*This Prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities.* ***No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.***

*The securities may not be sold until a receipt for the Prospectus is obtained from the securities regulatory authorities. The securities offered hereby have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**U.S. Securities Act**"), or any state securities laws, and except pursuant to an exemption from registration under the U.S. Securities Act and applicable state securities laws, may not be offered or sold, directly or indirectly, within the United States or to, or for the account or benefit of, a U.S. Person (as that term is defined in Regulation S under the U.S. Securities Act). This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the securities offered hereby within the United States.*

# PROSPECTUS

INITIAL PUBLIC OFFERING March 3, 2011

# HILLCREST RESOURCES LTD.

**9,000,000 Common Shares**
**$0.20 per Common Share**

## Minimum Distribution
## Public Offering of $1,800,000

This Prospectus qualifies the distribution (the "**Offering**") of 9,000,000 common shares (the "**Shares**") of Hillcrest Resources Ltd. ("**Hillcrest**" or the "**Company**") at a price of $0.20 per Share (the "**Offering Price**") for total gross proceeds of $1,800,000, to purchasers resident in the provinces of British Columbia, Alberta, Saskatchewan and Ontario (the "**Offering Jurisdictions**"). This Offering is being conducted on a commercially reasonable efforts basis by Canaccord Genuity Corp. (the "**Agent**") pursuant to the terms of an agency agreement dated March 3, 2011 between the Agent and the Company (the "**Agency Agreement**").

Completion of the Offering is subject to the sale of 9,000,000 Shares. The funds received from the Offering will be held by the Agent in trust, and will not be released until the Agent has received the entire $1,800,000 in proceeds from the sale of 9,000,000 common shares and consents to the release of such proceeds.

| | Number of Shares | Price to Public(1) | Agent's Fee(2) | Net Proceeds to the Company(3) |
|---|---|---|---|---|
| Per Share | 1 | $0.20 | $0.016 | 0.184 |
| Total Offering(4) | 9,000,000 | $1,800,000 | $144,000 | $1,656,000 |

(1) The Offering Price and terms of this Offering were determined by negotiation between the Company and the Agent.

(2) Pursuant to the terms and conditions of the Agency Agreement, the Company has agreed to pay a cash fee to the Agent (the "**Agent's Fee**") equal to 8% of the gross proceeds of the Offering, including proceeds from the sale of Shares issued upon exercise of the Over-Allotment Option (as defined herein) and excluding proceeds from the purchasers introduced to the Agent by the Company ("**President's List Purchasers**"), for which the Company has agreed to pay a cash fee equal to 2% of such proceeds. The Company and Agent have agreed that the number of Shares issued to President's List purchasers will not exceed 60,000 Shares. The Company has also agreed to issue to the Agent non-transferable share purchase warrants (the "**Agent's Warrant**") entitling the Agent to purchase at the Offering Price, up to that number of Shares (the "**Agent's Warrant Shares**") as is equal to 8% of the number of Shares issued under the Offering, including under the Over-Allotment Option, to purchasers other than President's List Purchasers, and 2% of the number of Shares issued to President's List Purchasers, for a period of 24 months from the Closing Date. The Company will also pay to the Agent a corporate finance fee of $50,000 (the "**Corporate Finance Fee**") and an administration fee of $2,500 (the "**Administration Fee**") and will reimburse the Agent for its reasonable legal fees and expenses in relation to the Offering. See "Plan of Distribution."

(3) Before deducting expenses of the Offering, estimated to be $140,000, which expenses will be paid from the Company's general funds.

(4) The Company granted to the Agent an option (the "**Over-Allotment Option**"), exercisable in whole or in part at any time within 48 hours prior to the Closing Date, to solicit the sale of additional Shares as is equal to 15% of the number of Shares offered hereunder. If the Over-Allotment Option is exercised in full, the total price to the public, Agent's Fee and net proceeds to the Company will be $2,070,000, $165,600 and $1,904,400 respectively. See "Plan of Distribution". This Prospectus qualifies the grant of the Over-Allotment Option and the distribution of securities issuable on the exercise of the Over-Allotment Option.

The Offering Price and terms of this Offering have been determined by negotiation between the Company and the Agent.

**There is no market through which these securities may be sold and purchasers may not be able to resell securities purchased under this Prospectus. This may affect the pricing of the securities in the secondary market, the transparency and availability of trading prices, the liquidity of the securities, and the extent of issuer regulation. See "Risk Factors".**

The TSX Venture Exchange (the "**Exchange**" or "**TSX-V**") has conditionally accepted the listing of our Shares. Listing will be subject to the fulfillment of all of the listing requirements of the Exchange.

As at the date of this Prospectus, the Company does not have any of its securities listed or quoted, has not applied to list or quote any of its securities, and does not intend to apply to list or quote any of its securities, on the Toronto Stock Exchange, a U.S. marketplace, or a marketplace outside Canada and the United States of America other than the Alternative Investment Market of the London Stock Exchange or the PLUS markets operated by PLUS Markets Group plc.

Investment in the Shares offered by this Prospectus is highly speculative due to the nature of the business of the Company, its present stage of development and other risk factors. This Offering is suitable only to those investors who are prepared to risk the loss of their entire investment. Investments in natural resource companies involve a significant degree of risk. The Company was incorporated to pursue oil and natural gas exploration, development and production in the United States of America, and into the international markets, the success of which cannot be assured. Investors should not invest any funds in this offering unless they can afford to lose their entire investment. Investors must be willing to rely on the ability, expertise, judgment and discretion of the management of the Company. See "Risk Factors".

Unless otherwise noted, all currency amounts in this Prospectus are stated in Canadian dollars.

The Agent hereby conditionally offers the Shares on a commercially reasonable efforts basis, subject to prior sale, if, as and when issued by the Company and accepted by the Agent, in accordance with the conditions contained in the Agency Agreement referred to under "Plan of Distribution". Subscriptions will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that certificates representing the Shares will be available for delivery to the Agent at the closing of the Offering. Purchasers of the Shares hereunder may be required to pay commissions at the rates charged by their brokers. Certain legal matters related to the Offering have been reviewed on behalf of the Company by McMillan LLP of Vancouver, British Columbia, and on behalf of the Agent by Miller Thomson LLP of Vancouver, British Columbia.

The following table sets forth the number of securities issuable to the Agent:

| Agent's Position | Maximum size or number of securities available | Exercise period or Acquisition date | Exercise price or average acquisition price |
|---|---|---|---|
| Agent's Warrants(1) | 720,000 Warrants(2) | Up to 24 months commencing on the Closing Date | $0.20 per Share |

(1) This Prospectus qualifies the distribution of the Agent's Warrants to the Agent.

(2) If the Over-Allotment Option is exercised, the maximum number of Common Shares available upon exercise of Agent's Warrants will be 828,000.

Stewart Jackson, President and a director of the Company, resides outside of Canada. Although Mr. Jackson has appointed McMillan LLP as his agent for service of process in each province of Canada in which the Offered Shares are to be distributed, it may not be possible for investors to enforce judgments obtained in Canada against Mr. Jackson.

NO PERSON IS AUTHORIZED BY THE COMPANY OR THE AGENT TO PROVIDE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS IN CONNECTION WITH THE ISSUE AND SALE OF THE SECURITIES OFFERED PURSUANT TO THIS PROSPECTUS.

AGENT:

**CANACCORD GENUITY CORP.**
P.O. Box 10387 Pacific Centre
2200 – 609 Granville Street,
Vancouver, B.C. Canada V7Y 1H2
**Telephone:** (604) 643-7300
**Fax:** (604) 643-7606

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## GLOSSARY

"**Agency Agreement**" means the Agency Agreement dated March 3, 2011 between the Agent and the Company.

"**Agent**" means Canaccord Genuity Corp.

"**Agent's Fee**" means (i) the cash commission payable to the Agent, and (ii) the Agent's Warrants, as more particularly set out in the "Plan of Distribution".

"**AJM**" means AJM Petroleum Consultants.

"**Authors**" means Douglas S. Ashton, P. Eng., and M.R. Price, P. Geol., both of AJM, who prepared the Hartburg Report in accordance with NI 51-101.

"**Board**" means the board of directors of the Company.

"**CEO**" means the chief executive officer.

"**CFO**" means the chief financial officer.

"**Closing Date**" means such date that the Company and the Agent mutually determine to close the Offering.

"**Closing**" means the closing of the Offering.

"**Common Share**" means a common share without par value in the capital of the Company.

"**Company**" means Hillcrest Resources Ltd.

"**Computershare**" means Computershare Investor Services Inc., transfer agent for the Company.

"**Corporate Finance Fee**" means the cash commission of $50,000 payable to the Agent by the Company, pursuant to the Agency Agreement.

"**Davis Holmes Leases**" means the Oil, Gas & Liquid Hydrocarbon lease dated December 15, 1989, with Texaco, Inc. as lessor and the Oil, Gas & Liquid Hydrocarbon lease dated December 12, 1989, with NCNB Texas National Bank, Trustee of the Wirt Davis II Trust, the Camilla Davis Trammel Trust and the Patricia Davis Beck Trust, collectively, the lessors.

"**Delta**" means Delta Oil & Gas, Inc., a company incorporated pursuant to the laws of Colorado, USA.

"**Escrow Agent**" means Computershare Trust Company of Canada.

"**Escrow Agreement**" means the agreement dated March 1, 2011 among the Company, the Escrow Holders, and the Escrow Agent whereby the Escrowed Securities are held in escrow by the Escrow Agent.

"**Escrowed Securities**" means those Shares held by the Escrow Holders, which are subject to the Escrow Agreement.

"**Escrow Holders**" means the Principals, their spouses and their holding companies, which own Escrowed Securities.

"**Exchange**" or "**TSX-V**" means the TSX Venture Exchange.

"**Hartburg Property**" or "**Hartburg Project**" means the oil and gas assets of the Company including the Nadsoil Donner #1, Prospect 1 and Prospect 2 wells, located in Hartburg, Newton County, Texas, approximately five miles southwest of Deweyville, Texas, the underlying agreements related thereto being the Tract No. 1 Leases and the Tract No. 2 Leases.

"**Hartburg Report**" means the technical report titled "Reserve Estimation and Economic Evaluation Executive Summary", prepared by the Authors for the Company in accordance with NI 51-101.

"**Hillcrest US**" means the wholly-owned subsidiary of the Company, which was incorporated pursuant to the laws of the state of Texas.

"**Listing Date**" means the date that the Common Shares of the Company are listed for trading on the Exchange.

"**Management**" means the management of the Company.

"**NI 51-101**" means National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities*, adopted by the Canadian Securities Administrators.

"**Offering**" means the offering of 9,000,000 Common Shares to purchasers in the Offering Jurisdictions pursuant to this Prospectus.

"**Offering Jurisdictions**" means British Columbia, Alberta, Saskatchewan and Ontario.

"**Offering Price**" means $0.20 per Common Share.

"**Securities Commissions**" means the British Columbia Securities Commission, the Alberta Securities Commission, the Saskatchewan Financial Services Commission and the Ontario Securities Commission.

"**SEDAR**" means www.sedar.com, which is the official website that provides access to public securities documents and information filed by public companies and investment funds as maintained by the Canadian Securities Administrators.

"**Shares**" means the 9,000,000 Common Shares of the Company being offered under the Offering.

"**Subscriber**" means a subscriber for the Shares offered under this Offering.

"**Thelon Property Agreements**" means the Option and Joint Venture Agreement between Great Bear Resources Ltd. and the Company dated June 25, 2007, as amended by agreements dated December 10, 2007, May 21, 2008 and July 15, 2008.

"**Tract No. 1 Leases**" means the Oil, Gas & Liquid Hydrocarbon lease dated effective July 1, 2010, between E.W. Brown, Jr. Properties for the benefit of John S. Brown (Texas) Trust, Charles E. Brown (Texas) Trust Beneficiaries Charles E. Brown, Jr., Carrie B. Henley, Robert S. Brown and Richard E. Brown; Remaindermen Michael S. Brown and Mary Robbins Brown Jones, and FBC Minerals, LP together as the lessor, and Delta Oil & Gas, Inc. and Hillcrest together as the lessee; the Oil, Gas & Liquid Hydrocarbon lease dated effective August 17, 2009 between the PEG Trust, by Molly B. Brown Trustee as lessor and Delta Oil & Gas, Inc. and Hillcrest together as the lessee; the Oil, Gas & Liquid Hydrocarbon lease dated effective August 17, 2009 between SB Ewing Enterprises, Ltd., represented by Barbara Brown Ewing, Manager of Ewing Managers LLC, who is the General Partner of SB Ewing Enterprises Ltd. as lessor and Delta Oil & Gas, Inc. and Hillcrest together as the lessee; and the Oil, Gas & Liquid Hydrocarbon lease dated effective July 1, 2009 between 7UP Trust as lessor and Delta Oil & Gas, Inc. and Hillcrest together as the lessee.

"**Tract No. 2 Leases**" means the Oil, Gas & Liquid Hydrocarbon lease dated March 26, 2009, with Donner Properties, as lessor and the Oil, Gas & Liquid Hydrocarbon lease dated March 26, 2009, with James L. Negley and George L. Winter, Trustee of The George L. Winter Revocable Trust, as lessor, and in the case of each lease, Delta Oil & Gas, Inc. and the Company together as the lessee.

"**U.S. Securities Act**" means the *United States Securities Act of 1933*, as amended.

## FORWARD LOOKING STATEMENTS

Certain statements contained in this Prospectus constitute forward-looking statements. The use of any of the words "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "believe" and similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes the expectations reflected in those forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct. Such forward-looking statements included in this Prospectus should not be unduly relied upon. These statements speak only as of the date of this Prospectus.

In particular, this Prospectus contains forward-looking statements pertaining to the following:

- business strategy, strength and focus;
- proposed expenditures under "Use of Proceeds";
- the performance characteristics of the Company's oil and natural gas properties;
- oil and natural gas production levels;
- the size of the oil and natural gas reserves;
- projections of market prices and costs and the related sensitivity of distributions;
- supply and demand for oil and natural gas;
- expectations regarding the ability to raise capital and to continually add to reserves through acquisitions and development;
- treatment under governmental regulatory regimes and tax laws;
- expectations with respect to the Company's future working capital position;
- capital expenditure programs; and
- abandonment and reclamation costs.

Actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this Prospectus:

- volatility in market prices for oil and natural gas;
- liabilities inherent in oil and natural gas operations;
- uncertainties associated with estimating oil and natural gas reserves;
- competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel;
- incorrect assessments of the value of acquisitions and exploration and development programs;

- geological, technical, drilling and processing problems;
- changes in tax laws and incentive programs relating to the oil and natural gas industry;
- failure to realize the anticipated benefits of acquisitions; and
- the other factors discussed under "Risk Factors".

Statements relating to "reserves" or "resources" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the resources and reserves described can be profitably produced in the future. Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward-looking statements contained in this Prospectus are expressly qualified by this cautionary statement. Except as required under applicable securities laws, the Company does not undertake any obligation to publicly update or revise any forward-looking statements.

The material factors and assumptions used in developing this forward-looking information are based on the assumptions contained in the Hartburg Report, including future commodity prices, costs and expected inflation, as well as the Company's planned capital expenditure program, estimated drilling success rates and other prospects.

Due to the nature of the oil and gas industry, budgets are regularly reviewed in light of the success of the expenditures and other opportunities, which may become available to the Company. In addition, the ability of the Company to carry out operations may depend upon the decisions of other working interest owners in its current or future properties. Accordingly, while the company anticipates that it will have the ability to spend the funds available to it as stated in this Prospectus, there may be circumstances where, for sound business reasons, a reallocation of funds may be prudent. The Company's business objectives and other factors that management will consider in assessing the Company's participation in acquisition or development opportunities are described under "Business of the Company".

## CONVENTIONS

Certain terms used herein are defined in the "Glossary". Unless otherwise indicated, references herein to "$" or "dollars" are to Canadian dollars. All financial information with respect to the Company has been presented in Canadian dollars in accordance with GAAP in Canada.

## ABBREVIATIONS

**Crude Oil and Natural Gas Liquids**

| | |
|---|---|
| Bbls | barrels |
| bbls/d | barrels per day |
| Mbbls | thousand barrels |
| boe | barrels of oil equivalent of natural gas and crude oil, unless otherwise indicated |
| boe/d | barrels of oil equivalent per day |
| $e^3m^3$ | thousand cubic metres |
| M | thousands |
| Mboe | thousand boe |
| Mlt | thousands of long tons |
| NGLs | natural gas liquids |
| MMbtu | million British thermal unit |
| Stb | standard stock tank barrel |
| Mstb | thousand standard stock tank barrels |

**Natural Gas**

| | |
|---|---|
| Mcf | Thousand cubic feet |
| MMcf | Million cubic feet |
| Bcf | Billion cubic feet |
| Mcf/d | Thousand cubic feet per day |
| MMcf/d | Million cubic feet per day |
| GJ | Gijajoule |

**Other**

| | |
|---|---|
| API | American Petroleum Institute |
| PB | Probable |
| PDP | Proved Developed Producing |
| PUD | Proved Undeveloped |
| P + P | Proved Plus Probable |
| TP | Tax Pool |
| WTI | West Texas Intermediate, the reference price paid in U.S. dollars at Cushing, Oklahoma for crude oil of standard grade |

Boes may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf:1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. This conversion factor is an industry accepted norm and is not based on either energy content or current prices.

**Conversion**

The following table sets forth certain standard conversions from Standard Imperial units to the International System of Units (or metric units).

| To Convert From | To | Multiply by |
|---|---|---|
| Mcf | Thousand Cubic Meters | 0.0282 |
| Thousand cubic meters | Mcf | 35.494 |
| Bbls | Cubic meters | 0.159 |
| Cubic meters | Bbls | 6.290 |
| Feet | Meters | 0.305 |
| Meters | Feet | 3.281 |
| Miles | Kilometers | 1.609 |
| Kilometers | Miles | 0.621 |
| Acres | Hectares | 0.405 |
| Hectares | Acres | 2.471 |

## ELIGIBILITY FOR INVESTMENT

In the opinion of McMillan LLP, counsel to the Company, based on the current provisions of the *Income Tax Act* (Canada) (the "Tax Act"), the regulations thereunder and the proposals to amend the Tax Act and the regulations publicly announced by or on behalf of the Minister of Finance prior to the date hereof, if as and when the Shares are listed on a "designated stock exchange" for purposes of the Tax Act (which currently includes the TSXV, Tiers 1 and 2), the Shares would, at such time, be "qualified investments" under the Tax Act and the regulations thereunder for trusts governed by registered retirement savings plans, registered retirement income funds, registered education savings plans, deferred profit sharing plans, registered disability savings plans, and tax-free savings accounts ("TFSAs"). The listed status of the Shares as of a particular time cannot be guaranteed.

Notwithstanding the foregoing, if the Shares are "prohibited investments" for the purposes of a TFSA, the holder of such TFSA will be subject to a penalty tax as set out in the Tax Act. Shares will generally be prohibited investments if the holder of the TFSA does not deal at arm's length with the Company for the purposes of the Tax Act or if the holder of the TFSA has a "significant interest" (within the meaning of the Tax Act) in the Company or a corporation, partnership or trust with which the Company does not deal at arm's length for the purposes of the Tax Act. **Prospective investors who wish to hold their Shares in a TFSA should consult their own tax advisors in this regard**.

## PROSPECTUS SUMMARY

*The following is a summary of the principal features of this distribution and should be read together with the more detailed information and financial data and statements contained elsewhere in this Prospectus.*

**Company:** The Company was incorporated under the *Business Corporations Act* (British Columbia) on May 2, 2006 under the name of "**Hillcrest Resources Ltd.**"

**Business of the Company:** The Company is engaged in the acquisition, exploration and development of conventional oil and gas projects in the United States of America with a focus on developing light oil opportunities. The management and consultants of the Company have extensive experience in oil and gas exploration, development and production and have the capability to expand the scope of the Company's activities as appropriate opportunities arise. See "Narrative Description of the Business – Hartburg Project".

**Agent:** Canaccord Genuity Corp.

**The Offering:** 9,000,000 Common Shares are offered in the Provinces of British Columbia, Alberta, Saskatchewan and Ontario at a price of $0.20 per Share for gross proceeds of $1,800,000. See "Plan of Distribution".

**Over-Allotment Option:** The Company granted the Agent an option, exercisable any time up until 48 hours prior to Closing, to offer at the Offering Price up to the number of Shares as is equal to 15% of the Shares offered in the Offering (being 1,350,000 additional Shares). See "Plan of Distribution".

**Agent's Consideration:** As compensation, the Company has agreed to pay the Agent the Agent's Fee equal to 8% of the gross proceeds of the Offering, excluding proceeds from the President's List Purchasers for which the Company has agreed to pay a cash fee equal to 2% of such proceeds. The Company and Agent have agreed that the number of Shares issued to President's List purchasers will not exceed 60,000 Shares. The Company has also agreed to issue to the Agent an Agent's Warrant entitling the Agent to purchase at the Offering Price, Agent's Warrant Shares equal to 8% of the number of Shares issued under the Offering, including under the Over-Allotment Option, to purchasers other than President's List Purchasers, and 2% of the number of Shares issued to President's List Purchasers, for a period of 24 months from the Closing Date. The Company will also pay to the Agent the Corporate Finance Fee and the Administration Fee and will reimburse the Agent for the Agent's reasonable legal fees and expenses in relation to the Offering. See "Plan of Distribution."

**Management, Directors & Officers:** The Directors and Officers of the Company are as follows:

| | |
|---|---|
| Don Currie | Chairman, Chief Executive Officer and a Director |
| Stewart Jackson | President and a Director |
| Wan Jung | Chief Financial Officer |
| David Stone | Director |
| Desmond Balakrishnan | Corporate Secretary |
| Jason Oden | Director |
| Lewis E. Parker | Director |

**Use of Proceeds:** The Company will receive gross proceeds of $1,800,000 from the Offering. The net proceeds of the Offering, after deducting the cash commission portion of the Agent's fee and before deducting expenses of the Offering, are estimated to be $1,656,000 which when added to the

Company's working capital deficiency of $224,000 as at December 31, 2010, results in approximately $1,432,000 of available funds to the Company. The Company intends to spend the available funds, in order of priority, as follows:

| **Principal Purpose** | **Estimated Amount to be Expended** |
|---|---|
| Estimated costs of the Offering | 140,000 |
| Hartburg Property work program | 816,000 |
| Estimated general and administrative expenses for twelve months | 321,600 |
| Payments pursuant to property acquisition costs | 50,000 |
| Unallocated working capital | 104,400 |
| **TOTAL:** | $**1,432,000** |

The Company intends to spend the funds available as stated in this Prospectus. There may be circumstances, however, where, for sound business reasons, a reallocation of funds may be necessary. See "Use of Proceeds."

**Risk Factors:** An investment in the Shares offered hereunder should be considered highly speculative, and investors may incur a loss on their investment. There are additional risks associated with the investment relating to the Company's prospects for success, availability of subsequent financing, no market for the securities, competition in the industry, potential liability for damages arising during operations, governmental regulation, availability of oil and gas markets, fluctuating commodity prices and changes in income tax laws.

An investment in the Company's securities is suitable only for those knowledgeable and sophisticated investors who are willing to risk loss of their entire investment. Investors should consult with their professional advisors to assess an investment in the Company's securities. See "Risk Factors".

**Summary of Financial Information:** The following table sets out selected information for and as of the periods indicated. The financial information is derived from the audited annual financial statements for the financial years ended December 31, 2009, 2008, and 2007, and the Company's unaudited financial statements for the nine month period ended September 30, 2010, which are included in this Prospectus. See "Financial Statements".

| | **Nine Months Ended September 30, 2010 (unaudited)** | **Year Ended 2009 (audited)** | **Year Ended 2008 (audited)** | **Year Ended 2007 (audited)** |
|---|---|---|---|---|
| **Total Revenues** | $113,901 | 2,537 | Nil | Nil |
| **Total Assets at end of period** | $968,088 | $295,699 | $440,330 | $1,512,723 |
| **Expenses** | $59,501 | $128,965 | $310,310 | $130,189 |
| **Net Income (Loss)** | $57,431 | $(128,636) | $(1,037,679) | $(130,189) |
| **Net Income (Loss) per Common Share** | Nil | $(0.01) | $(0.05) | $(0.02) |
| **Net Loss per share on fully diluted basis** | Nil | $(0.01) | $(0.05) | $(0.02) |

| | | | | |
|---|---|---|---|---|
| **Long-term debt at end of period** | Nil | Nil | Nil | Nil |

**Currency:** Unless otherwise stated, all dollar amounts are stated in Canadian dollars.

## CORPORATE STRUCTURE

### Name and Incorporation

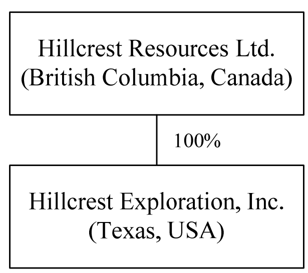
The Company was incorporated pursuant to the *Business Corporations Act* (British Columbia) on May 2, 2006 under the name of "Shanghai Creek Minerals Ltd." The Company changed its name to Hillcrest Resources Ltd. on May 28, 2007.

The Company's head office is located at 303 – 750 West Pender Street, Vancouver B.C. V6C 2T7, and its registered office is located at Suite 1500, 1055 West Georgia Street, Vancouver, British Columbia, V6E 4N7.

### Incorporate Relationships

The Company has only one direct wholly-owned subsidiary, Hillcrest Exploration, Inc. ("**Hillcrest US**"), which was incorporated pursuant to the laws of the State of Texas.

The following chart illustrates the Company's organizational structure




In this Prospectus, the terms "**Hillcrest US**" or the "**Company**" refers to Hillcrest Resources Ltd. and it's subsidiary Hillcrest Exploration, Inc., unless the context requires otherwise.

## BUSINESS OF THE COMPANY

### General Development of the Business

The Company is engaged in the acquisition, exploration and development of conventional oil and gas projects in Texas, USA with a focus on developing light oil opportunities. The management and consultants of the Company have extensive experience in oil and gas exploration, development and production and have the capability to expand the scope of the Company's activities as appropriate opportunities arise. Since the Company's founding on May 2, 2006, the Company has acquired seed funding, put in place an operation structure, set up offices in Vancouver, British Columbia, and Houston, Texas, engaged key exploration and land personnel, and acquired its initial oil and natural gas assets and associated equipment.

The Company will focus on development of oil and gas assets in the United States. The Company has investigated and acquired oil and gas leases in Newton County, Texas and has commenced a three well drilling program. The Company has a 54% gross working interest in the Nadsoil Donner #1 well ("Donner #1) and a 48% gross working interest in each of the Prospect 1 well ("Prospect 1") and the Prospect 2 well ("Prospect 2"). The Company's interest in the three wells will be reduced to a 22.5% net revenue interest in Donner #1 and an estimated 27% net revenue interest in each of Prospect 1 and Prospect 2 if the wells are successful and all drilling and development costs are returned. Donner #1 has been drilled and is currently in production. Pursuant to the terms of an exploration agreement the Company is a party to, which sets forth the interests and obligations in respect of the three wells, the Company and Delta Oil & Gas, Inc. (“Delta”) are jointly responsible for drilling the remaining two wells and if they elect not to proceed they will be required to release all leasehold acreage that is not held by production from a producing well and which was drilled pursuant to the terms and conditions of the exploration agreement. The Company intends to expand its focus in the Newton County area of Texas as well as explore in other US locations.

The Company switched to a focus in the oil and gas industry in late 2009 when previous management had concluded they would be unable to complete their plans of exploring and potentially developing uranium and other mining assets. The previous management of the Company accepted the idea of pursuing oil and gas and brought new people in who had experience and success in that industry. New board members were appointed, assets were purchased giving the Company minimal cash flow, participation in a drilling program was obtained and drilling started in May 2010. The new board and management are focused on developing cash flow through oil production. Without the change to oil and gas, old management was facing the prospect of not being able to execute their business plan due to low interest in financing from equity markets for developmental mining operations.

**Significant Acquisitions**

On December 10, 2009, Nadsoilco LLC assigned to the Company a 30% working interest and a 22.5% net revenue interest in and to the following two oil, gas & liquid hydrocarbon leases (the “Davis-Holmes Leases”):

1. Oil, Gas and Mineral Lease dated December 5, 1989, with Texaco, Inc. as lessor; and

2. Oil, Gas and Mineral Lease dated December 12, 1989 with NCNB Texas National Bank, Trustee of the Wirt Davis II Trust, the Camilla Davis Trammel Trust and the Patricia Davis Beck Trust, collectively, the lessors.

On February 1, 2010, Delta. assigned to the Company a 60% of its interest in and to the following two oil, gas & liquid hydrocarbon leases (the “Tract No. 2 Leases”) :

1. Oil, Gas & Liquid Hydrocarbon lease dated March 26, 2009, with Donner Properties, as lessor.

2. Oil, Gas & Liquid Hydrocarbon lease dated March 26, 2009, with James L. Negley and George L. Winter, Trustee of The George L. Winter Revocable Trust, as lessor.

On July 1, 2010, Delta assigned to the Company a 60% of its interest in and to the following four oil, gas & liquid hydrocarbon leases (the “Tract No. 1 Leases”):

1. Oil, Gas & Liquid Hydrocarbon lease dated July 1, 2009, with E.W. Brown, Jr. Properties and FBC Minerals, LP, as lessor.

2. Oil, Gas & Liquid Hydrocarbon lease dated August 17, 2009, with PEG Trust, as lessor.

3. Oil, Gas & Liquid Hydrocarbon lease dated August 17, 2009, with SB Ewing Enterprises, Ltd., as lessor.

4. Oil, Gas & Liquid Hydrocarbon lease dated July 1, 2009, with 7UP Trust, as lessor.

## THE HARTBURG PROJECT

The Company engaged AJM Petroleum Consultants to prepare a report relating to the Company’s reserves as at June 30, 2010. The information set forth below relating to the Company’s reserves constitutes forward looking statements which are subject to certain risks and uncertainties. See “Forward-Looking Statements” and “Risk Factors”.

The Company's crude oil and natural gas reserves are located in Texas. Set out below is a summary of the crude oil and natural gas reserves and the value of future net revenue of the Company as at June 30, 2010, as evaluated by AJM Petroleum Consultants in its report dated effective September 15, 2010 (the "**Hartburg Report**"). The pricing used in the forecast is set forth in the notes to the tables.

The report was prepared using assumptions and methodology guidelines outlined in the Canadian Oil and Gas Evaluation Handbook and in accordance with NI 51-101.

**Hartburg Report**

**Summary**

***Hartburg, Newton County, Texas***

The Hartburg field is located in Newton County, Texas, approximately five miles southwest of Deweyville, Texas. The Company holds a before working interest of 54% in Donner #1 oil well and after payout of expenses, the Company has a 22.5% interest, in the Donner #1 oil well. The well is producing from the Lower Hackberry Formation and has gas potential in various Frio sands.

***Geology***

*Upper & Lower Hartburg*

The Oligocene-Miocene Upper and Lower Hartburg (Hackberry) Sandstones in the Northwest Hartburg field of Newton County, Texas, are part of a structural belt called the Hartburg flexure. The sands are fine to medium grained and greenish-gray in colour. Partly lignitic and fossiliferous shale interbeds also exist. This section was deposited on a slowly subsiding continental shelf. A structural disturbance in the Gulf Coast geosynclinal floor caused the continental shelf to tilt, creating the Hartburg flexure and an embayment, which was infilled by the Hackberry shale. The tilting of the shelf created gravity flows in the sedimentary beds, resulting in synclinal folds and deep troughs. Subsequently, turbidity currents and sedimentary flows filled these troughs with channel-fill deposits. Hydrocarbon trapping is primarily structural with strong water drive.

*Nonion Struma*

The Oligocene-Miocene Nonion Struma also forms part of the Hartburg flexture. The section is composed of gray, fossiliferous shales and glauconitic fine to medium grained sandstones (which form the reservoir rock) deposited in a neritic environment. Hydrocarbon trapping is also structurally influenced with strong water drive. Seismic mapping provided by the client has been reviewed to assess two drilling prospects. Prospect one is targeting the Lower Hackberry and Nonion Struma sands. The prospect location for both sands are structurally higher than the sands found in the Donner #1 well; therefore, thicker net pay has been assigned. Prospect two is also targeting the Lower Hackberry and Nonion Struma sands. Prospect two is located at the same structural position as prospect one for the Lower Hackberry sand, thus a similar net pay has been assigned. However, the Nonion Struma sand at this location appears to be a separate sand from that producing at Chevron Donner #1, resulting in no reserves being assigned.

***Reserves and Production Forecast***

The Donner #1 well is currently producing from the Lower Hackberry sand. The well commenced production on August 16, 2010 at approximately 50 bbls/d. Proved developed producing and proved plus probable reserves have been assigned based on volumetric analysis. A two part decline was used to forecast reserves with water production commencing six months after start of production. An assigned 35 acre drainage area and a 12 to 17 percent recovery factors were utilized. Probable gas reserves have been assigned to the uphole sand, Upper Hackberry, using volumetric analysis. The Upper Hackberry is scheduled to come on production following the depletion of the Lower Hackberry zone.

Proved undeveloped and proved plus probable gas reserves have also been assigned to the offset locations, Prospect 1 and Prospect 2. Volumetric reserves assigned based on reservoir parameters from the Donner #1 well logs. Initial producing rate and product yields based on the offset well, Chevron Donner MLEl Properties 1. Prospect 1 Lower Hackberry is forecasted to be drilled in the fourth quarter of 2010. Drainage area and recovery factor estimates are based on review of the geological mapping provided by the company. The Nonion Struma zone is scheduled to come on production following the depletion of the Lower Hackberry zone. Prospect 2 Lower Hackberry is forecasted to be drilled June 2011. Drainage area and recovery factor estimates are based on review of the geological mapping provided by the company. Reserves were not assigned to the Nonion Struma zone until such time that it is proved productive.

***Economic Parameters***

Operating expenses, capital costs, payout balances, and timing for drilling of the Lower Hackberry wells were supplied by the Company. Gas and condensate price offsets based on area averages from AJM's files. State Severance tax of 4.6 percent and Ad Valorem tax of 1.29 percent are included in the evaluation. These taxes were supplied by the Company. Well abandonment and reclamation costs are included at the entity level at a cost of approximately USD$50,000.

**NI 51-101 Forecast Case**
**Oil and Gas Reserves Summary**
**Forecast Pricing (CDN Dollars)**

**VOLUMES IN IMPERIAL UNITS**

Effective June 30, 2010 United States

| | Oil | | | | | |
|---|---|---|---|---|---|---|
| | Light, Medium and Shale | | Heavy | | Bitumen | |
| **CATEGORY** | **W.I Gross Mstb** | **Co. Share Net Mstb** | **W.I Gross Mstb** | **Co. Share Net Mstb** | **W.I Gross Mstb** | **Co. Share Net Mstb** |
| **PDP** | 24.5 | 18.3 | 0.0 | 0.0 | 0.0 | 0.0 |
| **PUD** | 53.6 | 40.2 | 0.0 | 0.0 | 0.0 | 0.0 |
| **TP** | 78.0 | 58.5 | 0.0 | 0.0 | 0.0 | 0.0 |
| **PB** | 132.0 | 99.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **P+P** | 210.0 | 157.5 | 0.0 | 0.0 | 0.0 | 0.0 |

| | Natural Gas | | | | | |
|---|---|---|---|---|---|---|
| | Solution | | Associated and Non-Associated | | Coalbed Methane | |
| **CATEGORY** | **W.I Gross MMcf** | **Co. Share Net MMcf** | **W.I Gross MMcf** | **Co. Share Net MMcf** | **W.I Gross MMcf** | **Co. Share Net MMcf** |
| **PDP** | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **PUD** | 0.0 | 0.0 | 36.7 | 27.5 | 0.0 | 0.0 |
| **TP** | 0.0 | 0.0 | 36.7 | 27.5 | 0.0 | 0.0 |
| **PB** | 0.0 | 0.0 | 189.2 | 141.9 | 0.0 | 0.0 |
| **P+P** | 0.0 | 0.0 | 225.9 | 169.4 | 0.0 | 0.0 |

| CATEGORY | Natural Gas Liquids W.I Gross Mstb | Natural Gas Liquids Co. Share Net Mstb | Sulphur W.I Gross Mlt | Sulphur Co. Share Net Mlt | Total BOE W.I Gross Mboe | Total BOE Co. Share Net Mboe |
|---|---|---|---|---|---|---|
| **PDP** | 0.0 | 0.0 | 0.0 | 0.0 | 24.5 | 18.3 |
| **PUD** | 0.2 | 0.1 | 0.0 | 0.0 | 59.8 | 44.9 |
| **TP** | 0.2 | 0.1 | 0.0 | 0.0 | 84.3 | 63.2 |
| **PB** | 0.9 | 0.7 | 0.0 | 0.0 | 164.5 | 123.4 |
| **P+P** | 1.1 | 0.8 | 0.0 | 0.0 | 248.8 | 186.6 |

## VOLUMES IN METRIC UNITS

| CATEGORY | Oil: Light, Medium and Shale W.I Gross E3m3 | Oil: Light, Medium and Shale Co. Share Net E3m3 | Oil: Heavy W.I Gross E3m3 | Oil: Heavy Co. Share Net E3m3 | Oil: Bitumen W.I Gross E3m3 | Oil: Bitumen Co. Share Net E3m3 |
|---|---|---|---|---|---|---|
| **PDP** | 3.9 | 2.9 | 0.0 | 0.0 | 0.0 | 0.0 |
| **PUD** | 8.5 | 6.4 | 0.0 | 0.0 | 0.0 | 0.0 |
| **TP** | 12.4 | 9.3 | 0.0 | 0.0 | 0.0 | 0.0 |
| **PB** | 21.0 | 15.7 | 0.0 | 0.0 | 0.0 | 0.0 |
| **P+P** | 33.4 | 25.0 | 0.0 | 0.0 | 0.0 | 0.0 |

| CATEGORY | Natural Gas: Solution W.I Gross E6m3 | Natural Gas: Solution Co. Share Net E6m3 | Natural Gas: Associated and Non-Associated W.I Gross E6m3 | Natural Gas: Associated and Non-Associated Co. Share Net E6m3 | Natural Gas: Coalbed Methane W.I Gross E6m3 | Natural Gas: Coalbed Methane Co. Share Net E6m3 |
|---|---|---|---|---|---|---|
| **PDP** | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **PUD** | 0.0 | 0.0 | 1.0 | 0.8 | 0.0 | 0.0 |
| **TP** | 0.0 | 0.0 | 1.0 | 0.8 | 0.0 | 0.0 |
| **PB** | 0.0 | 0.0 | 5.3 | 4.0 | 0.0 | 0.0 |
| **P+P** | 0.0 | 0.0 | 6.4 | 4.8 | 0.0 | 0.0 |

| CATEGORY | Natural Gas Liquids W.I Gross E3m3 | Natural Gas Liquids Co. Share Net E3m3 | Sulphur W.I Gross E3t | Sulphur Co. Share Net E3t | Total BOE W.I Gross E3m3e | Total BOE Co. Share Net E3m3e |
|---|---|---|---|---|---|---|
| **PDP** | 0.0 | 0.0 | 0.0 | 0.0 | 3.9 | 2.9 |
| **PUD** | 0.0 | 0.0 | 0.0 | 0.0 | 9.5 | 7.1 |
| **TP** | 0.0 | 0.0 | 0.0 | 0.0 | 13.4 | 10.0 |
| **PB** | 0.2 | 0.1 | 0.0 | 0.0 | 26.1 | 19.6 |
| **P+P** | 0.2 | 0.1 | 0.0 | 0.0 | 39.5 | 29.7 |

Heavy includes Ultra Heavy in Alberta

## NI 51-101 Forecast Case
## Summary of Net Present Values of Future Net Revenue – with Corporate Tax Pools
## Forecast Pricing (CDN Dollars)

Effective June 30, 2010 United States

| | Before Income Taxes | | | | |
|---|---|---|---|---|---|
| **RESERVES CATEGORY** | **5%<br>M$** | **10%<br>M$** | **12%<br>M$** | **15%<br>M$** | **20%<br>M$** |
| Proved Developed Producing | 1,256.0 | 1,152.3 | 1,116.1 | 1,066.4 | 994.2 |
| Proved Undeveloped | 2,145.7 | 1,803.0 | 1,696.2 | 1,554.4 | 1,354.7 |
| Proved | 3,401.8 | 2,955.3 | 2,812.3 | 2,620.8 | 2,348.8 |
| Probable | 3,097.2 | 2,428.1 | 2,209.5 | 1,920.3 | 1,529.9 |
| Proved Plus Probable | 6,499.0 | 5,383.4 | 5,021.8 | 4,541.1 | 3,878.7 |

| | After Income Taxes | | | | |
|---|---|---|---|---|---|
| **RESERVES CATEGORY** | **5%<br>M$** | **10%<br>M$** | **12%<br>M$** | **15%<br>M$** | **20%<br>M$** |
| Proved Developed Producing | 1,057.7 | 967.0 | 935.4 | 892.3 | 830.0 |
| Proved Undeveloped | 1,643.4 | 1,374.4 | 1,290.8 | 1,179.9 | 1,024.2 |
| Proved | 2,701.1 | 2,341.3 | 2,226.2 | 2,072.3 | 1,854.2 |
| Probable | 2,243.4 | 1,798.9 | 1,646.8 | 1,440.4 | 1,154.6 |
| Proved Plus Probable | 4,944.5 | 4,140.2 | 3,873.1 | 3,512.7 | 3,008.8 |

| **RESERVES CATEGORY** | **Unit Value<br>Before Income Taxes**<br>Discounted at 10%<br>$/boe |
|---|---|
| Proved Developed Producing | 62.82 |
| Proved Undeveloped | 40.17 |
| Proved | 46.74 |
| Probable | 19.68 |
| Proved Plus Probable | 28.85 |

Taxpool: Hillcrest Tax Pools US (CDN$) Vintage: Hillcrest Tax Pools US (CDN$): United States. Unit Value calculation based on Net BOE reserves.

## NI 51-101 Forecast Case
## Total Future Net Revenue – With Corporate Tax Pools
## Forecast Pricing (CDN Dollars)

Effective June 30, 2010 — United States

| CATEGORY | Revenue* M$ | Royalties M$ | Operating Costs M$ | Investment Costs M$ | Well Abandonment Costs M$ | Future Net Revenue Before Income Taxes M$ | Income Taxes M$ | Future Net Revenue After Income Taxes M$ |
|---|---|---|---|---|---|---|---|---|
| Proved Developed Producing | 1,683.6 | 99.2 | 201.2 | 0.0 | 0.0 | 1,383.3 | 213.4 | 1,169.9 |
| Proved Undeveloped | 4,453.1 | 262.3 | 489.0 | 732.5 | 59.7 | 2,909.7 | 662.2 | 2,247.5 |
| Proved | 6,136.8 | 361.5 | 690.2 | 732.5 | 59.7 | 4,293.0 | 875.6 | 3,417.3 |
| Probable | 15,810.4 | 931.2 | 10,183.2 | 33.8 | 44.7 | 4,617.4 | 1,252.6 | 3,364.9 |
| Proved Plus Probable | 21,947.2 | 1,292.7 | 10,873.4 | 766.3 | 104.4 | 8,910.4 | 2,128.2 | 6,782.2 |

Taxpool: Hillcrest Tax Pools US (CDN$) Vintage: Hillcrest Tax Pools US (CDN$): United States. *Revenue includes product revenue and other income from facilities, wells and corporate if specified.

## NI 51-101 Forecast Case
## Net Present Value of Future Net Revenue by Production Group
## Forecast Pricing (CDN Dollars)

Effective June 30, 2010 – United States

| | **Future Net Revenue Before Income Taxes** (Discounted at 10%) M$ |
|---|---|
| **PROVED** | |
| Light and Medium Oil (Including solution gas and by-products) | 2,950.1 |
| Associated and Non-Associated Gas (Including by-products) | 5.3 |
| **Total** | **2,955.3** |
| **PROVED PLUS PROBABLE** | |
| Light and Medium Oil (Including solution gas and by-products) | 5,282.2 |
| Associated and Non-Associated Gas (Including by-products) | 101.2 |
| **Total** | **5,383.4** |

**NI 51-101 Forecast Case**
**Oil and Gas Reserves and NPVS by Production Group**
**Forecast Pricing (CDN Dollars)**

Effective June 30, 2010 United States

| | Reserves | | | | | |
|---|---|---|---|---|---|---|
| | Oil | | Gas | | Natural Gas Liquids | |
| | W.I (Gross) Mstb | Co. Share (Net) Mstb | W.I. (Gross) MMcf | Co. Share (Net) MMcf | W.I. (Gross) Mstb | Co. Share (Net) Mstb |
| **Light & Medium Oil** | | | | | | |
| Proved Developed Producing | 24.5 | 18.3 | 0.0 | 0.0 | 0.0 | 0.0 |
| Proved Undeveloped | 53.6 | 40.2 | 0.0 | 0.0 | 0.0 | 0.0 |
| Proved | 78.0 | 58.5 | 0.0 | 0.0 | 0.0 | 0.0 |
| Probable | 132.0 | 99.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Proved Plus Probable | 210.0 | 157.5 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Associated and Non-Associated Gas** | | | | | | |
| Proved Undeveloped | 0.0 | 0.0 | 36.7 | 27.5 | 0.2 | 0.1 |
| Proved | 0.0 | 0.0 | 36.7 | 27.5 | 0.2 | 0.1 |
| Probable | 0.0 | 0.0 | 189.2 | 141.9 | 0.9 | 0.7 |
| Proved Plus Probable | 0.0 | 0.0 | 225.9 | 169.4 | 1.1 | 0.8 |
| **Total** | | | | | | |
| Proved Developed Producing | 24.5 | 18.3 | 0.0 | 0.0 | 0.0 | 0.0 |
| Proved Undeveloped | 53.6 | 40.2 | 36.7 | 27.5 | 0.2 | 0.1 |
| Proved | 78.0 | 58.5 | 36.7 | 27.5 | 0.2 | 0.1 |
| Probable | 132.0 | 99.0 | 189.2 | 141.9 | 0.9 | 0.7 |
| Proved Plus Probable | 210.0 | 157.5 | 225.9 | 169.4 | 1.1 | 0.8 |

| | Net Present Value Before Tax | | | | |
|---|---|---|---|---|---|
| | 5% M$ | 10% M$ | 12% M$ | 15% M$ | 20% M$ |
| **Light & Medium Oil** | | | | | |
| Proved Developed Producing | 1,256.0 | 1,152.3 | 1,116.1 | 1,066.4 | 994.2 |
| Proved Undeveloped | 2,100.7 | 1,797.8 | 1,694.0 | 1,553.7 | 1,354.6 |
| Proved | 3,356.7 | 2,950.1 | 2,810.0 | 2,620.1 | 2,348.8 |
| Probable | 2,727.6 | 2,332.1 | 2,147.2 | 1,885.4 | 1,515.0 |
| Proved Plus Probable | 6,084.3 | 5,282.2 | 4,957.3 | 4,505.5 | 3,863.7 |
| **Associated and Non-Associated Gas** | | | | | |
| Proved Undeveloped | 45.1 | 5.3 | 2.3 | 0.7 | 0.1 |
| Proved | 45.1 | 5.3 | 2.3 | 0.7 | 0.1 |
| Probable | 369.6 | 95.9 | 62.3 | 35.0 | 14.9 |
| Proved Plus Probable | 414.7 | 101.2 | 64.6 | 35.6 | 15.0 |

| | Net Present Value Before Tax | | | | |
|---|---|---|---|---|---|
| | **5%**<br>**M$** | **10%**<br>**M$** | **12%**<br>**M$** | **15%**<br>**M$** | **20%**<br>**M$** |
| **Total** | | | | | |
| Proved Developed Producing | 1,256.0 | 1,152.3 | 1,116.1 | 1,066.4 | 994.2 |
| Proved Undeveloped | 2,145.7 | 1,803.0 | 1,696.2 | 1,554.4 | 1,354.7 |
| Proved | 3,401.8 | 2,955.3 | 2,812.3 | 2,620.8 | 2,348.8 |
| Probable | 3,097.2 | 2,428.1 | 2,209.5 | 1,920.3 | 1,529.9 |
| Proved Plus Probable | 6,499.0 | 5,383.4 | 5,021.8 | 4,541.1 | 3,878.7 |

## NI 51-101 - Forecast
## Reconciliation of Company Gross Reserves By Principal Product Type

Opening: AJM June 30, 2009 Forecast Pricing
Closing: AJM June 30, 2010 Forecast Pricing

Effective June 30, 2010

| | Light & Medium Oil | | | Heavy Oil | | |
|---|---|---|---|---|---|---|
| | **Gross Proved** | **Gross Probable** | **Gross Proved + Probable** | **Gross Proved** | **Gross Probable** | **Gross Proved + Probable** |
| | **Mstb** | **Mstb** | **Mstb** | **Mstb** | **Mstb** | **Mstb** |
| **Opening Balance** | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Closing Balance** | 78.0 | 132.0 | 210.0 | 0.0 | 0.0 | 0.0 |
| **Drilling Extensions** | 53.6 | 123.2 | 176.7 | 0.0 | 0.0 | 0.0 |
| **Improved Recovery** | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Technical Revisions** | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Exploration Discoveries** | 24.5 | 8.8 | 33.3 | 0.0 | 0.0 | 0.0 |
| **Acquisitions** | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Dispositions** | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Economic Factors** | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Production** | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

| | Associated & Non-Associated Gas | | | Coalbed Methane | | |
|---|---|---|---|---|---|---|
| | **Gross Proved** | **Gross Probable** | **Gross Proved + Probable** | **Gross Proved** | **Gross Probable** | **Gross Proved + Probable** |
| | **MMcf** | **MMcf** | **MMcf** | **MMcf** | **MMcf** | **MMcf** |
| **Opening Balance** | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Closing Balance** | 36.7 | 189.2 | 225.9 | 0.0 | 0.0 | 0.0 |
| **Drilling Extensions** | 36.7 | 189.2 | 225.9 | 0.0 | 0.0 | 0.0 |
| **Improved Recovery** | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Technical Revisions** | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Exploration Discoveries** | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Acquisitions** | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Dispositions** | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Economic Factors** | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Production** | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Reserves are estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, as of a given date, based on

- analysis of drilling, geological, geophysical, and engineering data;
- the use of established technology; and
- specified economic conditions, which are generally accepted as being reasonable and shall be disclosed.

Reserves are classified according to the degree of certainty associated with the estimates:

> **Proved Reserves** are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.
>
> **Probable Reserves** are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.
>
> **Possible Reserves** are those additional reserves that are less certain to be recovered than probable reserves. It is unlikely that the actual remaining quantities recovered will exceed the sum of the estimated proved plus probable plus possible reserves.

**Development and Production Status**

Each of the reserves categories (proved, probable and possible) may be divided into developed and undeveloped categories:

> **Developed Reserves** are those reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low expenditure (for example, when compared to the cost of drilling a well) to put the reserves on production. The developed category may be subdivided into producing and non-producing.
>
> **Developed Producing Reserves** are those reserves that are expected to be recovered from completion intervals open at the time of the estimate. These reserves may be currently producing, or if shut-in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty.
>
> **Developed Non-Producing Reserves** are those reserves that either have not been on production, or have previously been on production, but are shut - in, and the date of resumption of production is unknown.
>
> **Undeveloped Reserves** are those reserves expected to be recovered from known accumulations where a significant expenditure (for example, when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the reserves category (proved, probable, possible) to which they are assigned.

In multi-well pools it may be appropriate to allocate total pool reserves between the developed and undeveloped categories or to subdivide the developed reserves for the pool between developed producing and developed non-producing. This allocation should be based on the estimator's assessment as to the reserves that will be recovered from specific wells, facilities, and completion intervals in the pool and their respective development and production status.

**Levels of Certainty for Reported Reserves**

The qualitative certainty levels referred to in the definitions above are applicable to individual reserves entities (which refers to the lowest level at which reserves calculations are performed) and to reported reserves (which refers to the highest – level sum of individual entity estimates for which reserves estimates are presented). Reported reserves should target the following levels of certainty under a specific set of economic conditions:

- at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimated proved reserves;
- at least a 50 percent probability that the quantities actually recovered will equal or exceed the sum of the estimated proved plus probable reserves; and

- at least a 10 percent probability that the quantities actually recovered will equal or exceed the sum of the estimated proved plus probable plus possible reserves.

A quantitative measure of the certainty levels pertaining to estimates prepared for the various reserves categories is desirable to provide a clearer understanding of the associated risks and uncertainties. However, the majority of reserves estimates are prepared using deterministic methods that do not provide a mathematically derived quantitative measure of probability. In principle, there should be no difference between estimates prepared using probabilistic or deterministic methods.

## Pricing Assumptions

### Canadian Domestic Price Forecast
### Base Case Forecast Effective June 30, 2010

| | | | | Crude Oil Pricing | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Year | Price Inflation Rate | Cost Inflation Rate | Cdn to US Exchange Rate | WTI at Cushing Oklahoma US$/bbl Real | WTI at Cushing Oklahoma US$/bbl Current | Edmonton City Gate Cdn$/bbl Real | Edmonton City Gate Cdn$/bbl Current | Med. Oil 29 Deg. API Cromer, Sk. Cdn$/bbl Current | Bow River 25 Deg. API Hardisty Cdn$/bbl Current | Heavy Oil 12 Deg. API Hardisty Cdn$/bbl Current |
| 6 Mths H | 1.7% | 1.7% | 0.963 | $78.13 | $78.13 | $77.78 | $77.78 | $74.22 | $70.05 | $62.45 |
| 6 Mths F | 0.0% | 0.0% | 0.970 | $80.00 | $80.00 | $80.65 | $80.65 | $73.50 | $70.75 | $65.25 |
| Avg | n/a | n/a | 0.967 | $79.07 | $79.07 | $79.22 | $79.22 | $73.86 | $70.40 | $63.85 |
| 2010 | 0.0% | 0.0% | 0.970 | $80.00 | $80.00 | $80.65 | $80.65 | $73.50 | $70.75 | $65.25 |
| 2011 | 2.0% | 2.0% | 0.970 | $83.50 | $85.15 | $84.25 | $85.95 | $77.85 | $74.55 | $67.95 |
| 2012 | 2.0% | 2.0% | 0.950 | $85.00 | $88.45 | $87.65 | $91.20 | $82.10 | $78.20 | $70.40 |
| 2013 | 2.0% | 2.0% | 0.950 | $87.50 | $92.85 | $90.30 | $95.85 | $85.70 | $81.15 | $72.05 |
| 2014 | 2.0% | 2.0% | 0.950 | $90.00 | $97.40 | $92.90 | $100.55 | $89.30 | $84.05 | $73.55 |
| 2015 | 2.0% | 2.0% | 0.950 | $95.00 | $104.90 | $98.20 | $108.40 | $96.40 | $90.80 | $79.60 |
| 2016 | 2.0% | 2.0% | 0.950 | $100.00 | $112.60 | $103.45 | $116.50 | $103.75 | $97.80 | $85.90 |
| 2017 | 2.0% | 2.0% | 0.950 | $100.00 | $114.85 | $103.45 | $118.85 | $105.35 | $99.05 | $86.45 |
| 2018 | 2.0% | 2.0% | 0.950 | $100.00 | $117.15 | $103.45 | $121.20 | $106.95 | $100.30 | $87.00 |
| 2019 | 2.0% | 2.0% | 0.950 | $100.00 | $119.50 | $103.45 | $123.65 | $108.65 | $101.65 | $87.65 |
| 2020 | 2.0% | 2.0% | 0.950 | $100.00 | $121.90 | $103.45 | $126.10 | $111.10 | $104.10 | $90.10 |

| | | | | Natural Gas Pricing | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Year | Price Inflation Rate | Cost Inflation Rate | Cdn to US Exchange Rate | Alberta Reference Average Price Cdn$/mcf Current | Alberta AECO Average Price Cdn$/mcf Real | Alberta AECO Average Price Cdn$/mcf Current | Alberta System Plant Gate Sales Cdn$/mcf Current | Alberta Direct Plant Gate Sales Cdn$/mcf Current | B.C. Direct Stn. 2 Sales Cdn$/mcf Current | Sask. Direct Plant Gate Sales Cdn$/mcf Current | NYMEX US$/Mcf Real | NYMEX US$/Mcf Current |
| 6 Mths H | 1.7% | 1.7% | 0.963 | $4.15 | $4.48 | $4.48 | $4.45 | $4.24 | $4.36 | $4.37 | $4.73 | $4.73 |
| 6 Mths F | 0.0% | 0.0% | 0.970 | $4.55 | $4.80 | $4.80 | $4.50 | $4.20 | $4.50 | $4.75 | $4.81 | $4.81 |
| Avg | n/a | n/a | 0.967 | $4.35 | $4.64 | $4.64 | $4.48 | $4.22 | $4.43 | $4.56 | $4.77 | $4.77 |
| 2010 | 0.0% | 0.0% | 0.970 | $4.55 | $4.80 | $4.80 | $4.50 | $4.60 | $4.50 | $4.75 | $5.00 | $5.00 |
| 2011 | 2.0% | 2.0% | 0.970 | $5.45 | $5.60 | $5.70 | $5.40 | $5.50 | $5.40 | $5.65 | $5.80 | $5.90 |
| 2012 | 2.0% | 2.0% | 0.950 | $6.30 | $6.30 | $6.55 | $6.25 | $6.35 | $6.25 | $6.50 | $6.30 | $6.55 |

| | | | | Natural Gas Pricing | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Year | Price Inflation Rate | Cost Inflation Rate | Cdn to US Exchange Rate | Alberta Reference Average Price Cdn$/mcf Current | Alberta AECO Average Price Cdn$/mcf Real | Alberta AECO Average Price Cdn$/mcf Current | Alberta System Plant Gate Sales Cdn$/mcf Current | Alberta Direct Plant Gate Sales Cdn$/mcf Current | B.C. Direct Stn. 2 Sales Cdn$/mcf Current | Sask. Direct Plant Gate Sales Cdn$/mcf Current | NYMEX US$/Mcf Real | NYMEX US$/Mcf Current |
| 2013 | 2.0% | 2.0% | 0.950 | $6.55 | $6.40 | $6.80 | $6.50 | $6.60 | $6.50 | $6.75 | $6.50 | $6.90 |
| 2014 | 2.0% | 2.0% | 0.950 | $6.80 | $6.50 | $7.05 | $6.75 | $6.85 | $6.75 | $7.00 | $6.75 | $7.30 |
| 2015 | 2.0% | 2.0% | 0.950 | $7.05 | $6.60 | $7.30 | $7.00 | $7.10 | $7.00 | $7.25 | $7.00 | $7.75 |
| 2016 | 2.0% | 2.0% | 0.950 | $7.35 | $6.75 | $7.60 | $7.30 | $7.40 | $7.30 | $7.55 | $7.15 | $8.05 |
| 2017 | 2.0% | 2.0% | 0.950 | $7.60 | $6.85 | $7.85 | $7.55 | $7.65 | $7.55 | $7.80 | $7.35 | $8.45 |
| 2018 | 2.0% | 2.0% | 0.950 | $7.95 | $7.00 | $8.20 | $7.90 | $8.00 | $7.90 | $8.15 | $7.60 | $8.90 |
| 2019 | 2.0% | 2.0% | 0.950 | $8.35 | $7.20 | $8.60 | $8.30 | $8.40 | $8.30 | $8.55 | $7.75 | $9.25 |
| 2020 | 2.0% | 2.0% | 0.950 | $8.90 | $7.50 | $9.15 | $8.85 | $8.95 | $8.85 | $9.10 | $8.00 | $9.75 |

| | | | | Natural Gas Liquids Pricing (Edmonton Par Prices) | | | | Sulphur |
|---|---|---|---|---|---|---|---|---|
| Year | Price Inflation Rate | Cost Inflation Rate | Cdn to US Exchange Rate | Ethane Cdn$/bbl Current | Propane Cdn$/bbl Current | Butane Cdn$/bbl Current | Pentanes + Condensate Cdn$/bbl Current | Alberta Plant Gate Sales Cdn$/lt Current |
| 6 Mths H | 1.7% | 1.7% | 0.963 | $13.39 | $48.74 | $65.90 | $84.35 | $55.61 |
| 6 Mths F | 0.0% | 0.0% | 0.970 | $11.45 | $48.40 | $68.55 | $84.70 | $50.00 |
| Avg | n/a | n/a | 0.967 | $12.42 | $48.57 | $67.22 | $84.53 | $53.30 |
| 2010 | 0.0% | 0.0% | 0.970 | $13.50 | $48.40 | $68.55 | $84.70 | $50.00 |
| 2011 | 2.0% | 2.0% | 0.970 | $16.20 | $51.55 | $73.05 | $90.25 | $51.00 |
| 2012 | 2.0% | 2.0% | 0.950 | $18.75 | $54.70 | $77.50 | $95.75 | $52.00 |
| 2013 | 2.0% | 2.0% | 0.950 | $19.50 | $57.50 | $81.45 | $100.65 | $53.05 |
| 2014 | 2.0% | 2.0% | 0.950 | $20.25 | $60.35 | $85.45 | $105.60 | $54.10 |
| 2015 | 2.0% | 2.0% | 0.950 | $21.00 | $65.05 | $92.15 | $113.80 | $55.20 |
| 2016 | 2.0% | 2.0% | 0.950 | $21.90 | $69.90 | $99.05 | $122.35 | $56.30 |
| 2017 | 2.0% | 2.0% | 0.950 | $22.65 | $71.30 | $101.00 | $124.80 | $57.45 |
| 2018 | 2.0% | 2.0% | 0.950 | $23.70 | $72.70 | $103.00 | $127.25 | $58.60 |
| 2019 | 2.0% | 2.0% | 0.950 | $24.90 | $74.20 | $105.10 | $129.85 | $59.75 |
| 2020 | 2.0% | 2.0% | 0.950 | $26.55 | $75.65 | $107.20 | $132.40 | $60.95 |

**Notes:**
- All prices are in Canadian dollars except WTI and NYMEX gas which are in U.S. dollars.
- Edmonton city gate prices based on light sweet crude posted at major Canadian refineries. (40 Deg. API <0.5% Sulphur).
- Natural Gas Liquid prices are forecasted at Edmonton therefore an additional transportation cost must be included to plant gate sales point.
- 1 Mcf is equivalent to 1 mmbtu.
- System gas prices include TCGSL, Progas, Pan Alberta and Alliance.
- Real dollars listed include future growth in prices with no escalation considered.
- Alberta gas prices, except AECO include an Average cost of services to the plant gate.
- The Alberta Royalty Tax Credit (ARTC) was eliminated effective January 1, 2007.

***Production Forecasts***

Production forecasts were based on historical trends or by comparison with other wells in the immediate area producing from similar reservoirs. Non-producing gas reserves were forecast to come on-stream within the first two years from the effective date under direct sales pricing and deliverability assumptions, if a tie-in point to an existing gathering system was in close proximity (approximately two miles). If the tie-in point was of a greater distance (and dependent on the reserve volume and risk) the reserves were forecast to come on-stream in years three or four from the effective date. If the reserves were located in a remote location and/or the reserve volume was of higher risk, the reserves were forecast to come on-stream beyond five years from the effective date. These on-stream dates were used when the company could not provide specific on-stream date information.

***Land Schedule and Maps***

The evaluated Company provided schedules of land ownership which included lessor and lessee royalty burdens. The land data was accepted as factual and no investigation of title by AJM was made to verify the records.

Well maps included within this report represent all of the Company's interests that were evaluated in the specified area.

***Geology***

An initial review of each property is undertaken to establish the produced maturity of the reservoir being evaluated. Where extensive production history exists a geologic analysis is not conducted since the remaining hydrocarbons can be determined by productivity analysis. For properties that are not of a mature production nature a geologic review is conducted.

This work consists of:

- developing a regional understanding of the play,
- assessing reservoir parameters from the nearest analogous production,
- analysis of all relevant well data including logs, cores, and tests to measure net formation thickness (pay), porosity, and initial water saturation, and
- auditing of client mapping or developing maps to meet AJM's need to establish volumetric hydrocarbons-in-place.

***Royalties and Taxes***

*General*

All royalties and taxes, including the lessor and overriding royalties, are based on government regulations, negotiated leases or farmout agreements that were in effect as of the evaluation effective date. If regulations change, the net after royalty recoverable reserve volumes may differ materially. AJM Petroleum Consultants utilizes a variety of reserves and valuation products in determining the result sets.

***Operating and Capital Considerations***

Reserves estimated to meet the standards of NI 5I-101 for constant prices and costs (optimal), are based on unescalated operating and capital costs.

Capital costs were either provided by the Company (and reviewed by AJM for reasonableness); or determined by AJM taking into account well capability, facility requirement, and distance to markets. Facility expenditures for shut-in gas are forecast to occur prior to the well's first production.

Operating costs were determined from historical data on the property as provided by the evaluated Company. If this data was not available or incomplete, the costs were based on AJM experience and historical database. Operating costs are defined into three types.

The first type, variable ($/Unit), covers the costs directly associated with the product production. Costs for processing, gathering and compression are based on raw gas volumes. Over the life of the project the costs are inflated in escalated runs to reflect the increase in costs over time. In a constant dollar review the costs remain flat over the project life.

The second type, fixed plant or battery ($/year), is again a fixed component over the project life and reflects any gas plant or battery operating costs allocated back to the evaluated group. The plant or battery can also be run as a separate group and subsequently consolidated at the property level.

The third type takes the remaining costs that are not associated with the first two and assigns them to the well based on a fixed and variable component. A split of 65 percent fixed and 35 percent variable assumes efficiencies of operation over time, i.e. the well operator can reduce the number of monthly visits as the well matures, workovers may be delayed, well maintenance can also be reduced. The basic assumption is that the field operator will continue to find efficiencies to reduce the costs over time to maintain the overall $/Boe cost. Thus as the production drops over time the 35 percent variable cost will account for these efficiencies. If production is flat all the costs will also remain flat. Both the fixed and variable costs in this type are inflated in the escalated case and held constant in the constant dollar review. These costs also include property taxes, lease rentals, government fees, and administrative overhead.

In evaluations conducted for purposes of NI 51-101, well abandonment and reclamation costs have been included and these costs were either provided by the Company (and reviewed by AJM for reasonableness) or based on area averages taken from the Energy Resources Conservation Board (“ERCB”) Directive 011 section called the “Alberta Regional Well Abandonment Cost Tables” (only the base abandonment costs were utilized and no consideration for groundwater protection, vent flow repair costs, or gas migration costs were considered). If there were multiple events to abandon the costs were increased by a 25 percent factor. Site reclamation costs were taken from the ERCB Directive 011 section called “Alberta Regional Well Reclamation Cost Tables”. For undeveloped reserve estimates for undrilled locations, both abandonment and site reclamation costs are also included for the purpose of determining whether reserves should be attributed to that property in the first year in which the reserves are considered for attribution to the property. Map references for the ERCB Directive 011 are part of the ERCB Directive 006. For abandonments in British Columbia, Saskatchewan, and Manitoba, adjacent Alberta areas were referenced.

***Price and Market Demand Forecasts***

*Base Case Forecast Effective June 30, 2010*

The attached price and market forecasts have been prepared by AJM, based on information available from numerous government agencies, industry publications, oil refineries, natural gas marketers, and industry trends.

The prices are AJM’s best estimate of how the future will look, based on the many uncertainties that exist in both the domestic Canadian and international petroleum industries. Inflation forecasts and exchange rates, an integral part of the forecast, have also been considered. In preparing the price forecast AJM considers the current monthly trends, the actual and trends for the year to date, and the prior year actual in determining the forecast. The base forecast for both oil and gas is based on NYMEX futures in US dollars.

The crude oil and natural gas forecasts are based on yearly variable factors weighted to higher percent in current data and reflecting a higher percent to the prior year historical. These forecasts are AJM’s interpretation of current available information and while they are considered reasonable, changing market conditions or additional information may require alteration from the indicated effective date.

**Other Properties**

***Livingston Property***

On December 10, 2009, the Company purchased from Nadsoilco LLC a 30% gross working interest and a 22.5% net revenue interest in 214 contiguous acres which are the subject of the Davis-Holmes Leases and which are known as the Livingston Property, for a total purchase price of $100,000.

The Davis-Holmes Leases consist of 214 contiguous acres in the Livingston Field in Polk County Texas. The Livingston Field was discovered in 1932 and produces from the Frio, Jackson, Yegua, Cook Mountain, Sparta and Wilcox Formations. The assets, situated on the land which is the subject of the Davis-Holmes Leases, have produced continuously since 1936, and the cumulative production from the Davis-Holmes Leases exceeds 1.2 million barrels of oil. The lease currently consists of six producing wells (#1, #2, #2A, #4, #10, #11), one salt water disposal well (#8), and one shut-in well (#1A).

Since 1970, production records for the current wells have shown essentially no production rate decline in the current wells. Today the wells collectively produce approximately 20 BOPD, There are approximately 105,000 barrels of recoverable reserves remaining in the currently producing formations, based on a 5% annual decline rate and a twenty-five year remaining life. The estimated PV-10 value of the remaining reserves is $0.8 million based on $75 per barrel price. There are additional proven behind pipe reserves that were not considered in this analysis.

Compared with the Hartburg Project the Livingston Project is currently considered a non-material asset and is expected to remain that way until further geological and geophysical studies are performed within the lease area. Within the next 12 months the Company expects to review all available well logs, available three-dimensional seismic data, if available, and complete a review of the remaining potential at this lease. Based on the results of this study additional wells may be drilled and additional behind pipe zones may be perforated.

***Thelon Property***

On June 25, 2007, the Company entered into an option agreement to acquire a 60% legal and beneficial interest in and to certain mineral claims located in the Great Bear Lake area of the Northwest Territories, collectively known and described as the “Thelon Property.” The Company paid $300,000 and issued 1 million common shares in its capital at a deemed cost of $10,000 pursuant to the terms of the option agreement. The Company also incurred deferred exploration costs totalling $10,387 in 2009, $25,743 in 2008 and $180,810 in 2007 in connection with an aerial geophysical survey, interpretation of such survey and a report. During the year ended December 31, 2009, the Company abandoned its option as management was of the opinion that the future economic potential of the Thelon Property was negligible. The carrying value of the Thelon Property was written off.

***Torwalt Lake Property***

On December 17, 2007, the Company entered into an option agreement to acquire a 60% legal and beneficial interest in the mineral claims in the Waterbury Lake area of Saskatchewan, collectively known as the “Torwalt Lake Property.” The Company paid $25,000 in 2008 and $25,000 in 2007 pursuant to the terms of the option agreement. During fiscal year 2008, the Company incurred deferred exploration costs totalling $140,907 in respect of a mobile Metal Ion survey and interpretation of the survey to delineate drill targets. In 2009 an additional $10,000 was spent on geological reporting. During the year ended December 31, 2009, the Company abandoned the option to acquire the Torwalt Lake Property as management was of the opinion that the future economic potential of the Torwalt Lake Property was negligible.

## USE OF PROCEEDS

**Proceeds**

The Company will receive gross proceeds of $1,800,000 if all the Shares are sold, not including Shares sold pursuant to the Over-Allotment Option. The net proceeds of approximately $1,656,000, after deducting that portion of the Agent's Fee payable in cash and before deducting expenses of the Offering, will be added to the Company's estimated working capital deficiency as at December 31, 2010 of $224,000, which will result in $1,432,000 in available funds to the Company.

**Principal Purposes**

The Company anticipates using the available funds for the following principal purposes:

| **Principal Purposes** | **Offering** |
|---|---|
| To pay the balance of the estimated remaining costs of the Offering(1) | $140,000 |
| To pay the estimated cost of the exploration program on the Hartburg Property(2) | $816,000 |
| Payments pursuant to property acquisition costs | $50,000 |
| To pay the estimated general and administrative expenses for 12 months(3) | $321,600 |
| Unallocated working capital | $104,400 |
| **Total:** | $1,432,000 |

**Notes:**

(1) Includes the Agent's expenses, legal, audit, regulatory, listing and printing fees.

(2) See "Use of Proceeds – Hartburg Property"

(3) See "Use of Proceeds – Estimated General and Administrative Expenses for the Next 12 Months."

Upon completion of the Offering, the Company's working capital will be sufficient to fund its exploration program and to meet its administrative and operating costs for 12 months. The Company intends to spend the funds available to it as stated in this Prospectus. There may be circumstances however where for sound business reasons a reallocation of funds may be necessary. Proceeds from the exercise of the Over-Allotment option will be added to unallocated working capital.

**Business Objectives**

Future milestones for the next 12 months include successfully completing this Offering, completing the work program on the Hartburg Project, and completing the analysis and interpretation of the data resulting from that work program. See "Risk Factors" for a discussion of competitive conditions.

**Hartburg Property**

The Company's principal project is the exploration for, and production of oil and gas from the Hartburg Property. Specifically, the Company has agreed to participate in the exploration and production of oil and gas from the Hartburg Property in accordance with its working interest in the Prospect 1 and Prospect 2 wells. The total cost to the Company to participate in accordance with its working interest in the Prospect 1 and Prospect 2 wells is estimated to be $816,000, or, approximately $408,000 per well.

The Prospect 1 well is located approximately 480 feet south of the producing Donner #1 well. The well is scheduled to be drilled in the first quarter of 2011 to a total depth of 7,500 feet. Total drill time is estimated at ten days. Prior to moving the rig on location, the access road will be improved, widened and prepared for heavy machinery. The drill pad location will be built following the road improvements and is expected to be started within the next three months.

The Prospect 2 well is located approximately 3000 feet west of the producing Donner #1 well. The well is scheduled to be drilled in the second quarter of 2011 to a total depth of 7,500 feet. Total drill time is estimated at 10 days. Similar to the Prospect 1 well, prior to moving the rig on location, the access road will be improved, widened and prepared for heavy machinery. The drill pad location will be built following the road improvements and is expected to be started early in the second quarter. Depending on rig availability it is expected that drilling on the Prospect 2 well could commence in the second quarter of 2011.

Expected expenditures for the Prospect 1 and Prospect 2 wells include:

| **Item** | **Total ($)** |
|---|---|
| **Intangible Costs** | |
| Roadwork, Access and Location | 142,400 |
| Drilling Rig Turnkey Cost | 475,200 |
| Completion Rig and Perforating | 21,600 |
| Engineering, Labour and Supervision | 41,400 |
| Contingency | 12,400 |
| **Sub-Total:** | **693,000** |
| **Tangible Costs (surface facilities, equipment and pipe)** | |
| Down hole equipment | 88,200 |
| Surface tanks, flowlines and installation | 34,800 |
| **Sub-Total** | **123,000** |
| **Total Cost (Intangible + Tangible):** | **816,000** |

**Estimated General and Administrative Expenses for the Next 12 Months**

The general and administrative expenses of the Company for the 12 months following completion of this Offering are estimated to be $321,600. An estimated breakdown of these expenses is as follows:

| **Item** | **Monthly ($)** | **Yearly ($)** |
|---|---|---|
| Management Fees(1) | 10,000 | 120,000 |
| Office costs | 3,000 | 36,000 |
| Legal fees | 4,000 | 48,000 |
| Accounting and Audit fees | 3,000 | 36,000 |
| Consulting fees | 1,000 | 12,000 |
| Corporate and shareholder communication | 1,800 | 21,600 |
| Transfer agent and filing fees | 2,000 | 24,000 |
| Travel | 1,500 | 18,000 |
| Miscellaneous | 500 | 6,000 |
| **Total:** | $26,800 | $321,600 |

**Note:**

(1) Management fees for the twelve months following completion of the Offering are as follows: 1) $5,000/month or $60,000/year to Don Currie, CEO and President; and 2) $2,000/month or $24,000/year to Wan Jung, CFO. The Company will pay Barry Lasker, a consultant to the Company, $3,000 per month or $36,000 per year to provide advice with respect to the exploration and development of the Company's oil and gas projects.

## DIVIDENDS

The Company has neither declared nor paid any dividends on its Common Shares. The Company intends to retain its earnings to finance growth and expand its operations and does not anticipate paying any dividends on its Common Shares in the foreseeable future. Any decision to pay dividends on Common Shares in the future will be made by the directors of the Company on the basis of the earnings, financial requirements, and other conditions existing at such time.

## SELECTED FINANCIAL INFORMATION AND MANAGEMENT'S DISCUSSION AND ANALYSIS

### Annual Information

The following table sets forth summary financial information of the Company for the periods indicated. This information has been summarized from and should be read in conjunction with the Company's audited financial statements for the fiscal years ended December 31, 2009, 2008 and 2007, and the Company's unaudited financial statements for the three and nine month periods ended September 30, 2010, contained in this Prospectus as Schedule "A".

| | **Three Months Ended September 30, 2010** (unaudited) | **Nine Months Ended September 30, 2010** (unaudited) | **Year Ended December 31, 2009** (audited) | **Year Ended December 31, 2008** (audited) | **Year Ended December 31, 2007** (audited) |
|---|---|---|---|---|---|
| Total Revenue | $70,197 | $113,901 | $2,537 | Nil | Nil |
| Total Assets | $968,088 | $968,088 | $295,699 | $440,330 | $1,512,723 |
| Total Liabilities | $324,230 | $324,230 | $31,772 | $47,767 | $82,481 |
| Expenses | $27,146 | $59,501 | $128,965 | $310,310 | $130,189 |
| Shareholders equity | $643,858 | $643,858 | $263,927 | $392,563 | $1,430,242 |
| Write down of resource properties | Nil | Nil | $(20,388) | $(740,167) | Nil |
| Other income | $5,656 | $3,031 | $13,940 | $12,798 | Nil |
| Net income(loss) | $48,707 | $57,431 | $(128,636) | $(1,037,679) | $(130,189) |
| Loss per share | Nil | Nil | $(0.01) | $(0.05) | $(0.02) |

### Management's Discussion and Analysis

### General

The following management discussion and analysis is based on the Company's results of operations and financial position and should be read in conjunction with the financial statements and notes thereto of the Company for the nine month period ended September 30, 2010. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

**Results of Operations**

***Three month period ended September 30, 2010 and 2009***

For the quarter ended September 30, 2010, operating expenses totalled $27,146 and net income was $48,707. The Company had $57,946 in operating expenses and a net loss of $54,459 for the quarter ended September 30, 2009. The biggest difference between this year and the comparative year in 2009 was due largely to the production from the Donner #1 well. The Company was inactive in 2009.

***Nine month period ended September 30, 2010 and 2009***

For the nine month period ended September 30, 2010, operating expenses totalled $59,501 and net income was $57,431. The Company had $120,059 in operating expenses and a net loss of $109,893 for the nine months ended September 30, 2009. The biggest difference between this year and the comparative period in 2009 was due largely to the production from the Donner #1 well in 2010 and the fact the Company engaged the services of consultants and lawyers with a view of amalgamating with a public company in 2009 and accordingly, compensation of the Company's consultants and management was reduced.

***Twelve month period ended December 31, 2009 and 2008***

For the year ended December 31, 2009, operating expenses totalled $128,965 and net loss was $128,636. The Company had $310,310 in operating expenses and a net loss of $1,037,679 for the year ended December 31, 2008. The biggest difference between 2009 and 2008 was the fact the Company wrote off its resource properties in 2008.

Consulting fees in 2009 totalled $36,431, a reduction of $58,395 from $94,826 incurred in 2008. The reduction in consulting fees for 2009 is attributed to reduced mineral exploration activities in fiscal year 2009 therefore requiring less management oversight.

Professional fees incurred in fiscal year 2009 totalled $59,276 as compared to $153,351 for the same period ended December 31, 2008. The increase in 2008 professional fees is related to the legal and accounting fees incurred in connection with the drafting and filing of a preliminary prospectus for a proposed initial public offering and a proposed merger with Great Bear Uranium Corp. Though a preliminary prospectus was filed in April 2008, the final prospectus was never filed as the Company was not able to complete the proposed financing. Further, the Company's merger with Great Bear Uranium Corp. was never consummated.

The Company incurred costs totalling $727,847 in connection with its investment in the Thelon and Torwalt Lake uranium properties; the properties were written off due their minimal economic potential.

**Description of Business**

Hillcrest Resources Ltd was incorporated under the *Business Corporations Act* (British Columbia) under the name "Shanghai Creek Minerals Ltd." on May 2, 2006. On May 28, 2007 the Company changed its name to Hillcrest Resources Ltd.

The Company is in the business of acquiring and developing exploration interests in oil and gas projects in the United States of America.

The Company is subject to several categories of risk associated with the exploration of oil and gas. Oil and gas exploration and production is a speculative business, and involves a high degree of risk. Among the factors that have a direct bearing on the Company's prospects are uncertainties inherent in estimating oil and gas reserves, future hydrocarbon production, and cash flows, particularly with respect to wells that have not been fully tested and with wells having limited production histories; access to additional capital; changes in the price of oil and gas; availability and cost of services and equipment; and the presence of competitors with greater financial resources and capacity.

The oil and gas industry is subject, by its nature, to environmental hazards and clean-up costs. At this time, management knows of no substantial costs from environmental accidents or events for which the Company may be currently liable. In addition, the Company's oil and gas business makes it vulnerable to changes in prices of crude oil and natural gas. Such prices have been volatile in the past and can be expected to be volatile in the future. By definition, proved reserves are based on current oil and gas prices and estimated probable reserves. Price declines reduce the estimated quantity of proved and probable reserves and increase annual depletion expense (which is based on proved and probable reserves).

Management and consultants of the company have extensive experience in oil and gas exploration, development and production and have the capability to expand the scope of the Company's activities as appropriate opportunities arise. Since the company's founding on May 2, 2006, the company has acquired seed funding, put in place an operation structure, set up offices in Vancouver, British Columbia, and Houston, Texas, and engaged key exploration and land personnel, and acquired its initial oil and natural gas assets and associated equipment.

**Oil and Gas Properties**

Hillcrest Resources Ltd. currently has interests in the following oil and gas properties:

**a) Livingston Property, Texas**

By agreement dated November 1, 2009, the Company entered into an Assignment of Oil and Gas Lease and Bill of Sale for the assignment of a 30% working interest in certain Oil and Gas Mineral Leases known as the Davis-Holmes property in Polk County, Texas. In consideration the Company paid a lump sum of $96,120 (US$90,000). The Company is responsible for their proportionate share of all future costs of the development of the property.

The Company produces oil from two Texas oil fields on the Livingston Property which currently produces an average of 21 barrels of oil per day.

**b) Hartburg Property, Texas**

By agreement dated December 8, 2009, the Company entered into an Assignment and Assumption Agreement for the assignment to the Company of a 60% working interest in the Tract No. 1 Leases and the Tract No. 2 Leases which pertain to property located in Newton County, Texas. As consideration for its interest in the leases, the Company paid a lump sum of $117,040 (US$111,266) to Delta. The Company is responsible for its proportionate share of all future costs of the development of the property.

The primary focus of the Company is its three to four well drilling and production program on the Hartburg Property. The Company has successfully drilled and completed the first well with production starting in mid-August 2010. The Donner #1 has maintained production averaging 42 barrels per day. With the success of the first well, the Company commissioned a NI 51-101 compliant technical report for the purpose of this Offering. Results of the report can be found in the body of this Prospectus and the report is also available for viewing on SEDAR under the Company's profile.

**Liquidity and Capital Resources**

The Company had a working capital deficiency of $226,794 as at September 30, 2010.

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at September 30, 2010, the Company had current assets of $97,436 (December 31, 2009 - $79,044) to settle current liabilities of $324,230 (December 31, 2009 – $31,772). All of the Company's financial liabilities, other than loans payable, have contractual maturities of less than 30 days and are subject to normal repayment terms.

With the filing of the Prospectus, the closing of the IPO and the continued cash flow from oil production, we expect working capital to increase.

The Company does not currently have credit facilities to finance its projects; however, we do not require additional funds, other than those considered in the Prospectus offering, to complete the development objectives.

**Outstanding Share Data**

The total number of common shares outstanding as of September 30, 2010 was 24,035,001.

**Stock Options**

There are currently no stock options outstanding. The Company anticipates granting 1,900,000 stock options to directors, officers and a consultant of the Company once the IPO has been completed.

**Commitments**

There are no contracts related to management or rent.

**Related Party Transactions**

There were no related party transactions in 2010.

**Off- Balance Sheet Transactions**

The Company has not entered into any off-balance sheet arrangements.

**Subsequent Events**

***Initial Public Offering***

The Company is in the process of preparing for an initial public offering of 9,000,000 common shares at a price of $0.20 per share for gross proceeds of $1,800,000.

In consideration of the services performed by the Agent, the Company has agreed to pay a cash fee of $144,000, a corporate finance fee of $50,000 and administration fee of $2,500. The Company will reimburse the Agent for its reasonable legal fees and expenses in relation to the Offering.

The Company granted to the Agent the Over-Allotment Option, exercisable in whole or in part at any time within 48 hours prior to the closing date, to solicit the sale of additional shares as is equal to 15% of the number of the shares offered hereunder. If the Over-Allotment Option is exercised in full, gross proceeds from the Offering and the Agent's fee will be $2,070,000 and $165,600 respectively.

Up to 720,000 Agent's Warrants will be issued with an exercise price of $0.20. If the Over-Allotment Option is exercised, the maximum number of securities available to the Agent will be 828,000 common shares. The Agent's Warrants will expire 24 months from the Listing Date.

***Stock Options***

Subsequent to September 30, 2010, the Company adopted a stock option plan to grant stock options to its directors, officers, employees and consultants. Subjective to the requirement of the Exchange, the aggregate number of securities reserved for issuance under the plan, at any point in time, will be 10% of the number of common shares of the Company issued and outstanding at the time the option is granted (on a diluted basis), less any common shares reserved for issuance under share options granted under share compensation arrangements other than the plan. The exercise price of option grants will be determined by the board, but will not be less than the closing market price of the common shares on the Exchange less allowable discounts at the time of grant. All options granted under the plan will expire not later than the date that is five years form the date that such options are granted.

Effective on the date that the common shares of the Company are listed for trading on the Exchange, 1,550,000 stock options under the Stock Option Plan will be granted to officers and directors of the Company and 350,000 stock options in aggregate, to a consultant and a senior employee of the Company. The stock options are exercisable for a period of 5 years from the Listing Date at an exercise price of $0.20 per common share. The stock options granted will vest on the day that is four months from the Listing Date.

***Restructure of Share Capital***

Effective June 16, 2008, the Company consolidated its share capital to the extent that 18,625,000 common shares issued to shareholders at a price of $0.01 per common share were returned to treasury for cancellation pursuant to agreements between the respective shareholders and the Company and 9,312,500 common shares were reissued to the same shareholders, on a pro rata basis, at a deemed price of $0.02 per common share. There was no reduction in capital as a result of this consolidation. See "*Prior Sales of Securities*".

Effective November 1, 2010, the Company consolidated all common shares issued at $0.01 per share to the extent that 1,000,000 common shares issued to Great Bear Uranium Corp., formerly Great Bear Resources Ltd. ("Great Bear") at a price of $0.01 per common share were returned to treasury for cancellation pursuant to an agreement between Great Bear and the Company, and 200,000 common shares were reissued to Great Bear at a deemed price of $0.05 per common share. There was no reduction in capital as a result of this consolidation. See "*Prior Sales of Securities*". The 1,000,000 common shares issued to Great Bear were issued pursuant to the Thelon Property Agreements and were subsequently sold to Jason Oden, a director of the Company, prior to the abovementioned consolidation.

Effective November 1, 2010, the Company consolidated all of its common shares issued at a price of $0.02 per common share to the extent that 9,312,500 common shares issued to shareholders (the "$0.02 Shareholders") at a price of $0.02 per common share were returned to treasury for cancellation pursuant to agreements between the $0.02 Shareholders and the Company and 3,725,000 common shares were reissued on a pro rata basis, to the $0.02 Shareholders at a deemed price of $0.05 per common share. There was no reduction in capital as a result of this consolidation. See "*Prior Sales of Securities*".

***Share Repurchase***

Subsequent to September 30, 2010, the Company purchased from a former director one common share of the Company for the price of $1.00 pursuant to the terms of a Repurchase Agreement.

**Accounting Policies and Critical Accounting Estimates**

Financial statement preparation in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions which can affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the reporting period. Actual results may vary from the current estimates. Significant estimates include the estimated useful lives of long-lived assets, the recoverability of oil and gas properties, mineral properties and deferred exploration costs, fair value of long-term investments, assessment of asset retirement obligations, valuation allowance on future income taxes, and estimates used in calculating stock-based compensation. These estimates are reviewed periodically and as adjustments become necessary, they are reported in earnings in the periods in which they become known.

***Financial instruments***

All financial instruments are classified into one of five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured in the balance sheet at fair value, except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired. Held-to-maturity investments, loans and receivables, and other financial liabilities are initially measured at fair value and subsequently measured at amortized cost. Amortization of premiums or discounts and losses due to impairment are included in current year net earnings (loss).

The Company has classified its cash and cash equivalents as held-for-trading. Accounts payable and accrued liabilities are classified as other financial liabilities. Transaction costs incurred upon the issuance of debt instruments or modification of a financial liability are deducted from the financial liability and are amortized using the effective interest method over the expected life of the related liability.

The Company's marketable securities are classified as "available-for-sale" and are measured at fair value. Changes in fair value are recognized in other comprehensive income until their disposition, at which time they are transferred to net income. Investments in securities having quoted market values and which are publicly traded on a recognized securities exchange and for which no sales restrictions apply are recorded at values based on the current bid prices.

The Company's investments in equity securities that do not have a quoted market price in an active market are shown as long-term investments and are measured at cost, unless information regarding the fair value of the investments is available. Such information may be obtained through recent arm's length market transactions between knowledgeable and willing parties.

**Adoption of New Accounting Standards**

***Goodwill and Intangible Assets***

Effective January 1, 2009, the Company adopted CICA Section 3064, "*Goodwill and Intangible Assets*" which replaces Section 3062, "*Goodwill and Other Intangible Assets*", and Section 3450, "*Research and Development Costs*". The new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition of intangible assets. The standards concerning goodwill remain unchanged from the standards included in the previous Section 3062. The adoption of this standard did not have any material effect on the consolidated financial statements.

***Credit Risk and the Fair Value of Financial Assets and Financial Liabilities***

The Company adopted the newly issued guidance of the Emerging Issues Committee EIC-173, "*Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*", which requires that an entity should take into account the credit risk of an entity and the counterparty in determining the fair value of financial assets and financial liabilities. This guidance is adopted retrospectively, with restatement. No retroactive revision was disclosed related to the prior period as there were no effects on the fair values of financial assets and financial liabilities.

***Mining Exploration Costs***

The Company adopted the newly issued guidance of the Emerging Issues Committee EIC-174, "*Mining Exploration Costs*", which provides guidance on the accounting and the impairment review of exploration costs. The adoption of this standard did not have any material effect on the consolidated financial statements.

***Financial Statement Concepts (Amended)***

The Company adopted the amended CICA Section 1000, "*Financial Statement Concepts*", which clarifies the criteria for recognition of an asset, reinforcing the distinction between costs that should be expensed and those that should be capitalized. The adoption of this standard did not have any material effect on the consolidated financial statements.

***Financial Instruments – Recognition and Measurement (Amended)***

In June 2009, the CICA amended Section 3855 "*Financial Instruments – Recognition and Measurement*" to clarify that, upon reclassification of a financial instrument out of the trading category, an assessment must be completed to determine whether an embedded derivative is required to be bifurcated. In addition, the amendment prohibits the reclassification of a financial instrument out of the trading category when the derivative embedded in the financial instrument cannot be separately measured from the host contract. The amendment is applicable to all reclassifications occurring after July 1, 2009. The adoption of this standard did not have any material effect on the consolidated financial statements.

In August 2009, the CICA issued further amendments to Section 3855. The amendments changed the definition of a loan such that certain debt securities may be classified as loans if they do not have a quoted price in an active market and the Company does not have the intent to sell the security immediately or in the near term. As a result, debt securities classified as loans will be assessed for impairment using the incurred credit loss model of Section 3025 to reduce the carrying value of a loan to its estimated realizable amount.

Loan impairment accounting requirements are also applied to held-to-maturity financial assets as a result of the amendments. Debt securities that are classified as available-for-sale continue to be written down to their fair value when the impairment is considered to be other than temporary. However, the impairment loss can be reversed if the fair value substantially increases and the increase can be objectively related to an event occurring after the impairment loss was recognized. The adoption of this standard did not have any material effect on the consolidated financial statements.

***Financial Instruments – Disclosures (Amended)***

In June 2009, the CICA amended Section 3862, "*Financial Instruments - Discl*osures", to require enhanced disclosure about the fair value assessments of the financial instruments. The new disclosures are based on a fair value hierarchy that categorizes financial instruments measured at fair value at one of three levels according to the reliability of the inputs used to estimate the fair values. The amendments apply to annual financial statements for fiscal years ending after September 30, 2009.

**Future Accounting Pronouncements**

***Business Combinations***

In January 2009, the CICA issued three new accounting standards, Sections 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements" and Section 1602, "Non-controlling Interests", each of which are effective for fiscal years beginning June 1, 2011, and further align Canadian GAAP with IFRS. Early adoption of these new standards is permitted. The Company does not expect the adoption of these standards will have a significant effect on these consolidated financial statements.

***International Financial Reporting Standards ("IFRS")***

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five-year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly accountable companies to use IFRS, replacing Canadian GAAP. This date is for interim and annual 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 ending December 31, 2011. IFRS uses a conceptual framework similar to GAAP, but there are significant differences on recognition, measurement and disclosure

***Changes in Accounting Policies including Initial Adoption***

The Company initiated its IFRS transition project in 2010. The project consists of three principal phases:

(i) preliminary study and diagnostic;

(ii) detailed component evaluation; and

(iii) embedding and on−going items.

The project addresses the impact of IFRS transition on accounting policies, implementation decisions, infrastructure, and control activities. The Company has successfully completed the first two phases and will complete the third phase of the implementation in 2011. During the fourth quarter of 2010, the Company will establish and implement accounting policies and procedures and internal accounting control activities to maintain its external financial reporting system under IFRS.

During the preliminary study and diagnostic phase, the Company developed a comprehensive IFRS changeover plan; and completed the scoping assessment to identify key areas that had an impact on transition to IFRS, and assessment of its information systems to be compliant with IFRS reporting requirements. At December 31, 2010, the Company successfully completed the detailed component evaluation phase where the Company has developed accounting and internal control policies under IFRS; evaluated and completed key implementation decisions on IFRS 1 elections and quantified significant differences between Canadian GAAP and IFRS.

At this point, the Company's accounting and financial reporting systems are not expected to be significantly impacted. Further, the Company has in place internal and disclosure control procedures to ensure continued effectiveness during this transition period. The Company is currently compiling the required opening balance sheet as at January 1, 2011. Implementation of IFRS will be adopted for the interim financial statements for the three months ended March 31, 2011.

Based on the work completed under phase one, phase two and phase three of the implementation plan, the Company believes that IFRS will have a significant impact on its current financial position and will result in more extensive note disclosure and analysis of balances and transactions. What management believes to be the key differences and their potential impact based on the work performed to date is as follows:

| **IFRS Standard** | **Canadian GAAP currently applied by the Company** | **Difference under IFRS** | **Analysis and preliminary conclusions** |
|---|---|---|---|
| IFRS 2 – Share based payments | Stock based compensation is determined based on the fair value of the awards issued and is recorded over the award's vesting period. | IFRS applies the same basic principles for determining the expense; however, IFRS requires the fair value to be adjusted for an anticipated forfeiture rate. Under Canadian GAAP, an option exists to account for award forfeitures as they occur. | Management expects the expense for stock based compensation under IFRS to differ from that under the Company's current GAAP dependant on the timing and frequency of award forfeitures. Management expects this difference not to be material. |
| IAS 12 – Income Taxes | Temporary differences arising from the effect of foreign exchange rates on the tax base of an asset or liability where the functional currency of the asset or liability is in a different currency are not recognized. | Temporary differences arising from the effect of foreign exchange rates on the tax base of an asset or liability where the functional currency of the asset or liability is in a different currency are recognized. | Management expects this difference to effect the calculation of deferred taxes in the United States of America, which may result in the recognition of previously unrecognized deferred tax liabilities. |
| IAS 16 – Property plant and equipment | Property, plant and equipment are carried at cost less accumulated amortization. Amortization is determined at rates that will reduce original cost to estimated residual value over the useful life of | Property, plant and equipment can be recorded either at cost or under the revaluation model. Amortization is determined at rates based on the useful lives of each significant component within property, plant and | Property, plant and equipment will continue to be recorded at historic cost without revaluation. Management expects that the componentization of the Company's property, plant |

| | | | |
|---|---|---|---|
| | each asset. | equipment. | and equipment to result in a marginally different effective amortization rate with the net effect not being material. |

Adoption of IFRS will significantly impact the Company's accounting policies for oil and gas properties. For Canadian GAAP purposes, the Company follows the full cost method of accounting for its conventional crude oil and natural gas properties as prescribed by Accounting Guideline 16 ("AcG16). Application of the full cost method of accounting is discussed in the "Generally Accepted Accounting Principles" section of the 2009 annual financial statements.

Significant differences in accounting for oil and gas properties under IFRS include:

- Pre-exploration costs must be expensed. Under full cost accounting, these costs are currently included in the country cost centre.

- Exploration and evaluation costs will be initially capitalized as exploration and evaluation assets. Once technical feasibility and commercial viability of reserves is established for an area, the costs will be transferred to oil and gas properties. If technically feasible and commercially viable reserves are not established for a new area, the costs must be expensed. Under full cost accounting, exploration and evaluation costs are currently disclosed as oil and gas properties but withheld from depletion. Costs are transferred to the depletable assets when proved reserves are assigned or when it is determined that the costs are impaired.

- Oil and gas for producing properties will be depreciated at an asset level. Under full cost accounting, oil and gas properties are depleted on a country cost centre basis.

- Impairment of oil and gas properties will be tested at a cash generating unit level (the lowest level at which cash inflows can be separately identified). Under full cost accounting, impairment is tested at the country cost centre level.

In addition to the above differences, IFRS 1 – First-time adoption of international financial reporting standards ("IFRS 1") provides for certain mandatory exceptions and optional exemptions for first time adopters of IFRS. The Company plans to elect to take the following IFRS 1 optional exemptions:

- IFRS 2- Share-based payments - The Company will take the election and only reassess the fair value of options that were granted and that have not vested as of the date of transition, January 1, 2010.

- IAS 37 – Provisions, Contingent Liabilities and Contingent Assets – The Company will take the election and calculate its open asset retirement obligation under IFRS as at January 1, 2011.

***Embedding and ongoing and other IFRS transition considerations***

The table below outlines the key elements and timing in accordance with the Company's IFRS transition plan:

| Key elements and phase | Timing | Status |
|---|---|---|
| **Embedding and ongoing items** | | |
| *Financial Statements* | | |
| Selection of accounting policies under IFRS | Senior Management and audit committee review and approved accounting policies | completed |

| Key elements and phase | Timing | Status |
|---|---|---|
| Prepare IFRS financial statements and notes | Mock IFRS financial statements to be reviewed by senior management and audit committee in Q4 2010 | Completed and ongoing evaluations and improvements to be made |
| *Training* | | |
| Training to the finance group and other relevant operations employees, members of the audit committee and board | Ongoing as required | No additional training session planned at this time |
| *Business Operations* | | |
| Assess impact on contracts and agreements | Review of existing and new contracts and going forward | Ongoing in 2011 |
| Assess impact on forecasting and Budgeting | Evaluation the impact on budgeting and forecasting | Process in ongoing in 2011 |
| *Information Systems* | | |
| Identify and review modifications required to gather information under IFRS | Completed | The company continues to review and implement system changes and modules as required |
| *Control Environment* | | |
| Ensure effective disclosure controls and procedures (“DC&P”) throughout the transition to IFRS | Completed | Continued monitoring process is ongoing in 2011 |
| Ensure effective internal controls over financial reporting (“ICFR”) throughout the transition to IFRS | Completed | Continued monitoring process is ongoing in 2011 |
| **Post implementation** | | |
| Ongoing monitoring of processes and systems for compiling financial and other data | Ongoing in 2011 | Process in ongoing in 2011 |

**Accounting Policies and Critical Accounting Estimates**

***Measurement Uncertainty***

Financial statement preparation in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions which can affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the reporting period. Actual results may vary from the current estimates. Significant estimates include the estimated useful lives of long-lived assets, the recoverability of oil and gas properties, mineral properties and deferred exploration costs, fair value of long-term investments, assessment of asset retirement obligations, valuation allowance on future income taxes, and estimates used in calculating stock-based compensation. These estimates are reviewed periodically and as adjustments become necessary, they are reported in earnings in the periods in which they become known.

***Financial instruments - Recognition and Measurement***

All financial instruments are classified into one of five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured in the balance sheet at fair value, except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired. Held-to-maturity investments, loans and receivables, and other financial liabilities are initially measured at fair value and subsequently measured at amortized cost. Amortization of premiums or discounts and losses due to impairment are included in current year net earnings (loss).

The Company has classified its cash and short term investment as held-for-trading. Accounts payable and accrued liabilities are classified as other financial liabilities. Transaction costs incurred upon the issuance of debt instruments or modification of a financial liability are deducted from the financial liability and are amortized using the effective interest method over the expected life of the related liability.

CICA Section 3862 "Financial Instruments – Disclosure" requires an entity to classify fair value measurements using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The accounting standard 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. Section 3862 prioritizes the inputs into three levels that may be used to measure fair value:

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

ii. Level 2 – Applies to assets or liabilities for which there are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly such as quoted prices for similar assets or liabilities in active markets or indirectly such as quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions.

iii. Level 3 – Applies to assets or liabilities for which there are unobservable market data.

The Company's financial instruments consist principally of cash, short term investments and accounts payable and accrued liabilities. Pursuant to Section 3862, fair value of assets and liabilities measured on a recurring basis include cash and short term investments determined based on Level 1 inputs, which consist of quoted prices in active markets for identical assets. The Company believes that the recorded values of accounts payable and accrued liabilities approximate their current fair value because of their nature and respective maturity dates or durations.

**Capital Management**

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of oil and gas properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company is dependent on external financing to fund its activities. In order to carry out planned exploration and development and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate available or committed financial resources to complete such acquisitions.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the period ended September 30, 2010.

## DESCRIPTION OF SECURITIES DISTRIBUTED

### Common Shares

Under this Offering the Company will issue 9,000,000 Common Shares.

The authorized share capital of the Company consists of an unlimited number of Common Shares without par value. As of the date of this Prospectus, 17,647,500 Common Shares were issued and outstanding as fully paid and non-assessable shares. There are 1,900,000 stock options reserved for issuance to officers and directors of the Company effective on the Listing Date to acquire Common Shares granted pursuant to the Company's Stock Option Plan (the "Plan"), and up to 828,000 Common Shares are reserved for issuance upon exercise of the Agent's Warrants.

The holders of Common Shares are entitled to receive notice of and attend and vote at all shareholder meetings. Each Common Share confers the right to one vote in person or by proxy at all meetings of the shareholders of the Company. The holders of the Common Shares, subject to the prior rights, if any, of any other class of shares of the Company, are entitled to receive such dividends in any financial year as the Board may by resolution determine. In the event of the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, the holders of the Common Shares are entitled to receive, subject to the prior rights, if any, of the holders of any other class of shares of the Company, the remaining property and assets of the Company.

## CONSOLIDATED CAPITALIZATION

The following table summarizes capitalization of the Company as at the date of this Prospectus and after giving effect to the Offering.

| Description | Authorized | Outstanding at the date of this Prospectus | Outstanding after giving effect to Offering(1) |
|---|---|---|---|
| Common Shares | Unlimited | 17,647,500 | 26,647,500 |
| Incentive Stock Options | 1,900,000(2) | Nil | 1,900,000(3) |
| Share Purchase Warrants(4) | 6,710,000 | 6,710,000 | 6,710,000 |
| Agent's Warrants(5) | 828,000 | Nil | 828,000 |

**Notes:**

(1) This number includes the sale of 9,000,000 Common Shares under the Offering, but does not include the Common Shares issuable upon exercise of the Over-Allotment Option.

(2) Pursuant to the Plan, the number of the Company's common shares reserved for issuance will be a maximum of 10% of the issued and outstanding share capital of the Company at the date of grant. See "Options to Purchase Securities".

(3) Effective as of the Listing Date, 1,550,000 options under the Plan will be granted to officers and directors of the Company; 250,000 options will be issued to a consultant of the Company and 100,000 options will be issued to a senior employee of the Company.

(4) Transferable warrants were issued as part of a unit offering conducted between December 2009 and June 2010. The unit offering consisted of the issue of units comprised of one share and one warrant (a "Unit") at a subscription price of $0.05 per Unit. Each warrant entitled the holder thereof to purchase one warrant share at a price of $0.10 for a 24 month period; 1,100,000 of these Shares were acquired by directors of the Company and will be held in escrow.

(5) As additional consideration for the sale of Shares pursuant to this Prospectus, the Agent will receive Agent's Warrants.

## OPTIONS TO PURCHASE SECURITIES

### Stock Option Plan

The Plan was adopted by the Company on November 4, 2010, effective as at the Listing Date**.** The purpose of the Plan is to give directors, officers, employees and consultants of the Company, as additional compensation, the opportunity to participate in the success of the Company. The Plan provides that, subject to the requirements of the Exchange, the aggregate number of securities reserved for issuance under the Plan, at any point in time, will be 10% of the number of Common Shares of the Company issued and outstanding at the time the option is granted (on a non-diluted basis), less any Common Shares reserved for issuance under share options granted under share compensation arrangements other than the Plan.

The Plan has been prepared so as to meet Exchange requirements. Options may be granted under the Plan to such officers, directors, employees, and consultants, of the Company and its affiliates, if any, as the Board may from time to time designate. The exercise price of option grants will be determined by the Board, but will not be less than the closing market price of the Common Shares on the Exchange less allowable discounts at the time of grant. The Plan provides that the number of Common Shares that may be reserved for issuance to any one individual upon exercise of all stock options held by such individual may not exceed 5% of the issued Common Shares on a yearly basis. Subject to earlier termination in the event of dismissal for cause, termination other than for cause or in the event of death, all options granted under the Plan will expire not later than the date that is five years from the date that such options are granted. Options granted under the Plan are not transferable or assignable other than by will or other testamentary instrument or pursuant to the laws of succession.

Options granted as of the date of this Prospectus are as follows:

| **Optionees** | **Number of Options(1)** | **Exercise price of Options** |
|---|---|---|
| David Stone, *Director* | 150,000 | $0.20 |
| Donald Currie, *Director, Chairman and Chief Executive Officer* | 250,000 | $0.20 |
| Stewart Jackson, *Director and President* | 150,000 | $0.20 |
| Lewis Parker, *Director* | 250,000 | $0.20 |
| Jason Oden, *Director* | 250,000 | $0.20 |
| Wan Jung, *Chief Financial Officer* | 250,000 | $0.20 |
| Desmond Balakrishnan, *Corporate Secretary* | 250,000 | $0.20 |
| **Total:** | **1,550,000** | |

**Notes:**

(1) The options are exercisable for a period of 5 years from the Listing Date at an exercise price of $0.20 per Common Share. The options granted will vest on the day that is four months from Listing Date.

The Company will also issue 250,000 options to a consultant of the Company and 100,000 options to a senior employee of the Company.

In addition, pursuant to the terms of the Agency Agreement, the Company will issue Agent's Warrants to the Agent (up to 8% of the number of Shares sold under the Offering including under the Over-Allotment Option, to purchasers other than President's List Purchasers, and 2% of the number of Shares issued to President's List Purchasers), exercisable at a price of $0.20 per Agent's Warrant Share for a period of 24 months from the Closing Date.

The Company has 6,710,000 share purchase warrants outstanding.

## PRIOR SALES OF SECURITIES

The following table summarizes the issuance and sale of securities of the Company for the period from incorporation of the Company on May 2, 2006 to the date of this Prospectus. The figures below reflect prices and numbers of securities as at the date of issuance. See "Financing Activities".

| Date | Number of Securities | Price per share | Reason for Issuance/Retraction |
|---|---|---|---|
| August 2007 | 1,000,000 | $0.01 | Pursuant to terms and conditions of the Thelon Agreements |
| | 18,625,000 | $0.01 | Private Placement |
| September - October, 2007 | 7,012,500[1] | $0.20 | Private Placement |
| March 2008 | 25,000 | $0.20 | Private Placement |
| | <25,000> | $0.20 | Retracted by the Company |
| June 2008 | <18,625,000>[2] | $0.01 | Shares returned to treasury by agreement between the shareholders and the Company as part of the Company's restructure of its share capital. |
| | 9,312,500[2] | $0.02 | Shares reissued to the holders of $0.01shares as part of the Company's restructure of its share capital. |
| January-June 2010 | 6,710,000[3] | $0.05 | Private Placement - Unit Offering[4] |
| November 2010 | <1,000,000>[2] | $0.01 | Shares repurchased by the Company as part of the Company's restructure of its share capital. |
| | <9,312,500>[2] | $0.02 | Shares returned to treasury as part of the Company's restructure of its share capital. |
| | 200,000[2][5] | $0.05 | Shares reissued to holder of $0.01 shares as part of the Company's restructure of its share capital. |
| | 3,725,000[6] | $0.05 | Shares reissued to holders of $0.02 shares as part of the Company's restructure of its share capital. |
| **Total:** | **17,647,500** | | |

**Notes:**

(1) 125,000 of these Shares were acquired by a director of the Company and will be held in escrow. See "Escrowed Securities and Other Securities Subject to Resale Restrictions."

(2) See "Selected Financial Information and Management's Discussion and Analysis – Subsequent Events – *Restructure of Share Capital*".

(3) 1,900,000 of these Shares were acquired by directors, a spouse of a director and officers of the Company and will be held in escrow; 5,010,000 of these Shares will be subject to a four month hold with 20% released every month with the first release occurring on the Listing Date. See "Escrowed Securities and Other Securities Subject to Resale Restrictions".

(4) The unit offering consisted of the issue of units consisting of one share and one warrant (a "Unit") at a subscription price of $0.05 per Unit. Each warrant entitled the holder thereof to purchase one warrant share at a price of $0.10 for a 24 month period.

(5) These Shares were acquired by a director of the Company and will be held in escrow. See "Escrowed Securities and Other Securities Subject to resale Restrictions."

(6) 640,000 of these Shares were acquired by directors of the Company and will be held in escrow. See "Escrowed Securities and Other Securities Subject to Resale Restrictions."

The following table sets forth details of the securities of the Company to be held in escrow following the completion of the Offering:

| Designation of Class | Number of Securities Held in Escrow[(1)] | Percentage of Class[(2)] |
|---|---|---|
| Common Shares | 2,865,000 | 10.75% |

**Notes:**

(1) Shares held in escrow pursuant to the Escrow Agreement. The Principals subject to escrow are set forth in the table below.

(2) Percentage of the total issued and outstanding Common Shares upon completion of the Offering.

National Policy 46-201 - *Escrow for Initial Public Offerings* ("**NP 46-201**"), sets out a national escrow regime applicable to initial public distributions. Pursuant to that policy, the Common Shares held by the Principals must be placed in escrow with the Escrow Agent, to be released therefrom over a period of three years.

"**Principals**" include all persons or companies that, on the completion of the initial public offering, fall into one of the following categories:

(a) directors and senior officers of the Company or a material operating subsidiary of the Company, at the time of the initial public offering;

(b) promoters of the Company during the two years preceding the initial public offering;

(c) those who own and/or control, directly or indirectly, more than 10% of the Company's voting securities (on a fully diluted basis) immediately before and immediately after completion of the initial public offering and if they also have elected or appointed or have the right to elect or appoint a director or senior officer of the Company or of a material operating subsidiary of the Company;

(d) those who own and/or control more than 20% of the Company's voting securities (on a fully diluted basis) immediately before and immediately after completion of the initial public offering; and

(e) the spouse(s) and relative(s) that live at the same address as any of the above.

The following is a list of Principals who own Shares subject to the escrow requirements:

| Name | Number of Common Shares | Percentage of Issued Shares as at the Date of this Prospectus[(1)] (%) | Percentage of Issued Shares on Completion of Offering[(2)](%) |
|---|---|---|---|
| Don Currie[(3)] | 660,000 | 3.74% | 2.48% |
| Vivian Yesnik | 200,000 | 1.13% | 0.75% |
| David Stone[(4)] | 225,000 | 1.27% | 0.84% |
| Lewis E. Parker[(5)] | 980,000 | 5.55% | 3.68% |
| Jason Oden[(6)] | 400,000 | 2.27% | 1.50% |
| 514742 B.C. Ltd. [(7)] | 400,000 | 2.27% | 1.50% |
| **Total:** | **2,865,000** | **16.23%** | **10.75%** |

**Notes:**

(1) Based on 17,647,500 shares being issued and outstanding as at the date of this Prospectus, see "Consolidated Capitalization".

(2) Based on 26,647,500 shares being issued and outstanding on completion of the Offering, see "Consolidated Capitalization".
(3) Don Currie holds 250,000 options, effective as of the Listing Date.
(4) David Stone holds 150,000 options, effective as of the Listing Date.
(5) Lewis Parker holds 250,000 options, effective as of the Listing Date.
(6) Jason Oden holds 250,000 options, effective as of the Listing Date.
(7) Wan Jung, the sole share holder of 514742 B.C. Ltd. holds 250,000 options, effective as of the Listing Date.

Pursuant to the Escrow Agreement, the Principals deposited or will deposit in escrow the Escrowed Securities to be held by the Escrow Agent. The Company will be classified as an "**emerging issuer**" under NP 46-201 upon the Listing Date, and accordingly the Escrow Agreement will provide for release of the Escrowed Securities over the thirty-six months following the Listing Date, with an initial 10% released upon the Listing Date, and the balance of a Principal's Escrowed Securities released from escrow in equal blocks of 15% at six month intervals as follows:

| | |
|---|---|
| On the Listing Date | 1/10 of the escrow securities |
| Six months after the Listing Date | 1/6 of the remaining escrow securities |
| Twelve months after the Listing Date | 1/5 of the remaining escrow securities |
| Eighteen months after the Listing Date | 1/4 of the remaining escrow securities |
| Twenty-four months after the Listing Date | 1/3 of the remaining escrow securities |
| Thirty months after the Listing Date | 1/2 of the remaining escrow securities |
| Thirty-six months after the Listing Date | The remaining escrow securities |

If the Company achieves "**established issuer**" status during the term of the Escrow Agreement, the release schedule will change. If the Company becomes an established issuer eighteen months or more after its Listing Date, all Escrowed Securities will be released immediately. If the Company becomes an established issuer within eighteen months of its Listing Date, there will be a catch-up release of all Escrowed Securities that would have been released had the Company been an established issuer as of its Listing Date, and remaining Escrowed Securities will be released in equal instalments on the day that is six months, twelve months, and eighteen months after the Listing Date.

The Escrow Agreement will provide that 286,500 Common Shares will be released from escrow on the Listing Date. The remaining 2,578,500 Common Shares of the Company, which will be held in escrow immediately following the Listing Date will represent approximately 9.68% of the Common Shares of the Company issued and outstanding immediately following the completion of the Offering.

The Escrow Agreement will provide for transferability of Escrowed Securities within escrow to an individual who is a director or senior officer of the Company or of a material operating subsidiary of the Company, subject to the approval of the Company's board of directors, or to a person or company that before the proposed transfer holds more than 20% of the voting rights attached to the Company's outstanding securities, or to a person or company that after the proposed transfer will hold more than 10% of the voting rights attached to the Company's outstanding securities and that has the right to elect or appoint one or more directors or senior officers of the Company or of any of its material operating subsidiaries.

The Escrow Agreement will provide that upon the bankruptcy of a holder of escrowed securities, the Escrowed Securities may be transferred within escrow to the trustee in bankruptcy or other person legally entitled to such securities, as well as to a financial institution where the Escrowed Securities are being realized upon as collateral for a loan. Escrowed Securities may also be transferred within escrow to an RRSP, RRIF or other similar registered plan or fund with a trustee where the annuitant or beneficiaries, as the case may be, are limited to the Principal or his or her spouse, children or parents, or where the Principal is the trustee of such a registered plan or fund, to the annuitant or beneficiary, as the case may be, or his or her spouse, children or parents. Upon the death of a holder of

Escrowed Securities, all securities of the deceased holder will be released from escrow to the deceased holder's legal representative.

**Other Restricted Securities**

Seed shares (being all shares issued by the Company prior to the Offering which are not subject to the above escrow restrictions) are subject to the Exchange's seed share resale restrictions (the "**SSRRs**") as outlined in Exchange Policy 5.4 *Escrow, Vendor Consideration and Resale Restrictions*. The application of the SSRRs and the duration of any hold period is dependent upon the length of time the seed shares have been held and the price paid for the seed shares relative to the Offering Price. Accordingly, the Common Shares issued at $0.05 per Common Share between January 1, 2010 and June 25, 2010 will be subject to resale restrictions (the "**Restricted Shares**"). The Restricted Shares will be released from resale restrictions over a four month period following the Listing Date, and will be released at a rate of 20% every month, with the first release being 20% and occurring on the Listing Date;

The following table sets out, as of the date of this Prospectus, the number of Restricted Shares of the Company held by non-Principals of the Company:

| Name | Number of Common Shares | Percentage of Issued Shares as at the Date of this Prospectus[(1)](%) | Percentage of Issued Shares on Completion of Offering[(2)](%) |
|---|---|---|---|
| Belmont Capital Corp. | 500,000 | 2.83% | 1.88% |
| Barry Lasker | 500,000 | 2.83% | 1.88% |
| Ozzie Isfeld | 20,000 | 0.11% | 0.08% |
| Jennifer Bolen | 500,000 | 2.83% | 1.88% |
| Brad Wait | 200,000 | 1.13% | 0.75% |
| John Matkovich | 30,000 | 0.17% | 0.11% |
| General Research GmbH | 500,000 | 2.83% | 1.88% |
| Shirley Isfeld | 20,000 | 0.11% | 0.08% |
| Lori Isfeld | 20,000 | 0.11% | 0.08% |
| John Boots | 50,000 | 0.28% | 0.19% |
| Janice Boots | 50,000 | 0.28% | 0.19% |
| Vicarage Capital Ltd. | 200,000 | 1.13% | 0.75% |
| 491345 B.C. Ltd. | 100,000 | 0.57% | 0.38% |
| Brian Kaufman | 100,000 | 0.57% | 0.38% |
| Conrad Lacker | 400,000 | 2.27% | 1.50% |
| Roslyn Taylor | 100,000 | 0.57% | 0.38% |
| 0716668 B.C. Ltd. | 200,000 | 1.13% | 0.75% |
| Michael Sikich | 500,000 | 2.83% | 1.88% |
| Winnetka Holdings Ltd. | 160,000 | 0.91% | 0.60% |
| Jean Currie | 30,000 | 0.17% | 0.11% |
| J.C. Currie | 30,000 | 0.17% | 0.11% |
| Steve Engh | 300,000 | 1.70% | 1.13% |
| Tom Nellis | 500,000 | 2.83% | 1.88% |

| Name | Number of Common Shares | Percentage of Issued Shares as at the Date of this Prospectus[(1)](%) | Percentage of Issued Shares on Completion of Offering[(2)](%) |
|---|---|---|---|
| **Total:** | **5,010,000** | **28.39%** | **18.80%** |

**Notes:**

(1) Based on 17,647,500 Common Shares issued and outstanding as at the date of this Prospectus.

(2) Based on 26,647,500 shares being issued and outstanding on completion of the Offering, see "Consolidated Capitalization".

## PRINCIPAL SHAREHOLDERS

To the knowledge of the directors and officers of the Company, there are no persons who beneficially own, as of the date hereof, directly or indirectly, or exercise control or direction over, more than 10% of the Company's Shares or will hold directly or indirectly, or exercise control and direction over, more than 10% of the Company's Shares on completion of the Offering.

## DIRECTORS AND OFFICERS

The following table provides the names, municipalities of residence, position, principal occupations, and the number of voting securities of the Company that each of the directors and executive officers beneficially owns, directly or indirectly, or exercises control over, as of the date hereof:

| Name and Municipality of Residence and Position with the Company | Director/Officer Since | Principal Occupation for the Past Five Years | Common Shares Beneficially Owned Directly or Indirectly (at the date of this Prospectus)[(1)] |
|---|---|---|---|
| **Don Currie**[(2)]<br>Vancouver, B.C.<br>*Chairman, CEO & Director* | July 10, 2010 | Director, Enhanced Oil Resources, April 1994 to 2005; Investor Relations, Enhanced Oil Resources, since 2005. | 860,000[(3)] |
| **Stewart Jackson**<br>Winterhaven, California<br>*President & Director* | February 10, 2010 | Independent consultant since March 1987. | Nil |
| **Wan Jung**[(2)]<br>Coquitlam, B.C.<br>*CFO* | August 1, 2010 | Chief Financial Officer, Avigilon Corporation, since October 2004. | 400,000[(4)] |
| **David Stone**[(5) (6)]<br>Bothell, Washington<br>*Director* | July 18, 2007 | President, Minefill Services, since August 1999. | 225,000 |
| **Desmond Balakrishnan**[(2)]<br>Vancouver, B.C.<br>*Corporate Secretary* | January 23, 2008 | Corporate Securities Lawyer, since 2002; Partner at a national law firm since 2004. | Nil |

| Name and Municipality of Residence and Position with the Company | Director/Officer Since | Principal Occupation for the Past Five Years | Common Shares Beneficially Owned Directly or Indirectly (at the date of this Prospectus)(1) |
|---|---|---|---|
| **Jason Oden**(5) (6)<br>Houston, Texas<br>*Director* | August 25, 2010 | Vice President, Exploration of Gulfsands Petroleum, September 2005 to September 2010; Exploration Manager, BHP Billiton Petroleum, September 2000 to September 2005. | 400,000 |
| **Lewis E. Parker**(5) (6)<br>Houston, Texas<br>*Director* | August 25, 2010 | Retired businessman, since 1997. | 980,000 |
| **Total:** | | | **2,865,000** |

**Notes:**

(1) The information as to securities beneficially owned, controlled or directed has been furnished by the directors and officers as of the date of this Prospectus. These Common Shares, and Common Shares owned by spouses of such principals who are treated as Principals themselves, are subject to the Principal escrow regime under NP 46-201. See "Escrowed Securities".

(2) Denotes a member of the Disclosure Committee.

(3) 660,000 of these Common Shares are issued in the name of Don Currie; 200,000 of these Common Shares are issued in the name of Vivian Yesnik, who is Mr. Currie's spouse.

(4) These Common Shares are held by 0514742 B.C. Ltd. which is a company that is wholly-owned by Wan Jung.

(5) Denotes a member of the Audit Committee of the Company.

(6) Denotes a member of the Compensation and Corporate Governance Committee.

The term of office of the directors expires annually at the time of the Company's annual general meeting. To date the Company has not held an annual general meeting; however, the Company will hold such meeting within 120 days of the date of this Prospectus at which time the term of office of the Company's directors will expire. Directors and officers of the Company as a group, beneficially own, directly and indirectly, or exercise control or direction over, 2,865,000 Common Shares, representing 16.23% of the issued and outstanding Common Shares of the Company as of the date of this Prospectus.

The following is a brief description of the background of the above individuals, none of whom have entered into non-competition agreements or non-disclosure agreements with the Company.

***Don Currie – Chairman, CEO, and a Director***

Mr. Donald Currie, age 50, is an employee of the Company holding offices of Chairman and CEO . Mr. Currie has been the Chairman and CEO of the Company since February 10, 2010, and a director since July 10, 2010. As CEO, Mr. Currie will advise the Board and oversee the operations of the Company. Mr. Currie expects to devote approximately 50% of his time in his capacity as CEO of the Company.

Mr. Currie has over 20 years experience in the oil and gas industry working for major and small public companies. Since 1994, Mr. Currie has been a Director and the VP Public Communications of Enhanced Oil Resources Inc., an oil and gas exploration and production company. Mr. Currie served as Manager of CMD Services Ltd. from 1992 to 2005 and has served as a director of Electric Metals Inc. since August 2010. Mr. Currie is now, or has been in the last five years, a director or officer of three public companies or reporting issuers.

***Stewart Jackson – President and a Director***

Mr. Stewart Jackson, age 69, has been the Director and President of the Company since February 10, 2010. Mr. Jackson has worked as an independent consultant since March 1987. Mr. Jackson is a geologist with over 40 years of experience in the mining industry. He has been involved in the exploration and development of base and precious mineral deposits in a wide range of environments for public and private companies. Currently, Mr. Jackson serves as director for Denarii Resources Inc. and has been since August 2010. Mr. Jackson is also a director of A.M. Gold Inc. and has been since April 2008, World Ventures Inc. since August 1992 and Trans Atlantic Metals since August 2007, amongst others. Mr. Jackson is a licensed Professional Geologist and holds a Bachelor of Science (Honours) from the University of Western Ontario, a Masters of Science from the University of Toronto, and a Ph.D. from the University of Alberta. Mr. Jackson is now, or has been in the last five years, a director or officer of seven public companies or reporting issuers. Mr. Jackson will devote approximately 10% of his time to the business of the Company.

***Wan Jung – Chief Financial Officer***

Mr. Wan Jung, age 54, is an employee of the Company, holding the office of Chief Financial Officer since August 1, 2010. Mr. Jung will report directly to the President and CEO and his duties will include assisting in the development of the Company’s budget and oversight of the management and coordination of all fiscal reporting activities. Mr. Jung will devote approximately 10% of his time to the business of the Company in his capacity as CFO.

Mr. Jung served as an independent professional accountant from 1996 to 2001. Mr Jung currently serves as the Chief Financial Officer of Great Bear Uranium Corp. and also serves on the board of directors of Great Bear Uranium Corp. He has served as Chief Financial Officer for Ocean Park Ventures Corporation from January 2010 to August 2010, as well as serving as Director and Chief Financial Officer for Electric Metals Inc. from July 2009 to November 2010. Mr. Jung is a certified General Accountant in British Columbia. Mr. Jung is now, or has been in the last five years, a director or officer of eight public companies or reporting issuers.

***David Stone – Director (Independent)***

Mr. David Stone, age 53, has been a Director of the Company since July 18, 2007. Mr. Stone is also the President of Minefill Services Inc. and has been since August 1999. Mr. Stone is an engineer with over 30 years experience in the mining industry evaluating projects for mining companies. Mr. Stone has been a director of Boss Power Corp. since September 2007, a director of Southern Arc Minerals since July 2008, a director of Superior Mining International Corp. since May 2009 and a director of Electric Metals Inc. since May 2010.

Mr. Stone served as Director and CEO of Adanac Molybdenum Corporation from 2006 to 2008. Mr. Stone is a registered licensed professional engineer in several U.S. and Canadian jurisdictions and holds a Bachelor of Applied Science from the University of British Columbia, a Ph.D. in Civil Engineering from Queens University, and an Executive Masters of Business Administration from Queens University. Mr. Stone is now, or has been in the last five years, a director or officer of 11 public companies or reporting issuers, examples of which are listed below. Mr. Stone will devote approximately 5% of his time to the business of the Company.

***Desmond Balakrishnan – Corporate Secretary***

Mr. Desmond Balakrishnan, age 39, was appointed Corporate Secretary of the Company on February 10, 2010. Mr. Balakrishnan is a Vancouver lawyer and has practiced law as a partner at a national law firm since February, 2002. Mr. Balakrishnan was the corporate secretary of AM Gold Inc. (formerly Acero-Martin Exploration Inc.) from November 2001 to June 2009. Mr. Balakrishnan is also the Corporate Secretary of Great Canadian Gaming Corporation, a TSX-listed issuer and has been since October 1, 2010 and the Corporate Secretary of Electric Metals Inc., an Exchange listed issuer and has been since June 26, 2009. Mr. Balakrishnan is currently a director of Aroway Minerals Inc., an Exchange-listed issuer and has been since July 30, 2010.

Mr. Balakrishnan received his Law degree from the University of Alberta in April, 1997 and was called to the British Columbia Bar in May, 1998. He received his Bachelor of Arts from Simon Fraser University in April, 1994. Mr. Balakrishnan is now, or has been in the last five years, a director or officer of seven public companies or reporting issuers, examples of which are listed below. Mr. Balakrishnan will devote approximately 5% of his time to the business of the Company.

***Jason Oden – Director (Independent)***

Mr. Jason Oden, age 50, has been a director of the Company since August 25, 2010. Mr. Oden has over 25 years experience in domestic and international oil and gas exploration. Mr. Oden serves as Vice President, Exploration, for Gulfsands Petroleum, an independent oil and gas company based in the United Kingdom. Mr. Oden was previously an Exploration Manager for BHP Billiton Petroleum in Perth, Australia and Houston, Texas, from September 2000 to September 2005. Mr. Oden is a licensed Professional Geophysicist and holds a Bachelor of Science from the University of Alberta. Mr. Oden is or has been in the last five years, an officer of one public company or reporting issuer. Mr. Oden will devote approximately 10% of his time to the business of the Company.

***Lewis E. Parker – Director (Independent)***

Mr. Lewis Parker, age 64, is a retired businessman and was appointed Director of the Company on August 25, 2010. Mr. Parker has served as Director of Enhanced Oil Resources Inc. since February 2007. Mr. Parker has over 35 years of experience in the oil and gas industry and holds a Bachelor of Arts in Chemistry and a Masters of Business Administration, both from the University of Dallas. Mr. Parker is now, or has been in the last five years, a director or officer of one public company or reporting issuer. Mr. Parker will devote approximately 10% of his time to the business of the Company.

The Company's directors and officers are not required and do not currently intend to devote all of their time to the affairs of the Company. The amount of time devoted to the affairs of the Company will be dependent upon the ability of management to identify business opportunities. For any consulting or field work carried out by the directors, they will be compensated at a rate to be determined by the directors of the Company at the appropriate time.

Other than Don Currie and Wan Jung, all of the members of the Company's management are independent contractors and not employees of the Company.

**Corporate Cease Trade Orders or Bankruptcies**

Desmond Balakrishnan is a director of Copacabana Capital Limited ("Copacabana"), a financial services company incorporated under the laws of and managed in Bermuda. The British Columbia Securities Commission ("BCSC") issued an order on May 9, 2006 and the Alberta Securities Commission issued an order on September 13, 2006 that Copacabana be cease traded due to failure to file certain financial information and it remains under the cease trade orders as at the date of this Prospectus.

Stewart Jackson was a director and officer of Canadian Metals Exploration Ltd. (now Hard Creek Nickel Corp.) when the BCSC issued an order on May 29, 2003 that the company be cease traded for failing to file a NI 43-101 compliant technical report and for failure to file certain continuous disclosure documents in the required form. The cease trade order was revoked on July 18, 2003.

Stewart Jackson has been a director of World Ventures Inc. ("WVI") since 2007. Since 2007, WVI has been subject to the following cease trade orders:

1. 2010 BCSECCOM 131 issued March 8, 2010 for failure to file comparative annual financial statements for its financial year ended October 31, 2009, a Form 51-102F1 *Management's Discussion and Analysis* for the same period and a Form 51-102F2 *Annual Information Form* for the year ended October 31, 2009. The cease trade order has not been revoked.

2. 2008 BCSECCOM 135 issued March 11, 2008 for failure to file certain financial information. The cease trade order was revoked on April 2, 2008.

3. On March 18, 2009 the BCSC issued an order that WVI be cease traded due to failure to file certain financial information. The cease trade order was revoked on June 1, 2009.

David Stone was a director of Adanac Molybdenum Corporation ("Adanac") from January 2006 to July 2008 and was its interim Chief Executive Officer from March 27 to July 14, 2008. On December 19, 2008, Adanac was granted protection under the Companies' Creditors Arrangement Act (Canada) ("CCAA") and continues to operate under the guidance of the court appointed Monitor, KPMG Inc. On November 19, 2010, the British Columbia Supreme Court made an order sanctioning Adanac's plan of compromise and arrangement, permitting the distribution of cash or shares to its affected creditors in satisfaction of Adanac's obligations to those creditors.

Other than Desmond Balakrishnan, Stewart Jackson and David Stone, to the best of the Company's knowledge, no director or officer of the Company or a shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company, is, or within the 10 years prior to the date hereof has been, a director or officer of any other issuer that, while that person was acting in that capacity, was the subject of a cease trade order or similar order or an order that denied the other issuer access to any statutory exemptions, for a period of more than 30 consecutive days, or became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

**Penalties or Sanctions**

Stewart Jackson entered into a settlement agreement with the British Columbia Securities Commission (the "BCSC") on January 12, 2005 in connection with the cease trade order issued against Canadian Metals Exploration Ltd. ("CME") as outlined above. The BCSC found that Mr. Jackson was in breach of section 168.2 of the *Securities Act* (British Columbia) and NI 43-101 for failure to ensure that CME complied with provisions of the *Securities Act* (British Columbia) and the disclosure requirements of NI 43-101. The BCSC found as a mitigating factor that Mr. Jackson relied upon reports about the mineral resource project of CME prepared by qualified persons when drafting and reviewing CME's mining technical disclosure. Pursuant to the terms of the settlement agreement, Mr. Jackson provided an undertaking (the "Undertaking") to the BCSC to (i) comply with the *Securities Act* (British Columbia), the regulations thereto and NI 43-101; (ii) not prepare or disseminate mining disclosure for three years from the date of the settlement agreement, except under the supervision of a director; (iii) resign any position he held as a director of a public company, and not to act as a director of any public company until he paid $10,000 to the BCSC, referenced below in (iv), and successfully completed a course of study satisfactory to the Executive Director of the BCSC concerning the duties and responsibilities of directors and officers of public companies; (iv) pay the BCSC $10,000 representing a portion of the costs of the investigation conducted by the BCSC: and (v) to not say anything, written or oral, which would contradict the terms of the settlement agreement. Mr. Jackson complied with all conditions and terms of the Undertaking. On April 29, 2008, the Commission issued a letter confirming that Mr. Jackson had fulfilled the Undertaking.

On August 6, 1998 the BCSC ordered Don Currie to cease trading in the securities of Bice Ventures Corp. for failure to file insider reports required to be filed under the *Securities Act* (British Columbia). Mr. Currie subsequently filed the required insider reports and on September 9, 1998 the cease trade order was revoked.

On August 6, 1998 the BCSC ordered Don Currie to cease trading in the securities of Rorex Exploration Inc. for failure to file insider reports required to be filed under the *Securities Act* (British Columbia). Mr. Currie subsequently filed the required insider reports and on September 16, 1998 the cease trade order was revoked.

On August 6, 1998 the BCSC ordered Don Currie to cease trading in securities of Cradle Mountain Canada ("Cradle Mountain"). The cease trade order has not been revoked however Cradle Mountain is no longer a reporting issuer.

On August 6, 1998 the BCSC ordered Don Currie to cease trading in securities of Tignanello Resources ("Tignanello"). The cease trade order has not been revoked however Tignanello is no longer a reporting issuer.

On August 6, 1998 the BCSC ordered Don Currie to cease trading in the securities of Solaia Ventures Inc. (“Solaia”) and Vetta Ventures Corp. (“Vetta”) for failure to file insider reports required to be filed under the Securities Act (British Columbia). Mr. Currie subsequently filed the required insider reports in connection with trades in securities of both Solaia and Vetta and on October 14, 1998 the cease trade orders were revoked.

On October 15, 1998, the BCSC ordered Don Currie to cease trading in the securities of Ridgeway Petroleum Corp. for failure to file insider reports required to be filed under the *Securities Act* (British Columbia). Mr. Currie subsequently filed the required insider reports and on March 2, 1999 the cease trade order was revoked.

On October 23, 1998 the BCSC ordered Don Currie to cease trading in the securities of North American Scientific Inc. for failure to file insider reports required to be filed under the *Securities Act* (British Columbia). The cease trade order has not been revoked.

On October 23, 1998 the BCSC ordered Don Currie to cease trading in the securities of Upper Canada Gaming Corp. for failure to file insider reports required to be filed under the *Securities Act* (British Columbia). The cease trade order has not been revoked.

On April 16, 1999 the BCSC ordered Don Currie to cease trading in the securities of Vetta Ventures Corp. for failure to file insider reports required to be filed under the *Securities Act* (British Columbia). The cease trade order has not been revoked.

Other than Mr. Jackson and Mr. Currie, to the Company’s knowledge, none of the directors or officers of the Company have been subject to any penalties or sanctions imposed by a court relating to Canadian securities legislation or by a Canadian securities regulatory authority or has entered into a settlement agreement with a Canadian securities regulatory authority or been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

**Personal Bankruptcies**

To the Company’s knowledge, no director or officer of the Company, nor any shareholder holding sufficient securities of the Company to affect materially the control of the Company, nor any personal holding company of any such person has, within the 10 years before the date of this Prospectus, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or been subject to or instituted any proceedings, arrangements or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of that person.

**Conflicts of Interest**

The directors of the Company are required by law to act honestly and in good faith with a view to the best interests of the Company and to disclose any interests that they may have in any project or opportunity of the Company. If a conflict of interest arises at a meeting of the Board, any director in a conflict will disclose his interest and abstain from voting on such matter. To the best of the Company’s knowledge, and other than as disclosed herein, there are no existing or potential conflicts of interest among the Company, its promoters, directors and officers or other members of management of the Company or of any proposed promoter, director, officer or other member of management as a result of their outside business interests, except that certain of the directors and officers serve as directors and officers of other companies, and therefore it is possible that a conflict may arise between their duties to the Company and their duties as a director or officer of such other companies.

## COMPENSATION OF EXECUTIVE OFFICERS

**Executive Compensation**

As used below, “Named Executive Officer” or “NEO” means the Company’s Chief Executive Officer, Chief Financial Officer and each of the three most highly-compensated executive officers, other than the Chief Executive Officer and the Chief Financial Officer, whose total salary and bonus exceeds $150,000. For the fiscal year ended

2009, the Company's Named Executive Officers were Donald Gee, Chief Executive Officer, and Anne McCandless, Chief Financial Officer.

**Compensation Discussion and Analysis**

The Company relies solely on board discussion to determine compensation paid to executives and directors, without any formal objectives, criteria or analysis. As the Company is an oil and gas company that is producing, it is anticipated that the Company's compensation program will consist primarily of stock options.

**Summary Compensation Table**

The following table sets forth a summary of all compensation paid to the Named Executive Officers during the 2009 and 2008 financial years:

| *NEO Name and Principal Position* | *Year* | *Salary ($)* | *Share-Based Awards* | *Option-Based Awards* | *Non-Equity Incentive Plan Compensation* | | *Pension Value ($)* | *All Other Compensation ($)* | *Total Compensation ($)* |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | *Annual Incentive Plans* | *Long-term Incentive Plans* | | | |
| Donald Gee, CEO | 2009<br>2008 | 40,000<br>78,000 | Nil<br>Nil | Nil<br>Nil | Nil<br>Nil | Nil<br>Nil | Nil<br>Nil | Nil<br>Nil | 40,000<br>78,000 |
| Anne McCandless, CFO | 2009<br>2008 | Nil<br>Nil | Nil<br>Nil | Nil<br>Nil | Nil<br>Nil | Nil<br>Nil | Nil<br>Nil | Nil<br>Nil | Nil<br>Nil |

The Company will pay management fees for the twelve months following completion of the Offering as follows: 1) $5,000/month or $60,000/year and 250,000 options to Don Currie, Chairman and Chief Executive Officer; 2) $3,000 per month or $36,000/year and 150,000 options to Stewart Jackson, President; and 3) $2,000 per month or $24,000/year and 250,000 options to Wan Jung. The options granted to management have an exercise price of $0.20 per share and are exercisable for five years from the Listing Date.

**Incentive Plan Awards During the Most Recently Completed Financial Year**

There were no outstanding share-based awards or option-based awards held by, or owing to, any of the NEO's at the end of the Company's most recently completed financial year ended December 31, 2009.

**Pension Plan Benefits**

The Company does not have a pension plan or provide any benefits following or in connection with retirement.

**Management Agreements, Consulting Contracts, Termination and Change of Control Payments**

The Company does not have any contracts, agreements, plans or arrangements that provide for payment to a NEO at, following or in connection with any termination, resignation, retirement, a change in control of the Company or a change in a NEO's responsibilities.

**Compensation of Directors**

Other than as disclosed, the only arrangements we have, standard or otherwise, pursuant to which we compensate directors for their services in their capacity as directors, or for committee participation, involvement in special assignments or for services as consultant or expert during the most recently completed financial year or subsequently, are by the issuance of incentive stock options.

The following table sets forth for each of the Company's directors, other than directors who are also NEO's, all amounts of compensation for the Company's most recently completed financial year ended December 31, 2009.

| Name | Fees Earned ($) | Share-Based Awards ($) | Option-Based Awards ($) | Non-Equity Incentive Plan Compensation ($) | | Pension Value ($) | All Other Compensation ($) | Total ($) |
|---|---|---|---|---|---|---|---|---|
| | | | | Annual incentive plans | Long-term incentive plans | | | |
| Charanjit Hayre | Nil | Nil | Nil | Nil | Nil | Nil | Nil | Nil |
| Anne McCandless | Nil | Nil | Nil | Nil | Nil | Nil | Nil | Nil |
| David Stone | Nil | Nil | Nil | Nil | Nil | Nil | Nil | Nil |
| Malcolm Swallow | Nil | Nil | Nil | Nil | Nil | Nil | Nil | Nil |

There were no outstanding option-based awards or share based awards owing to, or held by the Company's directors, other than directors who are also NEO's, at the end of the Company's most recently completed financial year ended December 31, 2009.

## INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

As of the date of this Prospectus no director or executive officer of the Company or any associate of any such individual is indebted to the Company.

## AUDIT COMMITTEES AND CORPORATE GOVERNANCE

### Audit Committee Charter

The Audit Committee's role is to assist the Board in fulfilling its financial oversight responsibilities. The Audit Committee will review and consider in consultation with the auditors the financial reporting process, the system of internal control, and the audit process. In performing its duties, the Audit Committee will maintain effective working relationships with the Board, management, and the external auditors. To effectively perform his or her role, each Audit Committee member must obtain an understanding of the principal responsibilities of Audit Committee membership as well as the Company's business, operations, and risks.

On November 4, 2010, the Audit Committee adopted a charter delineating its responsibilities substantially in the following terms:

(a) shall be directly responsible for overseeing the work of the external auditors in preparing or issuing the auditor's report, including the resolution of disagreements between management and the external auditors regarding financial reporting and audit scope or procedures, by: 1) recommending to the Board the external auditor to be nominated by the shareholders for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Company; 2) review (by discussion and enquiry) the external auditors' proposed audit scope and approach; 3) review the performance of the external auditors and recommend to the Board the appointment or discharge of the external auditors; 4) review and recommend to the Board the compensation to be paid to the external auditors; and 5) review and confirm the independence of the external auditors by reviewing the non-audit services provided and the external auditors' assertion of their independence in accordance with professional standards;

(b) shall consider whether adequate controls are in place over annual and interim financial reporting as well as controls over assets, transactions and the creation of obligations, commitments and liabilities of the

Company, by: 1) evaluating the adequacy and effectiveness of management's system of internal controls over the accounting and financial reporting system within the Company; and 2) ensure that the external auditors discuss with the audit committee any event or matter which suggests the possibility of fraud, illegal acts or deficiencies in internal controls;

(c) shall review the financial statements and financial information prior to its release to the public, by: 1) reviewing significant accounting and financial reporting issues, especially complex, unusual and related party transactions; 2) reviewing and ensuring that the accounting principles selected by management in preparing financial statements are appropriate; 3) reviewing the draft annual financial statements and providing a recommendation to the Board with respect to the approval of the financial statements; 4) meeting with management and the external auditors to review the financial statements and the results of the audit, including any difficulties encountered; 5) reviewing management's discussion & analysis respecting the annual reporting period prior to its release to the public; 6) reviewing and approving the interim financial statements prior to their release to the public; 7) reviewing management's discussion & analysis respecting the interim reporting period prior to its release to the public; and 8) where reasonably possible, review and approving all public disclosure, including news releases, containing financial information, prior to its release to the public;

(d) shall establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters; establish procedures for the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters; ensure that significant findings and recommendations made by management and external auditor are received and discussed on a timely basis; review the policies and procedures in effect for considering officers' expenses and perquisites; perform other oversight functions as requested by the Board; and review and update this charter and receive approval of changes to this charter from the Board; and

(e) shall regularly update the Board about Audit Committee activities and make appropriate recommendations.

**Composition of the Audit Committee**

The Company's Audit Committee consists of three directors, as set forth below:

| | | |
|---|---|---|
| Lewis E. Parker | Independent(1) | Financially literate(2) |
| David Stone | Independent(1) | Financially literate(2) |
| Jason Oden | Independent(1) | Financially literate(2) |

(1) A member of an audit committee is independent if, in addition to meeting other regulatory requirements, the member has no direct or indirect material relationship with the Company, which could, in the view of the Board of Directors, reasonably interfere with the exercise of a member's independent judgment.

(2) An individual is financially literate if he has the ability to read and understand a set of financial statements that present a breadth of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company's financial statements.

At present, the Audit Committee consists of Lewis E. Parker, Jason Oden and David Stone. Jason Oden and David Stone are independent within the meaning of that term as defined in section 1.4 of National Instrument 52-110 Audit Committees ("**NI 52-110**"). All members of the Audit Committee are financially literate as required by section 1.6 of NI 52-110.

**Relevant Education and Experience**

See "Directors and Officers" for information regarding the relevant education and experience of the Audit Committee.

**Audit Committee Oversight**

The Audit Committee was formed by a resolution of the Board to be effective November 4, 2010.

**Reliance on Certain Exemptions**

The Company has not relied on any exemptions under section 2.4 *De Minimis Non-Audit Services* of NI 52-110 or an exemption granted under Part 8 (Exemptions) of NI 52-110, during the financial year ended December 31, 2009.

**Pre-Approval Policies and Procedures**

The Company has adopted specific policies and procedures for the engagement of non-audit services in its Audit Committee Charter. Pursuant to section 4.4 of the Audit Committee Charter, all non-audit services (being services other than services rendered for the audit and review of the financial statements or services that are normally provided by the external auditor in connection with statutory and regulatory filings or engagements) which are proposed to be provided by the external auditors to the Company or any subsidiary of the Company shall be subject to the prior approval of the Audit Committee. The Audit Committee may delegate to one or more independent members of the Audit Committee the authority to approve non-audit services, provided any non-audit services approved in this manner must be presented to the Audit Committee at its next scheduled meeting. The Audit Committee may satisfy the requirement for the pre-approval of non-audit services if: 1) the aggregate amount of all non-audit services that were non pre-approved is reasonably expected to constitute no more than 5% of the total amount of fees paid by the Company to the external auditor during the fiscal year in which the services are provided; or 2) the services are brought to the attention of the Audit Committee and approved, prior to the completion of the audit, by the Audit Committee or by one or more of its members to whom authority to grant such approvals has been delegated.

**External Auditor Service Fees (By Category)**

The following table sets forth the "audit fees," "audit-related fees," "tax fees," and "other fees" billed for the year ended December 31, 2008 and 2009.

| | **Audit Fees ($)** | **Audit-Related Fees ($)** | **Tax Fees ($)** | **Other Fees ($)** |
|---|---|---|---|---|
| For the Year ended December 31, 2008 | 18,500 | Nil | Nil | Nil |
| For the Year ended December 31, 2009 | 11,000 | Nil | Nil | Nil |

**Exemption**

The Company is relying upon the exemption set out in section 6.1 *Venture Issuers* of NI 52-110 that provides that the Company, as a venture issuer, is not required to comply with Part 3 (Composition of the Audit Committee) and Part 5 (Reporting Obligations).

**Board of Directors**

As of the date of the Prospectus, three members of the Audit Committee, Lewis E. Parker, Jason Oden and David Stone, are independent directors of the Board. The directors that are not independent are Don Currie and Stewart Jackson. The Board intends to review the performance of management and consultants on a regular basis.

**Directorships**

See “Directors and Officers” above for information regarding our Directors’ involvement with other reporting issuers.

**Orientation and Continuing Education**

If any new directors are appointed to the Board, then the existing directors will provide a brief orientation consisting of a telephone conference and a review of material transactions effected to-date by the Company, as well as the general nature and proceedings of the Company’s Board.

Given the industry experience of the existing Board, the Company does not contemplate providing continuing education for directors at this time.

**Ethical Business Conduct**

The Company has not adopted a policies or codes of business conduct and ethics at this time. Given the experience of the Board, and their prior dealings, the Company, at this point in time, is not taking any additional steps to encourage and promote a culture of ethical business conduct.

**Nomination of Directors**

Pursuant to the Compensation and Corporate Governance Committee Charter adopted by the Company on November 4, 2010, the Compensation and Corporate Governance Committee, comprised of Jason Oden, David Stone and Lewis Parker, in fulfilling its oversight responsibilities for the nominations to the Board, shall: 1) establish criteria for selecting new directors which shall reflect, among other facts, a candidate’s integrity and business ethics, strength of character, judgment, experience, and independence, as well as factors relating to the composition of the Board, including its size and structure, the relative strengths and experience of current board members and principles of diversity; 2) consider and recruit candidates to fill new positions on the Board; 3) review any candidate recommended by the shareholders of the Company; 4) be responsible for conducting appropriate inquiries to establish a candidate’s compliance with the independent and other qualification requirements established by the Corporate Governance Committee; 5) assess the contributions of current directors in connection with the annual recommendation of a slate of nominees and at that time review the criteria for Board candidates in the context of the evaluation process and other perceived needs of the Board; and 6) recommend the director nominees for election by the shareholders.

**Compensation**

Pursuant to the Compensation and Corporate Governance Committee Charter adopted by the Company on November 4, 2010, the Compensation and Corporate Governance Committee, comprised of Jason Oden, David Stone and Lewis Parker, in discharging its oversight responsibilities for executive compensation and Board compensation, shall: 1) review and approve on an annual basis the corporate goals and objectives relevant to the CEO’s compensation; 2) evaluate at least once a year the CEO’s performance in light of established goals and objectives and, based on such evaluation, shall, together with all other independent members of the Board, determine and approve the CEO’s annual compensation, including, as appropriate, salary, bonus, incentive, and equity compensation; 3) review and approve on an annual basis the evaluation process and compensation structure for the Company’s executive officers, including parameters for salary adjustments (at the discretion of the CEO) for officers are established; and 4) review and make recommendations to the Board with respect to the adoption, amendment, and termination of the Company’s management incentive-compensation and equity-compensation plans, oversee their administration and discharge any duties imposed on the Compensation Committee by any of those plans.

**Reserves Data**

The reserves committee (the "**Reserves Committee**"), which is currently comprised of Messrs Stone, Jackson and Oden, is responsible for reviewing and approving the annual independent evaluation of the Company's reserves. Jason Oden, is the Chair of the Reserves Committee. The Reserves Committee's general mandate is to oversee and monitor the Company's process for calculating the reserves and procedures for compliance with applicable legislation and conformity with industry standards and disclosure of information. It reviews, reports and, when appropriate, makes recommendations to the Board on the Corporation's policies and procedures related to the Corporation's reserves estimates.

**Other Board Committees**

The Board has formally appointed four standing committees: the Audit Committee, Compensation, and Corporate Governance Committee, Disclosure Committee and Reserves Committee.

**Assessments**

Pursuant to the Compensation and Corporate Governance Committee Charter adopted by the Company on November 4, 2010, in discharging its oversight responsibilities for the performance review of the Board, committees, and directors, the Corporate Governance Committee shall: 1) evaluate the performance of the Board on an annual basis; 2) solicit comments from all directors and report annually to the Board on its assessment of the Board's performance; and 3) evaluate the performance of individual directors and committees of the Board on a periodic basis.

## PLAN OF DISTRIBUTION

**Common Shares**

Pursuant to the Agency Agreement, the Company engaged the Agent as its exclusive Agent for the purposes of the Offering, and the Company, through the Agent, hereby offers for sale to the public under this Prospectus, on commercially reasonable efforts, 9,000,000 Common Shares at the Offering Price for total gross proceeds of $1,800,000. The Company granted the Agent an option, exercisable any time up until 48 hours prior to the Closing Date, to offer at the Offering Price up to the number of Shares as is equal to 15% of the Shares offered in the Offering (being 1,350,000 additional Shares).

Completion of the Offering is subject to the sale of 9,000,000 Shares. The funds received from the Offering will be held by the Agent in trust, and will not be released until the Agent has received the entire $1,800,000 in proceeds from the sale of 9,000,000 common shares and consents to the release of such proceeds.

Subscriptions for 9,000,000 Shares for total gross proceeds of $1,800,000 must be raised within 90 days of the date a receipt for the prospectus is issued, or within 90 days of the date of a receipt for an amendment to the prospectus provided that no more than 180 days have passed since the date of receipt for the preliminary prospectus. If the Agent is unable to receive subscriptions for a total of 9,000,000 Shares, the Agent will remit the funds collected to the original subscribers without interest or deduction, unless subscribers have otherwise instructed the Agent.

Subscriptions for Shares will be payable in cash to the Company against delivery of certificates representing the securities. Subscriptions for the Shares will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. The Offering Price was established through negotiation between the Company and the Agent. The Agent has agreed to use its commercially reasonable best efforts to secure subscriptions for the Shares offered pursuant to the Offering in the provinces of British Columbia, Alberta, Saskatchewan and Ontario. This Prospectus qualifies the distribution of the Shares to the Subscribers in those jurisdictions. The Agent may, in connection with the Offering and in its sole discretion, retain one or more licensed dealers, brokers and investment dealers (referred to herein as the "**Selling Firms**") as sub-Agents and may receive subscriptions for Shares from such Selling Firms.

Unless an amendment to the Prospectus is filed and the Commission has issued a receipt for the amendment, the Closing Date will not occur later than the date that is 90 days after receipt is issued for the final prospectus and 12 months after the date of receipt of the preliminary prospectus unless an extension to this date is granted by the applicable regulatory authorities.

The Agent is not obligated to purchase Shares in connection with this Offering. The duties and obligations of the Agent under this Offering are subject to the Agency Agreement, which may be terminated at any time at the Agent's discretion on the basis of its assessment of the state of the financial markets, and may also be terminated upon the occurrence of certain other events.

There are no payments in cash, securities or other consideration being made, or to be made, to a promoter, finder or any other person or company in connection with the Offering other than the payments to be made to the Agent in accordance with the terms of the Agency Agreement.

The Company's directors, officers and other insiders may purchase Shares pursuant to the Offering.

**Agent's Compensation**

Pursuant to the terms and conditions of the Agency Agreement, the Company has agreed to pay a cash fee to the Agent equal to 8% of the gross proceeds of the Offering, excluding proceeds from the President's List Purchasers for which the Company has agreed to pay a cash fee equal to 2% of such proceeds. The Company and Agent have agreed that the number of Shares issued to President's List Purchasers will not exceed 60,000 Shares. The Company has also agreed to issue to the Agent non-transferable share purchase warrants entitling the Agent to purchase at the Offering Price, the number of Agent's Warrant Shares as is equal to 8% of the number of Shares issued under the Offering including under the Over-Allotment Option to purchasers other than President's List Purchasers, and 2% of the number of Shares issued to President's List Purchasers, for a period of 24 months from the Closing Date. The Company will also pay to the Agent a corporate finance fee of $50,000 and an administration fee of $2,500 and will reimburse the Agent for its reasonable legal fees and expenses in relation to the Offering.

The Company granted to the Agent an Over-Allotment Option, exercisable in whole or in part at any time within 48 hours prior to the Closing Date, to solicit the sale of additional Shares as is equal to 15% of the number of Shares offered hereunder. If the Over-Allotment Option is exercised in full, the total price to the public, Agent's Fee and net proceeds to the Company will be $2,070,000, $165,600 and $1,904,400 respectively. See "Plan of Distribution". This Prospectus qualifies the grant of the Over-Allotment Option and the distribution of securities issuable on the exercise of the Over-Allotment Option.

**Listing Application**

The Exchange has conditionally accepted the listing of our Common Shares. Listing will be subject to the fulfillment of all of the listing requirements of the Exchange.

As at the date of the Prospectus, the Company does not have any of its securities listed or quoted, has not applied to list or quote any of its securities, and does not intend to apply to list or quote any of its securities, on the Toronto Stock Exchange, a U.S. marketplace, or a marketplace outside of Canada and the United States of America other than the Alternative Investment Market of the London Stock Exchange or the PLUS markets operated by PLUS Markets Group plc.

## RISK FACTORS

An investment in the Shares offered hereunder should be considered highly speculative due to the nature of the Company's business and the present stage of development. An investment in the Company's securities is suitable only for those knowledgeable and sophisticated investors who are willing to risk loss of their entire investment.

Prospective investors should consult with their professional advisors to assess an investment in the Company's securities. In evaluating the Company and its business, investors should carefully consider, in addition to the other information contained in this Prospectus, the following risk factors. These risk factors are not a definitive list of all risk factors associated with an investment in the Company or in connection with the Company's operations.

**Limited Operating History**

The Company was incorporated on May 2, 2006 and has a limited operating history. The Company has only generated a positive flow of funds from operations for the past 4 months. There is no certainty that the Company will continue to produce revenue or operate profitably. In the past, the Company has relied on sales of equity securities to meet its cash requirements. There can be no assurance that funding from this or other sources will be sufficient in the future to satisfy operational requirements and cash commitments. Investment in the securities of the Corporation is highly speculative given the nature of the Company's business and its current early stage of development.

**Title to Properties**

Title to oil and natural gas interests is often not capable of conclusive determination without incurring substantial expense. Although title reviews will be done according to industry standards prior to the purchase of most oil and natural gas producing properties or the commencement of drilling wells, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise to defeat the claim of the Corporation. To the extent title defects do exist, it is possible the Corporation may lose all or a portion of its right, title, estate and interest in and to the properties to which the title relates.

**Exploration, Development and Production Risks**

Oil and natural gas operations involve many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. The long-term commercial success of the Company depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. The future value of the Company is therefore dependent on the success of the Company activities, which are principally directed toward the exploration, appraisal and development of its properties in the United States of America. Exploration, appraisal and development of oil and natural gas properties is highly speculative and involves a significant degree of risk. Without the continual addition of new reserves, any existing reserves that the Company may discover or acquire at any particular time and the production therefrom will decline over time as such existing reserves are exploited. Any discovery of or future increase in the Company's reserves will depend not only on its ability to explore and develop any properties it may have from time to time, but also on its ability to select and acquire suitable producing properties or prospects. No assurance can be given that the Company will be able to continue to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, the Company may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomical. There is no assurance that commercial quantities of oil and natural gas will be discovered or acquired by the Company.

Oil and natural gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, fixing drilling hazards or environmental damage caused by operations could greatly increase the cost of those operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental and other approvals or consents, insufficient storage or transportation capacity or other geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

**Risks Associated with the Exploration, Development and Production of Oil and Natural Gas May Not Be Insurable**

The Company's operations are subject to the risks normally incident to the operation and development of oil and natural gas properties and the drilling of oil and natural gas wells, including encountering unexpected formations or pressures, blow-outs and fires, all of which could result in personal injuries, loss of life and damage to property of the Company and others. In accordance with customary industry practice, the Company is not fully insured against all of these risks, nor are all such risks insurable. Environmental regulation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. The Company expects it will be able to fully comply with all regulatory requirements in this regard.

**Competition**

Oil and gas exploration is intensely competitive and involves a high degree of risk. There can be no assurance that commercial production of hydrocarbons can be obtained from any of the Company's properties, nor are there any assurances that production, if obtained, will be in sufficient quantities to be profitable. In its efforts to acquire properties, the Company competes with other companies that have significantly greater resources. Many of these companies not only explore for and produce oil and gas, but also conduct refining and petroleum marketing operations on a worldwide basis. Competition for producing properties will be affected by the amount of funds available to the Company, information available to the Company and any standards established by the Company for the minimum projected return on investment. Competition may also be presented by alternative fuel sources.

**Government Regulation**

The oil and natural gas industry is subject to extensive controls and regulations imposed by various levels of government. It is not expected that any of these controls or regulations will affect the operations of the Company in a manner materially different than they would affect other oil and gas companies of similar size. All current legislation is a matter of public record and the Company is unable to predict what additional legislation or amendments may be enacted.

**Fluctuation in Oil and Gas Prices**

As with most other companies involved in resource exploration, the Company may be adversely affected by future increases in the costs of conducting exploration, development and resource extraction that may not be fully offset by increases in the price received on sale of the petroleum or natural gas. The Company's revenues, profitability and future growth and the carrying value of its oil and gas properties will be substantially dependent on prevailing prices of oil and gas. The Company's ability to borrow and to obtain additional capital on attractive terms will also be substantially dependent upon oil and gas prices. Prices for oil and gas are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and gas, market uncertainty and a variety of additional factors beyond the control of the Company. These factors include economic conditions in the United States and Canada, the actions of the Organization of Petroleum Exporting Countries, governmental regulation, and political stability in the Middle East and elsewhere, the foreign supply of oil and gas, the price of foreign imports and the availability of alternative fuel sources. Any substantial and extended decline in the price of oil and gas would have an adverse effect on the Company's carrying value of its proved reserves, borrowing capacity, revenues, profitability and cash flows from operations. Volatile oil and gas prices make it difficult to estimate the value of producing properties for acquisition and often cause disruption in the market for oil and gas producing properties, as buyers and sellers have difficulty agreeing on such value. Price volatility also makes it difficult to budget for and project the return on acquisitions and development and exploitation projects.

**Risks Associated with Oil and Gas Exploration**

There can be no assurance that the Company will recover commercial quantities of hydrocarbons in the future. The marketability of any oil and gas acquired or discovered will be affected by numerous factors beyond the control of the Company. These factors include market fluctuations, proximity and capacity of oil and gas pipelines and processing equipment and government regulations (including regulations relating to royalties, allowable production, importing and exporting of oil and gas, and environmental protection). In addition, hazards such as unusual or unexpected formations, pressures or other conditions are involved in drilling and operating wells.

**Expiration of Licenses and Leases**

The Company's properties will be held in the form of licenses and leases and working interests in licenses and leases. If the Company or the holder of the license or lease fails to meet the specific requirement of a license or lease, the license or lease may terminate or expire. There can be no assurance that any of the obligations required to maintain each license or lease will be met. The termination or expiration of the Company's licenses or leases or the working interests relating to a license or lease may have a material adverse effect on the Company's results of operation and business.

**Environmental Regulation**

Hazards incident to the exploration and development of oil and gas properties such as accidental spills or leakage of petroleum liquids and other unforeseen conditions may be encountered by the Company. The Company may be subject to liability for pollution and other damages due to hazards, which cannot be insured against due to prohibitive premium costs or for other reasons. Governmental regulations relating to environmental matters could also increase the cost of doing business or require alteration or cessation of operations in certain areas. Existing and possible future environmental legislation, regulations and actions could give rise to additional expense, capital expenditures, restrictions and delays in the activities of the Company, the extent of which cannot be predicted. Regulatory requirements and environmental standards are subject to constant evaluation and may be significantly increased, which could materially and adversely affect the business of the Company or its ability to develop its properties on an economically feasible basis. Before development and production can commence on any properties, the Company must obtain regulatory and environmental approvals. There is no assurance that such approvals will be obtained on a timely basis or at all. The cost of compliance with changes in governmental regulations has the potential to reduce the profitability of operations or preclude entirely the economic development of a property.

**Management**

The success of the Company is currently largely dependent on the performance of its directors and officers. There is no assurance the Company can maintain the services of its directors and officers or other qualified personnel required to operate its business. The loss of the services of these persons could have a material adverse affect on the Company and its prospects.

**Future Financings**

The continued operation of the Company will be dependent upon our ability to generate operating revenues and to procure additional financing. There can be no assurance that any such revenues can be generated or that other financing can be obtained on acceptable terms to the Company, if at all. Failure to obtain additional financing on a timely basis may result in delay or indefinite postponement of further exploration and development or forfeiture of some rights in some or all of the Company's properties. If additional financing is raised by the issuance of Shares from treasury, control of the Company may change and shareholders may suffer additional dilution. If adequate funds are not available, or are not available on acceptable terms, the Company may not be able to further explore and develop its properties, take advantage of other opportunities, or otherwise remain in business. Events in the equity market may impact the Company's ability to raise additional capital in the future.

**Price Volatility of Publicly Traded Securities**

In recent years, the securities markets in the United States and Canada have experienced a high level of volatility, and the market prices of securities of many companies have experienced wide fluctuations that have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continual fluctuations in price will not occur. It may be anticipated that any quoted market for the Common Shares will be subject to market trends and conditions generally, notwithstanding any potential success of the Company in creating revenues, cash flows or earnings. The value of securities distributed hereunder will be affected by market volatility.

Before this Offering, there has been no public market for the Common Shares. An active public market for the Common Shares might not develop or be sustained after this Offering. The Offering Price of the Shares has been determined by negotiation between the Company and the Agent and this price will not necessarily reflect the prevailing market price of the Common Shares following this Offering. If an active public market for the Common Shares does not develop, the liquidity of a shareholder's investment may be limited and the share price may decline below the Offering Price.

**Global Financial Instability**

Beginning in the fall of 2007, a severe crisis in some of the world's largest banks and other financial institutions led to sharp contractions in the availability of credit for debt financing. A number of banks and financial institutions around the world either failed or required massive government bailouts to continue operating. The crisis ushered in a severe recession across the globe that also led to a sharp drop in the price of oil. Similar shocks to the global financial system could again increase the volatility of commodity prices and adversely impact oil companies' revenues and ability to access debt and equity financing.

**Annual General Meeting**

The Company has not held an annual general meeting since its inception and is not in compliance with the requirements of the Business Corporations Act (British Columbia) (the "BCBCA") with respect to the holding of such meeting. Pursuant to the BCBCA if a company fails to hold an annual general meeting in the time period required by the BCBCA, one or more of the Company's shareholders may apply to the Supreme Court of British Columbia for: (i) an order that a meeting of shareholders be called, held and conducted in the manner the court considers appropriate and (ii) directions the court considers necessary as to the call, holding and conduct of the meeting. In addition, one or more of the shareholders could bring other actions as permitted under the BCBCA. Notwithstanding the foregoing, the Company expects to hold its annual general meeting within 90 days of the date of this Prospectus.

**Conflicts of Interest**

Certain directors and officers of the Company are, and may continue to be, involved in the oil and gas exploration industry through their direct and indirect participation in corporations, partnerships or joint ventures which are potential competitors of the Company. Situations may arise in connection with potential acquisitions or opportunities where the other interests of these directors and officers may conflict with the interests of the Company. Directors and officers of the Company with conflicts of interest will be subject to and follow procedures set out in applicable corporate and securities legislation, regulation, rules and policies, including, the relevant provisions of the *Business Corporations Act* (British Columbia).

On March 27, 2009, Barry Lasker ("Lasker") and Delta Oil and Gas, Inc. ("Delta") entered into an exploration agreement (the "Exploration Agreement"). Pursuant to the terms of the Exploration Agreement, Lasker agreed to identify and secure leases which would subsequently be assigned to Delta and pursuant to the terms of such agreement, Delta agreed to pay 100% of the lease acquisition costs and operating costs of up to three wells. In exchange for Lasker's performance under the Exploration Agreement, Lasker obtained a 10% carried interest in the first target well, Donner #1, and a 20% carried interest in the second and third target wells, Prospect 1 and Prospect 2, respectively, until payout in each of the wells. Upon payout, Lasker's carried interest converted to a 50% working interest in Donner #1 and a 40% working interest in each of Prospect 1 and Prospect 2.

In August 2009, Donald Currie in his personal capacity and not in his capacity as an officer or director of the Company, entered into an oral agreement with Lasker which is evidenced by a written agreement dated January 10, 2010, (the "DC Assignment"), to acquire 50% of all of Lasker's right, title and interest in and to the Exploration Agreement.

On December 30, 2010, Delta entered into an agreement (the "HRI Assignment") with the Company to assign 60% of all of Delta's right, title and interest in and to the Exploration Agreement.

The effect of the Exploration Agreement, DC Assignment and the HRI Assignment was to create the following net revenue interests in Donner #1, Prospect 1, and Prospect 2:

| | | Delta Oil & Gas, Inc. | Hillcrest Resources Ltd. | Barry Lasker | Donald Currie(1) |
|---|---|---|---|---|---|
| **Donner #1** | | | | | |
| | **Before Payout** | 36% | 54% | 5% | 5% |
| | **After Payout(2)** | 15% | 22.5% | 18.75% | 18.75% |
| **Prospect 1** | | | | | |
| | **Before Payout** | 32% | 48% | 10% | 10% |
| | **After Payout(2)** | 18% | 27% | 15% | 15% |
| **Prospect 2** | | | | | |
| | **Before Payout** | 32% | 48% | 10% | 10% |
| | **After Payout(2)** | 18% | 27% | 15% | 15% |

**Notes**:
(1) Chairman, CEO and a director of Hillcrest Resources Ltd.
(2) "Payout" is defined as the recoupment of 100% of the actual costs paid by Delta Oil & Gas, Inc. and Hillcrest Resources Ltd., for lease acquisition, drilling and completion, payable out of production from each of the target wells to which the costs relate. The payout is estimated, and the net revenue interests of the four parties are determined after deducting any and all royalties owing to the lessors party to the Tract No. 1 Leases and Tract No. 2 Leases, and expenses owing to bring the wells into production.

**Dilution**

A substantial number of shares of the Company were issued at the private stage at issue prices that are substantially less than the Offering Price. This will result in significant dilution of the value of the Shares upon closing of the Offering.

Effective as of the Listing Date, 1,900,000 incentive stock options will be issued to officers and directors, under the Plan, pursuant to which additional Common Shares of the Company upon the exercise of such options. Exercise of such options may result in dilution to the Company's shareholders.

Up to 720,000 Agent's Warrants will be issued to the Agent as partial compensation in connection with the issue and sale of the Shares under the Offering (and up to 828,000 warrants will be issued if the Over-Allotment option is exercised). Exercise of such warrants may result in dilution to the Company's shareholders.

In addition, if the Company raises additional funds through the sale of equity securities, shareholders may have their investment further diluted.

**Uncertainty of Use of Proceeds**

Although the Company has set out its intended use of proceeds from this Offering, the same are estimates only and subject to change. While management does not contemplate any material variation, management does retain broad discretion in the application of such proceeds.

**Dividends**

The Company has not paid any dividends on its Common Shares since incorporation and does not anticipate paying any dividends on its Common Shares in the foreseeable future. The Company has a limited operating history and there can be no assurance of its ability to operate its projects profitably.

**Tax Issues**

Income tax consequences in relation to the Shares will vary according to circumstances of each investor. Prospective investors should seek independent advice from their own tax and legal advisers prior to subscribing to the Offering.

**Future Acquisitions**

The Company may seek to grow by acquiring companies, assets, or establishing joint ventures that it believes will complement its current or future business. The Company may not effectively select acquisitions candidates or negotiate or finance acquisitions or integrate the acquired businesses and their personnel or acquire assets for the business. The Company cannot guarantee that it can complete any acquisition it pursues on favourable terms, or that any acquisitions completed will ultimately benefit its business.

## PROMOTERS

Don Currie, Chairman and CEO, and a director of the Company, is the promoter of the Company within the meaning of applicable securities legislation. See “Directors and Officers” for voting and equity securities of the Company held by Don Currie.

Beginning October 1, 2010, Don Currie receives **$**5,000 per month for his services as the Chairman and CEO of the Company. Following completion of the Offering, the Company will pay Don Currie $5,000 per month for his services; such compensation is subject to review on an annual basis. See “Interest of Management And Others In Material Transactions” and “Compensation of Executive Officers”.

## LEGAL PROCEEDINGS

The Company is not a party to any material legal proceedings and does not know of any such proceedings that are contemplated.

## REGULATORY ACTIONS

Since incorporation on May 2, 2006 to the date hereof, management of the Company is not currently aware of any:

(a) penalties or sanctions imposed against the Company by a court relating to provincial and territorial securities legislation or by a securities regulatory authority;

(b) any other penalties or sanctions imposed by a court or regulatory body against the Company necessary for the Prospectus to contain full, true and plain disclosure of all material facts relating to the securities being distributed; and

(c) settlement agreements the Company entered into before a court relating to provincial and territorial securities legislation or with a securities regulatory authority.

## INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than as previously disclosed in this Prospectus, none of the Company's directors, senior officers and principal shareholders or any of their associates or affiliates have a material interest, direct or indirect, in any transactions in which the Company has participated since incorporation, or will have any material interest in any proposed transaction, which has materially affected or will materially affect the Company.

## RELATIONSHIP BETWEEN THE COMPANY AND AGENT

The Company is not a "related party" or "connected party" to the Agent (as such terms are utilized in the *Securities Act* (British Columbia), the *Securities Act* (Alberta), the *Securities Act* (Saskatchewan) or the *Securities Act* (Ontario)). The Company is not a "related issuer" or "connected issuer" of or to the Agent, as such terms are defined in National Instrument 33-105 - *Underwriting Conflicts*.

## AUDITORS

The auditors of the Company are Lancaster & David, Chartered Accountants, of Vancouver, BC.

## REGISTRAR AND TRANSFER AGENT

The registrar and transfer agent of the Company is Computershare Investor Services Inc., 510 Burrard Street, Vancouver, British Columbia, Canada, V6C 3B9.

## MATERIAL CONTRACTS

Except for contracts made in the ordinary course of business, the following are the only material contracts entered into by the Company to the date hereof which are considered to be material:

1. Assignment of certain Oil, Gas, and Liquid Hydrocarbon Leases, effective July 1, 2010, between certain lessors and Delta Oil & Gas, Inc. as the lessee from Delta Oil & Gas to the Company.

2. Amendment to Amendment and Ratification of Oil, Gas, and Liquid Hydrocarbon Lease Agreement effective July 1, 2010, between E.W. Brown, Jr. Properties for the benefit of John S. Brown Texas Trust, L. Slade Brown Louisiana Trust Beneficiaries Michael S. Brown and Mary Robbins Brown Jones aka Robbin B. Jones, Charles E. Brown Louisiana Trust Beneficiaries Carrie Brown Henley, Charles E. Brown Jr., Richard E. Brown and Robert S. Brown and FBC Minerals, LP, Delta Oil & Gas, Inc. and the Company.

3. Assignment of Oil, Gas and Liquid Hydrocarbon Leases, effective February 1, 2010, between Delta Oil & Gas, Inc. and the Company.

4. Consent to Assignment, dated February 17, 2010, between Richard B. Negley, Laura Negley Gill, Brian L. Winter, Bruce L. Winter, Lutcher Luis Brown, Leonard L. Brown, Emily Brown, and Federico L. Brown, Barry Lasker, Delta Oil & Gas, Inc., and the Company.

5. Consent to Assignment, dated March 29, 2010, between H.L. Brown Management, L.L.C., Agent for James L. Negley and George L. Winter, Trustee of the George L. Winter Revocable Trust, Delta Oil & Gas, Inc. and the Company.

6. Rectification Agreement dated December 30, 2010 between Delta Oil & Gas, Inc. and the Company.

7. Assignment of interest in the Exploration Agreement, between Delta Oil & Gas, Inc. and the Company dated December 30, 2010.

8. Assignment of Oil & Gas Lease and Bill of Sale, dated December 10, 2009, between Nadsoilco LLC and the Company.

9. Operating Agreement, dated February 1, 2010, between Delta Oil & Gas, Inc., the Company, Nadsoilco Inc., and Barry Lasker.

10. Model Form Operating Agreement, dated November 1, 2009, between Nadsoilco LLC and the Company.

11. Agency Agreement dated March 3, 2011 between the Company and the Agent referred to under "Plan of Distribution."

12. Escrow Agreement dated March 1, 2011 among the Company, Computershare and certain shareholders of the Company referred to under "Escrowed Securities."

13. Registrar and Transfer Agent Agreement dated November 22, 2010 between the Company and Computershare.

A copy of any material contracts and the Hartburg Report may be inspected during the period that the Shares are offered under this Prospectus and for a period of 30 days thereafter during normal business hours at the Company's registered and records office at Suite 1500, 1055 West Georgia Street, Vancouver, British Columbia, V6E 4N7.

## EXPERTS

Certain legal matters related to this Offering will be passed upon on behalf of the Company by McMillan LLP, and on behalf of the Agent by Miller Thomson LLP.

Income tax consequences in relation to the purchase and disposition of the Shares will vary according to circumstances of each investor. **Subscribers should consult their own tax advisors for advice with respect to the income tax consequences associated with their acquisition of Shares under this Prospectus.**

The Authors prepared the Hartburg Report.

Lancaster & David, Chartered Accountants, have audited the Company's Financial Statements.

No person or company whose profession or business gives authority to reports, valuations, statements or opinions and whom is named as having prepared or certified a report or valuation described or included in the Prospectus holds or is to hold a beneficial or registered interest, direct or indirect, in any securities or property, associates or affiliates of the Company. The auditor is independent in accordance with the auditor's rules of professional conduct in the Province of British Columbia.

## OTHER MATERIAL FACTS

There are no other material facts other than as disclosed herein.

## PURCHASERS' STATUTORY RIGHT OF WITHDRAWAL AND RESCISSION

Securities legislation in certain provinces and territories of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of the Prospectus and any amendment. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, damages if the Prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for the particulars of these rights or consult with a legal adviser.

## FINANCIAL STATEMENTS

See Schedule A attached hereto.

LANCASTER & DAVID
CHARTERED ACCOUNTANTS

## AUDITORS' CONSENT

We have read the prospectus of Hillcrest Resources Ltd. (the "Company") dated March 3, 2011 relating to the issue and sale of common shares of the Company. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the use in the above-mentioned prospectus of our report to the Directors of the Company on the balance sheets of the Company as at December 31, 2009 and 2008 and the statements of operations, changes in equity and cash flows for the years ended December 31, 2009, 2008 and 2007. Our report is dated September 24, 2010.

Lancaster + David

CHARTERED ACCOUNTANTS

Vancouver, BC
March 3, 2011

**Incorporated Partners:** David E. Lancaster, C.A. ~ Michael J. David, C.A.
**Address:** Suite 510, 701 West Georgia Street, PO Box 10133, Vancouver, BC, Canada, V7Y 1C6
**Telephone:** 604.717.5526 **Facsimile:** 604.717.5560 **Email:** admin@lancasteranddavid.ca

## SCHEDULE A – FINANCIAL STATEMENTS

# HILLCREST RESOURCES LTD.

*(a development stage company)*

## Financial Statements

## December 31, 2009, 2008 and 2007

**HILLCREST RESOURCES LTD.**
***(a development stage company)***

**Index to Financial Statements**

**December 31, 2009, 2008 and 2007**

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LANCASTER & DAVID
CHARTERED ACCOUNTANTS

## AUDITORS' REPORT

To the Directors of Hillcrest Resources Ltd..:

We have audited the balance sheets of Hillcrest Resources Ltd. as at December 31, 2009 and 2008, and the statements of operations, changes in equity and cash flows for the years ended December 31, 2009, 2008 and 2007. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2009 and 2008, and the result of its operations and cash flows for the years ended December 31, 2009, 2008 and 2007 in accordance with Canadian generally accepted accounting principles.

***/s/ Lancaster & David***

CHARTERED ACCOUNTANTS

Vancouver, BC
September 24, 2010

**Incorporated Partners:** David E. Lancaster, C.A. ~ Michael J. David, C.A.
**Address:** Suite 510, 701 West Georgia Street, PO Box 10133, Vancouver, BC, Canada, V7Y 1C6
**Telephone:** 604.717.5526 **Facsimile:** 604.717.5560 **Email:** admin@lancasteranddavid.ca

**HILLCREST RESOURCES LTD.**

***(a development stage company)***

**Balance Sheets**

**December 31, 2009 and 2008**

| | 2009 | 2008 |
|---|---|---|
| **ASSETS** | | |
| Current | | |
| Cash | $ **16,506** | $ 6,875 |
| Short term investment | **20,000** | 400,000 |
| Accrued interest receivable | **785** | 1,227 |
| Accounts receivable | **2,537** | - |
| Government remittances recoverable | **2,456** | 19,319 |
| Prepaid expenses | **-** | 5,750 |
| Funds advanced for exploration | **36,760** | - |
| | **79,044** | 433,171 |
| Equipment *(note 5)* | **3,495** | 7,158 |
| Oil and gas properties (*note 6)* | **213,160** | - |
| Resource properties *(note 7)* | **-** | 1 |
| | $ **295,699** | $ 440,330 |
| **LIABILITIES** | | |
| Current | | |
| Accounts payable and accrued liabilities | $ **31,772** | $ 47,767 |
| **SHAREHOLDERS' EQUITY** | | |
| Share capital *(note 8)* | **1,560,431** | 1,560,431 |
| Deficit | **(1,296,504)** | (1,167,868) |
| | **263,927** | 392,563 |
| | $ **295,699** | $ 440,330 |

Significant Accounting Policies *(note 2)*

*APPROVED ON BEHALF OF THE BOARD:*

"Stewart Jackson" *Director*

"David Stone" *Director*

The accompanying notes are an integral part of these financial statements.

**HILLCREST RESOURCES LTD.**

***(a development stage company)***

**Statements of Operations**

**Years ended December 31, 2009, 2008 and 2007**

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| **Revenue** | $ 2,537 | $ - | $ - |
| **Expenses** | | | |
| Administration | $ 15,000 | $ 3,681 | $ - |
| Amortization | 3,663 | 3,917 | 1,446 |
| Bank charges and interest | 116 | 641 | 380 |
| Consulting fees *(note 9)* | 36,431 | 94,826 | 53,963 |
| Filing and transfer agent fees | 600 | 14,993 | 1,755 |
| Investor relations and business development | 761 | 8,570 | 12,181 |
| Office and general | 5,495 | 19,546 | 15,955 |
| Professional fees | 59,276 | 153,351 | 44,509 |
| Rent | 6,420 | 6,420 | - |
| Travel | 1,203 | 4,365 | - |
| | 128,965 | 310,310 | 130,189 |
| Loss before the undernoted | (126,428) | (310,310) | (130,189) |
| Interest income | 13,940 | 12,798 | - |
| Write down of accounts payable | 4,240 | - | - |
| Write down of resource properties *(note 7 )* | (20,388) | (740,167) | - |
| Net loss for the year | $ (128,636) | $ (1,037,679) | $ (130,189) |
| Basic and diluted loss per share | $ (0.01) | $ (0.05) | $ (0.02) |
| Weighted average number of common shares outstanding | 17,325,001 | 21,585,789 | 8,198,035 |

**HILLCREST RESOURCES LTD.**

***(a development stage company)***

## Statements of Changes in Equity

## Years ended December 31, 2009 and 2008

| | *Share Capital* | | | | | | |
|---|---|---|---|---|---|---|---|
| | *Number of Shares* | | *Amount* | | *Deficit* | | *Shareholders' Equity* |
| Balance, December 31, 2007 | 26,637,501 | $ | 1,560,431 | $ | (130,189) | $ | 1,430,242 |
| Issued for restructure of share capital | 9,312,500 | | - | | - | | - |
| Cancelled for restructure of share capital | (18,625,000) | | - | | - | | - |
| Net loss for the year | - | | - | | (1,037,679) | | (1,037,679) |
| Balance, December 31, 2008 | 17,325,001 | $ | 1,560,431 | $ | (1,167,868) | $ | 392,563 |
| Net loss for the year | - | | - | | (128,636) | | (128,636) |
| **Balance, December 31, 2009** | **17,325,001** | **$** | **1,560,431** | **$** | **(1,296,504)** | **$** | **263,927** |

*The accompanying notes are an integral part of these financial statements.*

**HILLCREST RESOURCES LTD.**

***(a development stage company)***

**Statements of Cash Flows**

**Years ended December 31, 2009, 2008 and 2007**

| | | *2009* | *2008* | *2007* |
|---|---|---|---|---|
| Cash flows used in operating activities | | | | |
| Net loss for the year | $ | (128,636) | $(1,037,679) | $ (130,189) |
| Items not involving cash | | | | |
| Amortization | | 3,663 | 3,917 | 1,446 |
| Write down of accounts payable | | (4,240) | - | - |
| Write down of resource properties | | 20,388 | 740,167 | - |
| | | (108,825) | (293,595) | (128,743) |
| Changes in non-cash working capital: | | | | |
| Accrued interest receivable | | 442 | (1,227) | - |
| Accounts receivable | | (2,537) | - | - |
| Government remittances recoverable | | 16,863 | (4,848) | (14,471) |
| Prepaid expenses | | 5,750 | 1,750 | (7,500) |
| Funds advanced for exploration | | (36,760) | (32,708) | - |
| Accounts payable and accrued liabilities | | (11,755) | (34,714) | 38,956 |
| | | (136,822) | (365,342) | (111,758) |
| Cash flows from (used in) investing activities | | | | |
| Acquisition of equipment | | - | (6,093) | (6,428) |
| Acquisition of resource properties | | - | (225,000) | (135,000) |
| Acquisition of oil and gas properties | | (213,160) | - | - |
| Short term investment | | 380,000 | (400,000) | - |
| Deferred exploration costs | | (20,387) | (166,650) | (137,285) |
| | | 146,453 | (797,743) | (278,713) |
| Cash flows from (used in) financing activities | | | | |
| Issuance of common shares | | - | - | 1,598,750 |
| Share issue costs | | - | - | (38,320) |
| | | - | - | 1,560,430 |
| Increase (decrease) in cash during the year | | 9,631 | (1,163,085) | 1,169,959 |
| Cash, beginning of year | | 6,875 | 1,169,960 | 1 |
| Cash, end of year | $ | 16,506 | $ 6,875 | $ 1,169,960 |
| Supplemental Information | | | | |
| Income tax paid | $ | - | $ - | $ - |
| Interest paid | $ | - | $ - | $ - |

*The accompanying notes are an integral part of these financial statements.*

1. NATURE AND BASIS OF OPERATIONS

The Company was incorporated on May 2, 2006 under the Business Corporations Act of British Columbia and on May 28, 2007 changed its name to Hillcrest Resources Ltd.

The Company is in the business of acquiring and developing exploration interests in oil and gas projects in the United States of America.

The Company is subject to several categories of risk associated with the exploration of oil and gas. Oil and gas exploration and production is a speculative business, and involves a high degree of risk. Among the factors that have a direct bearing on the Company's prospects are uncertainties inherent in estimating oil and gas reserves, future hydrocarbon production, and cash flows, particularly with respect to wells that have not been fully tested and with wells having limited production histories; access to additional capital; changes in the price of oil and; availability and cost of services and equipment; and the presence of competitors with greater financial resources and capacity.

The oil and gas industry is subject, by its nature, to environmental hazards and clean-up costs. At this time, management knows of no substantial costs from environmental accidents or events for which the Company may be currently liable. In addition, the Company's oil and gas business makes it vulnerable to changes in prices of crude oil and natural gas. Such prices have been volatile in the past and can be expected to be volatile in the future. By definition, proved reserves are based on current oil and gas prices and estimated probable reserves. Price declines reduce the estimated quantity of proved and probably reserves and increase annual depletion expense (which is based on proved and probably reserves).

The Company is also in the process of exploring its resource properties and has not yet determined whether the properties contain reserves that are economically recoverable.

The business of mining and exploring for resources involves a high degree of risk and there can be no assurance that planned exploration and development programs will result in profitable mining operations. The recoverability of amounts capitalized for the resource properties and related deferred exploration costs are dependent upon the existence and discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain necessary financing to complete the development of the properties and upon future profitable production or proceeds from the disposition thereof. Changes in future conditions could require material write-downs of the carrying values of resource properties.

These financial statements have been prepared using Canadian generally accepted accounting principals on the basis of a going concern, which contemplates the realization of assets and the discharge of liabilities in the normal course of business for the foreseeable future. The Company's ability to meet its obligations as they fall due and to continue to operate as a going concern is dependent on the continued financial support of the creditors and the shareholders and ultimately, the attainment of profitable operations. These financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

## 1. NATURE AND BASIS OF OPERATIONS *(continued)*

| | | 2009 | | 2008 |
|---|---|---|---|---|
| Working capital | $ | **47,272** | $ | 385,404 |
| Deficit | $ | **(1,296,504)** | $ | (1,167,868) |

## 2. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and reflect the following significant accounting policies.

Measurement Uncertainty

Financial statement preparation in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions which can affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the reporting period. Actual results may vary from the current estimates. Significant estimates include the estimated useful lives of long-lived assets, the recoverability of oil and gas properties, mineral properties and deferred exploration costs, fair value of long-term investments, assessment of asset retirement obligations, valuation allowance on future income taxes, and estimates used in calculating stock-based compensation. These estimates are reviewed periodically and as adjustments become necessary, they are reported in earnings in the periods in which they become known.

Financial instruments - recognition and measurement

All financial instruments are classified into one of five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured in the balance sheet at fair value, except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired. Held-to-maturity investments, loans and receivables, and other financial liabilities are initially measured at fair value and subsequently measured at amortized cost. Amortization of premiums or discounts and losses due to impairment are included in current year net earnings (loss).

The Company has classified its cash and short term investment as held-for-trading. Accounts payable and accrued liabilities are classified as other financial liabilities. Transaction costs incurred upon the issuance of debt instruments or modification of a financial liability, are deducted from the financial liability and are amortized using the effective interest method over the expected life of the related liability.

2. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES *(continued)*

Financial instruments - recognition and measurement, *(continued)*

CICA Section 3862 "*Financial Instruments – Disclosure*" requires an entity to classify fair value measurements using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The accounting standard 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. Section 3862 prioritizes the inputs into three levels that may be used to measure fair value:

i) Level 1 – Applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

ii) Level 2 – Applies to assets or liabilities for which there are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly such as quoted prices for similar assets or liabilities in active markets or indirectly such as quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions.

iii) Level 3 – Applies to assets or liabilities for which there are unobservable market data.

The Company's financial instruments consist principally of cash, short term investments and accounts payable and accrued liabilities. Pursuant to Section 3862, fair value of assets and liabilities measured on a recurring basis include cash and short term investments determined based on Level 1 inputs, which consist of quoted prices in active markets for identical assets. The Company believes that the recorded values of accounts payable and accrued liabilities approximate their current fair value because of their nature and respective maturity dates or durations.

Cash and Cash Equivalents

Cash equivalents consist of highly liquid investments, which are readily convertible into cash and generally have maturities of three months or less when acquired. As of December 31, 2009 and 2008 there were no cash equivalents.

Investment

At December 31, 2009, $20,000 (2008 - $400,000) was held in term deposits with an original maturity of greater than three months. The investment has an interest rate of 4% per annum. If the Company redeems the investment before the date of maturity there would be a reduction in the amount of interest paid.

Equipment

Equipment is stated at cost less accumulated amortization. Equipment is amortized over its estimated useful life at the following rates and methods:

Computer equipment - 45% and 55% - declining balance method

In the year of acquisition, equipment is amortized at one-half the normal rate.

2. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES *(continued)*

Resource properties

Costs relating to the acquisition and exploration of mineral properties, including option payments, are deferred until the properties are placed into commercial production, at which time they are amortized over the estimated useful life of the property on a unit-of-production basis using proven and probable reserves, or until the properties are sold, held-for-sale, abandoned or management determines that the mineral property is not economically viable, at which time the unrecoverable deferred costs are written off. In the absence of established mineral reserves, the Company does not have a basis for preparing a projection of the estimated future net cash flow from the properties. Events or circumstances that would signal a possible impairment include undue delays in exploration, unfavourable changes in the property or project economics, an inability to access the site, and environmental restriction on development. An impairment loss is measured as the amount by which the carrying value exceeds its fair value.

Where the Company has entered into option agreements to acquire interests in mineral properties that provide for periodic payments or periodic share issuances, amounts unpaid and unissued are not recorded as liabilities since they are payable and issuable entirely at the Company's option. Option payments are recorded as mineral property costs when the payments are made or received and the share issuances are recorded as mineral property costs using the fair market value of the Company's common shares at the date the counterparty's performance is complete or the issuance date, whichever is more determinable.

Revenue incidental to exploration and development activities, including proceeds on sale of properties and amounts received from third parties to earn an interest in the Company's mineral properties are applied as a reduction of the mineral property and deferred exploration costs. Proceeds received in excess of carrying costs are included in results of operations.

Oil and gas properties

As at December 31, 2009, all the Company's oil and gas properties were unproved oil and gas properties.

The Company utilizes the full cost method to account for its investment in oil and gas properties. Under this method, all costs of acquisition, exploration and development of oil and gas reserves, including such costs as acquisition costs, geological expenditures, tangible and intangible development costs, and direct internal costs are capitalized in cost centres on a country-by-country basis as incurred. Should the Company's property be proven to have reserves, the cost of the oil and gas property will be depleted and charged to operations using the unit of production method based on the ratio of current production to proved oil and gas reserves as estimated by independent engineering consultants.

2. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES *(continued)*

Oil and gas properties, *(continued)*

The Company follows the requirements of CICA Accounting Guideline 16 ("AcG-16"). AcG-16 requires an impairment loss to be recognized when the carrying amount of a cost centre is not recoverable and exceeds its fair value. The carrying value is not recoverable if the carrying amount exceeds the sum of the undiscounted cash flows expected from the cost centre's use and eventual disposition. Fair value is determined using the expected present value approach. This approach incorporates risk and uncertainties in the expected future cash flows, which are discounted using a risk free rate.

For unproven properties impairment is assessed based on whether events have occurred which may indicate that impairment may have occurred. The assessment is undertaken for each individual property if the carrying value of the property exceeds 10% of the relevant country's assets. If exploration efforts are unsuccessful in establishing proved reserves and future exploration plans are uncertain, the unproved property related to the area of interest could be impaired, and accumulated costs are charged against earnings.

Costs directly associated with the acquisition and evaluation of unproved properties are excluded from the depletion computation until it is determined whether or not proved reserves can be assigned to the properties or whether impairment has occurred. Should the Company have properties with proven reserves, the costs are added to the capitalized costs, subject to depletion.

In applying the full cost method to oil and gas properties, the Company performs a ceiling test on the properties which restricts the capitalized costs less accumulated depletion from exceeding an amount equal to the sum of the undiscounted cash flows expected from the production of proved reserves and the lower of cost and market value of unproved properties, based on sales prices achievable under existing contracts and posted average reference prices in effect between the end of the year and the finalization of the year end audit and current costs, and after deducting estimated future general and administrative expenses, production related expenses, financing costs, future site restoration costs and income taxes.

Long-Lived Assets Impairment

Long-term assets of the company are reviewed when changes in circumstances suggest their carrying value has become impaired. Management considers assets to be impaired if the carrying value exceeds the future projected cash flows from related operations (undiscounted and without interest charges). If impairment is deemed to exist, the assets will be written down to fair value.

2. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES *(continued)*

Asset Retirement Obligations

An asset retirement obligation is a legal obligation associated with the retirement of tangible long-lived assets that the Company is required to settle. This would include obligations related to future removal of property and equipment, and site restoration costs. The Company recognizes the fair value of a liability for an asset retirement obligation in the period in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability. As at December 31, 2009 and 2008, the Company has not incurred significant asset retirement obligations related to its oil and gas and mineral exploration properties.

Stock-Based Compensation

The Company accounts for stock-based compensation expense using the fair value based method. The fair value of stock-based payments that vest over a service period, are periodically re-measured until counterparty performance is completed, and any change therein is recognized over the service period. The cost of stock-based payments that are fully vested and non-forfeitable at the grant date is measured and recognized at that date. The Company uses the Black-Scholes option pricing model to determine fair value of options granted. When stock options are exercised, the corresponding fair value is transferred from contributed surplus to share capital.

Basic and Diluted Earnings (Loss) Per Share

Earnings (loss) per share are calculated using the weighted-average number of common shares outstanding during the year. Diluted earnings (loss) per share are calculated using the treasury stock method, which considers the potential exercise of outstanding share purchase options and warrants to the extent each option, warrant or contingent issuance was dilutive. Potentially dilutive securities were excluded in the computation of diluted loss per share as their inclusion would be anti-dilutive.

Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method of tax allocation, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax basis (temporary differences). Future income tax assets and liabilities are measured using the tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in operations in the period in which the change in tax rates is included in operations in the period in which the change is enacted or substantially assured. The amount of future income tax assets recognized is limited to the amount of the benefit that is more likely than not to be realized.

Foreign currency translation

Transactions in currencies other than Canadian dollars are translated into Canadian dollars at rates of exchange prevailing at the date of the transaction. Balances of monetary assets and monetary liabilities in currencies other than Canadian dollars are translated into Canadian dollars at rates of exchange prevailing at the balance sheet date. Non-monetary assets and liabilities are translated at the rates of exchange prevailing at the date of the transaction. Exchange gains or losses on translations are included in income or loss for the year.

2. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES *(continued)*

Adoption of new accounting standards

*Goodwill and intangible assets*

Effective January 1, 2009, the Company adopted CICA Section 3064, "*Goodwill and Intangible Assets*" which replaces Section 3062, "*Goodwill and Other Intangible Assets*", and Section 3450, "*Research and Development Costs*". The new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. The standards concerning goodwill remain unchanged from the standards included in the previous Section 3062. The adoption of this standard did not have any material effect on the consolidated financial statements

*Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*

The Company adopted the newly issued guidance of the Emerging Issues Committee EIC-173, "*Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*", which requires that an entity should take into account the credit risk of an entity and the counterparty in determining the fair value of financial assets and financial liabilities. This guidance is adopted retrospectively, with restatement. No retroactive revision was disclosed related to the prior period as there were no effects on the fair values of financial assets and financial liabilities

*Mining Exploration Costs*

The Company adopted the newly issued guidance of the Emerging Issues Committee EIC-174, "*Mining Exploration Costs*", which provides guidance on the accounting and the impairment review of exploration costs. The adoption of this standard did not have any material effect on the consolidated financial statements.

*Financial Statement Concepts (Amended)*

The Company adopted the amended CICA Section 1000, "*Financial Statement Concepts*", which clarifies the criteria for recognition of an asset, reinforcing the distinction between costs that should be expensed and those that should be capitalized. The adoption of this standard did not have any material effect on the consolidated financial statements.

2. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES *(continued)*

Adoption of new accounting standards *(continued)*

*Financial Instruments – Recognition and Measurement (Amended)*

In June 2009, the CICA amended Section 3855, "*Financial Instruments – Recognition and Measurement*", to clarify that, upon reclassification of a financial instrument out of the trading category, an assessment must be completed to determine whether an embedded derivative is required to be bifurcated. In addition, the amendment prohibits the reclassification of a financial instrument out of trading when the derivative embedded in the financial instrument cannot be separately measured from the host contract. The amendment is applicable to all reclassifications occurring after July 1, 2009. The adoption of this standard did not have any material effect on the consolidated financial statements.

In August 2009, the CICA issued further amendments to Section 3855. The amendments changed the definition of a loan such that certain debt securities may be classified as loans if they do not have a quoted price in an active market and the Company does not have the intent to sell the security immediately or in the near term. As a result, debt securities classified as loans will be assessed for impairment using the incurred credit loss model of Section 3025 to reduce the carrying value of a loan to its estimated realizable amount.

Loan impairment accounting requirements are also applied to held-to-maturity financial assets as a result of the amendments. Debt securities that are classified as available-for-sale continue to be written down to their fair value when the impairment is considered to be other than temporary. However, the impairment loss can be reversed if the fair value substantially increases and the increase can be objectively related to an event occurring after the impairment loss was recognized. The adoption of this standard did not have any material effect on the consolidated financial statements.

*Financial Instruments – Disclosures (Amended)*

In June 2009, the CICA amended Section 3862, "*Financial Instruments - Disclosures*", to require enhanced disclosure about the fair value assessments of the financial instruments. The new disclosures are based on a fair value hierarchy that categorizes financial instruments measured at fair value at one of three levels according to the reliability of the inputs used to estimate the fair values. The amendments apply to annual financial statements for fiscal years ending after September 30, 2009. The new disclosures are provided in Note 2.

2. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES *(continued)*

Future accounting pronouncements

*International Financial Reporting Standards ("IFRS")*
In 2006, the AcSB published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The 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. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS has not been quantified

*Business combinations*

In January 2009, the CICA issued three new accounting standards, Sections 1582, "*Business Combinations*", Section 1601, "*Consolidated Financial Statements*" and Section 1602 "*Non-controlling Interests*", each of which are effective for fiscal years beginning June 1, 2011, and further align Canadian GAAP with IFRS. Early adoption of these new standards is permitted. The Company does not expect the adoption of these standards will have a significant effect on these consolidated financial statements.

3. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of resource properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate available or committed financial resources to complete such acquisitions.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the year ended December 31, 2009. The Company is subject to externally imposed capital requirements.

4. FINANCIAL RISK FACTORS

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit Risk

The Company's credit risk is primarily attributable to cash and cash equivalents. The Company has no significant concentration of credit risk arising from operations. Cash and cash equivalents are held with reputable financial institutions, from which management believes the risk of loss to be remote.

Liquidity Risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2009, the Company had current assets of $79,044 (December 31, 2008 - $433,171) to settle current liabilities of $31,772 (December 31, 2008 – $47,767). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

Market Risk

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

(a) Interest rate risk

The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term certificates of deposits issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

(b) Foreign currency risk

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. The Company funds certain operations, exploration and administrative expenses in the US dollar currency from its Canadian dollar bank accounts. Management believes the foreign exchange risk derived from currency conversions is negligible and therefore does not hedge its foreign exchange risk.

(c) Price risk

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

4. FINANCIAL RISK FACTORS, continued

Sensitivity analysis

The Company has, for accounting purpose, designated its cash and cash equivalents as held-for-trading, which are measured at fair value. Accounts payable and accrued liabilities are classified for accounting purpose as other financial liabilities which are measured at amortized cost.

As at December 31, 2009, the carrying and fair value amounts of the Company's financial instruments are the same.

Based on management's knowledge and experience of the financial markets, management does not believe that the Company's current financial instruments will be affected by interest rate risk, foreign currency risk and price risk. The Company does no hold significant balances in foreign currencies to give rise to exposure to foreign exchange risk. Commodity price risk could affect the Company. In particular, the Company's future profitability and viability of development depends upon world market of natural resources. As of December 31, 2009, the Company was not a producing entity. As a result, commodity price risk could affect the completion of future equity transaction such as equity offerings and the exercise of stock options and warrants. The Company closely monitors commodity prices of precious metals, individual equity movements, and the stock market to determine the appropriate course of action to be taken.

5. EQUIPMENT

| | 2009 | | |
|---|---|---|---|
| | *Cost* | *Accumulated Amortization* | *Net Carrying Amount* |
| | *$* | *$* | *$* |
| Computer | 12,521 | 9,026 | 3,495 |

| | 2008 | | |
|---|---|---|---|
| | *Cost* | *Accumulated Amortization* | *Net Carrying Amount* |
| | *$* | *$* | *$* |
| Computer | 12,521 | 5,363 | 7,158 |

## 6. OIL AND GAS PROPERTIES

| | | *2009* | | *2008* |
|---|---|---|---|---|
| Donner Prospect | | | | |
| Acquisition Costs | $ | **117,040** | $ | - |
| Davis-Holmes Property | | | | |
| Acquisition Costs | | **96,120** | | - |
| | **$** | **213,160** | $ | - |

Donner Prospect

By agreement dated December 8, 2009, the Company entered into an Assignment and Assumption Agreement for the assignment of a 60% working interest in certain land leases known as the Donner Prospect in Newton County, Texas. In consideration the Company paid a lump sum of $111,266 US ($117,040 CDN). The company is responsible for their proportionate share of all future costs of the development of the property.

Davis-Holmes Property

By agreement dated November 1, 2009, the Company, entered into an Assignment of Oil and Gas Lease and Bill of Sale for the assignment of a 30% working interest in certain Oil and Gas Mineral Leases known as the Davis-Holmes property in Polk County, Texas. In consideration the Company paid a lump sum of $90,000 US ($96,120 CDN). The Company is responsible for their proportionate share of all future costs of the development of the property.

The Company received oil and gas revenue for the month of November 2009. The Davis-Holmes property did not produce any oil and gas again until March 2010 in order to complete a well work-over. Accordingly, the Company has not recognized depletion during fiscal 2009.

## 7. RESOURCE PROPERTIES

| | *Acquisition Cost* | *Deferred Exploration Cost* | *Written-off* | *Net Carrying Amount 2009* |
|---|---|---|---|---|
| Thelon Property | $ 1 | $ 10,387 | $ (10,388) | $ - |
| Torwalt Lake Property | - | 10,000 | (10,000) | - |
| | $ 1 | $ 20,387 | $ (20,388) | $ - |

| | *Acquisition Cost* | *Deferred Exploration Cost* | *Written-off* | *Net Carrying Amount 2008* |
|---|---|---|---|---|
| Thelon Property | $ 310,000 | $ 206,553 | $ (516,552) | $ 1 |
| Torwalt Lake Property | 50,000 | 140,907 | (190,907) | - |
| | $ 360,000 | $ 347,460 | $ (707,459) | $ 1 |

7. RESOURCE PROPERTIES, continued

| **Schedules of Deferred Exploration Costs** | *2009* | *2008* |
|---|---|---|
| **Thelon Property** | | |
| Balance, beginning of year | $ - | $ 180,810 |
| Geological | **10,387** | 25,743 |
| | **10,387** | $ 206,553 |
| Written off | **(10,387)** | (206,553) |
| Balance, end of year | $ - | $ - |
| | | |
| **Torwalt Lake Property** | | |
| Balance, beginning of year | $ - | $ - |
| Administrative | - | 13,527 |
| Drilling | - | 1,194 |
| Geological | **10,000** | 105,219 |
| Geophysical | - | 18,911 |
| Property | - | 377 |
| Reporting | - | 1,679 |
| | $ **10,000** | $ 140,907 |
| Written off | **(10,000)** | (140,907) |
| Balance, end of year | $ - | $ - |
| Total | $ - | $ - |

7. RESOURCE PROPERTIES, continued

a) Thelon Property

By agreement dated June 25, 2007 the Company was granted an option to acquire a 60% legal and beneficial interest in and to certain mineral claims located in the Great Bear Lake area of the Northwest Territories collectively known and described as the "Thelon Property"

The Option may be exercised by the Company by making cash payments and issuing shares of the Company as follows:

i) $10,000 (paid) and issuing 1,000,000 common shares (issued) at a fair value of $0.01 on or before the effective dated of the agreement.
ii) $90,000 (paid) on or before December 31, 2007.
iii) $200,000 (paid) on or before July 31, 2008.
iv) $100,000 on or before December 31, 2011.

The Company will incur the minimum Exploration Expenditures in the following amounts at the following times:

i) $100,000 exploration expenditures (incurred) on or before December 31, 2007.
ii) $300,000 exploration expenditures on or before December 31, 2009 (not incurred).
iii) $600,000 exploration expenditures on or before December 31, 2010.
iv) $900,000 exploration expenditures on or before December 31, 2011.

The Company will pay a 1.5% net smelter return royalty and a 5% gross overriding royalty on any diamonds produced from the property.

During the year ended December 31, 2009 the Company abandoned their option and accordingly the carry value has been written off. Management is of the opinion that the future economic potential available from this property is negligible.

7. RESOURCE PROPERTIES, continued

b) Torwalt Lake Property

By agreement dated December 17, 2007 the Company was granted an option to acquire a 60% legal and beneficial interest in the mineral claims in the Waterbury Lake area of Saskatchewan.

The Company will be granted the exclusive right to earn a total of 60% undivided interest in the Torwalt Lake exploration project, pursuant to the following terms:

The Company will make the following cash payments at the following times:

i) $25,000 upon execution of the agreement (paid);
ii) $25,000 on or before December 17, 2008 (paid);

The Company will incur the minimum Exploration Expenditures in the following amounts at the following times:

i) $150,000 in exploration expenditures on or before December 17, 2008 (not completed);
ii) $250,000 in exploration expenditures on or before December 17, 2009 (not incurred);
iii) $350,000 in exploration expenditures on or before December 17, 2010;
iv) $500,000 in exploration expenditures on or before December 17, 2011.

Provided that the Company performs its obligations to keep the option in good standing, the Company will earn up to a 60% undivided interest in the Property in stages, as follows:

i) a 15% undivided interest after December 17, 2009;
ii) an additional 15% undivided interest after December 17, 2010;
iii) an additional 30% undivided interest after December 17, 2011.

The Company will pay a 2% net smelter return on all future production.

During the year ended December 31, 2009 the Company abandoned their option. Management is of the opinion that the future economic potential available from this property is negligible.

8. SHARE CAPITAL

a) Authorized
Unlimited number of common shares without par value

b) Issued and outstanding

During the year ended December 31, 2008, the Company restructured the share capital by having 50% of the issued common shares of the Company issued to investors at a price of $0.01 per share returned to treasury by way of gift for cancellation, without any reduction of capital and to have all common shares issued for cash at $0.02 per share held in escrow subject to a Voluntary Escrow Agreement dated March 31, 2008.

9. RELATED PARTY TRANSACTIONS

Related party transactions are with directors and a company controlled by a director and officer of the Company.

The following summarizes the Company's related party transactions:

| | *2009* | *2008* | *2007* |
|---|---|---|---|
| Deferred exploration costs paid to a company controlled by a director of the Company | $20,000 | $39,000 | $ - |
| Consulting fees to directors and companies controlled by a directors of the Company | $20,387 | $60,000 | $50,535 |

These transactions are in the normal course of operations and are measured at the exchange amount of consideration established and agreed to by the related parties.

10. INCOME TAXES

The Company has accumulated non-capital losses for tax purposes of approximately $536,000 (2008 – $424,000), which expire in 2029.

Future income tax assets and liabilities are recognized for temporary differences between the carrying amounts of the balance sheet items and their corresponding tax values as well as for the benefit of losses available to be carried forward to future years for tax purposes that are more likely than not to be realized.

10. INCOME TAXES, continued

The reconciliation of income tax benefit computed at statutory rates to the reported income tax benefit is as follows:

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Loss before income taxes | $ 129,000 | $ 1,038,000 | $ 131,000 |
| | 29.00% | 31.61% | 34.12% |
| Income tax benefit computed at Canadian statutory rates | $ 37,000 | $ 328,000 | $ 44,000 |
| Non-deductible items | (5,000) | (235,000) | - |
| Other items | - | - | 2,000 |
| Valuation allowance | (32,000) | (93,000) | (46,000) |
| Income tax recovery | $ - | $ - | $ - |

Significant components of the Company's future tax assets and liabilities, after applying enacted corporate income tax rates, are as follows:

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Future income tax assets | | | |
| Non-capital loss carry-forwards | $ 155,000 | $ 127,000 | $ 46,000 |
| Resource properties | 221,000 | 213,000 | - |
| Oil and gas properties | 62,000 | - | - |
| Equipment | 3,000 | 3,400 | - |
| Share issue cost | 4,000 | - | 10,000 |
| | 445,000 | 343,400 | 56,000 |
| Valuation allowance for future income tax assets | (445,000) | (343,400) | (56,000) |
| | $ - | $ - | $ - |

11. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with presentation used in the current year.

12. SUBSEQUENT EVENT

Subsequent to December 31, 2009, the Company issued 6,710,000 common shares at a price of $0.05 per share.

# HILLCREST RESOURCES LTD.

## Consolidated Financial Statements

## September 30, 2010

*(Unaudited)*

**HILLCREST RESOURCES LTD.**

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**September 30, 2010**

*(Unaudited)*

Page

FINANCIAL STATEMENTS

# HILLCREST RESOURCES LTD.

## Consolidated Balance Sheets

*(Unaudited)*

| | September 30, 2010 | December 31, 2009 |
|---|---|---|
| **ASSETS** | | |
| Current | | |
| Cash | $ 28,986 | $ 16,506 |
| Short term investment | - | 20,000 |
| Accrued interest receivable | - | 785 |
| Accounts receivable | 64,962 | 2,537 |
| Government remittances recoverable | 3,488 | 2,456 |
| Funds advanced for exploration | - | 36,760 |
| | 97,436 | 79,044 |
| Deferred financing costs | 57,076 | - |
| Equipment *(note 5)* | 2,170 | 3,495 |
| Oil and gas properties (*note 6)* | 811,406 | 213,160 |
| | $ 968,088 | $ 295,699 |
| **LIABILITIES** | | |
| Current | | |
| Accounts payable and accrued liabilities | $ 110,551 | $ 31,772 |
| Loan payable (*note 7)* | 213,679 | - |
| | 324,230 | 31,772 |
| **SHAREHOLDERS' EQUITY** | | |
| Share capital *(note 8)* | 1,895,931 | 1,560,431 |
| Share subscriptions receivable | (13,000) | - |
| Deficit | (1,239,073) | (1,296,504) |
| | 643,858 | 263,927 |
| | $ 968,088 | $ 295,699 |

*APPROVED ON BEHALF OF THE BOARD:*

"Stewart Jackson" *Director*

"David Stone" *Director*

The accompanying notes are an integral part of these consolidated financial statements

# HILLCREST RESOURCES LTD.

## Consolidated Statements of Operations and Deficit

*(Unaudited)*

| | Three Months Ended September 30, 2010 | Three Months Ended September 30, 2009 | Nine Months Ended September 30, 2010 | Nine Months Ended September 30, 2009 |
|---|---|---|---|---|
| **Revenue** | $ 70,197 | $ - | $ 113,901 | $ - |
| | | | | |
| **Expenses** | | | | |
| Amortization | $ 447 | $ 924 | $ 1,325 | $ 2,740 |
| Bank charges and interest | 6,344 | 20 | 8,838 | 98 |
| Consulting fees (*note 9*) | 1,500 | 12,387 | 9,500 | 56,518 |
| Debt issue cost | 5,222 | - | 6,471 | - |
| Depletion | 4,373 | - | 6,577 | - |
| Filing and transfer agent fees | 150 | 150 | 450 | 450 |
| Investor relations and business development | 719 | 69 | 2,665 | 240 |
| Office | 474 | 15,800 | 1,379 | 20,447 |
| Professional fees | 6,518 | 26,199 | 15,676 | 33,959 |
| Property investigation costs | 6 | - | 5,047 | - |
| Rent | - | 1,605 | - | 4,815 |
| Travel | 1,393 | 792 | 1,573 | 792 |
| | 27,146 | 57,946 | 59,501 | 120,059 |
| Income (loss) before the undernoted | 43,051 | (57,946) | 54,400 | (120,059) |
| Foreign exchange gain | 5,656 | - | 3,031 | - |
| Interest income | - | 3,487 | - | 10,166 |
| Net income (loss) for the period | 48,707 | (54,459) | 57,431 | (109,893) |
| Deficit, beginning of period | (1,287,780) | (1,223,302) | (1,296,504) | (1,167,868) |
| Deficit, end of period | $(1,239,073) | $(1,277,761) | $(1,239,073) | $(1,277,761) |
| Basic and diluted earnings (loss) per share | $ 0.00 | $ (0.01) | $ 0.00 | $ (0.01) |
| Weighted average number of common shares outstanding | 24,035,001 | 17,325,001 | 22,418,224 | 17,325,001 |

# HILLCREST RESOURCES LTD.

## Consolidated Statement of Changes in Shareholders' Equity

*(Unaudited)*

| | Share Capital | | | | |
|---|---|---|---|---|---|
| | *Number of Shares* | *Amount* | *Share Subscriptions Receivable* | *Deficit* | *Shareholders' Equity* |
| Balance, December 31, 2008 | 17,325,001 | $ 1,560,431 | $ - | $ (1,167,868) | $ 392,563 |
| Net loss for the year | - | - | - | (128,636) | (128,636) |
| Balance, December 31, 2009 | 17,325,001 | $ 1,560,431 | $ - | $ (1,296,504) | $ 263,927 |
| Common shares issued for cash | 6,710,000 | 335,500 | (13,000) | - | 322,500 |
| Net income for the period | - | - | - | 57,431 | 57,431 |
| **Balance, September 30, 2010 (unaudited)** | **24,035,001** | **$ 1,895,931** | **$ (13,000)** | **$ (1,239,073)** | **$ 643,858** |

# HILLCREST RESOURCES LTD.

## Consolidated Statements of Cash Flows

*(Unaudited)*

| | Three Months Ended September 30, 2010 | Three Months Ended September 30, 2009 | Nine Months Ended September 30, 2010 | Nine Months Ended September 30, 2009 |
|---|---|---|---|---|
| Cash flows from (used in) operating activities | | | | |
| Net income (loss) for the period | $ 48,707 | $ (54,459) | $ 57,431 | $ (109,893) |
| Items not involving cash | | | | |
| Amortization | 447 | 924 | 1,325 | 2,740 |
| Debt issue cost | 5,222 | - | 6,471 | - |
| Depletion | 4,373 | - | 6,577 | - |
| Foreign exchange gain | (782) | - | - | - |
| | 57,967 | (53,535) | 71,804 | (107,153) |
| Changes in non-cash working capital: | | | | |
| Accounts receivable | (35,681) | - | (62,425) | - |
| Accrued interest receivable | - | (1,679) | 785 | (6,935) |
| Government remittance recoverable | (426) | (1,860) | (1,032) | 17,459 |
| Prepaid expenses | - | - | - | 750 |
| Funds advanced for exploration | - | (25,000) | 36,760 | (25,000) |
| Accounts payable and accrued liabilities | 62,084 | 23,927 | 78,779 | 6,024 |
| | 83,944 | (58,147) | 124,671 | (114,855) |
| Cash flows from (used in) investing activities | | | | |
| Short term investment | - | 60,000 | 20,000 | 120,000 |
| Resource properties | (73,324) | - | (599,823) | - |
| | (73,324) | 60,000 | (579,823) | 120,000 |
| Cash flows from (used in) financing activities | | | | |
| Deferred financing costs | (38,829) | - | (63,547) | - |
| Share capital | - | - | 330,500 | - |
| Share subscriptions receivable | 15,000 | - | (13,000) | - |
| Loans payable | - | - | 213,679 | - |
| | (23,829) | - | 467,632 | - |
| Increase (decrease) in cash during the period | (13,209) | 1,853 | 12,480 | 5,145 |
| Cash, beginning of period | 42,195 | 10,167 | 16,506 | 6,875 |
| Cash, end of period | $ 28,986 | $ 12,020 | $ 28,986 | $ 12,020 |
| Supplemental Information | | | | |
| Income tax paid | $ - | $ - | $ - | $ - |
| Interest paid | $ - | $ - | $ - | $ - |
| Non-Cash Investing and Financing Activities | | | | |
| Common shares issued for resource properties | $ - | $ - | $ 5,000 | $ - |

The accompanying notes are an integral part of these consolidated financial statements

**HILLCREST RESOURCES LTD.**

**Notes to Consolidated Financial Statements**

**September 30, 2010**

*(Unaudited)*

1. NATURE AND BASIS OF OPERATIONS

The Company was incorporated on May 2, 2006 under the Business Corporations Act of British Columbia and on May 28, 2007 changed its name to Hillcrest Resources Ltd.

The Company is in the business of acquiring and developing exploration interests in oil and gas projects in the United States of America.

The Company is subject to several categories of risk associated with the exploration of oil and gas. Oil and gas exploration and production is a speculative business, and involves a high degree of risk. Among the factors that have a direct bearing on the Company's prospects are uncertainties inherent in estimating oil and gas reserves, future hydrocarbon production, and cash flows, particularly with respect to wells that have not been fully tested and with wells having limited production histories; access to additional capital; changes in the price of oil and gas; availability and cost of services and equipment; and the presence of competitors with greater financial resources and capacity.

The oil and gas industry is subject, by its nature, to environmental hazards and clean-up costs. At this time, management knows of no substantial costs from environmental accidents or events for which the Company may be currently liable. In addition, the Company's oil and gas business makes it vulnerable to changes in prices of crude oil and natural gas. Such prices have been volatile in the past and can be expected to be volatile in the future. By definition, proved reserves are based on current oil and gas prices and estimated probable reserves. Price declines reduce the estimated quantity of proved and probable reserves and increase annual depletion expense (which is based on proved and probable reserves).

These interim consolidated financial statements should be read in conjunction with the financial statements of the Company's most recently completed year ended December 31, 2009. These statements do not include all disclosures required in annual financial statements but rather are prepared in accordance with recommendations for interim financial statements in conformity with Canadian generally accepted accounting principles. These statements follow the same accounting policies and methods of their application as those followed in the December 31, 2009 financial statements.

These consolidated financial statements have been prepared using Canadian generally accepted accounting principals on the basis of a going concern, which contemplates the realization of assets and the discharge of liabilities in the normal course of business for the foreseeable future. The Company's ability to meet its obligations as they fall due and to continue to operate as a going concern is dependent on the continued financial support of the creditors and the shareholders and ultimately, the attainment of profitable operations. These consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

| | **September 30, 2010** | December 31, 2009 |
|---|---|---|
| Working capital (deficiency) | **$ (226,794)** | **$ 47,272** |
| Deficit | **$ (1,239,073)** | **$ (1,296,504)** |

**HILLCREST RESOURCES LTD.**

**Notes to Consolidated Financial Statements**

**September 30, 2010**

*(Unaudited)*

2. FUTURE ACCOUNTING PRONOUNCEMENTS

*International Financial Reporting Standards ("IFRS")*
In 2006, the AcSB published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The 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. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS has not been quantified

*Business combinations*

In January 2009, the CICA issued three new accounting standards, Sections 1582, "*Business Combinations*", Section 1601, "*Consolidated Financial Statements*" and Section 1602 "*Non-controlling Interests*", each of which are effective for fiscal years beginning June 1, 2011, and further align Canadian GAAP with IFRS. Early adoption of these new standards is permitted. The Company does not expect the adoption of these standards to have a significant effect on these consolidated financial statements.

3. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of resource properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company is dependent on external financing to fund its activities. In order to carry out planned exploration and development and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate available or committed financial resources to complete such acquisitions.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the period ended September 30, 2010.

**HILLCREST RESOURCES LTD.**

**Notes to Consolidated Financial Statements**

**September 30, 2010**

*(Unaudited)*

4. FINANCIAL RISK FACTORS

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit Risk

The Company's credit risk is primarily attributable to cash and cash equivalents. The Company has no significant concentration of credit risk arising from operations. Cash and cash equivalents are held with reputable financial institutions, from which management believes the risk of loss to be remote.

Liquidity Risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at September 30, 2010, the Company had current assets of $97,436 (December 31, 2009 - $79,044) to settle current liabilities of $324,230 (December 31, 2009 – $31,772). All of the Company's financial liabilities, other than loan payable, have contractual maturities of less than 30 days and are subject to normal trade terms.

Market Risk

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

(a) Interest rate risk

The Company has cash balances and an interest-bearing loan with a fixed interest rate of 12% per annum. The Company's current policy is to invest excess cash in investment-grade short-term certificates of deposits issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

(b) Foreign currency risk

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. The Company funds certain operations, exploration and administrative expenses in the US dollar currency from its Canadian dollar bank accounts. Management believes the foreign exchange risk derived from currency conversions is negligible and therefore does not hedge its foreign exchange risk.

(c) Price risk

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

**HILLCREST RESOURCES LTD.**

**Notes to Consolidated Financial Statements**

**September 30, 2010**

*(Unaudited)*

4. FINANCIAL RISK FACTORS, continued

Sensitivity analysis

The Company has, for accounting purposes, designated its cash and cash equivalents as held-for-trading, which are measured at fair value. Accounts payable and accrued liabilities are classified for accounting purpose as other financial liabilities which are measured at amortized cost.

As at September 30, 2010, the carrying and fair value amounts of the Company's financial instruments are the same.

Based on management's knowledge and experience of the financial markets, management does not believe that the Company's current financial instruments will be affected by interest rate risk, foreign currency risk and price risk. The Company does not hold significant balances in foreign currencies to give rise to exposure to foreign exchange risk. Commodity price risk could affect the Company. In particular, the Company's future profitability and viability of development depends upon world market of natural resources. As of September 30, 2010, the Company was a producing entity. As a result, commodity price risk could affect the completion of future equity transaction such as equity offerings and the exercise of stock options and warrants. The Company closely monitors commodity prices of hydrocarbons, individual equity movements, and the stock market to determine the appropriate course of action to be taken.

5. EQUIPMENT

| | | *September 30, 2010* | |
|---|---|---|---|
| | *Cost* | *Accumulated Amortization* | *Net Carrying Amount* |
| | *$* | *$* | *$* |
| Computer | 12,521 | 10,351 | 2,170 |

| | | *December 31, 2009* | |
|---|---|---|---|
| | *Cost* | *Accumulated Amortization* | *Net Carrying Amount* |
| | *$* | *$* | *$* |
| Computer | 12,521 | 9,026 | 3,495 |

**HILLCREST RESOURCES LTD.**

**Notes to Consolidated Financial Statements**

**September 30, 2010**

*(Unaudited)*

6. OIL AND GAS PROPERTIES

| | September 30, 2010 | December 31, 2009 |
|---|---|---|
| **Donner Prospect** | | |
| Balance, beginning of period | $ 117,040 | $ - |
| Acquisition cost | - | 117,040 |
| Exploration cost | 564,356 | - |
| Balance, end of period | 681,396 | 117,040 |
| **Davis-Holmes Property** | | |
| Balance, beginning of period | 96,120 | - |
| Acquisition costs | 22,833 | 96,120 |
| Exploration cost | 17,634 | - |
| Balance, end of period | 136,587 | 96,120 |
| Depletion | (6,577) | - |
| | $ 811,406 | $ 213,160 |

Donner Prospect

By agreement dated December 8, 2009, the Company entered into an Assignment and Assumption Agreement for the assignment of a 60% working interest in certain land leases known as the Donner Prospect in Newton County, Texas. In consideration the Company paid a lump sum of $117,040 (US$111,266). The Company is responsible for their proportionate share of all future costs of the development of the property.

Davis-Holmes Property

By agreement dated November 1, 2009, the Company entered into an Assignment of Oil and Gas Lease and Bill of Sale for the assignment of a 30% working interest in certain Oil and Gas Mineral Leases known as the Davis-Holmes property in Polk County, Texas. In consideration the Company paid a lump sum of $96,120 (US$90,000). The Company is responsible for their proportionate share of all future costs of the development of the property.

7. LOAN PAYABLE

During the period ended September 30, 2010, the Company received a loan in the principal sum of US$200,000. The term of the loan is for a twelve (12) month period ending June 8, 2011. Interest is calculated at 12% per annum, compounded annually.

During the initial six months of the term, no payments of principal or interest is payable. On the first day of the seventh month of the term, the Company shall make its first payment of no less than the proportionate amount of principal and interest then due and payable. Thereafter, the Company shall make payments of not less than the proportionate amount of principal and interest due and payable on a quarterly basis until the end of the term.

If the Company elects, at any time during the term of the loan, to repay the lender the full amount of principal and interest then due and payable, it is free to do so, but in doing it agrees to pay an additional sum of 3% of the principal amount of the loan as an exit fee. If the Company elects, at any time during the second 12 months of the term, to repay the lender the full amount of principal and interest then due and payable, it is free to do so, but in doing it agrees to pay an additional sum of 1.5% of the principal amount of the loan as an exit fee.

At any time during the term, regardless of whether the Company is current with its interest payments, the lender may, at its option, by giving the Company written notice of its intentions, convert not more than the amount of principal and interest then due and payable into one or a combination of the following:

a) common shares in the capital stock of the Company, or its successor at the price of $0.05 per common share; and/or

b) the acquisition of a working interest(s) in the hydrocarbon production of the Company at the time this right is exercised, the value of each flowing barrel to be determined at the time the conversion is requested by a third party expert who shall be appointed jointly by the Company and the lender, and in any case, shall be equal to the current market value for a flowing barrel of oil, discounted by an amount to be agreed upon at the time by the Company and the lender in good faith.

## 8. SHARE CAPITAL

Authorized

Unlimited number of common shares without par value

Issued during the period

On January 1, 2010, the Company issued 500,000 units at $0.05 per unit for total gross proceeds of $25,000 by way of a private placement. Each unit consists of one common share and one share purchase warrant. Each share purchase warrant entitles the holder to purchase one common share at $0.10 per share for a period of 24 months.

On January 14, 2010, the Company issued 500,000 units at $0.05 per unit for total gross proceeds of $25,000 by way of a private placement. Each unit consists of one common share and one share purchase warrant. Each share purchase warrant entitles the holder to purchase one common share at $0.10 per share for a period of 24 months.

On January 16, 2010, the Company issued 20,000 units at $0.05 per unit for total gross proceeds of $1,000 by way of a private placement. Each unit consists of one common share and one share purchase warrant. Each share purchase warrant entitles the holder to purchase one common share at $0.10 per share for a period of 24 months.

On January 20, 2010, the Company issued 100,000 units at $0.05 per unit for total gross proceeds of $5,000 by way of a private placement. Each unit consists of one common share and one share purchase warrant. Each share purchase warrant entitles the holder to purchase one common share at $0.10 per share for a period of 24 months.

On January 21, 2010, the Company issued 1,000,000 units at $0.05 per unit for total gross proceeds of $50,000 by way of a private placement. Each unit consists of one common share and one share purchase warrant. Each share purchase warrant entitles the holder to purchase one common share at $0.10 per share for a period of 24 months.

On January 22, 2010, the Company issued 200,000 units at $0.05 per unit for total gross proceeds of $10,000 by way of a private placement. Each unit consists of one common share and one share purchase warrant. Each share purchase warrant entitles the holder to purchase one common share at $0.10 per share for a period of 24 months.

On January 25, 2010, the Company issued 500,000 units at $0.05 per unit for total gross proceeds of $25,000 by way of a private placement. Each unit consists of one common share and one share purchase warrant. Each share purchase warrant entitles the holder to purchase one common share at $0.10 per share for a period of 24 months.

On January 26, 2010, the Company issued 530,000 units at $0.05 per unit for total gross proceeds of $26,500 by way of a private placement. Each unit consists of one common share and one share purchase warrant. Each share purchase warrant entitles the holder to purchase one common share at $0.10 per share for a period of 24 months.

8. SHARE CAPITAL, continued

Issued during the period, continued

On January 27, 2010, the Company issued 40,000 units at $0.05 per unit for total gross proceeds of $2,000 by way of a private placement. Each unit consists of one common share and one share purchase warrant. Each share purchase warrant entitles the holder to purchase one common share at $0.10 per share for a period of 24 months.

On February 1, 2010, the Company issued 100,000 units at $0.05 per unit for total gross proceeds of $5,000 by way of a private placement. Each unit consists of one common share and one share purchase warrant. Each share purchase warrant entitles the holder to purchase one common share at $0.10 per share for a period of 24 months.

On February 16, 2010, the Company issued 200,000 units at $0.05 per unit for total gross proceeds of $10,000 by way of a private placement. Each unit consists of one common share and one share purchase warrant. Each share purchase warrant entitles the holder to purchase one common share at $0.10 per share for a period of 24 months.

On April 7, 2010, the Company issued 100,000 units at $0.05 per unit for total gross proceeds of $5,000 by way of a private placement. Each unit consists of one common share and one share purchase warrant. Each share purchase warrant entitles the holder to purchase one common share at $0.10 per share for a period of 24 months.

On April 8, 2010, the Company issued 500,000 units at $0.05 per unit for total gross proceeds of $25,000 by way of a private placement. Each unit consists of one common share and one share purchase warrant. Each share purchase warrant entitles the holder to purchase one common share at $0.10 per share for a period of 24 months.

On April 9, 2010, the Company issued 400,000 units at $0.05 per unit for total gross proceeds of $20,000 by way of a private placement. Each unit consists of one common share and one share purchase warrant. Each share purchase warrant entitles the holder to purchase one common share at $0.10 per share for a period of 24 months.

On April 12, 2010, the Company issued 300,000 units at $0.05 per unit for total gross proceeds of $15,000 by way of a private placement. Each unit consists of one common share and one share purchase warrant. Each share purchase warrant entitles the holder to purchase one common share at $0.10 per share for a period of 24 months.

On April 21, 2010, the Company issued 500,000 units at $0.05 per unit for total gross proceeds of $25,000 by way of a private placement. Each unit consists of one common share and one share purchase warrant. Each share purchase warrant entitles the holder to purchase one common share at $0.10 per share for a period of 24 months.

On May 5, 2010, the Company issued 160,000 units at $0.05 per unit for total gross proceeds of $8,000 by way of a private placement. Each unit consists of one common share and one share purchase warrant. Each share purchase warrant entitles the holder to purchase one common share at $0.10 per share for a period of 24 months.

8. SHARE CAPITAL, continued

Issued during the period, continued

On May 10, 2010, the Company issued 60,000 units at $0.05 per unit for total gross proceeds of $3,000 by way of a private placement. Units are issued in advance and recorded as share subscriptions receivable. Each unit consists of one common share and one share purchase warrant. Each share purchase warrant entitles the holder to purchase one common share at $0.10 per share for a period of 24 months.

On June 1, 2010, the Company issued 300,000 units at $0.05 per unit for total gross proceeds of $15,000 by way of a private placement. Each unit consists of one common share and one share purchase warrant. Each share purchase warrant entitles the holder to purchase one common share at $0.10 per share for a period of 24 months.

On June 1, 2010, the Company issued 200,000 units at $0.05 per unit for total gross proceeds of $10,000 by way of a private placement. Units are issued in advance and recorded as share subscriptions receivable. Each unit consists of one common share and one share purchase warrant. Each share purchase warrant entitles the holder to purchase one common share at $0.10 per share for a period of 24 months.

On June 25, 2010, the Company issued 500,000 units at $0.05 per unit for total gross proceeds of $25,000 by way of a private placement. Each unit consists of one common share and one share purchase warrant. Each share purchase warrant entitles the holder to purchase one common share at $0.10 per share for a period of 24 months.

Share Purchase Warrants

During the period ended September 30, 2010, 6,710,000 share purchase warrants were issued pursuant to private placements. Each warrant is exercisable for one common share at $0.10 per share expiring 24 months from the date of issuance.

| | ***September 30, 2010*** | | *December 31, 2009* | |
|---|---|---|---|---|
| | **Number of shares** | ***Weighted Average Exercise Price*** | *Number of shares* | *Weighted Average Exercise Price* |
| Balance, beginning of period | - | $ - | - | $ - |
| Issued | **6,710,000** | **0.10** | - | - |
| Balance, end of period | **6,710,000** | **$ 0.10** | - | $ - |

**HILLCREST RESOURCES LTD.**

**Notes to Consolidated Financial Statements**

**September 30, 2010**

*(Unaudited)*

9. RELATED PARTY TRANSACTIONS

Related party transactions are with directors and a company controlled by a director and officer of the Company.

The following summarizes the Company's related party transactions for the nine month periods:

| | ***September 30, 2010*** | *September 30, 2009* |
|---|---|---|
| Deferred exploration costs paid to a company controlled by a director of the Company | $ - | $ 20,000 |
| Consulting fees paid to a company controlled by a director of the company | $ - | $ 20,000 |

These transactions are in the normal course of operations and are measured at the exchange amount of consideration established and agreed to by the related parties.

10. SUBSEQUENT EVENTS

Initial Public Offering

The Company is in the process of preparing an Initial Public Offering of 9,000,000 common shares at a price of $0.20 per share for gross proceeds of $1,800,000.

In consideration of the services performed by the Agent, the Company has agreed to pay a cash fee of $144,000, a corporate finance fee of $50,000 and administration fee of $2,500. The Company will reimburse the Agent for its reasonable legal fees and expenses in relation to the Offering.

The Company granted to the Agent an option (the "Over-allotment Option"), exercisable in whole or in part at any time within 48 hours prior to the closing date, to solicit the sale of additional shares as is equal to 15% of the number of the shares offered hereunder. If the Over-Allotment Option is exercised in full, gross proceeds from the Offering and the Agent's fee will be $2,070,000 and $165,600 respectively.

720,000 Agent's warrants will be issued with an exercise price of $0.20. If Over-Allotment Option is exercised, the maximum number of securities available to the Agent will be 828,000 common shares. Agent's warrants will expire 24 months from the listing date.

10. SUBSEQUENT EVENTS, continued

Stock Options

Subsequent to September 30, 2010, the Company adopted a stock option plan to grant stock options to its directors, officers, employees and consultants. Subjective to the requirement of the TSX Venture Exchange (the "Exchange"), the aggregate number of securities reserved for issuance under the plan, at any point in time, will be 10% of the number of common shares of the Company issued and outstanding at the time the option is granted (on a diluted basis), less any common share reserved for issuance under share options granted under share compensation arrangements other than the plan. The exercise price of option grants will be determined by the board, but will not be less than the closing market price of the common shares on the Exchange less allowable discounts at the time of grant. All options granted under the plan will expire not later than the date that is five years form the date that such options are granted.

Effective on the date that the common shares of the Company are listed for trading on the TSX Venture Exchange, 1,550,000 stock options under the Stock Option Plan will be granted to officers and directors of the Company and 350,000 stock options to two consultants of the Company. The stock options are exercisable for a period of 5 years from the Listing at an exercise price of $0.20 per common share. The stock options granted will vest on the day that is four months from date of Listing.

Restructure of Share Capital

Subsequent to September 30, 2010, the Company restructured the share capital by returning to treasury and cancelling 62% of the issued common shares of the Company, which were originally issued to investors at a price of $0.02 and $0.01 per share. In exchange, the Company re-issued the equivalent number of common shares at a deemed price of $0.05 per share to these investors. As a result, there was no reduction in capital.

Share Repurchase

Subsequent to September 30, 2010, the Company purchased from a former director one common share of the Company for the price of $1.00 pursuant to a Repurchase Agreement.

FORM 51-101 F2
REPORT ON RESERVES DATA
BY
INDEPENDENT QUALIFIED RESERVES
EVALUATOR OR AUDITOR

To the Board of Directors of Hillcrest Resources Ltd. (the "Company"):

1. We have evaluated the Company's reserves data as at June 30, 2010. The reserves data are estimates of proved reserves and probable reserves and related future net revenue as at June 30, 2010 estimated using forecast prices and costs.

2. The reserves data are the responsibility of the Company's management. Our responsibility is to express an opinion on the reserves data based on our evaluation.

   We carried out our evaluation in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook (the "COGE Handbook") prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum (Petroleum Society).

3. Those standards require that we plan and perform an evaluation to obtain reasonable assurance as to whether the reserves data are free of material misstatement. An evaluation also includes assessing whether the reserves data are in accordance with principles and definitions presented in the COGE Handbook.

4. The following table sets forth the estimated future net revenue (before deduction of income taxes) attributed to proved plus probable reserves, estimated using forecast prices and costs and calculated using a discount rate of 10 percent, included in the reserves data of the Company evaluated by us for the year end June 30, 2010 and identifies the respective portions thereof that we have evaluated and reported on to the Company's management/Board of Directors:

| | | | Net Present Value of Future Net Revenue ($M, before income taxes, 10% discount rate) | | | |
|---|---|---|---|---|---|---|
| Independent Qualified Reserves Evaluator or Auditor | Hillcrest Resources Ltd. Reserve Estimation and Economic Evaluation | Location of Reserves (Country or Foreign Geographic Area) | Audited | Evaluated | Reviewed | Total |
| AJM Petroleum Consultants | September 15, 2010 | United States | - | $5,383.4 | - | $5,383.4 |

5. In our opinion, the reserves data respectively evaluated by us have, in all material respects, been determined and are in accordance with the COGE Handbook. We express no opinion on the reserves data that we reviewed but did not audit or evaluate.

6. We have no responsibility to update our reports referred to in paragraph 4 for events and circumstances occurring after their respective preparation dates.

7. Because the reserves data are based on judgments regarding future events, actual events will vary and the variations may be material. However, any variation should be consistent with the fact that reserves are categorized according to the probability of their recovery.

Executed as to our report referred to above:

AJM Petroleum Consultants
Fifth Avenue Place, East Tower
6th Floor, 425 – 1st Street S.W.
Calgary, Alberta
T2P 3P8

Original signed by: Douglas S. Ashton"
Douglas S. Ashton, P. Eng.
Vice President Engineering

Execution date: September 15, 2010

**FORM 51-101F3**
**REPORT OF**
**MANAGEMENT AND DIRECTORS**
**ON OIL AND GAS DISCLOSURE**

**This is the form referred to in item 3 of section 2.1 of National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* (“NI 51-101”).**

1. Terms to which a meaning is ascribed in NI 51-101 have the same meaning in this form.1

2. The report referred to in item 3 of section 2.1 of NI 51-101 must in all material respects be as follows:

**Report of Management and Directors**
**on Reserves Data and Other Information**

Management of Hillcrest Resources Inc. (the “Company”) are responsible for the preparation and disclosure of information with respect to the Company’s oil and gas activities in accordance with securities regulatory requirements. This information includes reserves data which are estimates of proved reserves and probable reserves and related future net revenue as at June 30, 2010, estimated using forecast prices and costs.

An independent qualified reserves evaluator has evaluated the Company’s reserves data. The report of the independent qualified reserves evaluator will be filed with securities regulatory authorities concurrently with this report.

The Reserves Committee of the board of directors of the Company has

(a) reviewed the Company’s procedures for providing information to the independent qualified reserves evaluator;

(b) met with the independent qualified reserves evaluator to determine whether any restrictions affected the ability of the independent qualified reserves evaluator to report without reservation and to inquire whether there had been disputes between the qualified reserves evaluator and management; and

(c) reviewed the reserves data with management and the independent qualified reserves evaluator.

The Reserves Committee of the board of directors has reviewed the Company’s procedures for assembling and reporting other information associated with oil and gas activities and has reviewed that information with management. The board of directors has, on the recommendation of the Reserves Committee, approved

(a) the content and filing with securities regulatory authorities of Form 51-101F1 containing reserves data and other oil and gas information;

(b) the filing of Form 51-101F2 which is the report of the independent qualified reserves evaluator or qualified reserves auditor on the reserves data; and

(c) the content and filing of this report.

Because the reserves data are based on judgements regarding future events, actual results will vary and the variations may be material. However, any variations should be consistent with the fact that reserves are categorized according to the probability of their recovery.

*"Stewart Jackson"*
Stewart Jackson, President and Director

*"David Stone"*
David Stone, Director

*"Jason Oden"*
Jason Oden, Director

March 3, 2011

## CERTIFICATE OF THE COMPANY

Dated: March 3, 2011.

This Prospectus constitutes full, true and plain disclosure of all material facts relating to the securities offered by this Prospectus as required by the securities legislation of British Columbia, Alberta, Saskatchewan and Ontario and the respective regulations thereunder.

*"Don Currie"*
Don Currie
Chief Executive Officer

*"Wan Jung"*
Wan Jung
Chief Financial Officer

**ON BEHALF OF THE BOARD OF DIRECTORS**

*"Stewart Jackson"*
Stewart Jackson
Director

*"David Stone"*
David Stone
Director

## CERTIFICATE OF PROMOTER

**Dated: March 3, 2011**

This Prospectus constitutes full, true and plain disclosure of all material facts relating to the securities offered by this Prospectus as required by the securities legislation of British Columbia, Alberta, Saskatchewan and Ontario and the respective regulations thereunder.

By *"Don Currie"*
Don Currie

## CERTIFICATE OF THE AGENT

Dated: March 3, 2011

To the best of our knowledge, information and belief, this Prospectus constitutes full, true and plain disclosure of all material facts relating to the securities offered by this Prospectus as required by the securities legislations of British Columbia, Alberta, Saskatchewan, and Ontario and the respective regulations thereunder.

**CANACCORD GENUITY CORP.**

Per:

*"David Rentz"*__________________________
**Name: David Rentz**
**Title: Managing Director, Investment Banking**