**RANGE ENERGY RESOURCES INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED**

**DECEMBER 31, 2010 AND 2009**

**RANGE ENERGY RESOURCES INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2010 AND 2009**

MANNING ELLIOTT
CHARTERED ACCOUNTANTS

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## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Range Energy Resources Inc.

We have audited the accompanying consolidated financial statements of Range Energy Resources Inc., which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended, and the related notes including a summary of significant accounting policies.

**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 financial position of Range Energy Resources Inc. as at December 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Manning Elliott LLP

April 12, 2011
Vancouver, British Columbia

**RANGE ENERGY RESOURCES INC.**

**CONSOLIDATED BALANCE SHEETS**

**AS AT DECEMBER 31, 2010 AND 2009**

| | **2010** | **2009** |
|---|---|---|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | $ 1,160,855 | $ 4,656,301 |
| Amounts receivable | 18,409 | 15,231 |
| Prepaid expenses and deposits | 17,833 | 10,167 |
| | 1,197,097 | 4,681,699 |
| Equipment (Note 6) | 1,538 | 2,100 |
| Long-term investment (Note 7) | 20,136,258 | 18,083,940 |
| | $ 21,334,893 | $ 22,767,739 |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued liabilities (Note 14(b)) | $ 10,918 | $ 94,114 |
| SHAREHOLDERS' EQUITY | | |
| SHARE CAPITAL (Note 9) | 24,725,267 | 24,512,767 |
| CONTRIBUTED SURPLUS (Note 10) | 8,104,255 | 5,539,324 |
| DEFICIT | (11,505,547) | (7,378,466) |
| | 21,323,975 | 22,673,625 |
| | $ 21,334,893 | $ 22,767,739 |

COMMITMENTS (Notes 7 and 15)
SUBSEQUENT EVENT (Note 16)

*See accompanying notes to the consolidated financial statements*

Approved on Behalf of the Board of Directors:

*"Don Sheldon"*
Don Sheldon, Director

*"R. Brian Murray"*
R. Brian Murray, Director

**RANGE ENERGY RESOURCES INC.**

**CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT**

**FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

| | 2010 | 2009 |
|---|---|---|
| REVENUES | $ – | $ – |
| ADMINISTRATIVE EXPENSES | | |
| Amortization | 563 | 677 |
| Audit and accounting (Note 14(c)) | 166,562 | 125,725 |
| Accretion | – | 36,197 |
| Consulting (Note 14(c)) | 254,539 | 353,292 |
| Corporate finance fees | 392,603 | – |
| Interest and bank charges | 175 | 3,454 |
| Legal fees | 165,244 | 183,911 |
| Management fees(Note 14(c)) | 168,000 | 108,000 |
| Office and rent | 105,216 | 53,369 |
| Shareholder information and printing | 17,374 | 10,295 |
| Stock-based compensation (Note 11) | 2,564,931 | 427,880 |
| Transfer agent and filing fees | 19,085 | 16,408 |
| Transaction costs (Note 7) | – | 650,000 |
| Travel and promotion | 303,702 | 31,162 |
| | 4,157,994 | 2,000,370 |
| LOSS BEFORE OTHER ITEMS | (4,157,994) | (2,000,370) |
| OTHER ITEMS | | |
| Interest income | 30,913 | 34 |
| Interest on convertible promissory notes | – | (31,158) |
| Provision for due from former related party (Note 14(a)) | – | (375,307) |
| Write-off of deposits | – | (161,940) |
| Loss on early extinguishment of convertible debentures (Note 8) | – | (24,658) |
| | 30,913 | (593,029) |
| NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR | (4,127,081) | (2,593,399) |
| DEFICIT, BEGINNING OF YEAR | (7,378,466) | (4,845,922) |
| EQUITY COMPONENT OF GAIN ON EARLY EXTINGUISHMENT OF CONVERTIBLE DEBENTURES (Note 8) | – | 60,855 |
| DEFICIT, END OF YEAR | $ (11,505,547) | $ (7,378,466) |
| LOSS PER SHARE – BASIC AND DILUTED | $ (0.03) | $ (0.06) |
| WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING | 163,028,525 | 45,546,881 |

*See accompanying notes to the consolidated financial statements*

**RANGE ENERGY RESOURCES INC.**

**STATEMENTS OF CASH FLOWS**

**FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

| | 2010 | 2009 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Net loss for the year | $ (4,127,081) | $ (2,593,399) |
| Items not affecting cash: | | |
| Amortization | 563 | 677 |
| Provision for due from former related party | – | 375,307 |
| Stock-based compensation | 2,564,931 | 427,880 |
| Loss on early extinguishment of convertible debentures | – | 24,658 |
| Write-off of deposits | – | 161,940 |
| Shares issued for services | – | 650,000 |
| Accretion of convertible debentures | – | 36,197 |
| | (1,561,587) | (916,740) |
| Changes in operating assets and liabilities: | | |
| Amounts receivable | (3,178) | (5,699) |
| Prepaid expenses and deposits | (7,667) | (3,917) |
| Accounts payable and accrued liabilities | (83,196) | (23,207) |
| Net cash outflows from operating activities | (1,655,628) | (949,563) |
| FINANCING ACTIVITIES: | | |
| Issue of shares and warrants for cash, net of cash issuance costs | – | 22,246,721 |
| Advances from related parties | – | 856,000 |
| Proceeds from the exercise of stock options and warrants | 212,500 | – |
| Repayment of convertible notes | – | (377,253) |
| Net cash inflows from financing activities | 212,500 | 22,725,468 |
| INVESTING ACTIVITIES: | | |
| Cash calls made for long-term investment | (2,052,318) | – |
| Purchase of long-term investment | – | (17,174,647) |
| Purchases of equipment | – | (348) |
| Repayments of amounts due from former related party | – | 50,000 |
| Net cash outflows from investing activities | (2,052,318) | (17,124,995) |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (3,495,446) | 4,650,910 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 4,656,301 | 5,391 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | $ 1,160,855 | $ 4,656,301 |

| | 2010 | 2009 |
|---|---|---|
| Cash and cash equivalents consist of: | | |
| Demand deposits | $ 238,506 | $ 456,301 |
| Term deposit | 922,349 | 4,200,000 |
| | $ 1,160,855 | $ 4,656,301 |

SUPPLEMENTAL CASH FLOW INFORMATION (NOTE 13)

*See accompanying notes to the consolidated financial statements*

## 1. NATURE OF OPERATIONS

Range Energy Resources Inc. (the "Company") was incorporated under the laws of British Columbia, Canada on March 1, 2005. On October 24, 2006, the Company's common shares were listed and called for trading on the Canadian National Stock Exchange ("CNSX") and its current symbol is RGO. On February 12, 2007 the Company listed on the Frankfurt stock exchange. The Company is a development stage company engaged in the acquisition and exploration of oil and gas resource properties. As at December 31, 2010, the Company's principal asset is an indirect investment in an oil and gas resource property referred to as the Khalakan Block, which is domiciled in the Kurdistan Region of Iraq (see Note 7). The Company also intends to pursue other opportunities in the Middle East.

As at December 31, 2010, the Company has accumulated losses since inception of $11,505,547. The continuance of the Company's operations is dependent on obtaining sufficient additional financing in order to realize the recoverability of the Company's long-term investment, which is subject to the existence of economically recoverable reserves and market prices for the underlying resources.

These financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

## 2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation and Consolidation

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"), are expressed in Canadian dollars and include the accounts of the Company, and its wholly-owned subsidiary Range Oil & Gas (North Iraq) Inc. Effective December 31, 2009, the Company amalgamated with Range Oil & Gas Inc., a former subsidiary of the Company. All significant inter-company balances and transactions have been eliminated upon consolidation.

Certain figures presented for comparative purposes have been reclassified to conform to the presentation adopted for the current period.

(b) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the valuation or recoverability of deposits and due from former related party, asset retirement obligations, expected tax rates and the utilization of future income tax assets, fair value measurements for financial instruments and the measurement of stock-based transactions. Financial results as determined by actual events could differ from those estimates.

(c) Cash Equivalents

Cash equivalents include money market investments or term deposits where the initial maturity is less than 90 days or which can be redeemed without significant penalty.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Long-lived Assets and Impairment

The carrying values of long-lived assets with fixed or determinable lives are reviewed for impairment whenever events or changes in circumstances indicate recoverable values may be less than carrying amounts. Recoverable value determinations are based on management's estimates of undiscounted and discounted future net cash flows expected to be recovered from specific assets or groups of assets through use or future disposition. Impairment charges are recorded in the period in which determination of impairment is made by management.

(e) Investments

Investments not subject to significant influence with no quoted market price in an active market are designated as available-for-sale and accounted for at cost. At each balance sheet date, the Company assesses the investment for any objective evidence indicating impairment in value. If a decline in the recoverable amount below cost is considered to be other than temporary, an impairment loss equal to the difference between the carrying amount of the investment and its fair value is recorded in income for the period. Transaction costs related to the acquisition of investments are recognized as expenses in the statement of operations when incurred.

(f) Stock-based Compensation

The Company has a plan for granting stock options to management, directors, employees and consultants as described in Note 9(c). The Company recognizes compensation expense under this plan using the fair value method in accordance with CICA Handbook section 3870 "Stock-Based Compensation and Other Stock-Based Payments". Under this method, the fair value of stock options granted to employees is recognized as stock-based compensation expense over the vesting period and credited to contributed surplus. Stock options granted to non-employees are measured at their fair value on the vesting date. Prior to the vesting date, the then-current fair value of stock options granted to non-employees is recognized as stock-based compensation expense from the date of grant to the reporting date and credited to contributed surplus. Upon the exercise of stock options, consideration paid and the fair value amounts previously credited to contributed surplus are recorded as share capital. The Company uses the Black-Scholes option pricing model to estimate the fair value of stock options granted.

(g) Foreign Currency Translation

Transactions in foreign currencies are translated into the currency of measurement at the exchange rates in effect on the transaction date. Monetary balance sheet items denominated in foreign currencies are translated into Canadian dollars at the exchange rates in effect at the balance sheet date. The resulting exchange gains and losses are recognized in income.

(h) Income Taxes

Income taxes are accounted for using the liability method. Under this method current income taxes are recognized for the estimated income taxes payable for the current year. Future income taxes are recognized for temporary differences between the tax and accounting bases of assets and liabilities and for the potential benefit of losses available to be carried forward for tax purposes that are more likely than not to be realized. Future income tax assets and liabilities are measured using substantially enacted tax rates that apply for the years in which the temporary differences are expected to be recovered or settled. A valuation allowance is recorded against any future income tax asset if it is not more likely than not that the asset will be realized.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Loss per Share

Loss per share is calculated using the weighted average number of shares outstanding during the reporting period. The Company uses the treasury stock method for computing diluted loss per share. This method assumes that any proceeds obtained upon exercise of outstanding options or warrants would be used to purchase common shares at the average market price during the period. As the Company has recorded a net loss in each of the periods presented, basic and diluted net loss per share are the same as the exercise of stock options or share purchase warrants are anti-dilutive.

(j) Financial Instruments

All financial instruments are required to be measured at fair value on initial recognition, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held for trading, available for sale, held to maturity, loans and receivables, or other financial liabilities.

Financial assets and liabilities classified as held for trading are measured at fair value, with gains and losses recognized in net earnings. Available for sale financial assets with quoted market prices are measured at fair value, with unrealized gains and losses recognized in other comprehensive income. Investments in equity instruments classified as available for sale that do not have quoted market prices in an active market are measured at cost.

Financial assets classified as held to maturity and loans and receivables are measured at amortized cost using the effective interest method of amortization. Financial liabilities classified as other financial liabilities are measured at amortized cost using the effective interest method of amortization.

The Company classifies its cash and cash equivalents as held for trading, amounts receivable and due from former related party (see Note 14(a)) as loans and receivables, long-term investment as available for sale and accounts payable and as other financial liabilities.

(k) Asset Retirement Obligations

The Company follows the CICA Handbook section 3110, "Asset Retirement Obligations" which establishes standards for the recognition, measurement and disclosure of liabilities for asset retirement obligations and the associated asset retirement costs. The standards apply to potential statutory, regulatory, or civil obligations associated with the retirement of long-lived tangible assets that arise from the acquisition, construction, development or normal operation of such assets. The standards require that a liability for an asset retirement obligation be recognized in the period in which it is identifiable and when a reasonable estimate of the fair value of the liability can be made. Furthermore, a corresponding asset retirement cost should be recognized by increasing the carrying amount of the related long-lived asset. The asset retirement cost will be amortized over the remaining life of the asset. Management has reviewed the Company's determinable or likely future obligations and retirement costs of long-lived assets for known obligations. These financial statements do not include any adjustments related to asset retirement obligations. Any future retirement obligations will be recognized when determinable and quantifiable.

## 3. NEW ACCOUNTING STANDARDS NOT YET ADOPTED

(a) Business Combinations, Consolidated Financial Statements and Non-Controlling Interests

In January 2009, the CICA issued Section 1582, "Business Combinations" to replace Section 1581. Prospective application of the standard is effective January 1, 2011, with early adoption permitted. This new standard effectively harmonizes the business combinations standard under Canadian GAAP with International Financial Reporting Standards. The new standard revises guidance on the determination of the carrying amount of the assets acquired and liabilities assumed, goodwill and accounting for non-controlling interests at the time of a business combination. The CICA concurrently issued Section 1601, "Consolidated Financial Statements" and Section 1602, "Non-Controlling Interests", which replace Section 1600, "Consolidated Financial Statements". Section 1601 provides revised guidance on the preparation of consolidated financial statements and Section 1602 addresses accounting for non-controlling interests in consolidated financial statements subsequent to a business combination. These standards are effective January 1, 2011, unless they are early adopted at the same time as Section 1582, "Business Combinations". The Company is currently assessing the impact on adopting these standards and has not yet determined its effect on its consolidated financial statements.

(b) International Financial Reporting Standards

The Canadian Accounting Standards Board confirmed that publicly accountable entities will be required to prepare financial statements in accordance with International Financial Reporting Standards ("IFRS") for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. Companies will have to provide comparative IFRS information for the previous fiscal year.

The process of changing from current Canadian GAAP to IFRS will be a significant undertaking that may materially affect reported financial position and results of operations, and may also affect certain business functions. The Company is nearing the completion of its evaluation and the adoption of IFRS and its impact on its financial position and results of operations. The transition from GAAP to IFRS will be applicable for the Company for the first quarter 2011 when the Company will report both the current and comparative information using IFRS.

## 4. CAPITAL MANAGEMENT

The Company manages its capital to ensure it will be able to continue as a going concern and continue the funding of its long-term investment. The Company has no operations that generate cash flow and depends on financings to fund its long-term investment and administrative expenses. These stock issues depend on numerous factors including a positive oil and gas environment, positive stock market conditions, a company's track record, and the experience of management. The capital structure of the Company consists of shareholders' equity, which is comprised of share capital, contributed surplus and deficit. The board of directors does not establish quantitative return on capital criteria for management due to the nature of the Company's business. The Company does not pay dividends and is not exposed to any externally imposed capital requirements.

## 5. FINANCIAL INSTRUMENTS, FAIR VALUE MEASUREMENTS AND RISKS

(a) Fair Values of Financial Instruments

The fair values of financial instruments are summarized as follows:

| | December 31, 2010 | | December 31, 2009 | |
|---|---|---|---|---|
| | Carrying Value $ | Fair Value $ | Carrying Value $ | Fair Value $ |
| **Financial Assets** | | | | |
| *Held for trading* | | | | |
| Cash and cash equivalents | 1,160,855 | 1,160,855 | 4,565,301 | 4,565,301 |
| *Loans and receivables* | | | | |
| Amounts receivable | 18,409 | 18,409 | 15,231 | 15,231 |
| **Financial Liabilities** | | | | |
| *Other financial liabilities* | | | | |
| Accounts payable | 10,918 | 10,918 | 94,114 | 94,114 |

As at December 31, 2010, the carrying value of the Company's long-term investment is $20,136,258 (2009 - $18,083,940). The long-term investment does not have a reliably measurable fair value as it does not have a quoted market price in an active market.

(b) Fair Value Measurements

The Company has various financial instruments including cash and cash equivalents, amounts receivable and accounts payable.

CICA 3862, *Financial Instruments – Disclosures*, requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. CICA 3862 establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. CICA 3862 prioritizes the inputs into three levels that may be used to measure fair value:

Level 1

Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2

Level 2 applies to assets or liabilities for which there are inputs other than quoted prices that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

Level 3

Level 3 applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

## 5. FINANCIAL INSTRUMENTS, FAIR VALUE MEASUREMENTS AND RISKS (continued)

(b) Fair Value Measurements (continued)

The fair value of cash and cash equivalents is determined based on “Level 1” inputs, which consist of quoted prices in active markets for identical assets. As at December 31, 2010, the Company believes that the carrying values of amounts receivable and accounts payable approximate their fair values because of their nature and relatively short maturity dates or durations.

Assets measured at fair value on a recurring basis were presented on the Company’s balance sheet as of December 31, 2010 as follows:

| | Fair Value Measurements Using | | | |
|---|---|---|---|---|
| | Quoted Prices in Active Markets For Identical Instruments (Level 1) $ | Significant Other Observable Inputs (Level 2) $ | Significant Unobservable Inputs (Level 3) $ | December 31, 2010 $ |
| Assets: | | | | |
| Cash and cash equivalents | 1,160,855 | – | – | 1,160,855 |

(c) Financial Risks

(i) Credit Risk

Credit risk arises from the non-performance by counterparties of contractual financial obligations resulting in financial loss to the Company. The Company’s credit risk is primarily attributable to its cash and cash equivalents and amounts receivable. Cash and cash equivalents are held with an investment grade Canadian financial institution as assessed by external rating agencies. The deposits held with this institution may exceed the amount of insurance provided on such deposits. Amounts receivable are due from an agency of the Canadian government. Management believes the risk of loss to be minimal. As at December 31, 2010, the Company’s maximum credit risk is the carrying value of cash and cash equivalents and amounts receivable.

(ii) Commodity Price Risk

The Company is subject to price risk from fluctuations in market prices of the commodities underlying its long-term investment. This exposure includes the ability to raise capital with favourable terms. The Company does not currently hold any financial instruments that mitigate this risk.

(iii) Liquidity Risk

Liquidity risk refers to the risk that the Company will not be able to meet its financial obligations when they become due, or can only do so at excessive cost. As at December 31, 2010, the Company has working capital surplus of $1,186,179. The Company manages liquidity risk by maintaining adequate cash and cash equivalent balances including purchasing cash equivalents with early redemption features that may be sold into an active market. The Company continuously monitors and reviews both actual and forecasted cash flows, and also matches the maturity profile of financial assets and liabilities.

## 5. FINANCIAL INSTRUMENTS, FAIR VALUE MEASUREMENTS AND RISKS (continued)

(c) Financial Risks (continued)

(iv) Interest Rate Risk

As at December 31, 2010, the Company's cash equivalents consist of a term deposit in the amount of $922,349 which is comprised of a principal amount of $900,000 and accumulated interest of $22,349. The term deposit is subject to interest rate price risk it carries a fixed rate of interest of 1%. The Company does not engage in any hedging activity to mitigate these risks. A plus or minus 1% change in market interest rates would not have a significant effect on the Company's loss and comprehensive loss for the year.

(v) Currency Risk

As the Company operates in an international environment, some of the Company's transactions and balances are denominated in currencies other than the Canadian dollar. The Company's foreign exchange risk arises primarily with respect to the United States dollar. The Company is required to make regular cash contributions denominated in United States dollars to fund the companies underlying its long-term investment (see Note 7). Fluctuations in the exchange rate between the United States dollar and the Canadian dollar could have a material effect on the Company's business, financial condition and results of operations. The Company does not engage in any hedging activity to mitigate this risk.

As at December 31, 2010, a strengthening (weakening) of the Canadian dollar against the United States dollar of 10% would have an insignificant impact on the Company's loss and comprehensive loss.

## 6. EQUIPMENT

| **2010** | Cost | Accumulated Amortization | Net Book Value |
|---|---|---|---|
| Computers and software | $ 4,239 | $ 2,701 | $ 1,538 |

| **2009** | Cost | Accumulated Amortization | Net Book Value |
|---|---|---|---|
| Computers and software | $ 4,239 | $ 2,139 | $ 2,100 |

## 7. LONG-TERM INVESTMENT

On November 6, 2009, Range Oil & Gas Inc. entered into a share acquisition agreement with a privately held company (the "Vendor") under which the Company would purchase 49.9% of the common shares of New Age Al Zarooni 2 Limited ("NAAZ2"), a company domiciled in Jersey, Channel Islands. The consideration paid for the shares was as follows:

(a) US$16,367,000 ($16,862,774) cash;
(b) 2,000,000 common shares of the Company with an estimated fair value of $400,000 measured on the date of issuance;
(c) 1,500,000 warrants to purchase 1,500,000 common shares of the Company exercisable for a term of five years at a price of $0.30 per share, valued at $509,293 measured on the date of issuance using the Black-Scholes option-pricing model; and
(d) US$44,000 ($46,728) of expenses reimbursed to the Vendor.

The transaction closed on November 17, 2009. In connection with the transaction, the Company issued 3,250,000 common shares of the Company for corporate advisory services to unrelated third parties. The estimated fair value of these shares of $650,000, measured on the date of issuance, was recorded as transaction costs in the statement of operations during the year ended December 31, 2009.

NAAZ2 holds 50% of the common shares of Gas Plus Khalakan Limited ("GPK"), a company domiciled in Jersey, Channel Islands. GPK holds an 80% interest in the Khalakan production sharing contract ("PSC") for an oil and gas resource property referred to as the Khalakan Block. The Kurdistan Regional Government of Iraq holds the remaining 20% interest in the PSC. The Khalakan Block consists of two concessions, Blocks 28 and 29 (sometimes referred to as Blocks 6 and 7), and comprises 624 square kilometres located in the central part of the Kurdistan Region of Iraq. The Khalakan Block lies between the concession which contains the Taq Taq oilfield and the concession which contains the recent discovery at Miran by Heritage Oil Limited.

Under the GPK Shareholders' Agreement, a company beneficially owned by a third party is entitled to a 40% interest in the net profits ("NPI") of the project. At any time, the 40% NPI may be exchanged for 40% of the issued common shares of GPK for a price equal to US$1 per common share. In addition, a 3.5% interest in the net profits is payable under a management services agreement.

Under the NAAZ2 shareholders' agreement, each shareholder is required to fund its relative portion of cash calls by NAAZ2. Should a shareholder fail to fund its portion of these cash calls, the non-defaulting shareholder will have the option to fund any shortfalls and thereby increase its relative interest in NAAZ2. Should the non-defaulting shareholder decline to fund any shortfalls, a buy-out event may be triggered under which the defaulting party's interest may be purchased by the non-defaulting party for a price pre-determined by a formula in the shareholders' agreement. During the year ended December 31, 2010, the Company advanced US$1,964,565 ($2,052,318) (2009 - US$249,500 ($265,145)) to cover its portion of cash calls to NAAZ2.

Under the GPK shareholders' agreement, each shareholder is required to fund its relative portion of cash calls by GPK. Should a shareholder fail to fund its portion of these cash calls, the non-defaulting shareholder will have the option to fund any shortfalls and thereby increase its relative interest in GPK. Should the non-defaulting shareholder decline to fund any shortfalls, a buy-out event may be triggered under which the defaulting party's interest may be purchased by the non-defaulting party for a price pre-determined by a formula in the shareholders' agreement.

## 8. EXTINGUISHMENT OF CONVERTIBLE DEBENTURES

During the year ended December 31, 2008, the Company issued two convertible debentures with a face value of $410,000. One of the debentures with a face value of $290,000 was issued to a Company controlled by the president of the Company. The debentures were convertible into common shares of the Company at a conversion price of $0.40 per share, were unsecured, bore interest at a rate of 8% per annum and were due on September 19, 2010. The Company used the residual value method to allocate the principal amount of the convertible debentures between the liability and equity components. Under this method, the value of the equity component of $77,049 was determined by deducting the fair value of the liability component of $332,951 from the face value of $410,000.

On November 17, 2009, the Company agreed to settle the convertible debenture with a face value of $120,000 for $87,253 cash, 350,000 common shares of the Company and 350,000 share purchase warrants to purchase 350,000 common shares of the Company. Each share purchase warrant may be exercised at a price of $0.40 for a term of two years. The shares and warrants were valued at $70,000 being the market price for identical financial instruments issued in the financing described in Note 9(b)(ii). On the settlement date, the carrying value of the equity component was $22,551. In connection with the settlement, the Company recorded an adjustment to deficit of $11,750 and a gain on the early extinguishment of convertible debentures of $148 computed in accordance with the guidance provided by EIC-96, "Accounting for the Early Extinguishment of Convertible Securities Through (1) Early Redemption or Repurchase and (2) Induced Early Conversion".

On November 17, 2009, the Company agreed to settle the convertible debenture with a face value of $290,000 plus accrued interest of $28,274 for $318,274 cash. On the settlement date, the carrying value of the equity component was $54,498. In connection with the settlement, the Company recorded an adjustment to deficit of $49,105 and a loss on the early extinguishment of convertible debentures of $24,806 computed in accordance with the guidance provided by EIC-96.

## 9. SHARE CAPITAL

(a) Authorized Share Capital

The authorized share capital of the Company consists of an unlimited number of shares without par value and an unlimited number of preferred shares, issuable in series. The preferred share rights and restrictions may be set by the Company's directors upon issue.

(b) Issued and Outstanding Share Capital

The issued and outstanding common shares are as follows:

| | Number of Shares | | Amount |
|---|---|---|---|
| Balance, December 31, 2008 | 29,187,840 | $ | 3,367,630 |
| Issued pursuant to private placement, net of share issuance costs (Note 9(b)(i)) | 121,790,000 | | 18,965,137 |
| Issued for long-term investment (Note 7) | 2,000,000 | | 400,000 |
| Issued for settlement of debt (Note 9(b)(ii)) | 5,650,000 | | 1,130,000 |
| Issued for transaction costs relating to long-term investment (Note 7) | 3,250,000 | | 650,000 |
| Balance, December 31, 2009 | 161,877,840 | | 24,512,767 |
| Issued upon exercise of stock options | 1,500,000 | | 112,500 |
| Issued upon exercise of warrants | 1,000,000 | | 100,000 |
| Balance, December 31, 2010 | 164,377,840 | $ | 24,725,267 |

## 9. SHARE CAPITAL (continued)

(b) Issued and Outstanding Share Capital (continued)

(i) Private Placement

On November 17, 2009, the Company issued 121,790,000 units under a private placement at a price of $0.20 per unit for gross proceeds of $24,358,000. Each unit consists of one common share of the Company and one share purchase warrant. Each warrant entitles the holder to purchase an additional common share of the Company at a price of $0.40 per share for a period of two years from the closing of the financing.

In connection with the private placement, the Company paid finders' fees of $1,450,980, corporate finance fees of $452,500 and other cash share issuance costs of $207,799. In addition, the Company issued as finders' fees 7,254,900 warrants. Each warrant entitles the holder to purchase one common share of the Company at a price of $0.20 for a period of 2 years from closing of the financing. The warrants were valued at $3,281,584, measured on the date the counterparties completed their performance, using the Black-Scholes option-pricing model.

(ii) Shares Issued for Debt

On November 17, 2009, the Company issued 5,650,000 units to extinguish $1,130,000 of debt consisting of convertible notes, promissory notes and accounts payable. Each unit consisted of one common share of the Company and one share purchase warrant. Each warrant entitles the holder to purchase an additional common share of the Company at a price of $0.40 per share for a period of two years from the date of issuance. The estimated fair value of the units issued was $1,130,000, measured using the market price for identical instruments on the date of issuance (see Note 9(b)(i)).

At December 31, 2010 and 2009, there are no preferred shares issued and outstanding.

(c) Stock Options

The Company has adopted an amended stock option incentive plan (the "Plan") that was approved by the board of directors on January 6, 2010 and by the shareholders on May 27, 2010. The aggregate number of shares of the Company's capital stock issuable pursuant to options granted under the Plan may not exceed 16,237,784 shares. Options granted under the Plan may have a maximum term of ten years. The exercise price of options granted under the Plan shall be determined by the Company's directors, provided that such price shall not be lower than the closing sales price of the Company's shares for the market trading day immediately prior to the time of grant, less any discount permitted by CNSX. Stock options granted under the Plan may be subject to vesting terms that are set at the discretion of the Directors at the time of grant.

## 9. SHARE CAPITAL (continued)

(c) Stock Options (continued)

The following table summarizes stock option activity during the years ended December 31, 2010 and 2009:

| | Number of Shares Under Option | Weighted Average Exercise Price |
|---|---|---|
| Balance, December 31, 2008 | 5,150,000 | 0.33 |
| Granted | 937,500 | 0.35 |
| Expired | (250,000) | (0.55) |
| Balance, December 31, 2009 | 5,837,500 | 0.32 |
| Granted | 10,500,000 | 0.30 |
| Exercised | (1,500,000) | (0.075) |
| Balance, December 31, 2010 | 14,837,500 | $0.35 |

The following table summarizes stock options outstanding and exercisable at December 31, 2010:

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Exercise Price $ | Number of Shares | Weighted Average Remaining Contractual Life (years) | Weighted Average Exercise Price $ | Number Exercisable | Weighted Average Exercise Price $ |
| 0.62 | 1,000,000 | 2.56 | 0.62 | 1,000,000 | 0.62 |
| 0.55 | 750,000 | 1.10 | 0.55 | 750,000 | 0.55 |
| 0.35 | 937,500 | 2.56 | 0.35 | 937,500 | 0.35 |
| 0.30 | 11,350,000 | 3.91 | 0.30 | 11,350,000 | 0.30 |
| 0.20 | 800,000 | 2.45 | 0.20 | 800,000 | 0.20 |
| 0.20 – 0.62 | 14,837,500 | 3.57 | 0.35 | 14,837,500 | 0.35 |

Stock options outstanding at December 31, 2010 will expire between February 7, 2012 and January 7, 2015.

## 9. SHARE CAPITAL (continued)

(d) Warrants

The following table summarizes warrant activity during the years ended December 31, 2010 and 2009:

| | Number of Warrants | Purchase Price per Share |
|---|---|---|
| Balance, December 31, 2008 | 1,700,000 | $0.33 |
| Issued on private placement (Note 9(b)(i)) | 121,790,000 | 0.40 |
| Issued for finders' fees (Note 9(b)(i)) | 7,254,900 | 0.20 |
| Issued for settlement of convertible debentures, promissory notes and accounts payable (Note 9(b)(ii)) | 5,650,000 | 0.40 |
| Issued for acquisition of long-term investment (Note 7) | 1,500,000 | 0.30 |
| Warrants expired during the year | (700,000) | 0.65 |
| Balance, December 31, 2009 | 137,194,900 | 0.39 |
| Warrants exercised during the year | (1,000,000) | 0.10 |
| Balance, December 31, 2010 | 136,194,900 | $0.39 |

Warrants outstanding at December 31, 2010 expire between October 21, 2011 and November 17, 2011.

The following table summarizes share purchase warrants outstanding at December 31, 2010:

| Number of Warrants | Exercise Price $ | Expiry Date | Weighted Average Remaining Contractual Life |
|---|---|---|---|
| 7,254,900 | 0.20 | November 17, 2011 | 0.88 years |
| 1,500,000 | 0.30 | November 17, 2011 | 0.88 years |
| 120,540,000 | 0.40 | October 21, 2011 | 0.81 years |
| 5,650,000 | 0.40 | October 21, 2011 | 0.81 years |
| 1,250,000 | 0.40 | November 2, 2011 | 0.83 years |
| 136,194,900 | | | 0.81 years |

(e) Shares Held in Escrow

At December 31, 2010, 18,906 of the issued and outstanding common shares were held in escrow, subject to release with only regulatory approval.

## 10. CONTRIBUTED SURPLUS

| | **2010** | **2009** |
|---|---|---|
| Balance, beginning of year | $ 5,539,324 | $1,320,567 |
| Stock-based compensation (Note 11) | 2,564,931 | 427,880 |
| Warrants issued as finders' fees (Note 9(b)(i)) | – | 3,281,584 |
| Warrants issued for long-term investment (Note 7) | – | 509,293 |
| Balance, end of year | $ 8,104,255 | $5,539,324 |

## 11. STOCK-BASED COMPENSATION

During the year ended December 31, 2010, the Company granted 10,500,000 (2009 - 937,500) stock options to directors, officers, employees and consultants of the Company. The weighted average fair value of each option granted was $0.25 (2009 - $0.29) computed using the Black-Scholes option-pricing model on the date of each grant using the following weighted average assumptions:

| | 2010 | 2009 |
|---|---|---|
| Expected stock option lives (years) | 5.0 | 5.0 |
| Expected stock price volatility (%) | 117.0 | 118.0 |
| Risk-free interest rate (%) | 2.8 | 2.4 |
| Expected dividend yield (%) | – | – |

During the year ended December 31, 2010, the Company recognized compensation cost of $2,564,931 (2009 – $427,880) as stock-based compensation expense.

## 12. INCOME TAXES

In assessing the realization of the Company's future income tax assets, management considers whether it is more likely than not that some portion of all of the future income tax assets will not be realized. The ultimate realization of future income tax assets is dependent upon the generation of taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of future tax liabilities, projected future taxable income and tax planning strategies in making this assessment. The amount of future income tax assets considered realizable could change materially in the near term based on future taxable income generated during the carry-forward period.

(a) Future Income Tax Assets and Liabilities

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

| | 2010 | 2009 |
|---|---|---|
| Future income tax assets (liabilities): | | |
| Non-capital income tax losses carried forward | $ 1,795,652 | $ 1,070,470 |
| Net capital income tax losses carried forward | 11,873 | 11,873 |
| Equipment | 675 | 535 |
| Resource pools | 81,059 | 120,013 |
| Cumulative eligible capital | 5,961 | 6,284 |
| Long-term investment | 72,677 | 72,677 |
| Share issuance costs | 652,362 | 435,407 |
| Future income tax assets | 2,620,259 | 1,717,259 |
| Valuation allowance | (2,620,259) | (1,717,259) |
| Net future income tax assets | $ – | $ – |

## 12. INCOME TAXES (continued)

(b) Losses Carried Forward and Expiration Dates

At December 31, 2010, the Company has non-capital losses carried forward for income tax purposes available to reduce taxable income in future years of $7,182,606 in Canada expiring as follows:

| Year of Expiry | Amount |
|---|---|
| 2015 | $ 91,050 |
| 2026 | 250,451 |
| 2027 | 1,447,618 |
| 2028 | 958,035 |
| 2029 | 1,987,052 |
| 2030 | 2,448,400 |
| | $ 7,182,606 |

(c) Reconciliation of Income Tax Recovery

The reconciliation of income tax recovery computed at the statutory tax rates to income tax recovery recorded in the statement of operations, using a 28.5% (2009 – 30%) statutory tax rate is as follows:

| | 2010 | 2009 |
|---|---|---|
| Income tax recovery expected at statutory rates | $(1,176,262) | $ (778,020) |
| Permanent differences | 733,880 | (365,885) |
| Change in tax rates | 54,328 | 194,068 |
| Change in estimates | (514,946) | – |
| Change in valuation allowance | 903,000 | 949,837 |
| Income tax recovery | $ – | $ – |

## 13. SUPPLEMENTAL CASH FLOW INFORMATION

| | 2010 | 2009 |
|---|---|---|
| Cash paid for: | | |
| Interest | $ – | $ 40,380 |
| Income taxes | – | – |
| Non-cash financing and investing activities: | | |
| 2,000,000 shares issued for long-term investment | – | 400,000 |
| 1,500,000 warrants issued for long-term investment | – | 509,294 |
| 3,250,000 shares issued for corporate advisory services | – | 650,000 |
| 7,254,900 warrants issued as finders' fees | – | 3,281,584 |
| 5,650,000 shares and 5,650,000 warrants issued to settle convertible debentures, promissory notes and accounts payable | – | 1,130,000 |

## 14. RELATED PARTY TRANSACTIONS AND BALANCES

(a) Due from former Related Party

During the year ended December 31, 2010, the Company received payments totalling $nil (2009 - $50,000) against the balance receivable from Range Gold Corp. ("Range Gold"), a former subsidiary of the Company, as at December 31, 2008. As at December 31, 2009, the Company determined that it was appropriate to record an allowance against the balance outstanding due to the poor financial condition of the company and accordingly $375,307 was recognized as a charge in the statement of operations. These amounts were advanced to Range Gold for mineral exploration activities while it was a wholly-owned subsidiary of the Company. Amounts due from Range Gold are non-interest bearing, unsecured and due on demand.

(b) Due to Related Parties

As at December 31, 2010, the Company has accrued $9,095 (2009 – $20,788) due to companies controlled by directors of the Company in accounts payable and accrued liabilities for consulting services described in Note 14(c). The amounts are non-interest bearing, unsecured and due on demand.

During the years ended December 31, 2010 and 2009, the Company had the following related party transactions:

(i) For the year ended December 31, 2010, the Company paid or incurred a total of $156,000 (2009 - $135,000) to companies controlled by directors of the Company for management services.

(ii) For the year ended December 31, 2010, the Company paid or incurred a total of $218,490 (2009 - $146,115) to companies controlled by directors and officers of the Company for consulting and accounting services.

(iii) For the year ended December 31, 2010, the Company paid a bonus of $nil (2009 - $227,750) to directors and officers of the Company.

(iv) For the year ended December 31, 2010, the Company paid $79,594 (2009 - $nil) to directors of the Company for director fees.

These transactions have been in the normal course of operations and are recorded at their exchange amounts, which is the consideration agreed upon by the related parties.

## 15. COMMITMENTS

The Company leases its premises under an agreement expiring on December 1, 2012. Minimum lease payments over the remaining term of the lease are as follows:

| Year | | Amount |
|---|---|---|
| 2011 | $ | 66,326 |
| 2012 | | 60,969 |
| | $ | 127,295 |

## 16. SUBSEQUENT EVENT

As announced in the Company's news release dated April 4, 2011, the Company has initiated a process to identify and consider its strategic alternatives for maximizing shareholder value. In this connection, a party has submitted an unsolicited and non-binding offer to acquire Range's outstanding shares. Discussions regarding the offer are at a very early stage. Other possibilities might include asset sales, joint ventures, new capital investments and a sale of the Company to a different party. There is no assurance that this review process will result in a transaction.