. is a shareholder of the Company. Adam Gottbetter is sole owner of Gottbetter & Partners LLP and Gottbetter Capital Group, Inc.

The loan payable in the amount of $57,500 is due to a shareholder and is unsecured, non-interest bearing and repayable on demand. At February 28, 2011 interest was imputed at a rate of 10% per annum and interest of $2,851 was included in contributed surplus.

During the six month period ended February 28, 2011, the Company received $1,811,454 (US$1,860,000) and $149,000 and issued promissory notes to six shareholders. The notes are payable on demand and bear interest at

10% per annum. Interest is payable annually on the anniversary date of the notes. At February 28, 2011 accrued interest of $56,419 is included in accounts payable.

During the six month period ended February 28, 2011, Company received $292,170 (US$300,000) and issued a promissory note to the President of the Company. The note is due on demand and bears interest at 10% per annum. Interest is payable annually on the anniversary date of the note. At February 28, 2011 accrued interest of $11,844 is included in accounts payable. For the three months ended February 28, 2011 the Company accrued management fees for the President of the Company of $18,750.

10. Loan Payable

The loan payable in the amount of $110,000 is due to an arms' length party and is unsecured, non-interest bearing and repayable on demand.

11. Secured Notes Payable

Current
At February 28, 2011, the Company has $170,433 (US$175,000), 5% per annum secured promissory note payable to Source Re-Work Program Inc. (August 31, 2010 $186,183). US$100,000 of principal is due and payable on February 28, 2011 and US$75,000 of principal together with accrued interest is due and payable on August 31, 2011. At February 28, 2011 accrued interest of $4,340 is included in accounts payable. The note is secured by the Company's 10% working interest in the Matthews Lease, Zavala County, Texas. The Company may, in its sole discretion, prepay any portion of the principal amount (see Note 15 Subsequent Events).

At February 28, 2011 the Company has a $934,944 (US$960,000), 6% per annum secured promissory note payable to Benchmark Enterprises LLC (August 31, 2010 $1,201,344). The note is payable on December 31, 2011 or upon the Company closing a financing or series of financings in excess of US$4,500,000. At February 28, 2011 interest payable to Benchmark in the amount of $55,588 is included in accounts payable. The note is secured by Dyami Energy's 75% working interest in the Matthews Lease and the Company's 100% working interest in the Murphy Lease, Zavala County, Texas. The Company may, in its sole discretion, prepay any portion of the principal amount.

12. Seasonality and Trend Information

The Company's oil and gas operations is not a seasonal business, but increased consumer demand or changes in supply in certain months of the year can influence the price of produced hydrocarbons, depending on the circumstances. Production from the Company's oil and gas properties is the primary determinant for the volume of sales during the year.

The level of activity in the oil and gas industry is influenced by seasonal weather patterns. Wet weather and spring thaw may make the ground unstable. Consequently, municipalities and provincial transportation departments enforce road bans that restrict the movement of rigs and other heavy equipment, thereby reducing activity levels. Also, certain oil and gas properties are located in areas that are inaccessible except during the winter months because of swampy terrain and other areas are inaccessible during certain months of year due to deer hunting season. Seasonal factors and unexpected weather patterns may lead to declines in exploration and production activity and corresponding declines in the demand for the goods and services of the Company.

The impact on the oil and gas industry from commodity price volatility is significant. During periods of high prices, producers conduct active exploration programs. Increased commodity prices frequently translate into very busy periods for service suppliers triggering premium costs for their services. Purchasing land and properties similarly increase in price during these periods. During low commodity price periods, acquisition costs drop, as do internally generated funds to spend on exploration and development activities. With decreased demand, the prices charged by the various service suppliers also decline.

World oil and gas prices are quoted in United States dollars and the price received by Canadian producers is therefore effected by the Canadian/U.S. dollar exchange rate, which will fluctuate over time. Material increases in the value of the Canadian dollar may negatively impact production revenues from Canadian producers. Such

increases may also negatively impact the future value of such entities' reserves as determined by independent evaluators. In recent years, the Canadian dollar has increased materially in value against the United States dollar.

The economic impact that the Kyoto Protocol and other environmental initiatives will have on the sector and changes relating to Alberta government royalty programs implemented along with the New Royalty Framework will vary company to company and the amount and degree of these impacts have yet to be determined.

12. Financial Instruments and Risk Factors

The Company is exposed to financial risk, in a range of financial instruments including cash, accounts receivable and accounts payable and income taxes payable and loans payable. The Company manages its exposure to financial risks by operating in a manner that minimizes its exposure to the extent practical.

The main financial risks affecting the Company are discussed below.

The fair value of financial instruments at February 28, 2011 and August 31, 2010 is summarized as follows:

	February 28, 2011		August 31, 2010	
	Amount	**Fair Value**	Amount	Fair Value
Financial assets				
Held for trading				
Cash and cash equivalents	**$ 87,127**	**$ 87,127**	$ 43,776	$ 43,776
Loans and receivables				
Accounts receivable	**$ 116,011**	**$ 116,011**	$ 53,060	$ 53,060
Due from related party	**$ -**	**$ -**	$ 1,325	$ 1,325
Financial liabilities				
Accounts payable	**$ 569,495**	**$ 556,967**	$ 488,741	$ 488,741
Loan payable	**$ 110,000**	**$ 110,000**	$ 110,000	$ 110,000
Shareholder loans	**$ 2,310,124**	**$ 2,084,862**	$ 57,500	$ 57,500
Secured notes payable	**$ 1,105,377**	**$ 1,040,758**	$ 1,207,527	$ 1,145,289

Credit Risk

Credit risk is the risk of a financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligation and arises principally from joint venture partners and natural gas and oil marketers. The Company is exposed to credit risk in respect to its cash and cash equivalents and accounts receivable.

Cash and cash equivalents are held in operating accounts with highly rated Canadian banks and therefore the Company considers these assets to have negligible credit risk.

Receivables from petroleum and natural gas marketers are normally collected on the 25th day of the month following production. The Company historically has not experienced any collection issues with its petroleum and natural gas marketers. Joint venture receivables are typically collected in one to three months of the joint venture bill being issued to the partner. The Company attempts to mitigate the risk from joint venture receivables by obtaining partner approval of significant capital expenditures prior to the expenditure. However, the receivables are from participants in the petroleum and natural gas sector, and collection of the outstanding balances is dependent on industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. In addition, a further risk exists with joint venture partners, such as disagreements, that increase the potential for non-collection. The Company does not typically obtain collateral from petroleum and natural gas marketers or joint venture partners; however, the Company does have the ability to withhold information and production from joint venture partners in the event of non-payment.

As at February 28, 2011 the Company's accounts receivable was $116,011 (August 31, 2010 $53,060) of which $38,665 is due from government agencies (August 31, 2010 $23,935), $4,726 is due from a gas marketer (August 31, 2010 $5,797) $54,437 is due from a joint venture partner (August 31, 2010 $15,391) and the balance of $18,183 is due from other trade receivables (August 31, 2010 $7,937).

The carrying amount of cash and cash equivalents and accounts receivable represents the Company's maximum credit exposure.

As at February 28, 2011 and August 31, 2010 the Company's accounts receivable is aged as follows:

	February 28, 2011	August 31, 2010
Current (less than 90 days)	$88,893	$36,789
Past due (more than 90 days)	27,118	16,271
Total	$116,011	$53,060

Liquidity Risk
Liquidity risk includes the risk that, as a result of the Company's operational liquidity requirements:

- The Company will not have sufficient funds to settle their obligations or other transactions on the date they come due;
- The Company will be forced to sell financial assets at a value which is less than what they are worth; or
- The Company may be unable to settle or recover a financial asset at all.

The Company's operating cash requirements including amounts projected to complete the Company's existing capital expenditure program are continuously monitored and adjusted as input variables change. These variables include but are not limited to, shareholder loans, oil and natural gas production from existing wells, results from new wells drilled, commodity prices, cost overruns on capital projects and regulations relating to prices, taxes, royalties, land tenure, allowable production and availability of markets. These variables create liquidity risk which has necessitated the need to raise financing to meet capital and operating cash-flow needs. The Company has liquidity risk which necessitates the Company to obtain debt financing, enter into joint venture arrangements, or raise equity. There is no assurance the Company will be able to obtain the necessary financing in a timely manner.

The following table illustrates the contractual maturities of financial liabilities:

February 28, 2011	**Payments Due by Period**				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Accounts payable	$569,495	$569,495			
Loan payable	110,000	110,000			
Secured notes payable (1)	1,105,377	1,105,377			
Shareholders loans (1)	2,310,124	2,310,124			
Asset retirement obligation	20,792				$20,792
Total contractual obligations	**$4,115,788**	**$4,094,996**			**$20,792**

August 31, 2010	Payments Due by Period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Accounts payable	$488,741	$488,741	-	-	-
Loan payable	110,000	110,000	-	-	-
Secured notes payable (1)	1,207,527	186,183	$1,021,344	-	-
Due to shareholder	57,500	57,500	-	-	-
Asset retirement obligation	3,907	-	-	-	$3,907
Total contractual obligations	$1,867,675	$842,424	$1,021,344	-	$3,907

(1) Translated at current exchange rate.

Market Risk
Market risk represents the risk of loss that may impact our financial position, results of operations, or cash flows due to adverse changes in financial market prices, including interest rate risk, foreign currency exchange rate risk, commodity price risk, and other relevant market or price risks. We do not have activities related to derivative financial instruments or derivative commodity instruments. We hold equity securities which have been written down to $1 on our consolidated balance sheet.

The oil and gas industry is exposed to a variety of risks including the uncertainty of finding and recovering new economic reserves, the performance of hydrocarbon reservoirs, securing markets for production, commodity prices, interest rate fluctuations, potential damage to or malfunction of equipment and changes to income tax, royalty, environmental or other governmental regulations.

We mitigate these risks to the extent we are able by:

- utilizing competent, professional consultants as support teams to company staff.
- performing careful and thorough geophysical, geological and engineering analyses of each prospect.
- focusing on a limited number of core properties.

Market risk is the possibility that a change in the prices for natural gas, natural gas liquids, condensate and oil, foreign currency exchange rates, or interest rates will cause the value of a financial instrument to decrease or become more costly to settle.

Disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions in 2008 caused significant volatility to commodity prices. These conditions caused a loss of confidence in the broader U.S. and global credit and financial markets. Although economic conditions improved towards the latter portion of 2009the recovery from the recession has been slow in various jurisdictions including in Europe and the United States and has been impacted by various ongoing factors which continue to impact commodity prices and volatility in the stock market.

(i) Commodity Price Risk

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by world economic events that dictate the levels of supply and demand.

The Company believes that movement in commodity prices that are reasonably possible over the next twelve month period will not have a significant impact on the Company.
Commodity Price Sensitivity:

The following table summarizes the sensitivity of the fair value of the Company's risk management position for the period ended February 28, 2011 and 2010 to fluctuations in natural gas prices, with all other variables held constant. When assessing the potential impact of these price changes, the Company believes that 10 percent volatility is a reasonable measure. Fluctuations in natural gas prices potentially could have resulted in unrealized gains (losses) impacting net income for the period as follows:

	February 28, 2011		February 28, 2010	
	Increase 10%	**Decrease 10%**	Increase 10%	Decrease 10%
Revenue	**$ 39,639**	**$ 32,431**	$ 68,992	$ 56,488
Net loss	**$ (211,758)**	**$ (218,966)**	$ (110,773)	$ (123,317)

(ii) Foreign Exchange Risk

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates The prices received by the Company for the production of natural gas and natural gas liquids are primarily determined in reference to U.S. dollars but are settled with the Company in Canadian dollars. The Company's cash flow for commodity sales will therefore be impacted by fluctuations in foreign exchange rates. The Company considers this risk to be limited.

The Company operates in Canada and the United States and a portion of its expenses are incurred in United States dollars. A significant change in the currency exchange rates between the CDN dollar relative to US dollar could have an effect on the Company's results of operations, financial position or cash flows. The Company believes that a change in the exchange rate could be reasonably possible within the next reporting period. A 5% change would give rise to a change in net loss and comprehensive loss at February 28, 2011 of approximately $10,768.

The Company is exposed to currency risk through the following assets and liabilities denominated in US$ at February 28, 2011 and August 31, 2010.

	February 28, 2011	August 31, 2010
Financial Instrument	**US$**	US$
Cash and cash equivalents	$-	$5,046
Accounts receivable	74,541	21,926
Due from related party	-	1,245
Accounts payable	152,123	198,015
Shareholder loans	2,160,000	-
Secured notes payable	1,135,000	1,135,000
Total US$	$3,521,664	$1,361,232
CDN dollar equivalent at period end	$3,429,749	$1,448,215

(iii) Interest Rate Risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. The majority of the Company's debt is in fixed rate secured notes payable. As at February 28, 2011 the Company did not have any interest rate hedges.

Based on management's knowledge and experience of the financial markets, the Company believes that the movements in interest rates that are reasonably possible over the next twelve month period will not have a significant impact on the Company.

13. Capital Management

The Company's objectives when managing capital is to safeguard the entity's ability to continue as a going concern. The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of any underlying assets. In order to maintain or adjust capital structure the Company may from time to time issue equity, issue debt, adjust its capital spending and sell assets to manage current and projected debt levels. 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.

As at February 28, 2011 and August 31, 2010 the Company considers its capital structure to include the following:

	February 28, 2011	August 31, 2010
Shareholders' equity	$4,115,515	$4,239,777
Long term debt	(20,792)	(1,025,251)
Working capital deficiency	(3,891,857)	(744,262)
	$202,866	$2,470,264

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 capital management during the period ended February 28, 2011.

The Company is not subjected to any externally imposed capital requirements.

14. Contractual Obligations and Commitments

The Company has development commitments on its Mathews Lease and Murphy Lease in order to keep the leases in good standing (see Note 6 Oil and Gas Interests).

15. Subsequent Events

On March 18, 2011 the Company paid US $100,000 of the US$175,000 secured promissory note to Source Re-Work Program Inc.

On March 29, 2011 the Company spud the Matthews/Dyami #3 well on the Matthews Lease, Zavala County, Texas. The well was drilled to a vertical depth of approximately 3,500 feet to the base of the San Miguel formation. The well was logged and sidewall cores were taken from the San Miguel formation and the Company is formulating a completion program.

On March 31, 2010 the Company entered into a Farmout Agreement (the "Farmout") from surface to the base of the San Miguel formation (the "San Miguel") on the Matthews Lease located in Zavala County, Texas. Under the Farmout, the farmee may spend up to $1,050,000 on exploration and development of the San Miguel formation to earn a maximum of 42.50% working interest (31.875% net revenue interest). Under the terms of the Farmout, the farmee may earn an initial 25% of the Company's working interest in the San Miguel by paying 100% of the costs to drill, complete, equip and perform an injection on a vertical test well to a depth of approximately 3,500 feet (the "Initial Test Well"). After the performance of the Initial Test Well, the farmee may increase its working interest to 50% of the Company's working interest by spending the entire $1,050,000 on additional operations on the San Miguel in a good faith effort to produce hydrocarbons. On April 6, 2011, the Company received $296,661 from the farmee for drilling costs related to the Matthews/Dyami #3 well.

On April 8, 2011 2,350,000 warrants were exercised at $0.20 expiring April 14, 2014 for proceeds of $470,000. The amount allocated to warrants based on relative fair value using the Black Scholes model was $92,061. On April 8, 2011 10,099 warrants were exercised at $0.07 expiring February 27, 2014 for proceeds of $706.93. The amount allocated to warrants based on relative fair value using the Black Scholes model was $242.

Subsequent to February 28, 2011, the Company received US$440,000 and issued promissory notes to four shareholders. The notes are payable on demand and bear interest at 10% per annum. Interest is payable annually on the anniversary date of the notes.

16. Non-Cash Transactions

The following table summarizes the non-cash transactions for the period ended February 28, 2011 and 2010:

	2011	2010
Imputed interest	**$ 2,851**	$ -
Warrants cancelled	**$ (35,519)**	$ -

17. Comparative Figures

Certain comparative figures have been reclassified to conform to the presentation adopted in 2011.