MOONCOR OIL & GAS CORP.

Consolidated Financial Statements
(An Exploration Stage Company)

December 31, 2010 and 2009

Mooncor Oil & Gas Corp.
(An Exploration Stage Company)
Consolidated Financial Statements
Index

HARRIS
& Partners LLP
Chartered Accountants

AUDITORS' REPORT

To the Shareholders of
Mooncor Oil & Gas Corp.

Report on the financial statements

We have audited the accompanying consolidated financial statements of Mooncor Oil & Gas Corp. (an exploration stage company), which comprise the balance sheet as at December 31, 2010, and the consolidated statements of comprehensive loss, deficit and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the 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 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 audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the 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 is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Mooncor Oil & Gas Corp. as at December 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements for the year ended December 31, 2009 were audited by another firm of chartered accountants who expressed an opinion without reservation in their report dated April 26, 2010.

Harris & Partners, LLP

Markham, Ontario
May 2, 2011

Harris & Partners, LLP
Licensed Public Accountants

Mooncor Oil & Gas Corp.
(An Exploration Stage Company)
Consolidated Balance Sheets
As at December 31, 2010 and 2009

ASSETS	2010	2009
Current		
Cash and cash equivalents	$ 238,104	$ 1,909,827
Segregated cash (Note 4)	40,581	40,500
Sundry receivable	92,694	67,592
Portfolio investments (Note 5)	59,738	79,660
Prepaid expenses	18,430	147,119
	449,547	2,244,698
Equipment (Note 6)	7,332	7,400
Intangible assets (Note 7)	37,500	70,000
Investment in East Coast Energy Inc. (Note 8)	-	18,656
Deposits	252,580	218,773
Convertible debenture receivable (Note 8)	-	235,649
Oil and gas properties and deferred exploration expenditures (Note 9)	4,309,863	5,139,043
	$ 5,056,822	$ 7,934,219
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 184,350	$ 603,106
Convertible debentures payable (Note 10)	1,018,716	2,440,292
	1,203,066	3,043,398
SHAREHOLDERS' EQUITY		
Capital stock (Note 11)	13,863,419	13,604,305
Contributed surplus (Note 12)	1,059,794	951,510
Equity component of convertible debenture (Note 10)	142,998	111,974
Warrants (Note 13)	2,856,753	2,045,363
Accumulated other comprehensive loss	(120,585)	(100,662)
Deficit	(13,948,623)	(11,721,669)
	3,853,756	4,890,821
	$ 5,056,822	$ 7,934,219

Approved by the Board

Director "Richard Cohen"　　　　Director "Nick Tsimidis"

See accompanying notes

Mooncor Oil & Gas Corp.
(An Exploration Stage Company)
Consolidated Statements of Deficit
For the Years Ended December 31, 2010 and 2009

	2010	2009
Deficit, beginning of year	$ (11,721,669)	$ (8,388,090)
Loss for the year	(2,226,954)	(3,333,579)
Deficit, end of year	$ (13,948,623)	$ (11,721,669)

See accompanying notes

Mooncor Oil & Gas Corp.
(An Exploration Stage Company)
Consolidated Statements of Accumulated Other Comprehensive Loss
For the Years Ended December 31, 2010 and 2009

	2010	2009
Balance, beginning of year	$ (100,662)	$ (107,274)
Unrealized (gain) loss on marketable securities	19,923	(6,612)
Balance, end of year	$ (120,585)	$ (100,662)

See accompanying notes

Mooncor Oil & Gas Corp.
(An Exploration Stage Company)
Consolidated Statements of Operations and Comprehensive Loss
For the Years Ended December 31, 2010 and 2009

	2010	2009
Income	$ 60,632	$ 86,689
Expenses		
Consulting (Note 15)	356,940	486,076
Interest expense	203,140	351,767
Office and general	166,140	353,313
Professional fees (Note 15)	108,622	620,204
Stock based compensation (Note 12)	108,284	321,896
Travel	91,775	208,021
Insurance	27,200	30,252
Board of directors fees	3,500	15,000
Amortization	34,976	45,671
	1,100,577	2,432,200
Loss before undernoted	(1,039,945)	(2,345,511)
Write-down of oil and gas properties and deferred exploration expenditures (Note 9)	(1,604,951)	(1,055,895)
Abandoned project costs	(7,249)	-
Recovery (provision) for impairment of debenture receivable (Note 8)	70,695	(114,633)
Proceeds on sale of oil and gas properties	151,544	204,000
Realized loss on disposal of marketable securities	-	(49,816)
Loss before income taxes	(2,429,906)	(3,361,855)
Future income tax recovery (Note 16)	202,952	28,276
Net loss for the year	(2,226,954)	(3,333,579)
Unrealized (gain) loss on portfolio investments	19,923	(6,612)
Comprehensive loss for the year	$ (2,246,877)	$ (3,326,967)
Net loss per share basic and diluted	$ (0.02)	$ (0.04)
Weighted average number of shares - basic and diluted	100,959,146	91,085,585

See accompanying notes

Mooncor Oil & Gas Corp.
(An Exploration Stage Company)
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2010 and 2009

Cash provided by (used in):	2010	2009
Operating activities		
Comprehensive loss for the year	$ (2,246,877)	$ (3,326,967)
Adjustments for non-cash items:		
Unrealized (gain) loss on portfolio investments	19,923	(6,612)
Write-down of oil and gas properties and deferred exploration expenditures	1,604,951	1,055,895
Interest accreted and accrued on convertible debenture payable	197,942	347,031
Interest accreted on convertible debenture receivable	-	(8,785)
Provision (recovery) for impairment of convertible debenture receivable	(70,695)	79,480
Stock based compensation	108,284	321,896
Loss on disposal of portfolio investments	-	49,816
Recovery of future income taxes	(202,952)	(28,276)
Amortization	34,976	45,671
	(554,448)	(1,470,851)
Changes in non-cash components of working capital		
Segregated cash	(81)	(40,500)
Sundry receivables	(25,102)	83,244
Prepaid expense	128,689	3,363
Deposits	(33,807)	(15,293)
Accounts payable and accrued liabilities	(418,759)	260,669
	(903,508)	(1,179,368)
Investing activities		
Purchase of equipment	(2,408)	(1,045)
Purchase of portfolio investments	-	(202,436)
Proceeds on sale of portfolio investments	-	113,173
Sale (purchase) of convertible debenture receivable	325,000	(325,000)
Cash reserved for flow through expenditures	-	956,965
Additions to oil and gas properties and deferred exploration expenditures	(775,771)	(2,810,313)
	(453,179)	(2,268,656)
Financing activities		
Repayment of convertible debentures	(1,588,492)	-
Issuance of shares for cash	1,321,103	4,374,951
Share issuance costs	(122,837)	(349,343)
Repurchase of shares for cancellation	(14,320)	(73,584)
Proceeds on exercise of stock options	-	2,499
Proceeds on exercise of share warrants	89,510	88,214
	(315,036)	4,042,737
Increase (decrease) in cash and cash equivalents	(1,671,723)	594,713
Cash and cash equivalents, beginning of year	1,909,827	1,315,114
Cash and cash equivalents, end of year	$ 238,104	$ 1,909,827
Supplementary information:		
Interest paid	$ 610,000	$ 4,736

See accompanying notes

1. Nature and continuance of operations

Mooncor Oil & Gas Corp. (the "Company") is a company continued under the Business Corporations Act (Ontario) and is an exploration stage company. The Company's principle assets are oil and gas properties and deferred exploration expenditures made on properties which are not in commercial production. The Company is in the process of exploring its oil and gas properties and has not determined whether the properties will contain economically recoverable resources.

Going concern

These consolidated financial statements have been prepared using the going concern basis of accounting, which contemplates that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. The continuation as a going concern is dependant upon the discovery of economically recoverable resources, the ability of the Company to obtain necessary financing to continue exploration and development, the ability of the Company to secure and maintain title and beneficial interest in its properties, entering agreements with others to explore and develop its properties, and upon future profitable production or proceeds from disposition of such properties. Failure to continue as a going concern would then require that stated amounts of assets and liabilities be reflected on a liquidation basis of valuation that could differ materially from the going concern basis of accounting.

2. Significant accounting policies

Basis of presentation

The Company prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"). The consolidated financial statements include all accounts of the Company and its wholly-owned subsidiary, Mooncor Energy Inc. All intercompany balances and transactions have been eliminated.

Joint interest operations

Some of the Company's exploration and development activities are conducted jointly with industry partners and accordingly the financial statements reflect only the Company's proportionate interest.

Cash and cash equivalents

Cash and cash equivalents consists of cash in bank, and highly liquid investments with maturities of three months or less at the time of purchase.

Portfolio investments

Portfolio investments consist of securities traded on active markets. These securities are measured at fair value, which is determined using quoted market prices.

2. Significant accounting policies (cont'd)

Equipment

Equipment is measured at cost and is amortized over its expected useful life as follows:

Computer equipment	30% declining balance
Furniture and fixtures	30% declining balance

Intangible assets

Intangible assets have a finite useful life and are amortized over the expected useful life as follows:

Database	5 years, sum of the years digits

Oil and gas properties and deferred exploration expenditures

The Company follows the full cost method of accounting for exploration and development expenditures wherein all costs related to the acquisition, exploration and development of petroleum and natural gas reserves are capitalized.

All costs related to the acquisition, exploration and development of oil and gas reserves are capitalized until the property to which they relate is placed into production, sold or abandoned. Such costs include lease acquisition costs, geological and geophysical costs, costs of drilling both productive and non-productive wells, and overhead charges directly related to exploration and development activities. After the commencement of production, these deferred exploration costs will be amortized through charges against income derived from oil and gas operations. Amortization charges will be calculated on a unit-of-production basis, using proven and probable reserves, until the properties are abandoned, sold or considered to be impaired in value, at which time an appropriate charge will be made.

The amounts shown for the carrying amount of oil and gas properties represent costs to date less write-downs and recoveries and do not necessarily reflect present or future values of the particular properties. Recovery of these costs is uncertain and is dependant upon achieving commercial production from the properties and proceeds from the sale thereof.

These costs are evaluated in each reporting period to determine if the costs recorded are recoverable. Any costs that are considered unlikely to be recovered are written off.

Asset retirement obligations

Asset retirement obligations related to the Company's oil and gas properties are capitalized as oil and gas properties and deferred exploration costs and amortized over the estimated useful lives of the corresponding oil and gas properties.

At December 31, 2010 and December 31, 2009, management has determined that there are no material asset retirement obligations to the Company.

2. Significant accounting policies (cont'd)

Impairment of long-lived assets

The Company conducts its impairment test on long-lived assets on an annual basis or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds the total undiscounted future cash flows expected from its use and disposal. The amount of the impairment loss is determined as the excess of the carrying value of the asset over the discounted future net cash flows associated with the asset.

Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on temporary differences between the carrying value of assets and liabilities on the balance sheet and their corresponding values for income tax purposes, as well as for the benefit of losses available to be carried forward to future years for tax purposes. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Future income tax assets are recognized only to such extent that it is more likely than not that they will be realized in full.

Future income taxes and flow-through shares

The Company follows the recommendations of the Emerging Issues Committee ("EIC") of the CICA relating to flow-through shares effective for all flow-through share agreements. Canadian Income Tax Legislation permits an enterprise to issue securities referred to as flow-through shares, whereby common shares are issued which transfer the tax deductibility of oil and gas property exploration expenditures to investors. Proceeds received on the issuance of these shares will be credited to capital stock and the related exploration costs will be charged to oil and gas properties and deferred exploration costs in the year in which they are incurred. Proceeds received from the issuance of flow-through shares are restricted to be used only for Canadian resource property exploration expenditures within a two year period.

The entire amount of flow-through financing received is renounced to the investors under the provisions of the Income Tax Act (Canada). Accordingly, as the actual expenditures are incurred, they will carry no tax deductibility and the result will be tax differences. Future income tax liabilities resulting from these tax differences are recorded in the period in which the expenditures are renounced as a reduction of capital stock, provided that there is reasonable assurance that the expenditures will be made. This future income tax liability will be calculated net of any benefit resulting from unrecorded income tax loss carry forwards and income tax pools in excess of the accounting value available for deduction.

Per share information

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on loss per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. For the years presented, this calculation proved to be anti-dilutive.

Basic and diluted loss per common share are calculated using the weighted average number of common shares outstanding during the year.

2. Significant accounting policies (cont'd)

Share purchase warrants and other shares reserved for issuance

The Company has reserved shares for issuance in accordance with applicable corporate and securities laws. Consideration received on the issuance of reserved shares will be credited to capital stock and will be valued at either the fair value of the consideration received or shares issued, whichever is more readily determinable.

Share issuance costs

Costs incurred in connection with the issuance of capital stock are charged to capital stock as a reduction of the equity proceeds received.

Stock-based compensation

Stock options and performance warrants issued by the Company are accounted for in accordance with the fair-value based method of accounting. The fair value of options and performance warrants issued to directors, officers, employees, consultants and service providers to the Company is charged to income with an offsetting amount recorded to contributed surplus. Fair value is measured using the Black-Scholes option pricing model. Consideration paid upon the exercise of stock options or performance warrants, together with corresponding amounts previously recognized in contributed surplus, is recorded as an increase to capital stock. Forfeitures of stock options are accounted for as they occur.

Financial instruments

The Company has designated its cash and cash equivalents, segregated cash, and cash reserved for flow-through expenditures as held-for-trading, which is measured at fair value and unrealized gains and losses are included in net income in the period in which they arise.

Portfolio investments are classified as available-for-sale which is measured at fair value and unrealized gains and losses are included in other comprehensive income until the gains and losses are realized. The gains and losses realized on the disposal of these instruments are transferred to and recognized in the income statement when realized.

Sundry receivable and the debenture receivable are classified under loans and receivables, which are measured at amortized cost using the effective interest method.

Accounts payable and accrued liabilities and convertible debentures are classified as other financial liabilities, which are initially measured at amortized cost using the effective interest method.

Intangible assets

Intangible assets are assets acquired which lack physical substance and which meet specified criteria for recognition apart from goodwill. Intangible assets are comprised mainly of a database compilation of technical information. The cost of the database compilation is amortized over five years, on the sum of the years digit method.

2. **Significant accounting policies** (cont'd)

Intangible assets (cont'd)

Each intangible asset with an indefinite life is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test consists of a comparison of the fair value of the intangible asset with its carrying amount. Any impairment loss in the carrying amount compared with the fair value is charged to income in the period in which the loss is incurred.

Measurement uncertainty and estimates

The preparation of the consolidated financial statements in conformity with GAAP 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. Significant areas requiring the use of management estimates relate to the determination of impairment of oil and gas property interests, stock-based compensation, the fair value of warrants and options issued, and future tax amounts. Financial results as determined by future events could differ materially from those estimates.

3. **Change in accounting policies including initial adoption**

Future accounting changes

International financial reporting standards (IFRS)

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. The transition date is for interim and financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010, and restatement of the opening balance sheet as at January 1, 2010.

The Company has developed an IFRS conversion plan and has completed a preliminary assessment which prioritizes how each IFRS standard will impact the financial statements. The Company anticipates there will be changes in accounting policies and these changes may materially impact the financial statements but the impact cannot be reasonably estimated at this time.

4. **Segregated cash**

The Company has reserved $40,581 (2009 - $40,500) in order to secure a letter of credit to the Saskatchewan Energy Resource Board. The letter of credit in the amount of $40,581 will be extended in one year periods on the anniversary date unless terminated in writing by the lender. These funds have been segregated in a Guaranteed Investment Certificate (GIC). The GIC bears interest at 0.2% and matures June 3, 2011.

Mooncor Oil & Gas Corp.
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2010 and 2009

5. Portfolio investments

At December 31, 2010 and 2009, the Company held the following portfolio of securities. The investments are classified as available for sale and are measured at fair value.

		2010	
	Number of Securities	Cost of Securities	Quoted Market Value
Greentree Gas & Oil Ltd. (common shares)	980,000	$ 133,250	$ -
Stealth Ventures Ltd. (common shares)	254,500	30,448	44,538
Petrolifera Petroleum Ltd (August 28, 2011 Warrants)	20,000	8,690	1,400
Torque Energy Inc. (common shares)	46,000	7,060	13,800
		$ 179,448	$ 59,738

		2009	
	Number of Securities	Cost of Securities	Quoted Market Value
Greentree Gas & Oil Ltd. (common shares)	980,000	$ 133,250	$ 24,500
Stealth Ventures Ltd. (common shares)	254,000	30,448	40,720
Petrolifera Petroleum Ltd (Aug 28, 2011 Warrants)	20,000	8,690	8,000
Torque Energy Inc. (common shares)	46,000	7,060	6,440
		$ 179,448	$ 79,660

6. Equipment

Equipment at December 31, 2010 and 2009 consists of

		2010	
	Cost	Accumulated Amortization	Net
Equipment	$ 19,979	$ 12,647	$ 7,332

		2009	
	Cost	Accumulated Amortization	Net
Equipment	$ 17,571	$ 10,171	$ 7,400

7. Intangible assets

In 2008, the Company acquired for cash, a proprietary database of technical data on shale gas properties located in Alberta and northeast British Columbia.

	Cost	2010 Accumulated Amortization	Net
Database	$ 150,000	$ 112,500	$ 37,500

	Cost	2009 Accumulated Amortization	Net
Database	$ 150,000	$ 80,000	$ 70,000

8. Investment in East Coast Energy Inc. and convertible debenture receivable

In February 2009, the Company acquired a 2% gross overriding royalty ("GOR") on the production from certain production leases, surface leases and basin wells located in Stellarton, Nova Scotia (the "Stellarton Property"). The Company acquired the GOR pursuant to an agreement with East Coast Energy Inc. ("ECE"), a private company incorporated in Ontario. ECE acquired the rights to the Stellarton Property concurrently with this transaction. In consideration for acquiring the GOR, the Company loaned ECE $325,000 pursuant to a 12% secured convertible debenture (the "Debenture") maturing on February 5, 2011. The Debenture accrues interest at a rate of 12%, payable on the last day of each calendar quarter. The Debenture is secured by the Stellarton Property.

The Company may, at its option and subject to all applicable regulatory approvals, elect to satisfy its right to interest on or the repayment of, the principal amount of the Debenture upon redemption or at maturity by the issuance and delivery by ECE to the Company of units, obtained by dividing the outstanding interest or principal amount to be converted by $0.18 (subject to adjustment). Each unit consists of one common share in the capital of ECE and one share purchase warrant. Each warrant entitles the holder to purchase one additional common share in the capital of ECE at a price of $0.25 per share until the earlier of (i) February 6, 2012, or (ii) February 5, 2011 in the event ECE is listed and posted for trading on the TSXV on the conversion date. The Debenture is redeemable at the option of ECE at any time in accordance with the provisions of the Debenture. The equity component, which is represented by management's estimate of the fair value attributed to the conversion feature, has a carrying value of $75,000, being the difference between the face amount and the fair value of the Debenture.

In 2009, the Company determined that the loan was impaired and the Company recorded a provision for the accrued interest receivable on the Debenture. The loan was revalued based on expected future cash inflows from the Debenture and the present value of the loan receivable will continue to accrete to the expected realizable value of $325,000.

On October 20, 2010, the Company entered into an agreement to dispose of the GOR and the debenture to an arm's length party for $325,000. All of the funds were received before the year end. The Company recorded a recovery of $70,695 of the carrying value previously deemed impaired.

9. Oil and gas properties and deferred exploration expenditures

Although the Company has taken steps to verify title to its property interests, in accordance with industry standards, these procedures do not guarantee the Company's title. Properties may be subject to unregistered prior agreements or inadvertent non-compliance with regulatory requirements.

The Company's oil and gas properties are unproven and consist of:

	Jan. 1, 2010	Additions	Write-offs	Dec 31, 2010
Lonestar (i)	$ 1,588,387	$ 16,564	$ (1,604,951)	$ -
Lloydminster (ii)	393,905	56,301	-	450,206
Hamburg - Chinchaga (iii)	2,924,130	454,387	-	3,378,517
South Western Ontario (iv)	232,621	248,519	-	481,140
	$ 5,139,043	$ 775,771	$ (1,604,951)	$ 4,309,863

	Jan. 1, 2009	Additions	Write-offs	Dec 31, 2009
Lonestar (i)	1,548,627	39,760	-	1,588,387
Lloydminster (ii)	525,208	236,253	(367,556)	393,905
Hamburg - Chinchaga (iii)	617,925	2,306,205	-	2,924,130
South Western Ontario (iv)	127,803	104,818	-	232,621
White Hill Lakes (v)	565,063	64,040	(629,103)	-
Woodbend (vi)	-	41,072	(41,072)	-
Bashaw (vii)	-	18,164	(18,164)	-
	$ 3,384,626	$ 2,810,312	$ (1,055,895)	$ 5,139,043

(i) Lonestar (Alberta)

On June 15, 2006, the Company entered into a farm-in agreement with a group of entities in which the Company may earn an undivided 65% working interest in the farm-out lands in the Lonestar Area in Alberta in consideration for drilling a test well. The well was drilled and cased in February 2007. The Company acquired two sections (1,280 acres) of P&NG rights (100%) in September 2007 and oil sands rights for two sections at Lonestar in May 2008. During 2010, the Company wrote off its carrying costs in Lonestar as management believes that these costs are not recoverable.

(ii) Lloydminster (Saskatchewan)

On February 10, 2008, the Company acquired two suspended wells and related P&NG rights in the Lloydminster area of Saskatchewan from an arm's length industry vendor for cash proceeds of $400,000. The transaction closed on February 11, 2008. The Company has a 60% working interest in one well subject to a 1% royalty on 100% production and a 3% royalty on 60% of production as well as a 100% working interest in the other well, subject to a convertible royalty with 5-15% on oil production and 15% on gas production plus a 1% royalty on 100% production and a 3% royalty on 60% of production until payout at which time the Company will hold a 60% working interest. Limited production revenues have been earned to date.

9. Oil and gas properties and deferred exploration expenditures (cont'd)

(iii) Hamburg - Chinchaga (Alberta)

During 2008, the Company acquired for cash of $617,925, 56,960 acres of 100% working interest lands on a shale gas play in the Western Canadian Sedimentary Basin. This property was acquired at Crown land sales through brokers. The Company also acquired a cased, suspended wellbore and four associated sections (2,560 acres net) of land on this shale gas play (included in the acreage mentioned above). During 2009, the Company acquired an additional 46,720 acres (73 sections) of 100% working interest land in the above area for $993,098 and incurred $875,987 in exploration work and a pilot well program and ancillary work.

Also during 2009, the Company engaged Macquarie Tristone (the acquisitions and divestitures business of Macquarie Capital Markets Canada Ltd.) as its exclusive advisor in respect to a potential transaction (farm-out, sale and/or other similar transaction) of all or any portion of the Company's interest in the above lands. The advisor was not successful in identifying a potential transaction and the parties mutually agreed to terminate their relationship during 2010. The Company continues to seek other potential opportunities and partners; however no definitive agreements have been entered into by the Company to this date.

(iv) South Western Ontario

In July 2008, the Company entered into a joint venture with an arm's length industry partner to develop certain partner owned and operated lands in SW Ontario as well as to acquire additional new lands in SW Ontario for the benefit of the joint venture. The Company acquired 3,833 acres in the area in 2008. The Company was required to spend $2,000,000 in qualifying expenditures on or before December 31, 2009 with respect to these lands, of which $500,000 had to be expended before December 31, 2008. The joint venture was terminated in 2008 and was not renewed.

During the current fiscal year, the Company acquired 18,737 acres (18,592 net) within the Kent and Lambton Counties of Southwest Ontario from an arm's length company for $100,000. The leases acquired are immediately adjacent to 3,833 acres acquired in 2008. The leases acquired were prepaid to end of term, the majority of which expire in late 2011.

During 2010, following a strategic review of its oil and gas properties, the Company announced its intention to spin-off its Ontario assets into DRGN Energy Inc. ("DRGN"), a wholly-owned subsidiary of the Company. The Company also announced its intention to complete a private placement into DRGN in connection with the above. However the spin-off and private placement have not yet been completed to date. The Company continues to explore options as to the best strategy to spin out these assets.

(v) White Hill Lakes (Saskatchewan)

On August 9, 2006 (subsequently amended to October 31, 2006 and June 8, 2007), the Company entered into a farm-in agreement with a group of entities to earn a 50% interest in the farm-out lands in the White Hill Lakes Area in Saskatchewan. Under the agreement, the Company was obligated to finance the drilling and completion of five test wells.

During 2009, the Company expended an additional $64,040 on this property. Based on management's analysis of this project, the Company abandoned this project and wrote down the accumulated carrying value of $629,103 as non-recoverable.

9. Oil and gas properties and deferred exploration expenditures (cont'd)

(vi) Woodbend (Alberta)

On February 1, 2006, the Company entered into a farm-in agreement with a group of entities ("Farmors") to acquire an interest in 1,191 acres of land. The Company, as operator, would earn a 100% working interest, subject to a nonconvertible sliding scale royalty on oil and a 16% royalty on gas to the Farmors, by incurring costs of drilling, testing and completing a well. The leases expired during 2008 and the Company wrote-down the carrying cost of this project at December 31, 2008. The Company subsequently reacquired these leases in 2009, but abandoned the project during that year. Accumulated costs incurred were written off as non-recoverable in 2009.

(vii) Bashaw (Alberta)

On October 22, 2007, the Company entered into a farm-in agreement with an industry partner wherein the Company would pay 50% of the cost to conduct a production test on an existing well to earn 50% working interest before payout and 30% after payout on the well and quarter section spacing unit. During 2008, the Company participated in the production test and had earned its interest in the farm-in agreement. Based on its evaluation of the work performed to date, the Company abandoned this project and wrote off the related accumulated costs in 2009.

10. Convertible debentures payable

The carrying value of the convertible debentures payable is as follows:

Balance, December 31, 2008	$ 2,093,260
Interest accrued	225,152
Interest accreted	121,880
Balance, December 31, 2009	2,440,292
Interest accrued	141,947
Interest and principal paid	(1,588,492)
Interest accreted	55,993
Equity component on extension of debentures	(31,024)
Balance, December 31, 2010	$ 1,018,716

In 2007, the Company issued two separate convertible debentures having a total face value of $2,000,000 and maturing on March 28, 2010. The debentures are secured against all property and assets of the Company and bear interest at 10% per annum. Principal and interest is payable at maturity.

On March 28, 2010, the Company negotiated an extension to the expiry of its Debentures to June 11, 2010 with an additional extension to December 11, 2010 (the "Maturity Date") subject to the Company reducing the outstanding principal balance of both Debentures to not less than $1,000,000. The outstanding principal of each Debenture is convertible into units of the Company at $0.225 per unit until December 11, 2010. Each unit consists of one common share and one-half of one warrant. Each whole warrant shall be exercisable for one common share at $0.225 per share until the Maturity Date. In addition, the Company issued to each holder 500,000 warrants exercisable for one common share at $0.225 until the Maturity Date.

10. Convertible debentures payable (cont'd)

During 2010, the Company repaid a total of $1,588,492 representing interest and principal, of the debentures.

Included in the statement of operations is a charge of $55,993 (2009 - $121,880) representing interest accretion.

On November 26, 2010, pursuant to a second extension agreement, the maturity date of the Debentures was extended from December 11, 2010 to June 11, 2011. In consideration for the extension, the Company agreed to extend the expiry date of the 500,000 warrants (the "Compensation Warrants") previously issued to each Debenture holder from December 11, 2010 to June 11, 2011. Each Compensation Warrant entitles the holder thereof to purchase one common share (a "Share") in the capital of Mooncor at $0.225 per Share.

The equity component, which is represented by management's estimate of the fair value attributed to the conversion feature, has a carrying value of $142,998 (2009 - $111,974), being the difference between the face amount of the convertible debentures payable and their fair value on issuance and as revalued following change in expiry terms in 2010. The fair value of the equity component has been recorded as a separate component of shareholders' equity.

11. Capital stock

Authorized - Unlimited Common shares without par value Issued - Common shares	Number of shares	Amount
Balance, Consolidated 2008	79,141,308	$ 10,614,487
Shares issued for cash, February 2009 (A)	6,804,500	1,381,000
Less:		
Share issue costs	-	(99,591)
Fair value of warrants	-	(250,692)
Fair value of broker warrants	-	(82,600)
Tax effect of renunciation associated with flow-through shares	-	(28,276)
Shares issued for cash, April 2009 (B)	5,780,000	1,156,000
Less:		
Share issue costs	-	(88,050)
Fair value of warrants	-	(225,998)
Fair value of broker warrants	-	(74,120)
Share issued for cash, September 2009 (C)	6,126,502	1,837,951
Less:		
Share issue costs	-	(161,702)
Fair value of warrants	-	(374,023)
Fair value of broker warrants	-	(112,207)
Warrants exercised for cash	472,662	88,214
Fair value of warrants exercised	-	25,487
Stock option consideration received	16,666	2,499
Fair value of stock options exercised	-	4,334
Shares cancelled, normal course issue bid	(425,000)	(73,584)
Premium on cancellation of shares	-	(2,820)
Fair value of expired warrants	-	67,996
Balance at December 31, 2009	97,916,638	$ 13,604,305

11. Capital stock (cont'd)

Authorized - Unlimited Common shares without par value Issued - Common shares	Number of shares	Amount
Balance at December 31, 2009	97,916,638	$ 13,604,305
Warrants exercised for cash	222,111	38,317
Broker warrants exercised for cash	568,807	51,193
Shares issued for cash (D)	7,905,345	1,321,103
Less:		
Share issue costs	-	(122,837)
Fair value of warrants	-	(353,740)
Fair value of broker warrants	-	(77,118)
Tax effect of renunciation associated with flow-through shares	-	(202,952)
Fair value of expired broker warrants	-	8,562
Fair value of expired warrants	-	293,347
Fair value of exercised warrants	-	89,510
Fair value of issued warrants	-	(93,818)
Fair value of extended warrants	-	(678,133)
Shares cancelled, normal course issuer bid	(100,000)	(14,320)
Balance at December 31, 2010	106,512,901	$ 13,863,419

Private placements

A) On February 9, 2009, the Company completed a non-brokered financing for $1,381,000 through the issuance of 6,402,500 units ("Units") at $0.20 per Unit and 402,000 flow-through shares at $0.25 per share. Each Unit consists of one common share in the capital of the Company and one-half of one common share purchase warrant ("Warrant"). Each whole Warrant entitles the holder thereof to acquire one common share at an exercise price of $0.35 per share for 24 months. The financing was completed in two tranches on February 6 and February 9, 2009. In connection with the financing, broker's fees were paid by way of 522,950 broker's warrants and cash of $85,280. Each broker's warrant entitles the holder thereof to acquire one Unit at an exercise price of $0.20 per Unit for 24 months after closing. In addition, legal fees (including disbursements) of $14,311 were paid to a law firm of which a former director and two current officers of the Company are partners.

B) In April 2009, the Company completed two tranches of a non-brokered private placement financing for $1,156,000 through the issuance of 5,780,000 units (a "Unit" or "Units") at a price of $0.20 per Unit. Each Unit consists of one common share in the capital of the Company and one-half of one common share purchase warrant (a "Warrant"). Each whole Warrant entitles the holder thereof to acquire one common share at an exercise price of $0.35 per share for 24 months after closing. The two tranches closed on April 9, 2009 and April 16, 2009. In connection with the financing, broker fees were paid by way of 470,000 broker's warrants and cash of $75,200. Each broker's warrant entitles the holder thereof to acquire one Unit at an exercise price of $0.20 per Unit for 24 months after closing. In addition, legal fees (including disbursements) of $12,850 were paid to a law firm of which a former director and two current officers of the Company are partners.

11. Capital stock (cont'd)

C) In September 2009, The Company completed three tranches of a non-brokered private placement financing for $1,837,951 through the issuance of 6,126,502 units (a "Unit" or "Units") at a price of $0.30 per Unit. Each Unit consists of one common share in the capital of the Company and one-half of one common share purchase warrant. Each whole warrant entitles the holder thereof to acquire one common share at an exercise price of $0.45 per share for 24 months after closing. The three tranches closed on September 23, 24 and 29, 2009. In connection with the financing, broker fees were paid by way of 612,650 broker warrants and cash of $147,036. Each broker's warrant entitles the holder thereof to acquire one Unit at an exercise price of $0.30 per Unit for 24 months after closing. In addition, legal fees (including disbursements) of $14,666 were paid to a law firm of which a former director and two current officers of the Company are partners.

D) In August 2010, the Company completed a non-brokered private placement financing (the "Private Placement") for $1,321,103 by issuing 3,395,300 common share units ("Units") and 4,510,045 "flow-through" units ("FT Units") at a price of $0.15 per Unit and $0.18 per FT Unit. Each Unit consisted of one common share in the capital of the Company (a "Common Share") and one common share purchase warrant (a "Warrant") of the Company. Each FT Unit consisted of one flow-through common share of the Company and one-half of one Warrant. Each whole Warrant entitles the holder thereof to acquire one Common Share at an exercise price of $0.25 per Common Share until 24 months from closing. In connection with the Private Placement, the Company paid cash commissions and fiscal advisory fees to registered agents equal to $100,719 and issued 749,535 finders warrants (each finders warrant exercisable for one Unit at $0.15 per Unit expiring 24 months from closing).

Normal course issuer bid

On December 10, 2008 the Company received approval from the TSX Venture Exchange (the "TSXV") of its intention to make normal course issuer bid ("NCIB") to purchase up to 3,740,455 common shares. The NCIB commenced on December 12, 2008 and terminated on December 11, 2009. The maximum price paid per repurchased share shall be no more than $0.225 per share. During 2009, the Company purchased 425,000 common shares under the NCIB with a carrying value of $73,584.

During 2010, the Company received approval from the TSXV for a notice filed by the Company of its intention to make another NCIB to purchase up to 4,895,831 common shares commencing on February 22, 2010 and terminating on February 21, 2011. The maximum price paid per repurchased share shall be no more than $0.25 per share. During 2010, 100,000 common shares were acquired for $14,320 and which were cancelled. The Company did not renew the NCIB on February 21, 2011.

Escrow shares

At December 31, 2010, 3,866,563 (2009 – 4,907,822) of the issued common shares are held in escrow. These shares are subject to the escrow requirements of the TSXV and will be released from escrow in stages in accordance with the rules of the TSXV and in accordance with the applicable escrow agreements.

Mooncor Oil & Gas Corp.
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2010 and 2009

12. Contributed surplus

Balance, December 31, 2008	$ 631,127
Stock-based compensation	321,896
Fair value of stock options exercised	(4,333)
Premium on cancellation of shares	2,820
Balance, December 31, 2009	951,510
Stock-based compensation	108,284
Balance, December 31, 2010	$ 1,059,794

13. Warrants

	Number of warrants	Fair value
Balance, December 31, 2008	16,402,394	$ 1,019,206
Warrants issued, Feb 2009	3,724,200	333,292
Warrants issued, April 2009	3,360,000	300,118
Warrants issued, Sept 2009	3,675,903	486,230
Warrants issued on the exercise of broker warrants	64,679	-
Exercised warrants transferred to Capital Stock	(472,632)	(25,487)
Expired warrants transferred to Capital Stock	(474,358)	(67,996)
Balance, December 31, 2009	26,280,186	2,045,363
Warrants issued, April 2010	1,052,750	66,046
Warrants issued, August 2010	5,650,323	353,740
Broker warrants issued, August 2010	749,535	77,118
Warrants issued, December 2010	138,861	27,772
Exercised warrants transferred to Capital Stock	(166,611)	(33,322)
Exercised broker warrants transferred to Capital Stock	(624,307)	(56,188)
Expired warrants transferred to Capital Stock	(2,107,710)	(293,347)
Expired broker warrants transferred to Capital Stock	(1,327,083)	(8,562)
Extended warrants revaluation	-	678,133
Balance, December 31, 2010	29,645,944	$ 2,856,753

13. Warrants (cont'd)

The Company had the following warrants outstanding at December 31, 2010:

Number of warrants	Type of shares	Exercise price	Expiry date
2,897,863	Common shares	$ 0.35	February 6, 2011 (a)
336,250	Common shares	0.35	February 9, 2011 (a)
2,065,000	Common shares	0.35	April 9, 2011 (a)
850,000	Common shares	0.35	April 16, 2011 (a)
1,000,000	Common shares	0.23	June 11, 2011
1,091,733	Common shares	0.35	June 12, 2011
6,816,668	Common shares	0.30	June 12, 2011
1,735,000	Common shares	0.30	September 23, 2011
1,029,253	Common shares	0.45	September 25, 2011
299,000	Common shares	0.45	September 29, 2011
1,494,334	Common shares	0.20	November 14, 2011
275,000	Common shares	0.20	December 12, 2011
500,000	Common shares	0.20	December 18, 2011
1,366,112	Common shares	0.20	December 19, 2011
1,326,000	Common shares	0.20	August 3, 2012
3,746,445	Common shares	0.25	August 9, 2012
577,876	Common shares	0.25	August 20, 2012
27,406,534			

During 2010, the Company obtained approval from the TSXV to extend the expiry date of 12,543,847 warrants that were originally scheduled to expire during 2010.

Pursuant to an extension agreement, the maturity date of the Debentures (Note 10) were extended from December 11, 2010 to June 11, 2011. In consideration for the extension, the Company agreed to extend the expiry date of the 500,000 warrants (the "Compensation Warrants") previously issued to each Debenture holder from December 11, 2010 to June 11, 2011. Each Compensation Warrant entitles the holder thereof to purchase one common share (a "Share") in the capital of Mooncor at $0.225 per Share.

(a) Subsequent to 2010, the Company received approval from the TSXV to extend the expiry of these warrants for 12 months.

13. Warrants (cont'd)

Broker warrants

407,225	Common share plus ½ share purchase warrant	$0.20	February 6, 2011
50,000	Common share plus ½ share purchase warrant	0.20	February 9, 2011
305,000	Common shares plus ½ share purchase warrant	0.20	April 9, 2011
115,000	Common shares plus ½ share purchase warrant	0.20	April 16, 2011
347,000	Common shares plus ½ share purchase warrant	0.30	September 23, 2011
205,850	Common shares plus ½ share purchase warrant	0.30	September 25, 2011
59,800	Common shares plus ½ share purchase warrant	0.30	September 29, 2011
221,700	Common shares plus ½ share purchase warrant	0.15	August 3, 2012
455,589	Common shares plus ½ share purchase warrant	0.15	August 9, 2012
72,246	Common shares plus ½ share purchase warrant	0.15	August 20, 2012
2,239,410			
29,645,944			

The fair values of the warrants were estimated at the date of grant using the Black-Scholes options pricing model with the following assumptions:

	2010	2009
Risk-free interest rates	1.21 - 1.89%	1.09% - 1.33%
Dividend yield	Nil	Nil
Expected stock price volatility	117 - 123%	100%
Warrants life	2 year	2 year

14. Stock options

On June 10, 2010, the shareholders of the Company approved an amended stock option plan (the "Plan") to enable directors, officers, employees and consultants of the Company to purchase common shares. Under the Plan, all options granted to an Executive or Employee shall vest and become fully exercisable ½ at the date of grant and ½ one year from the date of grant. All options granted to Consultants shall vest and become fully exercisable 1/3 at the time of grant and 1/3 after each subsequent year. All options granted to optionees performing Investor Relations Activities shall vest and become fully exercisable ¼ three months from the date of grant, ¼ six months from the date of grant, ¼ nine months from the date of grant and the final ¼ nine months from the date of grant. All options granted under the Plan shall expire no later than at the close of business ten years from the date of grant. The Plan provides that the number of common shares reserved for issuance upon exercise of options granted shall not exceed 10% of total issued and outstanding shares of the Company. There are no changes to the Plan in the current period.

The following summarizes the stock option activities:

	Number of Options	Weighted Average Exercise Price
Balance, December 31, 2008	7,637,500	0.19
Granted	2,000,000	0.29
Exercised	(16,666)	0.15
Balance, December 31, 2009	9,620,834	0.21
Granted	950,000	0.25
Balance, December 31, 2010	10,570,834	0.21

The Company had the following stock options outstanding at December 31, 2010:

Number of options	Grant date	Exercise price	Vested options	Expiry date
675,000	May 3, 2006	$ 0.27	675,000	May 3, 2011
186,000	May 10, 2006	0.45	186,000	May 10, 2011
600,000	Oct. 12, 2006	0.27	600,000	May 3, 2011
250,000	Sept. 28, 2007	0.50	250,000	Sept. 28, 2012
1,750,000	Oct. 30, 2007	0.23	1,750,000	Oct. 29, 2012
700,000	Jan. 31, 2008	0.14	700,000	Jan. 30, 2013
876,500	May 2, 2008	0.23	876,500	May 2, 2013
2,583,334	Dec. 24, 2008	0.15	2,333,328	Dec. 24, 2013
1,500,000	May 14, 2009	0.315	1,375,000	May 14, 2014
500,000	Dec. 3, 2009	0.21	166,665	Dec. 3, 2014
950,000	Nov. 19, 2010	0.25	950,000	Nov. 19, 2020
10,570,834		$ 0.21	9,862,493	

14. Stock options (cont'd)

The fair value of the stock options was estimated at the date of grant using the Black-Scholes options pricing model with the following assumptions:

	2010	2009
Risk-free interest rates	1.7%	2.17% - 2.43%
Dividend yield	NIL	NIL
Expected stock price volatility	122%	100%
Option life	10 years	5 years

15. Related party transactions

During 2010, the Company had the following transactions with officers, directors or entities under the control or significant influence of officers and directors that have not been disclosed elsewhere in the consolidated financial statements:

Included in professional fees are legal fees and disbursements of $114,836 (2009 - $132,479) to Garfinkle, Biderman LLP, a law firm in which Barry M. Polisuk and Robbie Grossman (the secretary and assistant secretary respectively) are partners of the law firm. At December 31, 2010, $Nil (2009 - $21,115) of this amount is included in accounts payable and accrued liabilities. These individuals also received $1,500 and $2,000 respectively each in their capacity of secretary and assistant secretary of the Company, pursuant to Board resolution.

Included in consulting fees are $93,380 (2009 - $122,722) paid to Nick Tsimidis, a director and officer, or to related companies for corporate and financial services, accounting and related services provided to the Company during the year. These services are provided pursuant to a consulting agreement.

Fees in the amount of $165,000 and $134,880 (2009 - $180,000 and $166,250) were paid to Darrell Brown and Richard Cohen respectively or to entities in which these directors hold a financial interest for consulting services rendered during the year. Fees paid to Darrell Brown of $150,000 (2009 - $93,750) were capitalized to various oil and gas properties during the year. These services are provided pursuant to a consulting agreements.

Included in sundry receivable are $39,498 (2009 - $Nil) relating to advances made to entites in which these directors hold a financial interest pursuant to consulting services rendered.

Included in accounts payable and accrued liabilities is $4,637 (2009 - $Nil) relating to services rendered by entites in which these directors hold a financial interest pursuant to consulting services rendered.

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.

16. Income taxes

The following table reconciles income taxes calculated at combined Canadian federal and provincial tax rates with the income tax expense in the financial statements:

	2010	2009
Loss before income taxes	$ 2,429,906	$ 3,361,855
Unrealized (gain) loss on portfolio investments	19,923	(6,612)
Comprehensive loss for the year	2,449,829	3,355,243
Statutory rate	29%	29.2%
Expected income tax recovery	710,450	981,025
Increase (decrease) in tax recoveries resulting from:		
Non-deductible expenses and other	(31,402)	(384,993)
Share issuance costs	46,102	114,436
Change in valuation allowance	(522,198)	(682,192)
Income tax recovery	$ 202,952	$ 28,276

Future Income Taxes

The temporary differences that give rise to future income tax assets and future income tax liabilities are presented below:

Future Tax Assets	2010	2009
Expected future combined tax rate	25%	28.1%
Oil and gas properties and deferred exploration costs	$ 1,994,902	$ 2,024,278
Amounts related to tax loss and credit carry forwards	1,754,095	1,790,747
Equipment and intangible assets	11,685	13,134
Share issuance costs	210,326	246,561
Net future income tax assets	3,971,008	4,074,720
Future Tax Liability		
Renunciation of exploration and deferred costs	(1,523,849)	(1,484,688)
Less: Valuation allowance	2,447,159	2,590,032
Net future income tax	$ -	$ -

Loss Carry Forwards

As at December 31, 2010, the Company has approximately $7,008,272 (2009 - $6,364,656) unutilized non-capital losses for income tax purposes which may be used to reduce future taxable income. *The Company also has approximately $49,816 of unutilized capital losses for income tax purposes.*

16. Income taxes (cont'd)

Loss Carry Forwards (cont'd)

These losses expire as follows:

Year of Expiry	Amount
2014	$ 213,502
2015	49,644
2026	583,580
2027	1,421,038
2028	1,797,276
2029	2,264,184
2030	679,048
	$ 7,008,272

17. Commitments

Gross overriding royalties

In addition to the gross overriding royalty ("GOR") agreements entered into in connection with the various oil and gas projects undertaken, the Company has entered into the following GOR agreements:

Database

As part of the purchase of the database of technical information (refer to Note 7), the Company entered into a GOR agreement with the vendor. Pursuant to the agreement, the Company has committed to pay royalties equal to 3% on all production from the lands included in the database.

Study

On December 22, 2008, the Company entered into an agreement with an arm's length party to obtain consulting services to study certain pieces of land under development by the Company. Pursuant to the agreement, the Company has committed to pay a GOR equal to 5% on all production from the lands included in the study.

Lease commitments

The Company entered into a lease agreement for office premises beginning on October 1, 2008 and expiring September 29, 2011.

17. Commitments (cont'd)

The Company vacated these premises during the period. Due to economic circumstances the Company attempted to renegotiate lease terms with its landlord but was unable to do so. The landlord has initiated legal proceedings against the Company and the Company has filed a statement of defense. The Company is unable to determine the outcome of this action at this time.

18. Capital disclosures

The Company's objectives when managing capital are as follows:

- To safeguard the Company's ability to continue as a going concern.
- To raise sufficient capital to finance its exploration and development activities on its mineral exploration properties.
- To raise sufficient capital to meet its general and administrative expenditures.

The Company manages its capital structure and makes adjustments to it based on general economic conditions, short term working capital requirements, and planned exploration and development.

The Company utilizes annual capital and operating expenditure budgets to facilitate the management of its capital requirement. These budgets are approved by management and updated for changes in the budgets' underlying assumptions as necessary.

There were no changes in the Company's approach to managing capital during the period.

In order to maintain or adjust the capital structure, the Company considers the following:

i) incremental investment and acquisition opportunities;
ii) equity and debt capital available from capital markets;
iii) equity and debt credit that may be obtainable from the marketplace as a result of growth in reserve values;
iv) availability of other sources of debt with different characteristics than the existing bank debt;
v) the sale of assets;
vi) limiting the size of the investment program; and
vii) new share issuances if available on favorable terms.

Except as otherwise disclosed herein, the Company is not subject to any external financial covenants at December 31, 2010.

19. Financial instruments

Fair Value of Financial Instruments

The fair values of cash and cash equivalents, segregated cash, sundry receivable, and accounts payable and accrued liabilities approximate their carrying values due to the relatively short term maturities of these instruments. The fair value of convertible debentures receivable and payable are determined using the effective interest method as disclosed in Notes 8 and 10 and the portfolio investments are reported at market prices as disclosed in Note 5.

19. Financial instruments (cont'd)

Fair value hierarchy

Level 1 - Quoted prices 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 or indirectly
Level 3 - Inputs for the assets or liability that are not based on observable market data

The Company's portfolio investments are Level 1 (Note 5).

Risk management

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has implemented and monitors compliance with risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions in relation to the Company's activities.

Unless otherwise noted, it is management's opinion that the Company is not exposed to significant price, credit, liquidity, or cash flow risks arising from the financial instruments.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Financial instruments that potentially subject the Company to credit risk consist of cash and cash equivalents, sundry receivable and prepaid expenses. Cash and cash equivalents are held at large Canadian Financial Institutions. A significant portion of sundry receivable pertains to HST refunds with the Canada Revenue Agency. The Company does not have any outstanding audit issues with the Canada Revenue Agency which would affect the recovery of these amounts. Prepaid expenses represent amounts on deposit with a financial institution, on behalf of the Province of Alberta, to cover potential environmental clean up liabilities, in accordance with regulations in that Province. The Company is not aware of any issues which would impact the recovery of these deposits.

The Company has no significant concentration of credit risk arising from operations. Management believes the risk of loss to be remote.

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

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company maintains a majority of its surplus funds in interest bearing accounts with Canadian financial institutions, which pay interest at a floating rate. The interest on the convertible debentures payable is fixed.

19. Financial instruments (cont'd)

Liquidity risk

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 is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses which may damage the Company's reputation.

The Company monitors and reviews current and future cash requirements and matches the maturity profile of financial assets and liabilities. This is generally accomplished by ensuring that cash is always available to settle financial liabilities. Except for the convertible debentures payable, all of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

Currency risk

Substantially all of the Company's operations are in Canada. Management believes the foreign exchange risk derived from any currency conversions is negligible and therefore does not hedge its foreign exchange risk.

Revenues from the sale of commodity prices in the oil and gas sector are denominated in United States dollars. Revenues received from sales of petroleum and natural gas products are impacted by the relationship between the Canadian dollar and United States dollar since oil prices are denominated in United States dollars in worldwide markets.

Market risk

Market risk is the risk that fluctuations in currency rates, interest rates and commodity prices will affect a Company's income or the value of its financial assets and liabilities. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns. The Canadian markets for petroleum and natural gas are impacted by changes in the exchange rate between the Canadian and United States dollar, but also world economic events that dictate the levels of supply and demand. Management has prioritized exploration rather than production projects in order to minimize the impact of fluctuating commodity prices on the Company's results.

20. Subsequent events

Private placements

In March 2011, the Company completed a brokered private placement financing for $2,661,200, by issuing 10,818,110 common share units ("Units") and 3,399,714 "flow-through" units ("FT Units") at a price of $0.18 per Unit and $0.21 per FT Unit. Each Unit consists of one common share in the capital of the Company and one common share purchase warrant (a "Warrant"). Each FT Unit consists of one flow-through common share of the Company (a "FT Share") and one-half of one Warrant. Each FT Share will qualify as a "flow-through share" for the purposes of the Income Tax Act (Canada). Each whole Warrant entitles the holder thereof to acquire one Common Share at an exercise price of $0.30 per Common Share for a period of 24 months following the closing.

19. Subsequent events (cont'd)

In connection with this financing, the Company paid cash commissions and fees of $229,590, and issued compensation warrants to purchase 1,233,450 Units at an exercise price of $0.18 per Unit exercisable for a period of 24 months following the closing of the financing.

In April 2011, the Company completed a non-brokered private placement financing by issuing 876,056 common share units ("Units") and 300,000 "flow-through" units ("FT Units") at a price of $0.18 per Unit and $0.21 per FT Unit for gross proceeds of $220,690. Each Unit consists of one common share in the capital of Mooncor (a "Common Share") and one common share purchase warrant (a "Warrant") of Mooncor. Each FT Unit consists of one flow-through common share of Mooncor and one-half of one Warrant. Each whole Warrant entitles the holder thereof to acquire one Common Share at an exercise price of $0.30 per Common Share until April 26, 2013. Certain officers and directors of Mooncor subscribed for an aggregate of $29,710 of Units.

In connection with the above financing, the Company paid cash commissions of $10,949, and issued compensation warrants to purchase 57,075 Units at an exercise price of $0.18 per Unit exercisable until April 26, 2013

Stock options

In April 2011, the Company granted 1,700,000 stock options to certain of its officers, directors, employees and consultants at an exercise price of $0.195 per common share expiring on April 8, 2021.

Convertible debentures

In April 2011, the Company negotiated an extension of its two convertible debentures from June 11, 2011 to December 31, 2011. In consideration for the extension, Mooncor has agreed to extend the expiry date of the 500,000 compensation warrants previously issued to each Debenture holder from June 11, 2011 to December 31, 2011. Each compensation warrant entitles the holder thereof to purchase one common share in the capital of Mooncor at $0.225 per Share.

Premises lease

Subsequent to 2010, the Company entered into a lease arrangement for office premises relating to the SouthWestern Ontario field office covering a period of 12 months and three weeks. Annual rent is $13,600.

Investor relations

In April, 2011, the Company entered into an agreement with an investor relations service provider for a six month term that can be extended on month-to-month basis for a monthly fee of $6,000. As per the agreement the Company granted the service provider with 300,000 stock options exercisable at $0.195 per share for a period of ten years. The Company cancelled the agreement with the previous investor relations service provider.