NETCO ENERGY INC.

Consolidated Financial Statements

December 31, 2010 and 2009

Index

CHARTERED
ACCOUNTANTS
MacKay LLP

1100 – 1177 West Hastings Street
Vancouver, BC V6E 4T5
Tel: 604-687-4511
Fax: 604-687-5805
Toll Free: 1-800-351-0426
www.MacKay.ca

mackay.ca

Independent Auditor's Report

To the Shareholders of
Netco Energy Inc.

We have audited the accompanying consolidated financial statements of Netco Energy Inc. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2010 and December 31, 2009, and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Netco Energy Inc. and its subsidiaries as at December 31, 2010 and December 31, 2009, and the consolidated results of their operations and their consolidated cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of matter
Without modifying our opinion, we draw attention to Note 1 to the consolidated financial statements which describes the material uncertainty that may cast significant doubt about the ability of Netco Energy Inc. and its subsidiaries to continue as a going concern.

"MacKay LLP"

Chartered Accountants
Vancouver, British Columbia
April 21, 2011

Netco Energy Inc.

Consolidated Balance Sheets

(Expressed in Canadian dollars)

As at December 31,		2010	2009
ASSETS			
Current			
Cash	$	**63,861**	$ 88,408
Harmonized sales tax recoverable		**2,424**	2,643
Loan receivable (notes 4 & 6)		**-**	333,054
		66,285	424,105
Petroleum and natural gas interests (note 3)		**126,118**	287,303
	$	**192,403**	$ 711,408
LIABILITIES			
Current			
Accounts payable and accrued liabilities	$	**55,118**	$ 196,815
Asset retirement obligation (note 4)		**-**	113,139
Loan (note 6)		**7,030**	-
		62,148	309,954
Long Term			
Loan (note 6)		**-**	24,223
		62,148	334,177
SHAREHOLDERS' EQUITY			
Share capital (note 5)		**17,276,465**	17,155,345
Contributed surplus (note 5)		**495,807**	495,807
Deficit		**(17,642,017)**	(17,273,921)
		130,255	377,231
	$	**192,403**	$ 711,408

Nature and Continuance of Operations (note 1)
Subsequent Events (note 11)

Approved on behalf of the Board:

"Andrew Gourlay" **Director**

"Michael Sweatman" **Director**

Netco Energy Inc.

Consolidated Statements of Operations, Comprehensive Loss and Deficit

(Expressed in Canadian dollars)

Year Ended December 31,		2010		2009
GENERAL AND ADMINISTRATION EXPENSES				
Director and officer fees (note 6)	**$**	**12,000**	$	12,000
Office and general (note 6)		**108,996**		135,871
Professional fees		**29,049**		64,523
Transfer agent and filing		**17,915**		14,957
Write down of petroleum and natural gas interests (notes 3 & 4)		**204,928**		3,834,568
		372,888		4,061,919
Loss before other items		**(372,888)**		(4,061,919)
OTHER ITEMS				
Foreign exchange gain (loss)		**(1,461)**		(54,615)
Interest income		**3,949**		19,963
		2,488		(34,652)
Loss before income tax		**(370,400)**		(4,096,571)
Current income tax recovery		**2,304**		-
Loss from continuing operations		**(368,096)**		(4,096,571)
Discontinued operations (note 10)		**-**		(6,489)
Net loss and comprehensive loss for the year		**(368,096)**		(4,103,060)
Deficit, beginning of year		**(17,273,921)**		(13,170,861)
Deficit, end of year	**$**	**(17,642,017)**	**$**	(17,273,921)
Basic and diluted net (loss) per share	**$**	**(0.01)**	**$**	(0.13)
Weighted average shares outstanding - basic and diluted		**32,710,672**		32,683,275

Netco Energy Inc.

Consolidated Statements of Cash Flows

(Expressed in Canadian dollars)

Year Ended December 31,		2010		2009
CASH FLOWS PROVIDED BY (USED IN):				
Operating activities				
Net loss for the year from continuing operations	**$**	**(368,096)**	$	(4,096,571)
Adjustment for items not involving cash:				
Foreign exchange		**1,461**		54,615
Accrued interest receivable		**-**		(17,754)
Write down of petroleum and natural gas interests		**204,928**		3,834,568
		(161,707)		(225,142)
Changes in non-cash working capital:				
Decrease (increase) in accounts receivable		**-**		3,593
Increase (decrease) in accounts payable		**(38,007)**		146,385
Decrease in goods and services tax recoverable		**219**		45,991
Settlement of asset retirement obligation		**(110,860)**		-
		(310,355)		(29,173)
Investing activities				
Acquisition of petroleum and natural gas interests		**(43,506)**		(74,202)
Decrease (increase) in loans receivable		**333,054**		(360,015)
		289,548		(434,217)
Financing activities				
Increase in loans payable		**-**		24,223
		-		24,223
Foreign exchange on cash		**(3,740)**		(9,900)
Cash flows from discontinued operations		**-**		48,786
Decrease in cash		**(24,547)**		(400,281)
Cash, beginning of year		**88,408**		488,689
Cash, end of year	**$**	**63,861**	$	88,408

Supplemental cash flow information

The Company made no cash payments for interest and income taxes.

The Company received cash receipts of $2,304 (2009 - $nil) for income taxes.

Non-cash investing activities:

During the year ended December 31, 2010 the Company issued 1,000,000 shares for settlement of $121,120 of debt.

During the year ended December 31, 2010 the Company settled the asset retirement obligation (2009 - $30,478 increase).

1. Nature and Continuance of Operations

The Company was incorporated under the laws of the Province of Alberta on May 21, 1993 under the name of Green River Holdings Inc. On July 28, 2000, the Company changed its name to Netco Energy Inc. The Company's principal business activity is the exploration, development and production of petroleum and natural gas reserves located in Canada and the United States.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a going concern basis, which presume the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. The Company currently has no source of revenues, has working capital of $4,137 (2009 - $114,151) and a deficit of $17,642,017 (2009 - $17,273,921). The Company's ability to continue as a going concern is dependent upon achieving profitable operations and upon obtaining additional financing. The outcome of these matters cannot be predicted at this time. These financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue in business.

2. Significant Accounting Policies

The consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

(a) Basis of Consolidation

The consolidated financial statements of the Company include its wholly-owned subsidiaries, Green River Petroleum (USA) Inc., incorporated in the State of Wyoming and in the State of Washington. All inter-company transactions and balances have been eliminated on consolidation.

(b) Foreign Currency Translation

Monetary assets and liabilities are translated at year-end exchange rates; other assets and liabilities have been translated at the rates prevailing at the date of transaction. Revenue and expense items, except for amortization, are translated at the average rate of exchange for the year. Amortization is converted using rates prevailing at dates of acquisition. Gains and losses from foreign currency translation are included in the consolidated statements of operations.

(c) Cash and Cash Equivalents

Cash equivalents consist of highly liquid investments which are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in value, with original maturities of three months or less.

2. Significant Accounting Policies (continued)

(d) Petroleum and Natural Gas Interests

(i) Petroleum and Natural Gas Properties

The Company follows the full cost method of accounting for petroleum and natural gas interests whereby all costs of exploration for and development of petroleum and natural gas reserves are capitalized by cost centre. These costs include lease acquisition costs, geological and geophysical expenses, drilling costs of successful as well as unsuccessful wells and overhead charges related directly to the exploration. The carrying value of petroleum and natural gas interests are not intended to report replacement or current market values.

Depletion of exploration and development costs is provided using the unit of production method based on estimated proven petroleum and natural gas reserves as determined by the Company and substantiated by independent professional engineers. For the purposes of depletion calculations, proved petroleum and natural gas reserves are converted to a common unit of measure on the basis that six thousand cubic feet of natural gas is equivalent to one barrel petroleum. The depletion cost base includes total capitalized costs, less costs of unproven properties, plus estimated future development costs associated with proven undeveloped reserves.

If the interests are sold, the proceeds will be applied against capitalized costs unless such sale significantly impacts the rate of depletion by more than 20%, in which case a gain or loss is recorded. If the interests are abandoned, the costs will be written off to operations.

(ii) Impairment

All cost centers are in the exploration, appraisal or “pre-development” stage and as such, the costs in each centre are not subject to depletion. An impairment review is performed at every reporting date to determine whether the aggregate net costs in each pre-development stage cost center are recoverable. Recoverability is determined by comparing capitalized costs for each cost centre with estimated future net revenues using estimated future prices and costs and internal estimates of recoverable reserves or resources. Sensitivity to key assumptions is also tested using a range of values. Costs which are unlikely to be recovered are written off. The recovery of the costs incurred to date is ultimately dependent upon production of commercial quantities of hydrocarbons or the sale of the related asset. The likelihood of such production is not assured at this time.

(iii) Joint interests

A portion of the Company’s exploration, development and production activities is conducted jointly with others. These financial statements reflect only the Company’s proportionate interest in such activities.

2. Significant Accounting Policies (continued)

(d) Petroleum and Natural Gas Interests (continued)

(iv) Ceiling Test

The net carrying value of the Company's petroleum and natural gas properties is limited to an ultimate recoverable amount. The Company tests impairment against undiscounted future net revenue from proved reserves using expected future prices and costs as well as the income tax legislation in effect at the period end. Impairment is recognized when the carrying value of the assets is greater than the undiscounted future net revenues, in which case the assets are written down to the fair value of proved plus probable reserves plus the cost of unproved properties, net of impairment allowances. Fair value is determined based on discounted future net cash flows calculated using expected future prices and costs as well as the income tax legislation in effect at the period end. The discounted rate used is a risk free interest rate.

(v) Asset Retirement Obligations

The fair value of a liability for an asset retirement obligation is recognized when a reasonable estimate of fair value can be made. The asset retirement obligation is recorded as a liability with a corresponding increase to the carrying amount of the related long-lived asset. Subsequently, the asset retirement cost is charged to earnings using a systematic and rational method and is adjusted to reflect period-to-period changes in the liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flow.

(vi) Title

Although the Company has taken steps to secure and verify title to its property interests, in accordance with industry norms, these procedures do not guarantee the Company's title. Properties may be subject to prior unregistered agreements, native land claims, transfers which have not been recorded or detected through title research or which have been asserted since the date research may have been completed, or inadvertent non-compliance with regulatory requirements.

Certain of the Company's property interests are held as conditional exploration licenses or permits. Conversion of these interests into ownership interests requires that the conditions attaching to the licenses or permits be fulfilled. The Company may or may not elect to fulfill such conditions.

2. Significant Accounting Policies (continued)

(e) Property Option Agreements

From time to time, the Company may acquire or dispose of an interest pursuant to the terms of an option agreement. Due to the fact that options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as property costs or recoveries when the payments are made or received.

(f) Long-lived Assets Impairment

Long-lived assets of the Company are reviewed when changes in circumstances suggest their carrying value has become impaired. Management considers assets to be impaired if the carrying value exceeds the future projected undiscounted cash flows from related operations. If impairment is deemed to exist, the assets will be written down to their fair value. Fair value is generally determined using a discounted cash flow analysis.

(g) Revenue Recognition

Revenue from oil and gas operations are recognized at the time the oil is sold or natural gas is delivered, and collectability is reasonably assured.

(h) Stock Based Compensation

The Company accounts for all stock-based payments and awards using the fair value-based method. Under the fair value-based method, stock-based payments to non-employees are measured at the fair value of the consideration received, or the fair value of the equity instruments issued, or liabilities incurred, whichever is more reliably measurable. The fair value of stock-based payments to non-employees is periodically re-measured until counterparty performance is complete, and any change therein is recognized over the vesting period of the award and in the same manner as if the Company has paid cash instead of paying with or using equity instruments. The cost of stock-based payments to non-employees that are fully vested and non-forfeitable at the grant date is measured and recognized at that date. Compensation costs attributable to employees are measured at fair value at the grant date and are recognized over the vesting period. The Company has not incorporated an estimated forfeiture rate for stock options that will vest; rather the Company accounts for actual forfeitures as they occur.

(i) Share Issue Costs

Commissions paid to underwriters, and other related share issue costs, such as legal, auditing, and printing, on the issue of the Company's shares are charged directly to share capital.

2. **Significant Accounting Policies** (continued)

(j) Valuation of Equity Units Issued in Private Placements

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component.

The fair value of the common shares issued in the private placements is determined to be the more easily measurable component and is valued at their fair value, as determined by the closing quoted bid price on the announcement date. The balance, if any, is allocated to the attached warrants. Any fair value attributed to the warrants is recorded as contributed surplus.

(k) Earnings Per Share

Basic earnings per share is computed using the weighted average number of common shares outstanding during the year. Diluted earnings per share amounts are calculated giving effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares using the treasury stock method. The treasury stock method assumes that proceeds received from the exercise of stock options and warrants are used to repurchase common shares at the prevailing market rate.

(l) Income Taxes

The Company has adopted the provisions of CICA Handbook Section 3465, Income Taxes. Under this standard, current income taxes are recognized for the estimated income taxes payable for the current period. Future taxes are recognized for the tax consequences of "temporary differences" by applying enacted or substantively enacted statutory tax rates expected to apply in the years in which the temporary differences are expected to be recovered or settled to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities and loss carry-forwards. The effect on future taxes for a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. In addition, Section 3465 requires the recognition of future tax benefits to the extent that realization of such benefits is more likely than not.

(m) 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 amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results may differ from those estimates.

2. Significant Accounting Policies (continued)

(n) Measurement Uncertainty

The amounts recorded for stock-based compensation, the carrying value of petroleum and natural gas interests, the provision for future site restoration and the valuation allowance for future income taxes are based on estimates. The ceiling test is based on estimates of proved reserves, production rates, gas prices, future costs, and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

(o) Financial Instruments

All financial instruments are classified as one of the following: held-for-trading, held-to-maturity, loans and receivables, available-for-sale or other financial liabilities. Financial assets and liabilities held-for-trading are measured at fair value with gains and losses recognized in net income. Financial assets held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method. Available-for-sale assets are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) and reported in shareholders' equity. Any financial instrument may be designated as held-for-trading upon initial recognition.

Transaction costs that are directly attributable to the acquisition or issue of financial instruments that are classified as other than held-for-trading, which are expensed as incurred, are included in the initial carrying value of such instruments and amortized using the effective interest method.

The Company has designated its financial instruments as follows:

i) Cash is classified as held-for-trading. Due to their short-term nature, the carrying value is equal to their fair value.
ii) Accounts receivable and loans are classified as loans and receivables. These financial assets are recorded at values that approximate their amortized cost using the effective interest method.
iii) Accounts payable and accrued liabilities and loan payable are classified as other financial liabilities. These financial liabilities are recorded at values that approximate their amortized cost using the effective interest method.

Section 3862 specifies disclosures that enable users to evaluate: (i) the significance of financial instruments for the entity's financial position and performance; and (ii) the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks. The disclosures required by this section have been included in note 7.

2. Significant Accounting Policies (continued)

(p) Recent Accounting Pronouncements Not Yet Adopted

International Financial Reporting Standards

In 2006, the AcSB published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB 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 own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The first unaudited interim financial statements under IFRS will be for the quarter ending March 31, 2011, with comparative financial information for the quarter ending March 31, 2010. The first audited annual financial statements will be for the year ending December 31, 2011, with comparative financial information for the year ending December 31, 2010. The Company anticipates a significant increase in disclosures resulting from the adoption of IFRS and is identifying and assessing the impact of this change in valuation and additional disclosure requirements, as well as implementing systems changes that will be necessary to compile the required disclosures.

Business Combinations/ Consolidated financial statements/ Non controlling interests

In January 2009, the CICA issued Handbook Section 1582, *Business Combinations*, which replaces the existing standards. This section establishes the standards for the accounting of business combinations, and states that all assets and liabilities of an acquired business will be recorded at fair value. Estimated 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. This standard is equivalent to the International Financial Reporting Standards on business combinations. This standard is applied prospectively to business combinations with acquisition dates on or after January 1, 2011. Earlier adoption is permitted.

In January 2009, the CICA issued Handbook Section 1601, Consolidated Financial Statements, which replaces the existing standards. This section establishes the standards for preparing consolidated financial statements and is effective for interim and annual consolidated financial statements beginning on or after January 1, 2011.

2. Significant Accounting Policies (continued)

(p) Recent Accounting Pronouncements Not Yet Adopted (continued)

Business Combinations/ Consolidated financial statements/ Non controlling interests (continued)

In January 2009, the CICA issued Handbook Section 1602, Non-controlling Interests, which establishes standards for the accounting of non-controlling interests of a subsidiary in the preparation of consolidated financial statements subsequent to a business combination. This standard is equivalent to the International Financial Reporting Standards on consolidated and separate financial statements. This standard is effective for interim and annual consolidated financial statements beginning on or after January 1, 2011.

The Company is required to adopt Sections 1582, 1601 and 1602 concurrently. The Company has not adopted these sections prior to the adoption of IFRS and therefore does not expect any impact to the consolidated financial statements.

3. Petroleum and Natural Gas Interests

As at December 31, 2010, the Company's petroleum and natural gas interests include the following:

Petroleum and Natural Gas Interests	Original Cost	Additions	Impairments and losses	Total **2010**
United States – Columbia River Basin	**$ 287,303**	**$ 43,743**	**$ (204,928)**	**$ 126,118**

As at December 31, 2009:

Petroleum and Natural Gas Interests	Original Cost	Additions	Impairments and losses	Total 2009
United States – Columbia River Basin	$ 4,017,191	$ 104,680	$ (3,834,568)	$ 287,303

3. Petroleum and Natural Gas Interests (continued)

United States - Columbia River Basin (unproven):

Effective August 1, 2007, the Company acquired by way of an Acquisition and Exploration Agreement with joint venture partners EnCana Oil & Gas (USA) Inc. ("EnCana"), SWEPI LP ("Shell") and Exxel Energy (USA) Inc. ("Exxel") an undivided 7.5% working interest in leases in the Columbia River Basin for US$8,000,000 including a working interest in the Brown 7-24 exploration well drilled in Grant County, Washington.

The Company's participation in the Brown 7-24 well provided the opportunity to earn a 7.5% non-operated working interest by paying 15% of well costs.

The Brown 7-24 well abandonment operations were completed in May 2010 and all costs associated with the reclamation have been expensed.

In September 2008, Delta Petroleum Corporation became operator of the Columbia River Basin leasehold. On September 21, 2009, Delta announced that they had finished completion efforts on the Gray 31-23 well, which was an exploratory well in the area, and that it was a dry hole. As a result, the Company wrote down the value of the Columbia River Basin property to an estimated fair value of $287,303 at the end of 2009. The estimated fair value was based on a valuation prepared on the property by an independent geologist. No developments occurred during 2010 to alter the estimate.

During the year ended December 31, 2010, the Company recognized an impairment of $91,789 reflecting expired leases.

Ownership in petroleum and natural gas interests involve certain inherent risks due to the difficulties in determining the validity of certain interests as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many petroleum and natural gas interests. The Company has investigated the ownership of its interests and, to the best of its knowledge, they are in good standing.

4. Asset Retirement Obligations

The following table summarizes the changes in the asset retirement obligation for the years ended and December 31, 2010 and 2009.

	2010	2009
Balance, beginning of year	$ 113,139	$ 82,661
Liabilities incurred (discharged)	(113,139)	30,478
Balance, end of year	**$ -**	$ 113,139

4. Asset Retirement Obligations (continued)

The Company's asset retirement obligation resulted from net ownership in petroleum and natural gas assets. The liability incurred for 2008 and subsequently adjusted in 2009, was based on amounts required by the operator of the Brown 7-24 well, XXL Energy Corp. ("XXL"), for abandonment and reclamation costs. Well abandonment operations were completed in May 2010 and all incremental reclamation costs have been expensed.

XXL was required to deposit a reclamation bond to the Washington State Department of Natural Resources ("DNR") for the Brown 7-24 well in the amount of US$300,000. XXL was not able to raise sufficient capital to pay the bond in January 2009. In the mutual interest of both companies, the Company agreed to pay the DNR on behalf of XXL and the joint venture partners including the Company. The US$300,000 payment to the DNR was structured as a loan to XXL dated January 5, 2009.

The State of Washington refunded the reclamation bond in its entirety once the abandonment and reclamation had been completed. On May 27, 2010, XXL Energy made full payment of the loan dated January 5, 2009. The Company received funds totaling US$216,862 which represented payment of the principal of US$300,000 plus interest of US$20,795 less the Company's share of the plug-in, abandonment and reclamation costs associated with the Brown 7-24 well of US$103,933.

5. Share Capital

(a) Authorized: Unlimited number of common shares without par value.
Unlimited number of preferred shares without par value.

(b) Issued:

	December 31, 2010		December 31, 2009	
	Number of Shares	Amount	Number of Shares	Amount
Common shares:				
Balance, beginning of year	32,683,275	$ 17,155,345	32,683,275	$ 17,155,345
Transactions during the year:				
Shares for debt (note 6)	1,000,000	121,120	-	-
Balance, end of year	**33,683,275**	**$ 17,276,465**	32,683,275	$17,155,345

(c) Contributed surplus:

December 31, 2010 and 2009	**2010**	2009
Balance, beginning and end of year	**$495,807**	$495,807

5. Share Capital (continued)

(d) Stock Options

The Company has a stock option plan in accordance with the policies on the TSX Venture Exchange whereby, from time to time at the discretion of the board of directors, stock options are granted to directors, officers and certain consultants.

Under the plan up to 6,415,600 common shares are reserved for the issuance of stock options. The exercise price of each option is based on the market price of the Company's common stock at the date of the grant less an applicable discount. The options can be granted for a maximum term of 10 years. The maximum number of options that may be granted to any one person must not exceed 5% of the common shares issued and outstanding at the time of grant unless disinterested shareholder approval is obtained.

Any options granted to Consultants or persons performing Investor Relations under the Amended Stock Option Plan shall vest to the optionee as follows: 25% at date of grant, 25% six months from date of grant, 25% nine months from date of grant and the remaining 25% twelve months from the date of grant. All other options granted under the Amended Stock Option Plan shall have vesting terms set at the discretion of the Board of Directors.

A summary of the stock option activity is as follows:

	December 31, 2010		December 31, 2009	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Balance, beginning of year	750,000	$0.40	1,020,000	$0.47
Expired/Cancelled	-	-	(270,000)	$0.53
Balance, end of year	750,000	$0.40	750,000	$0.40

As at December 31, 2010, the Company has outstanding directors' and employees' incentive stock options enabling the holders to acquire additional common shares as follows:

Number of options outstanding	Number of options exercisable	Exercise Price	Expiry Date
200,000	200,000	$ 0.53	January 20, 2011*
550,000	550,000	$ 0.35	August 2, 2017
750,000	750,000		

* Subsequent to year end, 200,000 stock options expired leaving a total of 550,000 options outstanding and exercisable at January 20, 2011.

5. Share Capital (continued)

(e) Warrants

As at December 31, 2010, the Company has outstanding share purchase warrants entitling the holders to acquire additional common shares, as follows:

Number of Warrants	Exercise Price	Expiry Date
4,395,000	$0.43	August 2, 2011
5,000,000	$0.28	June 29, 2012
4,000,000	$0.52	September 4, 2012
13,395,000		

6. Related Party Transactions

The aggregate amount of expenditures made to parties not at arm's length to the Company includes for the years ended December 31, 2010 and 2009

		2010		2009
Fees paid/accrued to directors and officers of the Company: - included in accounts payable: 2010 - $5,000 (2009 - $1,000)	$	12,000	$	12,000
Rent paid/accrued to a company owned by a director and officer of the Company: - included in accounts payable: 2010- $2,800	$	2,500	$	-
Administrative and consulting fees paid/accrued to a company owned by a former director: - included in accounts payable: 2010 - $3,360 (2009 - $76,765)	$	95,700	$	120,000
Loan owed to a company owned by a director	$	7,030	$	-
Loan owed to a company owned by a former director	$	-	$	24,223

On January 5, 2009, the Company loaned XXL Energy Corp. ("XXL"), related by a former director, US$300,000 (note 4). On May 27, 2010, XXL Energy made payment in full satisfaction of the loan.

On December 31, 2009, the Company entered into a loan agreement with a company, wholly-owned by a former director of the Company. The principal advances, under this loan, bore interest at 15% compounded quarterly based on the amounts advanced. The loan was due and payable on August 26, 2012. The Company was advanced $42,070 and had accrued interest of $5,323 on this loan. On November 5, 2010, a Debt Settlement Agreement was reached which resulted in full satisfaction of both the $47,394 owing under this loan and an additional amount of $73,727 owed to this related company, with the issuance of 1,000,000 common shares.

6. **Related Party Transactions** (continued)

During the year ended December 31, 2010, Canadian Nexus Ventures, a company wholly-owned by a director and officer of the Company, loaned the Company $6,988 with interest in the amount of $42 accruing at Royal Bank prime + 2%, which is due on December 31, 2011.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties, unless otherwise noted.

7. **Financial Instruments- Risk and Capital Management**

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgement, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values. At December 31, 2010, the Company's financial instruments include cash, accounts payable and accrued liabilities and loans. These items are recognized on the balance sheet at their fair value which approximated their carrying value due to their short-term nature.

CICA Handbook Section 3862 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table sets forth the Company’s financial assets measured at fair value by level within the fair value hierarchy.

December 31, 2010	Level 1	Level 2	Level 3	Total
Assets:				
Cash	$ 63,861	$ -	$ -	$ 63,861

December 31, 2009	Level 1	Level 2	Level 3	Total
Assets:				
Cash	$ 88,408	$ -	$ -	$ 88,408

7. Financial Instruments- Risk and Capital Management (continued)

Currency risk is the risk to the Company's earnings that arises from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

At December 31, 2010, the Company had the following financial assets and liabilities:

		US Dollars
Cash	$	57,661
Accounts payable	$	238

At December 31, 2010 US dollar amounts were converted at a rate of $1.00 US dollars to $0.9946 Canadian dollar.

Credit risk is the risk that one party to a financial instrument will cause a loss for the other party by failing to discharge an obligation. The Company's cash and accounts receivable are exposed to credit risk. The credit risk on cash is considered small because the funds have been placed with major Canadian financial institutions. Management believes that the credit risk related to its accounts receivable is remote.

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will have sufficient liquidity to meet liabilities when due. At December 31, 2010, the Company had a cash balance of $63,861 and HST receivable of $2,424. The Company has accounts payable and accrued liabilities of $55,118 and a loan payable of $7,030. On November 5, 2010, a Debt Settlement Agreement was reached which resulted in full satisfaction of $47,394 owing under a loan and an additional payable of $73,727 owing to the related company. Based on current funds held, the Company will need to rely on financing from shareholders and/or debt holders to obtain sufficient working capital. There is no assurance that such financing will be available on terms and conditions acceptable to the Company.

Interest rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in market interest rates. The Company's sensitivity to interest rates is currently immaterial due to the short term maturity of its monetary assets and liabilities.

Capital Management: The Company considers its capital structure to include working capital and shareholders' equity. Management's objective is to ensure that there is sufficient capital to minimize liquidity risk and to continue as a going concern. Management reviews its capital management approach on an ongoing basis and believes that its approach, given the relative size of the Company is reasonable.

The Company is not subject to any external capital restrictions and the Company did not change its approach to capital management during the period.

8. Income Taxes

Income tax expense varies from the amount that would be computed from applying the combined federal and provincial income tax rate to loss before taxes as follows:

	2010	2009
Loss for the year before income tax	$ (370,400)	$ (4,103,060)
Statutory Canadian corporate tax rate	28.50%	30.00%
Anticipated tax recovery	(105,564)	(1,230,918)
Change in tax rates resulting from:		
Effect of tax rate change	5,794	50,902
Effect of jurisdictional tax rate difference	(11,268)	(199,785)
Tax benefits not realized	108,734	1,379,801
Current income tax expense (recovery)	$ (2,304)	$ -

The significant components of the Company's future tax assets are as follows:

	2010	2009
Petroleum and natural gas interests	$ 2,872,033	$ 2,914,447
Non-capital loss carry forwards	1,123,578	931,503
Capital loss carry forwards	122,355	122,355
Other	1,784	51,389
	4,119,751	4,019,694
Valuation allowance	(4,119,751)	(4,019,694)
Future income taxes	$ -	$ -

At December 31, 2010, the Company has available non-capital tax losses for Canadian income tax purposes of $917,084 and net operating losses for US income tax purposes of $2,630,319 (US$2,327,821) available for carry-forward to reduce future years' taxable income, if not utilized, expiring as follows:

	Canada	United States
2018	$ -	$ 1,387,021
2027	113,090	152,685
2028	378,101	280,495
2029	259,831	367,360
2030	166,062	442,758
	$ 917,084	$ 2,630,319

9. Segmented Information

The Company's activities are all in the one industry segment of exploration, development and production of petroleum and natural gas reserves.

Petroleum and natural gas interests by geographical segment are as follows:

December 31, 2010	Canada	United States	Total
Petroleum and natural gas interests	$ -	$ 126,118	$ 126,118

December 31, 2009	Canada	United States	Total
Petroleum and natural gas interests	$ -	$ 287,303	$ 287,303

10. Discontinued Operations

Canada – Boltan: (proven)

During 2008, Netco disposed of its Canadian petroleum and natural gas interests. Since the assets sold encompassed the entire Canadian business segment or cost centre under full cost accounting, the cost centre was accounted for as "discontinued operations" as required under Canadian GAAP.

On September 18, 2008, Netco and Nation Energy Inc. ("Nation") jointly entered into a Sale and Purchase Agreement with purchaser EnCana Oil and Gas ("EnCana"), to sell assets in the Boltan property for combined net consideration of $1,600,000. The transaction was arm's length and was effective June 1, 2008. At the closing on September 30, 2008, the Company received $505,000 and Nation received $1,095,000 of the total price, which resulted in a gain of $270,858 for 2008. In connection with the sale, the net amount due to Nation of $214,124 was forgiven in 2008.

The following table provides additional information with respect to amounts included in the loss on discontinued operations:

Discontinued operations	2009	2008
Revenue	$ (6,439)	$ 233,979
Royalty expense	-	40,078
Production expense	50	62,182
Depletion	-	231,255
Accretion	-	853
Net loss from discontinued operations	(6,489)	(100,389)
Gain (loss) on sale of properties	-	270,858
Forgiveness of debt in connection with sale of Boltan	-	214,124
Write-down on petroleum and natural gas interests	-	(5,758)
Gain on discontinued operations	-	479,224
Net gain (loss) on discontinued operations	$ (6,489)	$ 378,835

10. Discontinued Operations (continued)

The following table provides additional information with respect to amounts included in the cash flows from discontinued operations:

Year ended December 31,		2009		2008
Cash flows from (used in) operating activities				
Net loss for the year from discontinued operations	$	(6,489)	$	378,835
Adjustment for items not involving cash:				
Depletion and accretion		-		232,108
Gain on sale of property		-		(270,858)
Forgiveness of debt in connection with the sale		-		(214,124)
Write-down of petroleum and natural gas interests		-		5,758
		(6,489)		131,719
Changes in non-cash working capital:				
Decrease (increase) in accounts receivable		55,275		101,446
Increase (decrease) in accounts payable and accrued liabilities		-		-
		48,786		233,165
Cash flows used in investing activities				
Acquisition of petroleum and natural gas interests		-		(656,551)
Proceeds on sale of property		-		505,000
		-		(151,551)
Cash provided by discontinued operations	$	48,786	$	81,614

11. Subsequent Events

On March 3, 2011, the Company entered into an option agreement (the “Agreement”) with Marifil Mines Ltd. (“Marifil”) whereby Marifil agreed to grant the Company an option (the “Option”) to acquire up to a 75% interest in Marifil’s Toruel property (the “Property”). Under the terms of the Agreement, Netco can earn a 50% interest in the Property during the next three years by paying Marifil an aggregate of US$200,000 in cash, issuing Marifil 3,150,000 of its common shares, and making work expenditures of US$2,800,000 on the Property. The Company can earn a further 10% interest over the next two years by providing Marifil with a pre-feasibility study on the Property and paying Marifil US$100,000 for each of those two years. The Company can earn a further 10% interest in the Property over the next two years by providing Marifil with a feasibility study on the Property. Upon completion of the feasibility study, all further expenditures relating to the Property would be shared by the Company and Marifil, with 70% covered by the Company and 30% by Marifil. However, at Marifil’s sole option, it can elect to be carried through to the commencement of commercial production on the Property, in which case the Company will earn an additional 5% interest, bringing its total interest in the Property to 75%. In the event Netco fails to provide Marifil with a feasibility study in the allotted two year period, Netco’s interest in the Property may be reduced to 49% at Marifil’s sole option. The Property, covering 5,736 hectares, is located about 25 kilometres southeast of the village of Los Menucos, Rio Negro Province, Argentina and is prospective for silver.

11. Subsequent Events (continued)

In connection with the Agreement, the Company plans to complete a non-brokered private placement (the "Private Placement") of $500,000 to $750,000 by way of the issuance of up to 6,000,000 units (each, a "Unit") at a price of $0.125 per Unit. Each Unit will consist of one common share and one half of one common share purchase warrant, with each whole warrant entitling the holder to acquire one common share at an exercise price of $0.22 for a period of two years from the closing of the Private Placement. The proceeds from the Private Placement will be used to make a portion of the cash payments required to be paid by the Company under the Agreement and for exploration expenditures on the Property.

On March 4, 2011, Netco granted a total of 525,000 stock options to officers, directors and consultants of the Company. Each option is exercisable into one common share at a price of $0.12 for a period of five years. The stock options are subject to the terms of the Company's stock option plan.

12. Comparative Figures

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the current year consolidated financial statements.