HILLCREST RESOURCES LTD.

Consolidated Financial Statements

December 31, 2010 and 2009

HILLCREST RESOURCES LTD.

Index to Consolidated Financial Statements

December 31, 2010 and 2009

LANCASTER & DAVID
CHARTERED ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Hillcrest Resources Ltd.:

We have audited the accompanying consolidated financial statements of Hillcrest Resources Ltd., which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of operations and comprehensive income, changes in equity, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which indicates that the Company is currently operating at a loss, has a negative working capital and has an accumulated deficit of $1,190,247. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

/s/ Lancaster & David
CHARTERED ACCOUNTANTS

Vancouver, BC
April 29, 2011

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HILLCREST RESOURCES LTD.

Consolidated Balance Sheets

December 31, 2010 and 2009

	2010	2009
ASSETS		
Current		
Cash	**$ 65,736**	$ 16,506
Short term investment	**-**	20,000
Accrued interest receivable	**-**	785
Accounts receivable	**99,702**	2,537
Government remittances	**14,210**	2,456
Funds advanced for exploration	**-**	36,760
	179,648	79,044
Deferred financing costs	**125,197**	-
Equipment *(note 5)*	**1,723**	3,495
Oil and gas properties (*note 6)*	**904,889**	213,160
	$ 1,211,457	$ 295,699
LIABILITIES		
Current		
Accounts payable and accrued liabilities	**$ 297,382**	$ 31,772
Loan payable *(note 8)*	**212,392**	-
	509,774	31,772
SHAREHOLDERS' EQUITY		
Share capital *(note 9)*	**1,891,930**	1,560,431
Deficit	**(1,190,247)**	(1,296,504)
	701,683	263,927
	$ 1,211,457	**$** 295,699

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 consolidated financial statements

HILLCREST RESOURCES LTD.

Consolidated Statements of Operations and Comprehensive Income

Years ended December 31, 2010 and 2009

	2010	2009
Revenue	**$ 269,396**	$ 2,537
Expenses		
Administration	**$ -**	$ 15,000
Amortization	**1,772**	3,663
Bank charges and interest	**15,872**	116
Consulting fees *(note 10)*	**44,250**	36,431
Debt issue cost	**11,693**	-
Depletion	**39,802**	-
Filing and transfer agent fees	**2,600**	600
Investor relations and business development	**4,558**	761
Office and general	**2,408**	5,495
Professional fees	**39,868**	59,276
Property investigation cost	**5,047**	-
Rent	**-**	6,420
Travel	**1,661**	1,203
	169,531	128,965
Income (loss) before the undernoted	**99,865**	(126,428)
Interest income	**-**	13,940
Foreign exchange gain	**6,392**	-
Write down of accounts payable	**-**	4,240
Write down of resource properties *(note 7)*	**-**	(20,388)
Net income (loss) and comprehensive income (loss) for the year	**$ 106,257**	$ (128,636)
Basic and diluted income (loss) per share	**$ 0.00**	$ (0.01)
Weighted average number of common shares outstanding	**21,775,741**	17,325,001

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

HILLCREST RESOURCES LTD.

Consolidated Statements of Changes in Equity

Years ended December 31, 2010 and 2009

	Share Capital						
	Number of Shares		*Amount*		*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
Issued for cash	6,610,000		330,500		-		330,500
Issued for oil and gas properties	100,000		5,000		-		5,000
Common shares cancelled for restructure of share capital	(6,387,500)		-		-		-
Common share re-purchased	(1)		(1)		-		(1)
Share issuance cost	-		(4,000)		-		(4,000)
Net income for the year	-		-		106,257		106,257
Balance, December 31, 2010	**17,647,500**	**$**	**1,891,930**	**$**	**(1,190,247)**	**$**	**701,683**

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

HILLCREST RESOURCES LTD.

Consolidated Statements of Cash Flows

Years ended December 31, 2010 and 2009

		2010		*2009*
Cash flows provided by (used in) operating activities				
Net income (loss) for the year	$	**106,257**	$	(128,636)
Items not involving cash				
Amortization		**1,772**		3,663
Amortization of debt issue costs		**11,693**		-
Depletion		**39,802**		-
Write down of accounts payable		**-**		(4,240)
Write down of resource properties		**-**		20,388
		159,524		(108,825)
Changes in non-cash working capital:				
Accrued interest receivable		**785**		442
Accounts receivable		**(97,165)**		(2,537)
Government remittances recoverable		**(11,754)**		16,863
Prepaid expenses		**-**		5,750
Funds advanced for exploration		**36,760**		(36,760)
Accounts payable and accrued liabilities		**55,343**		(11,755)
		143,493		(136,822)
Cash flows from (used in) investing activities				
Acquisition of oil and gas properties		**(22,635)**		(213,160)
Deferred exploration costs		**(589,803)**		(20,387)
Short term investment		**20,000**		380,000
		(592,438)		146,453
Cash flows from financing activities				
Deferred financing costs		**(40,717)**		-
Proceeds from issuance of common shares		**330,500**		-
Share issuance cost		**(4,000)**		-
Loan payable		**212,392**		-
		498,175		-
Increase in cash during the year		**49,230**		9,631
Cash, beginning of year		**16,506**		6,875
Cash, end of year	$	**65,736**	$	16,506
Supplemental Information:				
Income tax paid	$	**-**	$	-
Interest paid	$	**-**	$	-

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

HILLCREST RESOURCES LTD.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

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 estimated future oil and gas prices and costs. Price declines reduce the estimated quantity of proved reserves and increase annual depletion expense (which is based on proved reserves).

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.

		2010		2009
Working capital (deficiency)	**$**	**(330,126)**	$	47,272
Deficit	**$**	**(1,190,247)**	**$**	(1,296,504)

2. SIGNIFICANT ACCOUNTING POLICIES

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

Principles of Consolidation

These consolidated financial statements include the accounts of Hillcrest Resources Ltd. (the “Company”) and its wholly-owned subsidiary, Hillcrest Exploration Inc. All intercompany balances and transactions have been eliminated.

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 as held-for-trading, and accounts receivable as loans and receivables. Accounts payable and accrued liabilities, and loan payable 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. SIGNIFICANT ACCOUNTING POLICIES *(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, accounts receivable, accounts payable and accrued liabilities, and loan payable. Pursuant to Section 3862, fair value of assets and liabilities measured on a recurring basis include cash 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 receivable, accounts payable and accrued liabilities, and loan payable 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, 2010, and 2009, there were no cash equivalents.

Investment

At December 31, 2010, the Company held $Nil (2009 - $20,000) in term deposits with an original maturity of greater than three months. The investment had 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

2. SIGNIFICANT ACCOUNTING POLICIES *(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, 2010, all the Company's oil and gas properties were proven.

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. When the Company's properties are proven to have reserves, the cost of the oil and gas property are 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. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Oil and gas properties, *(continued)*

The Company follows the requirements of CICA Accounting Guideline 16 (“AcG-16”), *“Oil and Gas Accounting – Full Cost”*. 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. When the Company has properties with proven reserves, the costs are added to the capitalized costs, subject to depletion.

Impairment of Long-Lived Assets

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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES *(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, 2010, and 2009, 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. SIGNIFICANT ACCOUNTING POLICIES *(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.

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 on or after January 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 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 primarily 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 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, 2010. The Company is not 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, 2010, the Company had current assets of $179,648 (2009 - $79,044) to settle current liabilities of $509,774 (2009 – $31,772). On March 3, 2011, the Company completed its Initial Public Offering and issued 10,350,000 common shares at a price of $0.20 per share for gross proceeds of $2,070,000. 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 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

Foreign currency exchange rate risk is the risk that the fair value of financial instruments or future cash flows will fluctuate as a result of changes in foreign exchange rates. The Company operates in Canada and the United States. All of the Company's oil and natural gas sales are denominated in United States dollars.

The Company was exposed to the following foreign currency risk at December 31:

Expressed in foreign currencies	**2010 US$**	2009 $US
Cash	**$ 48,309**	$ -
Accounts receivable	**100,243**	-
Accounts payable and accrued liabilities	**(111,087)**	-
Loan payable	**(213,545)**	-
	(176,080)	-

The following foreign exchange rates applied for the year ended and as at December 31:

	2010	2009
Year-to-date average USD to CAD	**0.9946**	1.142
As at December 31	**1.0305**	1.0510

4. FINANCIAL RISK FACTORS *(continued)*

(b) Foreign currency risk *(continued)*

The Company has performed a sensitivity analysis on its foreign currency denominated financial instruments. Based on the Company's foreign currency exposure noted above and assuming that all other variables remain constant, a 10% appreciation of the US dollar against the Canadian dollar would result in the increase of net loss of $17,600 at December 31, 2010 (2009 - $Nil). For a 10% depreciation of the above foreign currencies against the Canadian dollar, assuming all other variables remain constant, there would be an equal and opposite impact on net loss.

(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.

5. EQUIPMENT

	2010		
	Cost *$*	*Accumulated Amortization* *$*	*Net Carrying Amount* *$*
Computer	**12,521**	**10,798**	**1,723**

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

6. OIL AND GAS PROPERTIES

		2010		*2009*
Hartburg Project				
Balance, beginning of year	**$**	**117,040**	$	-
Acquisition costs		**-**		117,040
Exploration costs		**677,708**		-
Balance, end of year		**794,748**		117,040
Livingston Property				
Balance, beginning of year		**96,120**		-
Acquisition costs		**22,635**		96,120
Exploration costs		**31,188**		-
Balance, end of year		**149,943**		96,120
Depletion		**(39,802)**		-
	$	**904,889**	$	213,160

Hartburg Project, Newton County, Texas

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 Hartburg Project 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.

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.

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 and the HRI Assignment was to create the following net revenue interests to the Company in Donner #1, Prospect 1, and Prospect 2:

Donner #1	
Before payout	54%
After payout	22.5%
Prospect 1 and Prospect 2	
Before payout	48%
After payout	27%

6. OIL AND GAS PROPERTIES *(continued)*

Livingston Property, Polk County, 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 and a 22.5% net revenue interest in certain oil and gas leases known as the Livingston 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.

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)	$ -

Schedule of Deferred Exploration Costs	***2010***	*2009*
Thelon Property		
Balance, beginning of year	**$ -**	$ -
Geological	**-**	10,387
	-	$ 10,387
Written off	**-**	(10,387)
Balance, end of year	**$ -**	$ -
Torwalt Lake Property		
Balance, beginning of year	**$ -**	$ -
Geological	**-**	10,000
Written off	**-**	(10,000)
Balance, end of year	**$ -**	$ -
Total	$ **-**	$ -

7. RESOURCE PROPERTIES *(continued)*

a) Thelon Property

By agreement dated June 25, 2007, as amended, 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 claims are subject to a 1.5% net smelter return royalty and a 5% gross overriding royalty on any diamonds produced from the property.

The Option may be exercised by the Company making cash payments of $400,000 in various stages ($300,000 paid) and issuing 1,000,000 common shares (issued). The Company was also to incur minimum exploration expenditures of $1,900,000 in various stages by December 31, 2011 ($100,000 incurred).

During the year ended December 31, 2009, the Company abandoned their option and accordingly the carrying value has been written off.

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 claims are subject to a 2% net smelter return royalty on all future production.

The Option may be exercised by the Company making cash payments of $45,000 in various stages (paid) and incurring minimum exploration expenditures of $1,250,000 in various stages by December 31, 2011.

During the year ended December 31, 2009 the Company abandoned their option and accordingly the carrying value has been written off.

8. LOAN PAYABLE

During the year ended December 31, 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. During the year ended December 31, 2010, the Company and the lender mutually agreed to delay the commencement of repayment until April 2011.

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 at $0.05 per common share; and/or

b) The acquisition of a working interest(s) in the hydrocarbon production of the Company in which the value of each flowing barrel, to be determined at the time the conversion, 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.

At December 31, 2010, the Company determined the equity component of the conversion option to have a nominal fair value.

9. SHARE CAPITAL

Authorized:
Unlimited number of common shares without par value

Issued and outstanding:

Year ended December 31, 2010

Issued for Cash

During the year ended December 31, 2010, the Company issued 6,610,000 units at $0.05 per unit for gross proceeds of $330,500 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.

Issued for Oil and Gas Properties

On January 14, 2010, the Company issued 100,000 units for services at a fair value of $0.05 per unit. 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 Repurchase

During the year ended December 31, 2010, the Company purchased from a former director one common share of the Company for the price of $1.00 per share pursuant to a Repurchase Agreement.

Restructure of Share Capital

During the year ended December 31, 2010, the Company restructured the share capital by returning to treasury and cancelling 6,387,500 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 share capital.

Share Purchase Warrants

During the year ended December 31, 2010, the Company issued 6,710,000 share purchase warrants 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.

	2010		*2009*	
	Number of shares	***Weighted Average Exercise Price***	*Number of shares*	*Weighted Average Exercise Price*
Balance, beginning of year	**-**	**$ -**	-	$ -
Issued	**6,710,000**	**0.10**	-	-
Balance, end of year	**6,710,000**	**$ 0.10**	-	$ -

9. SHARE CAPITAL *(continued)*

Stock Options

Effective November 4, 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.

10. 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:

	2010	*2009*
Deferred exploration costs paid to a company controlled by a director of the Company	**$ -**	$ 20,000
Consulting fees to directors and companies controlled by a director of the Company	**$ 27,750**	$ 20,387

As at December 31, 2010, the Company owes the Chief Executive Officer of the Company and a company controlled by the Chief Financial Officer a total of $20,367 (2009 $nil), which is included in accounts payable and accrued liabilities. The amounts are unsecured, non-interest bearing, and due on demand.

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.

11. INCOME TAXES

The Company has accumulated non-capital losses for tax purposes of approximately $396,000 (2009 – $536,000), which begin to expire commencing in 2027.

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.

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

	2010	*2009*
Income (loss) before income taxes	**$ 106,000**	$ (129,000)
	28.50%	29.00%
Income tax (expense) benefit computed at Canadian statutory rates	**$ (30,000)**	$ 37,000
Non-deductible items	**(9,000)**	(5,000)
Valuation allowance	**39,000**	(32,000)
Income tax expense (recovery)	**$ -**	$ -

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

	2010	*2009*
Future income tax assets:		
Non-capital loss carry-forwards	$ 99,000	$ 155,000
Resource properties	190,000	221,000
Oil and gas properties	10,000	62,000
Equipment	2,000	3,000
Share issue cost	3,000	4,000
	304,000	445,000
Valuation allowance for future income tax assets	(304,000)	(445,000)
	$ -	$ -

12. SUBSEQUENT EVENTS

Initial Public Offering

On March 3, 2011, the Company completed its Initial Public Offering and issued 10,350,000 common shares at a price of $0.20 per share for gross proceeds of $2,070,000. In consideration of the services performed by the Agent, the Company paid 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 also issued 828,000 Agent's warrants with an exercise price of $0.20 per share, exercisable until March 17, 2013.

Stock Options

Effective March 22, 2011, the Company granted 1,550,000 stock options 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 date of listing on the TSX Venture Exchange ("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.

Exercise of Warrants

Subsequent to the year ended December 31, 2010, the Company issued 212,000 common shares pursuant to the exercise of 212,000 warrants at $0.10 per share for proceeds of $21,200.