WESTERN PLAINS PETROLEUM LTD.

AUDITED FINANCIAL STATEMENTS

For the years ended

DECEMBER 31, 2010
AND DECEMBER 31, 2009

Management's Report

Management has prepared the accompanying financial statements of Western Plains Petroleum Ltd. in accordance with Canadian generally accepted accounting principles. Financial and operating information presented throughout the regulatory filings is consistent with that shown in these financial statements.

Management is responsible for the integrity and objectivity of the financial information. Where necessary, the financial statements include estimates that are based on management's informed judgments. Internal control systems are designed and maintained to provide reasonable assurance that assets are safeguarded, transactions are properly authorized, and reliable accounting records are produced for financial purposes.

Meyers Norris Penny LLP, an independent firm of Chartered Accountants was appointed by the Corporation's shareholders to conduct an audit of the financial statements. Their examination included such tests and procedures as they considered necessary to provide reasonable assurance that the financial statements are presented fairly in accordance with Canadian generally accepted accounting principles.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. It exercises its responsibilities primarily through the Audit Committee. The Committee meets quarterly with management and annually with the independent auditors to ensure that managements' responsibilities are properly discharged, to review the financial statements, and to recommend to the Board of Directors that the financial statements be approved.

The Audit Committee has reviewed the financial statements and recommended their acceptance to the Board of Directors. The Board has approved the financial statements for issuance to the shareholders.

David Forrest
President, Chief Executive Officer and Director

Steven Glover
Vice President, Finance and Chief Financial Officer

April 29, 2011

Independent Auditors' Report

To the Shareholders of Western Plains Petroleum Ltd.:

We have audited the accompanying financial statements of Western Plains Petroleum Ltd. which comprise the balance sheets as at December 31, 2010 and 2009, and the statements of operations, comprehensive loss and deficit and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Western Plains Petroleum Ltd. 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 - Going Concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the Company's ability to continue as a going concern. The Company has an accumulated deficit of $3 million (2009 - $2.1 million). This condition indicates the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern.

Meyers Norris Penny LLP

Calgary, Alberta
April 28, 2011

Chartered Accountants

WESTERN PLAINS PETROLEUM LTD.

Balance Sheets

	As at December 31, 2010	As at December 31, 2009
Assets	**$**	$
Current		
Cash and cash equivalents	**390,473**	95,962
Accounts receivable (Note 9(b))	**1,394,777**	159,454
Subscriptions receivable (Note 8(b)(ii))	**176,400**	-
Prepaid expenses and deposits	**26,907**	18,054
	1,988,557	273,470
Property and equipment (Note 4)	**5,081,330**	2,179,215
	7,069,887	2,452,685
Liabilities		
Current		
Accounts payable and accrued liabilities	**1,723,756**	481,463
Asset retirement obligations (Note 6)	**371,000**	192,353
	2,094,756	673,816
Shareholders' equity		
Share capital (Note 8(b))	**7,332,127**	3,641,207
Warrants (Note 8(f))	**54,000**	30,000
Contributed surplus (Note 8(e))	**615,845**	207,745
Deficit	**(3,026,841)**	(2,100,083)
	4,975,131	1,778,869
	7,069,887	2,452,685

Basis of presentation (Note 1)

Commitment (Note 8(b))

Subsequent event (Note 12)

See accompanying notes to the financial statements.

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS

David Forrest
Director

Stephen Johnson
Director

WESTERN PLAINS PETROLEUM LTD.

Statements of Operations, Comprehensive Loss and Deficit

	Year Ended	
	December 31, 2010	December 31, 2009
Revenue	**$**	$
Petroleum revenue	**1,634,372**	1,847,383
Expenses		
Royalties	**279,827**	365,443
Production and transportation	**742,364**	677,488
General and administrative	**606,045**	463,516
Interest	**-**	92,168
Depletion and accretion	**665,794**	1,029,112
Stock-based compensation	**408,100**	-
	2,702,130	2,627,727
Loss from operations	**(1,067,758)**	(780,344)
Gain on debt settlement	**-**	85,200
Gain from sale of property and equipment	**-**	422,877
Net loss before income tax recovery	**(1,067,758)**	(272,267)
Income tax recovery (Note 7)	**141,000**	-
Net loss and comprehensive loss for the year	**(926,758)**	(272,267)
Deficit, beginning of year	**(2,100,083)**	(1,827,816)
Deficit, end of year	**(3,026,841)**	(2,100,083)
Basic and diluted loss per share (note 8(d))	**(0.02)**	(0.01)

See accompanying notes to the financial statements

WESTERN PLAINS PETROLEUM LTD.

Statements of Cash Flows

	Year Ended	
	December 31, 2010	December 31, 2009
Operating activities	**$**	$
Net loss and comprehensive loss for the year	**(926,758)**	(272,267)
Items not affecting cash:		
Depletion and accretion	**665,794**	1,029,112
Stock-based compensation	**408,100**	-
Future income tax recovery	**(141,000)**	
Gain on debt settlement	**-**	(85,200)
Gain on sale of property and equipment	**-**	(422,877)
	6,136	248,768
Changes in non-cash working capital (note 11)	**(185,897)**	(113,604)
	(179,761)	135,164
Financing activities		
Decrease in bank debt	**-**	(400,000)
Issuance of share capital	**1,947,241**	285,000
Share issue costs	**(90,575)**	(32,521)
Changes in non-cash working capital (note 11)	**(167,646)**	68,651
	1,689,020	(78,870)
Investing activities		
Additions to property and equipment	**(3,006,435)**	(1,035,960)
Disposal of property and equipment	**1,616,429**	1,200,000
Changes in non-cash working capital (note 11)	**175,258**	5,750
	(1,214,748)	169,790
Increase in cash for the year	**294,511**	226,084
Cash and cash equivalents, beginning of year	**95,962**	(130,122)
Cash and cash equivalents, end of year	**390,473**	95,962

See accompanying notes to the financial statements.

1. BASIS OF PRESENTATION

Western Plains Petroleum Ltd. (the "Corporation" or "Western Plains") was incorporated under the Business Corporations Act (Alberta) on November 19, 2004 and was classified as a Tier 2 "oil and gas exploration and production" corporation. The Corporation trades under the symbol "WPP" on the TSX Venture Exchange ("TSXV").

The Corporation is based in Lloydminster, Alberta and engages in the exploration for and the development, production and acquisition of petroleum and natural gas reserves in Western Canada.

These financial statements have been prepared on a going concern basis which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. Should the Corporation be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due.

The Corporation's ability to continue as a going concern is dependent upon its ability to attain profitable operations and generate sufficient cash from operating and financing activities to meet the Corporation's needs. As at December 31, 2010 the Corporation has a deficit of $3.0 million (2009 - $2.1 million) and has positive working capital of $0.3 million (2009 – working capital deficiency - $0.2 million). These financial statements do not reflect the adjustments or reclassification of assets and liabilities which would be necessary if the Corporation were unable to continue as a going concern and therefore be required to realize its assets and liabilities in other than the normal course of business and potentially at amounts significantly different from those recorded in these financial statements.

2. SIGNIFICANT ACCOUNING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") using the following significant accounting policies.

Measurement uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

The amounts recorded for depletion and depreciation of petroleum and natural gas interests and for asset retirement obligations are based on estimates of petroleum and natural gas reserves and future costs. Proved and probable reserves also provide the basis for determining the amount of impairment loss, if any, of the carrying value of petroleum and natural gas interests. The determination of stock-based compensation involves estimates of the volatility of the Corporation's common shares for forfeiture rates and expected life. Future income tax expense is calculated using tax rates based on the estimated timing of reversal of temporary differences between accounting and tax values of assets and liabilities and involves forecasting the amount of the future income tax asset that will be realized. By their nature, these estimates are subject to measurement uncertainty. Accordingly the impact on the financial statements of future periods could be material.

Cash and cash equivalents

Cash and cash equivalents include balances with banks and short-term investments with maturities of three months or less.

Joint interests

A portion of the Corporation's exploration and development activities are conducted jointly with others and, accordingly, the financial statements reflect only the Corporation's proportionate interest in such activities.

Property and equipment

The Corporation follows the full cost method of accounting for petroleum and natural gas properties, whereby all costs of exploring for and developing petroleum and natural gas properties are capitalized into a single Canadian cost centre. Such costs include land acquisition costs, geological and geophysical expenses, costs for drilling both productive and non-productive wells, tangible equipment, asset retirement costs and administrative costs directly related to acquisition, exploration and development activities. Proceeds from the disposal of properties are normally deducted from the full cost pool without recognition of gain or loss unless that deduction would result in a change to the rate of depletion of 20 percent or greater in which case a gain or loss is recorded.

Impairment

The carrying value of petroleum and natural gas property and equipment is evaluated annually to determine whether the capitalized costs are impaired. An impairment loss is recognized in net earnings when the carrying amount of the full cost pool is not recoverable and the carrying amount of the cost centre exceeds its fair value. The carrying amount is not recoverable if the carrying amount exceeds the sum of the undiscounted cash flows from proved reserves. If the sum of the cash flows is less than the carrying amount, the impairment loss is measured as the amount by which the carrying amount exceeds the sum of:

I. the fair value of proved and probable reserves determined by computing the cash flows, discounted at a risk free rate, expected from the production of proved and probable reserves; and
II. the costs of unproved properties, net of any impairment that have been subject to a separate impairment test.

Depletion

Petroleum and natural gas properties are depleted using the unit-of-production method based on an independent engineering estimate of the Corporation's share of proved reserves, before royalties, with natural gas converted to its energy equivalent at a ratio of six thousand cubic feet of natural gas to one barrel of oil. Included in the depletion base are estimated costs to be incurred in developing proved reserves and excluded are estimated salvage values and the carrying value of acquiring and evaluating unproved properties. At the time unproven properties are developed, the leases expire or the unproven properties become impaired, the costs of acquiring the unproved property become subject to depletion.

Revenue recognition

Petroleum and natural gas sales are recognized when commodities are delivered to purchasers.

Asset retirement obligations

The Corporation recognizes the fair value of estimated asset retirement obligations related to well bores, facilities, well sites, and facility sites as a liability when new wells are drilled or facilities constructed. The asset retirement cost is recorded as part of the cost of the related long lived asset at an amount that is equal to the initially estimated fair value of the asset retirement obligation. Fair value is estimated using the present value of the future estimated cash flows, adjusted for inflation, using the Corporation's credit adjusted risk free interest rate. Changes in the estimated obligation resulting from revisions to estimated timing or amount of undiscounted cash flows are recognized as a change in the asset retirement obligation and the related asset retirement cost. Actual retirement expenditures incurred are charged against the obligations in the year incurred.

Asset retirement costs are amortized using the unit-of-production method and are included in depletion expense. Increases in the asset retirement obligations resulting from the passage of time are recorded as accretion expense.

Income taxes

The Corporation follows the asset and liability method of accounting for income taxes. Under this method, future income taxes are recorded for the effect of any difference between the accounting and income tax basis of an asset or liability, using the substantively enacted income tax rates expected to apply when the timing differences are expected to reverse. Accumulated future income tax balances are adjusted to reflect changes in income tax rates that are substantively enacted with the adjustment being recognized in earnings in the period that the change occurs. Future income tax assets are subjected to the test of whether the accumulated balance is more likely than not to be realized and any excess income tax asset is offset by a valuation allowance.

Flow-through shares

The Corporation finances a portion of its exploration and development activities through the issue of flow-through shares. Under the terms of the flow-through share agreements, the tax attributes of the related expenditures are renounced to the subscribers. Share capital is reduced and the future income tax asset is reduced or future income tax liability is increased by the estimated income tax effect of the renounced tax deductions at the time the renouncement documents are filed and the expenditures are renounced to shareholders.

Earnings per share

Earnings per share are calculated using the total weighted average number of common shares outstanding during the period. The Corporation computes diluted earnings per share using the treasury stock method which assumes that proceeds from the exercise of in the money stock options or performance options, plus unamortized stock compensation costs, would be used to purchase common shares at the average market price during the year.

Stock based compensation

The Corporation follows the fair value method of accounting for stock options granted to employees, directors and certain service providers. Stock-based compensation expense is recorded for all options granted with the corresponding amount recorded as contributed surplus. Stock-based compensation expense for employees is based on the estimated fair value of the related stock option at the time of the grant and is expensed on a straight line basis over the vesting period of the option. The stock based compensation expense for certain service providers is based on the estimated fair value of the related, unvested stock option at the end of each reporting period and the appropriate amount expensed in that period. When options are exercised, the amounts previously accumulated as contributed surplus and the consideration received are recorded as an increase to share capital. When options are cancelled or forfeited, any stock based compensation expense previously recorded for unvested options is reversed while the stock based compensation expense previously recorded for vested options is not reversed.

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument to another entity. Upon initial recognition all financial instruments, including derivatives, are recognized on the balance sheet at fair value. Subsequent measurement is then based on the financial instruments being classified into one of five categories: held for trading, held to maturity, available for sale, loans and receivables, and other liabilities. The Corporation has designated its financial instruments into the following categories applying the indicated measurement methods:

Financial Instrument	Category	Measurement Method
Cash and cash equivalents	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Bank debt	Other liabilities	Amortized cost

The Corporation will assess at each reporting period whether any financial assets, other than those classified as held for trading, are impaired. An impairment loss, if any, is included in net earnings.

The Corporation may enter into certain financial derivative and physical delivery sales contracts in order to

reduce its exposure to market risks from fluctuations in commodity prices and would not be used for trading or speculative purposes.

The Corporation has not entered into any physical delivery sales contracts, for the purpose of receipt or delivery of oil or natural gas. Should the Corporation enter into physical delivery sales contracts in the future, these settlements would be recognized in petroleum and natural gas sales at the time of the settlement and there would be no recognition of fair value on the balance sheet.

The Corporation measures and recognizes embedded derivatives separately from the host contracts when the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract, when it meets the definition of a derivative and when the entire contract is not measured at fair value. Embedded derivatives are recorded at fair value.

Comprehensive Income or Loss

Comprehensive Income or Loss represents the change in shareholders' equity from transactions and other events from non-owner sources and includes unrealized gains and losses on financial assets that are classified as available for sale. There were no other comprehensive income or loss transactions in 2010 or 2009.

3. RECENT ACCOUNTING PRONOUNCEMENTS

International Financial Reporting Standards

In February, 2008, the Canadian Accounting Standards Board confirmed that International Financial Reporting Standards ("IFRS") are to be followed by Canadian public companies effective January 1, 2011. The comparative financial information for 2010 within the 2011 financial statements will also be prepared in accordance with IFRS. The Corporation has completed the following key elements in the transition:

- determined appropriate IFRS accounting policies and required additions and amendments to financial disclosure,
- acquired an IFRS compatible oil and gas accounting system and modified internal controls as necessary, and
- initiated appropriate training.

Business Combinations

As of January 1, 2011, the Corporation will be required to adopt Section 1582, Business Combinations, which establishes measurement and disclosure requirements for the acquisition method of accounting for business combinations. This standard applies prospectively.

Consolidated Financial Statements

As of January 1, 2011, the Corporation will adopt CICA Handbook Section 1601 "Consolidated Financial Statements", which together with Section 1602 below establishes measurement and disclosure requirements for the preparation of consolidated financial statements. The adoption of this standard may have a material impact on the Corporation's financial statements should it acquire a subsidiary.

Non-controlling Interests

As of January 1, 2011, the Corporation will adopt CICA Handbook Section 1602 "Non-controlling Interests", which establishes the accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The standard requires a non-controlling interest in a subsidiary to be classified as a separate component of equity. In addition, net earnings and components of other comprehensive income are attributed to both the parent and non-controlling interests. The adoption of this standard may have a material impact on the Corporation's financial statements should it acquire a subsidiary.

4. PROPERTY AND EQUIPMENT

Petroleum and natural gas properties	Cost	Accumulated Depletion & Depreciation	Net book value
	$	$	$
At December 31, 2010	**8,015,788**	**(2,934,458)**	**5,081,330**
At December 31, 2009	4,463,183	(2,283,968)	2,179,215

(a) Depletion

Costs for undeveloped land of $245,774 (2009 - $nil) have been excluded from costs subject to depletion. Future development costs of $1,799,960 (2009 - $nil) have been included in costs subject to depletion.

(b) Property acquisitions and dispositions

In June 2010 the Corporation acquired property and equipment consisting of 100% working interests in a petroleum and natural gas property located in the Lloydminster area of Saskatchewan. A related entity controlled by an officer and director of the Corporation held a 50% working interest in these assets and accordingly the transaction was subject to shareholder and TSXV approval, both of which were achieved in June 2010. The acquisition was recorded using the purchase method of accounting as follows:

		$
Consideration:		
	Common shares issued – 10,000,000 shares	**1,500,000**
	Transaction costs	**26,949**
		1,526,949
Net assets acquired:		
	Property and equipment	**1,702,067**
	Asset retirement obligation	**(175,119)**
		1,526,949

In August 2010 the Corporation disposed of a 50% working interest in all of its petroleum and natural gas properties. The disposition was recorded as a reduction of the carrying value of property and equipment. No gain or loss was recorded. The following net proceeds were credited against the carrying value of property and equipment:

	$
Cash sales price	**1,700,000**
Settlement of related asset retirement obligation	**187,775**
Transaction costs and normal industry adjustments	**(83,571)**
Net proceeds credited to property and equipment	**1,804,204**

Also in August 2010 Western Plains closed the acquisition of a 33 1/3% working interest in certain heavy oil properties in the Lloydminster area of Alberta.

The acquisition was recorded using the purchase method of accounting as follows:

		$
Consideration:		
	Cash to vendor	**629,924**
	Trade accounts payables assumed	
	3,328,363 Common shares to creditors	**499,254**
	Accounts payable assumed	**294,753**
	Transaction costs and normal industry adjustments	**194,700**
		1,618,631
Net assets acquired:		
	Property and equipment	**1,716,631**
	Asset retirement obligation	**(98,000)**
		1,618,631

The above amounts are estimates made by management based on currently available information. Revisions may be made to the purchase equations for these three transactions, as cost estimates and balances are finalized.

(c) Impairment

The Corporation performed an impairment test of its capitalized assets as at December 31, 2010 and determined there was no impairment The following benchmark prices, on which the impairment test was based, were prepared by the Corporation's independent reserve evaluator as at December 31, 2010:

Year	Heavy Oil (12 API) $ per bbl
2011	64.80
2012	68.80
2013	71.95
2014	73.85
2015	79.20
2016	85.70
2017	88.05
2018	90.35
2019	92.75
2020	95.15

Benchmark prices increase at a rate of 2.0% per year after 2020. Adjustments were made to benchmark prices above for purposes of valuation of the reserves and for purposes of the impairment test for varied delivery points and quality differentials for the heavy oil produced by the Corporation.

5. BANK FACILITIES

In October 2010 the Corporation entered into an agreement with a Canadian chartered bank for lines of credit, which are payable on demand and secured by a $25,000,000 debenture and general security agreement on all assets of the Corporation.

The revolving line of credit is for an amount up to $800,000 and is subject to various standard covenants. This demand credit facility bears interest at prime plus 1.5%. As at and for the period ended December 31, 2010, the Corporation had not drawn on the available facility and the Corporation was in compliance with all covenants.

The development line of credit is for an amount up to $300,000 and is subject to various standard covenants. This demand credit facility bears interest at prime plus 2.0%. As at and for the period ended December 31, 2010, the Corporation had not drawn on the available facility and the Corporation was in compliance with all covenants.

6. ASSET RETIREMENT OBLIGATIONS

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the obligation associated with the retirement of petroleum and natural gas properties:

	2010	2009
	$	$
Asset retirement obligations, beginning of year	**192,353**	222,916
Liabilities incurred or acquired	**303,119**	137,201
Liabilities settled or disposed	**(187,775)**	(111,780)
Change of estimates	**48,000**	(71,066)
Accretion	**15,303**	15,082
Asset retirement obligations, end of year	**371,000**	192,353

The total undiscounted amount of estimated cash flows required to settle the obligation as at December 31, 2010 was $2.1 million (2009 - $0.6 million), which has been discounted using credit adjusted risk free rates of 8-10%. An inflation rate of two percent has been used throughout. All of these obligations are estimated to be incurred between 2018 and 2029 and will be funded from general corporate resources at that time of the retirement.

7. INCOME TAXES

The recovery of future income taxes in 2010 relates to the income tax effect of renouncing the Corporation's income tax expenditures in 2010 to investors as a condition of issuing flow through shares (note 8). The provision or recovery in 2010 and 2009 varies from the amounts that would be computed by applying the effective Canadian federal and provincial income tax rates to the income before income taxes as follows:

	2010	2009
	$	$
Loss before income taxes	**(1,067,758)**	(272,267)
Expected income tax rate	**28%**	29%
Expected income tax recovery	**(299,000)**	(79,000)
Differences resulting from:		
Stock based compensation	**114,000**	-
Gain on debt settlement	**-**	(25,000)
Income tax rate affect for future income taxes	**32,000**	33,000
Other	**(55,000)**	12,000
Change in valuation allowance	**67,000**	59,000
Future income tax recovery	**(141,000)**	-

The major components of the future income tax asset (liabilities) follow:

	2010	2009
Temporary differences related to:	**$**	$
Property and equipment	**(90,000)**	91,000
Asset retirement obligations	**93,000**	48,000
Share issue costs	**23,000**	8,000
Non capital loss carry forward	**300,000**	112,000
	326,000	259,000
Less valuation allowance	**(326,000)**	(259,000)
Future income tax asset (liability)	**-**	-

The non-capital losses for income tax purposes carried forward from the current and prior year's total $1,200,000 which expires as follows:

Year	Loss Carry Forward - $
2025	302,000
2026	110,000
2027	1,000
2028	80,000
2029	-
2030	707,000
Total	1,200,000

8. SHARE CAPITAL

(a) Authorized

Unlimited number of common voting shares
Unlimited number of Class A preferred shares, issuable in series
Unlimited number of Class B preferred shares, issuable in series

The Directors of the Corporation are authorized to fix the number of shares in each series and to determine the designation, rights, privileges, restrictions and conditions attaching to the shares of each series.

(b) Issued and Outstanding

	2010		2009	
	Number of Shares	**Amount $**	Number of Shares	Amount $
Common shares, beginning of year	**30,259,774**	**3,641,207**	21,226,834	3,219,928
Acquisitions	**13,328,363**	**1,999,254**	-	-
Private placement -flow-through shares	**4,280,909**	**941,800**	3,352,940	285,000
Private placement – units – shares and warrants	**3,879,167**	**502,500**	-	-
Less allocation to warrants (Note 8(f))	**-**	**(54,000)**	-	(30,000)
Shares issued on exercise of warrants	**3,352,940**	**532,941**	-	-
Shares issued to settle debt	**-**	**-**	5,680,000	198,800
Income tax effect of flow through shares (note 7)		**(141,000)**		
Share issue costs	**-**	**(90,575)**	-	(32,521)
Common shares, end of year	**55,101,153**	**7,332,127**	30,259,774	3,641,207

(i) Flow through share commitments

The Corporation is eligible to allocate Canadian Development Expense as Canadian Exploration Expense to meet its flow through commitments The Corporation's commitments to incur eligible expenditures for the issue of flow-through shares are as follows:

- December 2008 - $500,000 - the expenditure commitment fully met in 2009 and 2010;
- December 2009 - $285,000 - the expenditure commitment fully met in 2010;
- November 2010 - $941,800 - $273,000 of the expenditure commitment met in 2010 with the balance to be met in 2011 under the look back rule.

(ii) Common shares issued for cash

In January 2010 the Corporation issued 1,877,500 common shares at a price of $0.08 per share in a private placement, for gross proceeds of $150,200. Insiders of the Corporation subscribed to 62,500 of the 1,877,500 common shares.

In August 2010, the Corporation issued 266,667 common shares at a price of $0.15 per share in a private placement for gross proceeds of $40,000. Insiders of the Corporation subscribed to 100,000 of the 266,667 common shares.

In November 2010 the Corporation issued 4,280,909 common shares on a "flow-through" basis at a price of $0.22 per share pursuant to a private placement for gross proceeds of $941,800.

In December 2010 the Corporation issued 1,735,000 units at a price of $0.18 per Unit pursuant to a private placement for gross proceeds of $312,300 of which $176,400 was recorded as subscriptions receivable and was received in January 2011. Each unit was comprised of one common share and one half of a common share purchase warrant, with each full warrant exercisable into one common share for a price of $0.25 per share. Each warrant had an expiry 12 months from the issue date. Insiders of the Corporation subscribed to 725,000 of the units. In connection with this private placement, the Corporation issued finders warrants, exercisable into 78,400 common shares at an exercise price of $0.25 per share, expiring 12 months from the issue date. The finder's warrants comprise part of the finder's fee for a portion of the private placement and represent 8% of 980,000 units sold thereunder.

(iii) Common shares issued to acquire property and equipment

In June 2010, the Corporation issued an aggregate of 10,000,000 common shares at an ascribed price of $0.15 per share in exchange for the acquisition of certain heavy oil interests located in the Lloydminster area of Saskatchewan (note 4(b)). A related entity controlled by an officer and director of the Corporation held a 50% working interest in these petroleum and natural gas interests, with such entity receiving 4,441,250 common shares, and accordingly the transaction was subject to, and received, shareholder and TSXV approvals. The value of common shares of $1,500,000 issued as consideration for these heavy oil interests has been excluded from the statement of cash flows as it was a non-cash transaction.

In August 2010, the Corporation issued an aggregate of 3,328,363 common shares at an ascribed price of $0.15 per share as partial consideration for the acquisition of certain heavy oil interests located in the Lloydminster area of Alberta (note 4(b)). The value of common shares of $499,254 issued as partial consideration for these heavy oil assets has been excluded from the statement of cash flows as it was a non-cash transaction.

(c) Stock option plan

The Corporation established a Stock Option Plan ("Plan") for directors, officers, employees and service providers. The maximum number of common shares which may be reserved under the Plan may not exceed 10% of the outstanding common shares at that time. Options granted under the plan generally have a term of five years and vest on the date of grant. The exercise price of each option equals or exceeds the market price of the Corporation's common shares on the date of grant.

A summary of the options for 2010 and 2009 follows:

	2010		2009	
	Number of Options	**Weighted Average Price $**	Number of Options	Weighted Average Price $
Options, beginning of year	**1,452,000**	**0.14**	1,702,000	0.14
Granted	**3,100,000**	**0.18**	-	-
Expired	**(400,000)**	**0.20**	(250,000)	0.17
Options, end of year	**4,152,000**	**0.16**	1,452,000	0.14

Expiry	**Weighted Average Remaining Life (Years)**	**Exercise Price**	**Outstanding and Exercisable**
August 2011	**0.61**	**$0.30**	**42,000**
March 2013	**2.20**	**$0.11**	**260,000**
July 2013	**2.56**	**$0.14**	**150,000**
December 2013	**2.96**	**$0.10**	**600,000**
June 2015	**4.43**	**$0.15**	**1,400,000**
December 2015	**4.96**	**$0.21**	**1,700,000**
			4,152,000

In 2010 3,100,000 options were granted (2009 – nil) and all options vested immediately. The fair value of options granted in 2010 was $408,100, determined using the following assumptions:

	2010 options	2009 warrants
Risk free interest rate (%)	**1.28%**	1.3%
Expected volatility (%)	**88%**	88%
Expected life (in years)	**5 years**	1 year
Expected dividends	**-**	-

(d) Per share amounts

The weighted average number of common shares used in calculating the basic net loss per share for the year ended December 31, 2010 was 39,606,242 (2009 - 24,365,763). Diluted per share information is not presented as the result would decrease the loss per share.

(e) Contributed Surplus

Changes to contributed surplus are summarized as follows:

	2010 $	2009 $
Contributed surplus, beginning of the year	**207,745**	207,745
Stock based compensation	**408,100**	-
Contributed surplus, end of the year	**615,845**	207,745

(f) Warrants

Changes to warrants are summarized as follows:

	2010	2009
	$	$
Warrants, beginning of the year	**30,000**	-
Warrants exercised	**(30,000)**	-
Warrants issued	**54,000**	30,000
Warrants, end of the year	**54,000**	30,000

The fair value of the warrants (note 8(b)(ii)) was estimated to be $54,000 (2009 - $30,000), using the Black-Scholes option pricing model assuming a risk free interest rate of 1.25% (2009 - 1.3%), volatility of 88% (2009 – 88%) for the one year (2009 – 1 year) life and with no(2009 – nil) expected dividends. This amount was deducted from the common share proceeds.

The Corporation had the following warrants outstanding:

	2010		2009	
	Number of Warrants	**Weighted Average Exercise Price $**	Number of Warrants	Weighted Average Exercise Price $
Warrants, beginning of year	**3,352,940**	**0.15**	-	-
Exercised	**(3,352,940)**	**0.15**	-	-
Granted	**867,500**	**0.25**	3,352,940	$ 015
Warrants, end of year	**867,500**	**0.25**	3,352,940	$ 0.15

9. FINANCIAL RISK MANAGEMENT

(a) Overview

The Corporation has exposure to **credit risk, liquidity risk and market risk**. The board of directors of the Corporation has overall responsibility for the establishment and oversight of the Corporation's risk management framework.

(b) Credit risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Corporation's receivables from joint venture partners and petroleum and natural gas marketers. As at December 31, 2010 and 2009, the Corporation's receivables consisted of the following:

	2010 **$**	2009 $
Marketers	**720,352**	112,162
Joint venture partners	**581,548**	1,593
Trade and other	**92,877**	45,699
Total accounts receivable	**1,394,777**	159,454
Amount over 90 days	**2,754**	1,184

Receivables from petroleum and natural gas marketers are normally collected on the 25th day of the month following production. The Corporation's policy to mitigate credit risk associated with these balances is to establish marketing relationships with large purchasers. The Corporation historically has not experienced collection issues with its petroleum and natural gas marketers. Joint venture receivables relate primarily to properties for which the Corporation is the operator. As operator the Corporation has the right to apply future net operating revenues against amounts owed to the Corporation should the joint venture partner not pay. The Corporation does not typically obtain collateral from petroleum and natural gas marketers. The carrying amount of accounts receivable represents the maximum credit exposure.

(c) Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation's objective is to maintain sufficient liquidity to meet its liabilities when due, under normal and stressed conditions.

The Corporation manages its liquidity risk by continuously monitoring forecasted cash flows, assessing prospects for raising additional equity, and may in the future utilize its bank credit facilities, when appropriate.

(d) Market risk

Market risk is the risk that changes in market prices, such as oil prices, foreign exchange rates, interest rates and equity prices will affect the Corporation's income or value of its financial instruments. The Corporation is not exposed to currency risk. The Corporation does not have any contracts in place to protect against commodity price changes.

The Corporation is not subject to interest rate risk since it has not drawn on its bank credit facilities which would be its only interest bearing debt.

(e) Capital management

The Corporation's objective is to maintain access to sources of capital, defined to be shareholders' equity, bank credit facilities and cash, with which to finance its operations. The Corporation maintains a capital structure of equity and debt where appropriate. The Corporation has recently arranged bank lines of credit with a Canadian chartered bank and expects to draw on this line to finance its 2011 planned capital expenditures or to finance its working capital needs. The Corporation manages its capital structure and makes changes to it in light of changes in economic conditions, opportunities for accretive acquisitions and the risk characteristics of the underlying investments. The Corporation balances its overall capital structure through share issues and the use of debt as deemed appropriate in the circumstances.

The Corporation monitors net debt closely. Net debt is a non-GAAP measure which is determined on the following basis:

Balance sheet component	**2010** **$**	2009 $
Cash and cash equivalents	**390,473**	95,962
Accounts receivable	**1,394,777**	159,454
Subscriptions receivable	**176,400**	-
Prepaid expenses and deposits	**26,907**	18,054
Accounts payable and accrued liabilities	**(1,723,756)**	(481,463)
Net working capital (deficiency)	**264,801**	(207,993)

(f) Fair value of financial instruments

The Corporation has determined the fair values of its financial instruments which consist of cash and cash equivalents, accounts receivable, bank debt, and accounts payable and accrued liabilities, approximate carrying amounts because of the short-term nature of these instruments, initially measured at fair value with subsequent periodic revaluations recorded at their amortized cost using the effective interest rate method. Fair value represents the Corporation's estimate of the price at which a financial instrument could be exchanged between knowledgeable and willing parties in an orderly arm's length transaction motivated by normal business considerations.

The Company classifies the fair value of the financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument:
Level 1 – inputs to the valuation methodology are quoted prices for identical assets or liabilities in active markets.
Level 2 – inputs to the valuation methodology included quoted prices for identical assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
Level 3 – inputs to the valuation methodology are not based on observable market data.

The Corporation measures its cash and cash equivalents using level 1 inputs.

10. RELATED PARTY TRANSACTIONS

The Corporation entered into the following related party transactions, all of which were in the normal course of operations and have been valued at the exchange amount that is the amount of consideration established and agreed to by the related parties:

- Legal services provide by a law firm in which an officer and director is a partner:
  - $232,876 was incurred in 2010 (2009 - $104,479) of which $40,271 (2009 - $32,402) was in accounts payable and accrued liabilities at the year end:
  - Costs were recorded as general and administrative expense, share issue costs or as a capital expenditure depending on the activity for which legal services were provided;
- Various oil field services and products provided by corporations in which an officer and director of the Corporation is an officer and a director:
  - $190,633 was incurred in 2010 (2009 $278,358) of which $nil (2009 - $13,723) was in accounts payable and accrued liabilities at the year end;
  - Costs were recorded as either production expense or capital expenditures depending on the nature of the expenditure;
- Oil sold to a corporation in which an officer and director of the Corporation is an officer and a director:
  - $36,808 was earned in 2010 (2009 - $nil) of which $nil (2009 - $nil) was in accounts receivable at the year end;
  - Proceeds were recorded as petroleum revenue.
- Executive services provided by a corporation in which an officer and a director of the Corporation is an officer and director:
  - $140,000 was incurred in 2010 (2009 - $120,000) of which $nil (2009 - $nil) was in accounts payable and accrued liabilities at the year end;
  - Costs were recorded as general and administrative expense.
- Oil properties were acquired from a corporation in which an officer and director of the Corporation is an officer and a director. One undeveloped property was acquired for $30,000 cash and one developed property was acquired (notes 4 and 8(b)) with common shares issued as consideration, valued at $666,187.
- Interest of $80,436 was expensed and paid in 2009 to a corporation in which an officer and director of the Corporation is an officer and a director. This debt was settled by July 2009.
- Accounting services amounting to $53,609 was incurred and expensed in 2009. The amount was fully paid in 2009 to entities controlled by former officers.

11. SUPPLEMENTAL CASH FLOW INFORMATION

	Year Ended	
	2010	2009
Changes in Non-Cash Working Capital	$	$
Accounts receivable	**(1,235,323)**	86,767
Subscriptions receivable	**(176,400)**	-
Prepaid expenses and deposits	**(8,853)**	(6,391)
Accounts payable and accrued liabilities	**1,242,291**	(119,579)
	(178,285)	(39,203)
Changes in non-cash working capital relating to:		
Operating activities	**(185,897)**	(113,604)
Financing activities	**(167,646)**	68,651
Investing activities	**175,258**	5,750
Interest paid	**-**	92,168

12. SUBSEQUENT EVENTS

On March 30, 2011, the Corporation acquired, from an arm's length party, a 100% working interest in petroleum and natural gas rights located in the Maidstone area of west-central Saskatchewan for a purchase price of $750,000. The acquisition was effective December 1, 2010. The Corporation assumed approximately $148,600 of trade accounts payable from the vendor and paid cash consideration for the balance of the purchase price.