Velo Energy Inc.

Consolidated Financial Statements

As at and for the years ended December 31, 2009 and 2008

Auditors' Report

To the Shareholders of
Velo Energy Inc.

We have audited the consolidated balance sheet of Velo Energy Inc. as at December 31, 2009 and the consolidated statements of operations, comprehensive income (loss) and deficit, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

The consolidated financial statements as at and for the year ended December 31, 2008 were audited by another firm of Chartered Accountants which expressed an opinion without reservation on those financial statements in their report dated April 1, 2009.

Calgary, Alberta
April 20, 2010

(signed) "Deloitte & Touche LLP"
Chartered Accountants

Velo Energy Inc.
Consolidated Balance Sheets
(in Canadian dollars)

	December 31, 2009	December 31, 2008
Assets		
Current		
Cash and cash equivalents	**$1,408,528**	$1,350,958
Term deposits	**30,000**	-
Accounts receivable *(note 11)*	**75,192**	6,125
Prepaid expenses	**277,137**	-
	1,790,857	1,357,083
Long-term rent deposit and prepayments	**70,227**	-
Office equipment	**70,224**	-
	$1,931,308	$1,357,083
Liabilities		
Current		
Accounts payable and accrued liabilities *(notes 10 & 11)*	**$1,900,534**	$198,277
Loan *(note 5)*	**1,802,315**	-
	3,702,849	198,277
Shareholders' Equity (Deficiency)		
Share capital *(note 6)*	**8,062,924**	7,462,924
Warrants *(note 6)*	**306,000**	-
Contributed surplus *(note 7)*	**1,074,494**	289,094
Deficit	**(11,214,959)**	(6,593,212)
	(1,771,541)	1,158,806
	$1,931,308	$1,357,083

Nature of operations and going concern (Note 1)
Commitments and contractual obligations (Note 9)

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board:

Signed "Arthur S. Millholland"
Director

Signed "J. Christopher McLean"
Director

Velo Energy Inc.

Consolidated Statements of Operations, Comprehensive Income (Loss) and Deficit

(in Canadian dollars)

		2009		2008
Revenue				
Management services	**$**	**5,079**	$	-
Expenses				
General and administrative		**2,419,604**		113,732
Depreciation		**1,211**		-
Foreign exchange loss		**542**		-
Interest and financing charges		**21,610**		-
Stock-based compensation *(note 6)*		**785,400**		-
		3,228,367		113,732
Other items				
Interest income		**34,021**		17,657
Gain on disposal of subsidiary *(note 3)*		**-**		942,909
		34,021		960,566
Net income (loss) and comprehensive income (loss)		**(3,189,267)**		846,834
Excess of consideration paid over carrying value of assets and liabilities acquired *(note 4)*		**(1,432,480)**		-
Deficit, beginning of year		**(6,593,212)**		(7,440,046)
Deficit, end of year		**$(11,214,959)**		$(6,593,212)
Income (loss) per share (basic and diluted)		**$(0.05)**		$0.02
Weighted average number of shares outstanding		**65,608,888**		44,836,085

See accompanying notes to the consolidated financial statements.

Velo Energy Inc.
Consolidated Statements of Cash Flows
(in Canadian dollars)

	2009	2008
Cash Provided By (Used In) Operating Activities		
Net income (loss)	**$(3,189,267)**	$846,834
Add (subtract) non-cash items:		
Stock-based compensation	**785,400**	-
Amortization of fair value of warrants	**11,500**	-
Depreciation	**1,211**	-
Unrealized loss on foreign exchange	**494**	-
Gain on sale of subsidiary	**-**	(942,909)
Funds used in operations	**(2,390,662)**	(96,075)
Net change in non-cash working capital	**460,250**	(64,990)
	(1,930,412)	(161,065)
Financing Activities		
Issuance of common shares	**-**	1,500,000
Share issue costs	**-**	(69,834)
Loan	**2,000,000**	-
	2,000,000	1,430,166
Investing Activities		
Purchase of term deposits	**(15,000)**	-
Additions to office equipment	**(17,385)**	-
Purchase /(sale) of subsidiary *(note 4)*	**20,367**	(1,401)
	(12,018)	(1,401)
Increase (Decrease) in cash during period	**57,570**	1,267,700
Cash and cash equivalents, beginning of year	**1,350,958**	83,258
Cash and cash equivalents, end of year	**$1,408,528**	$1,350,958

Cash and cash equivalents:		
Cash	**$308,528**	$10,958
Term deposits	**1,100,000**	1,340,000
	$1,408,528	$1,350,958

See accompanying notes to the consolidated financial statements.

1. NATURE OF OPERATIONS AND GOING CONCERN

Velo Energy Inc. ("Velo" or the "Company") was incorporated on July 8, 2004 and was originally classified as a Capital Pool Company under Policy 2.4 of the TSX Venture Exchange Corporate Finance Manual and Policies. Effective May 31, 2006, the Company purchased all of the outstanding shares of Velo Energy Ltd. through the issuance of 3,333,334 common shares of the Company. This arm's length transaction constituted the Company's Qualifying Transaction under the rules of the TSX Venture Exchange. The Company's oil and natural gas operations were focused in southern Alberta. On July 9, 2008 the Company sold Velo Energy Ltd. to an unrelated party.

In August 2009, the Company's management and Board of Directors were replaced and Velo's focus was changed to oil exploration and development in the United Kingdom ("UK") Central North Sea.

On October 6, 2009, the Company signed a share purchase agreement to acquire 100% of the outstanding common shares of North Sea Oil Ltd. ("NSO"), a private company incorporated in Alberta, Canada and 100% of the outstanding common shares of North Sea Oil Exploration Limited ("NSOE"), a private company incorporated in England and Wales, UK (see Note 4).

These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to acquire oil and natural gas properties, to obtain adequate financing to explore and develop these properties and generate profitable operations in the future. As at December 31, 2009, the Company had an accumulated deficit of $11,214,959, shareholders' deficiency of $1,771,541 and a working capital deficiency of $1,911,992.

The current economic environment has made access to debt and equity markets more difficult, where cost of capital has increased while the availability of capital has decreased. No assurance can be provided that the Company will be able to obtain the financing required to set up and develop profitable operations in the UK North Sea.

These financial statements do not reflect adjustments to carrying values of assets and liabilities and the balance sheet reclassifications that would be necessary if the going concern assumption were not appropriate, and such adjustments could be material.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements of the Company are prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP").

The consolidated financial statements include the accounts of Velo Energy Inc. and:

- prior to July 9, 2008, the accounts of its former wholly-owned subsidiary Velo Energy Ltd., and
- subsequent to December 7, 2009, the accounts of its wholly-owned subsidiaries NSO and NSOE.

All inter-company transactions and balances have been eliminated on consolidation.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Uncertainty

The preparation of consolidated financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions and to use judgment regarding assets, liabilities, revenues and expenses. Accordingly, actual results may differ from those estimated amounts and such differences could be significant.

Cash and Cash Equivalents

Cash and cash equivalents include cash in banks and short-term deposits with a maturity date of less than 90 days on the date of purchase.

Term deposits

Term deposits are cashable investment certificates with original maturity of longer than three months and less than one year.

Office Equipment

Office furniture and equipment are recognized at cost net of depreciation calculated on a straight line basis at 20% per year.

Future Income Taxes

The Company follows the liability method of accounting for income taxes, whereby future income tax assets and liabilities are recognized at substantively enacted rates for the difference between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The effect of a change in income tax rates on future income tax assets and liabilities is recognized in income in the period in which the change is substantively enacted. A valuation allowance is recorded against any future income tax asset if the Company is not more likely than not to be able to utilize the associated tax deductions.

Foreign Currency Translation

Monetary assets and liabilities denominated in a foreign currency are translated at the exchange rate prevailing at the balance sheet date. Non-monetary assets and liabilities and transactions denominated in a foreign currency are translated at the exchange rates in effect at the transaction date.

Integrated foreign subsidiaries are accounted for using the temporal method. Under this method, monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date. Non-monetary assets are translated at historical rates. Revenue and expenses are translated at average rates for the period. Foreign exchange gains and losses are included in net loss in the period in which they arise. Depreciation expense is translated at the same historical exchange rates as the assets to which it relates.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition

Management service revenues are recognized at contractual amounts as the related services are provided. The Company recognizes interest income as it is earned.

Prospect Evaluation Expenses

The Company expenses amounts incurred in the evaluation and development of potential business ventures until related business arrangements are consummated. Project-related costs incurred thereafter are capitalized and amortized over the life of the project. These costs are assessed at least annually for impairment based on expected future cash flows.

Stock-Based Compensation

The Company follows the fair value method of accounting for stock options. A Black-Scholes option-pricing model is used to determine fair value at the time the options are granted. The related expense is amortized to earnings over the options' vesting period with a corresponding increase in contributed surplus. Consideration received on the exercise of an option is credited to share capital, along with the related stock-based compensation previously recognized in contributed surplus.

Leases

The Company classifies leases entered into as either capital or operating. Leases that transfer substantially all of the benefits and risks of ownership to the Company are accounted for as capital leases. All other leases are accounted for as operating leases and rental payments are expensed as incurred.

Per Share Data

Basic net income (loss) per share is calculated using the weighted average number of shares outstanding during the year. The treasury stock method is used to calculate diluted earnings per share. This method assumes that only in-the-money stock options and warrants are exercised and that any proceeds would be used to purchase common shares at the average market price during the year.

Financial Instruments

All financial instruments are initially recognized at fair value on the balance sheet. The Company has classified each financial instrument into one of the following categories: held-for-trading (assets and liabilities), loans and receivables, financial assets available-for-sale, financial assets held-to-maturity, and other financial liabilities. Transaction costs related to financial instruments other than those classified as "held for trading" are added to the initial carrying amount. Subsequent measurement of financial instruments is based on their classification.

Financial assets and liabilities "held-for-trading" are subsequently measured at fair value with changes in those fair values recognized in net earnings. Financial assets "available-for-sale" are subsequently measured at fair value with changes in fair value recognized in other comprehensive income, net of tax.

Financial assets "held-to-maturity", "loans and receivables", and "other financial liabilities", are subsequently measured at amortized cost using the effective interest method.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Comprehensive Loss

The statement of comprehensive income (loss) is comprised of net earnings and other comprehensive income. Currently the Company has no other comprehensive income or loss transactions.

CHANGES IN ACCOUNTING POLICIES

On January 1, 2009, the Company adopted the Canadian Institute of Chartered Accountants (CICA) Section 3064, Goodwill and intangible assets, replacing Section 3062, Goodwill and other intangible assets and Section 3450, Research and development costs. This section clarifies the criteria for the recognition of assets, intangible assets and internally developed intangible assets. No changes were required to these financial statements as a result of this change.

On January 1, 2009, the Company prospectively adopted Section 1582, Business Combinations, which replaces former guidance on business combinations. This section establishes principles and requirements of the acquisition method for business combinations and related disclosures. Adoption of this section did not have a material impact on the consolidated financial statements.

On January 1 2009, the Company prospectively adopted Sections 1601, Consolidated Financial Statements, and 1602, Non-controlling Interests, which replace existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. Adoption of these new sections did not have a material impact on the consolidated financial statements.

In January 2009, the CICA issued EIC-173, “Credit Risk and the Fair Value of Financial Assets and Financial Liabilities” which requires the Company to consider its own credit risk as well as the credit risk of its counterparty when determining the fair value of financial assets and liabilities, including derivative instruments. The accounting treatments provided in EIC-173 have been applied in the preparation of these financial statements and, as required, have been applied retrospectively without restatement of prior periods. The adoption of this standard did not have a material impact on the financial statements.

Effective December 31, 2009, the Company adopted amendments to CICA Handbook Section 3862, Financial Instruments - Disclosures. The amendments include enhanced disclosures related to the fair value of financial instruments and the liquidity risk associated with financial instruments. The additional disclosures have been provided in Note 11.

3. DISPOSAL OF SUBSIDIARY IN 2008

On May 31, 2006 the Company acquired all of the shares of Velo Energy Ltd., a private oil and gas company. By agreement dated and effective July 9, 2008, the Company sold Velo Energy Ltd. for $1. The gain on disposal was determined as follows:

Cash and cash equivalents	$	1,402
Receivables		45,293
Prepaid expenses and deposits		342,110
Property, plant and equipment		4,939,584
Accumulated amortization and write down of property, plant and equipment		(4,939,584)
		388,805
Accounts payable and accrued liabilities		(1,235,755)
Asset retirement obligations		(133,985)
		(1,369,740)
Net liabilities		980,935
Legal expenses in connection with disposal		(38,025)
		942,910
Less: proceeds		(1)
Gain on disposal of subsidiary	**$**	**942,909**

4. PURCHASE OF NSO AND NSOE

On October 6, 2009, the Company signed a share purchase agreement to acquire 100% of the outstanding common shares of each of NSO and NSOE in a non-arms length transaction for a purchase price of $600,000, payable by the issue of 1,000,000 common shares of Velo at a market price of $0.60 per share. The senior management team of Velo were either registered or beneficial shareholders of NSO and NSOE prior to the acquisition.

At the time of acquisition, NSOE had a Sale and Purchase Agreement signed to acquire various interests in three oil and gas exploration and development properties located in the UK Central North Sea, however, both NSOE and Velo did not have financing available to close this transaction. Accordingly, the purchase of NSO and NSOE by Velo was approved by the TSX Venture Exchange on the condition that the 1,000,000 shares issued are placed in escrow until the Company closes a financing and completes the UK North Sea acquisition. If these transactions are not completed then the shares of NSO and NSOE will be conveyed back to the vendors and the 1,000,000 common shares of Velo will be cancelled. The TSX-V conditional approval is valid until June 30, 2010. On December 7, 2009 the Company issued 1,000,000 common shares as consideration for the above transaction and these shares are held in escrow at December 31, 2009.

4. PURCHASE OF NSO AND NSOE (continued)

The purchase price allocation as at December 7, 2009 is as follows:

Cash	$	20,367
Term deposits		15,000
Accounts receivable		15,013
Prepaid expenses		10,565
Office equipment		54,050
Accounts payable and accrued liabilities		(947,475)
		(832,480)
Purchase consideration		600,000
Excess of consideration paid over carrying value of assets and liabilities acquired	$	(1,432,480)

The Company acquired, in a related party transaction not in the normal course of operations, net liabilities in NSO and NSOE of $832,480, which was recorded at carrying amounts. The excess of consideration paid over the net liabilities acquired has been recorded as a charge directly to shareholders' equity (deficiency).

As a result of the above transaction, the Company's statement of operations includes the operating results of NSO and NSOE from December 7, 2009.

5. LOAN

On December 11, 2009, the Company signed the Bridge Loan agreement of $2,000,000 with Endeavour Financial Corporation ("Endeavour") to finance the Company's current working capital needs. The Bridge Loan matures in one year and bears interest at a rate of 10% per annum, payable at maturity or earlier repayment date. In the event the Company completes any financing, the proceeds should be used to first repay the Bridge Loan together with accrued interest. If the loan is not repaid in full by April 1, 2010, a fee of $167,000 will be paid to Endeavour in cash or by means of issuing common shares. In addition, the Company granted Endeavour 1,200,000 share purchase warrants, each warrant giving the right to acquire one common share of Velo at an exercise price of $0.50 per share for a period of one year (see Note 6c).

As at April 1, 2010 the loan was not repaid and the Company intends to issue shares to Endeavour in an amount equivalent to $167,000 as payment for the additional fee.

The balance of the Bridge Loan as at December 31, 2009 consisted of the following:

		2009
Consideration received	$	2,000,000
Accrued interest		9,315
Deferred financing charges (Note 6(c))		(207,000)
	$	1,802,315

6. SHARE CAPITAL

a) Authorized and Issued Common Shares

Authorized

An unlimited number of common voting shares (the “Common Shares”) without nominal or par value and an unlimited number of preferred shares, issuable in series.

Issued

The issued share capital is as follows:

	Number of Common Shares		Amount
Balance December 31, 2007	**29,618,334**	**$**	**5,583,466**
Issued for payment of indemnity claims (i)	5,990,554		449,292
Issued for cash (ii)	30,000,000		1,500,000
Share issue costs	-		(69,834)
Balance, December 31, 2008	**65,608,888**		**7,462,924**
Issued and held in escrow (iii)	1,000,000		600,000
Balance, December 31, 2009	**66,608,888**	**$**	**8,062,924**

(i) The Company failed to spend the full $1,977,000 on qualifying expenditures as at December 31, 2007, the final day for qualification in respect of flow through shares issued in December 2006. As part of the subscription agreement the Company agreed to indemnify the subscribers of the flow through shares in the event of such an occurrence. The shortfall of $990,536 of qualifying expenditures resulted in the indemnity payable of $452,133. The highest marginal tax rate of a subscriber’s province of residence was used to calculate the payable. In July 2008, the Company issued 5,990,554 common shares at a price of $0.075 per share as settlement for $449,292 of the indemnity.

(ii) In August 2008, the Company issued 30,000,000 common shares at $0.05 per share for gross proceeds of $1,500,000.

(iii) On December 7, 2009, the Company issued 1,000,000 common shares of Velo at an issue price of $0.60 per share to acquire 100% shares of NSO and NSOE. As discussed in note 4, these shares are held in escrow at December 31, 2009. The shares held in escrow are accounted for as contingently returnable shares at December 31, 2009, which were not considered outstanding and are not included in the computation of basic loss per share until they are released from escrow.

6. SHARE CAPITAL (continued)

b) Incentive Stock Options

The Company has a stock option plan where the number of common shares reserved under the plan shall not exceed 10% of the issued and outstanding common shares and the number reserved for any one individual may not exceed 5% of the issued and outstanding shares. Exercise prices for stock options granted are determined by the closing market price on the day before the date of grant.

On August 7, 2009, the Company has granted 5,610,000 stock options to its officers, directors and consultants to acquire common shares at an exercise price of $0.20. The stock options vest immediately and expire in 5 years.

Stock-based compensation expense of $785,400 for the stock options granted has been recognized for the year ended December 31, 2009. The fair value of each option granted is estimated on the date of grant using a Black-Scholes option pricing model with the following assumptions:

	2009
Risk free interest rate	2.0%
Weighted average years	4.0
Expected volatility	100%
Expected dividend yield	0%

As at December 31, 2009, 5,610,000 stock options to purchase common shares were outstanding, having an exercise price of $0.20 per share with the remaining contractual life of 4.6 years. Changes to the Company's stock options are summarized as follows:

	2009		**2008**	
	Number of Options	**Wt. Avg. Exercise Price**	**Number of Options**	**Wt. Avg. Exercise Price**
Balance, beginning of year	**450,000**	**$ 0.25**	1,150,00	$ 0.27
Granted	**5,610,000**	**0.20**	-	-
Cancelled	**-**	**-**	(700,000)	0.29
Expired	**(450,000)**	**0.25**	-	-
Balance, end of year	**5,610,000**	**$ 0.20**	450,000	$ 0.25
Exercisable, end of year	**5,610,000**	**$ 0.20**	450,000	$ 0.25

6. SHARE CAPITAL (continued)

c) Warrants

A summary of status of the Company's warrants as at December 31, 2009 and 2008 is as follows:

	2009		**2008**	
	Number of Warrants	**Wt. Avg. Exercise Price**	**Number of Warrants**	**Wt. Avg. Exercise Price**
Balance, beginning of year	-	$ -	798,500	$ 0.20
Issued	**1,700,000**	**0.50**	-	-
Expired	-	-	(798,500)	0.20
Balance, end of year	**1,700,000**	**$ 0.50**	-	$ -

On December 11, 2009, the Company signed the Bridge Loan agreement with Endeavour to finance the Company's current working capital needs (discussed in Note 5). Further to the Bridge Loan agreement, the Company was obliged to grant Endeavour 1,200,000 share purchase warrants, each warrant giving the right to acquire one common share of Velo at an exercise price of $0.50 per share for a period of one year.

On the same date, the Company appointed Endeavour Financial International Corporation ("Endeavour International") to provide financial advisory services with respect to financing and development of the Company's oil and gas assets. Further to the financial advisory services agreement, the Company will pay Endeavour International consulting fees and success fees whenever the Company engages in debt transactions (excluding the above Bridge Loan). In addition, the Company granted to Endeavour International 500,000 share purchase warrants, each warrant giving the right to acquire one common share of Velo at an exercise price of $0.50 per share for a period of one year.

The fair value allocated to the above-mentioned warrants issued in 2009 amounted to $306,000 and was calculated based on an estimation of the fair value of each warrant on the grant date using a Black-Scholes pricing model with the following assumptions:

	2009
Risk free interest rate	2.0%
Weighted average years	1.0
Expected volatility	100%
Expected dividend yield	0%

The fair value of the warrants issued in respect of the Bridge Loan of $216,000 was recognized as deferred financing charges (net against the loan balance – Note 5) and is being amortized over the one year term of the Bridge Loan using the effective interest rate method.

The fair value of the warrants issued in respect of the financial advisory services agreement of $90,000 was recognized as a prepaid expense for financial services and is being amortized over 18 months, representing the minimum term of the financial advisory services agreement.

7. CONTRIBUTED SURPLUS

	December 31, 2009	December 31, 2008
Balance, beginning of year	$ 289,094	$ 240,394
Stock-based compensation	785,400	-
Expired agent warrants	-	48,700
Balance, end of year	**$ 1,074,494**	**$ 289,094**

8. FUTURE INCOME TAX

The tax effects of the temporary differences on future income tax assets (liabilities) are as follows:

	2009	2008
Non-capital income tax losses	**$ 734,000**	$ 124,000
Capital losses	**632,000**	657,000
Share issue costs	**20,000**	43,000
	1,386,000	824,000
Valuation allowance	**(1,386,000)**	(824,000)
Future income tax assets (liabilities)	**$ -**	**$ -**

The provision (recovery) for income taxes differs from the statutory income tax rate as follows:

	2009	2008
Provision (recovery) at statutory rates	**$ (925,000)**	$ 263,000
Non-deductible items		
Stock based compensation	**228,000**	-
Sale of subsidiary	**-**	(783,000)
Other	**5,000**	-
Effect of tax rate changes	**130,000**	130,000
Change in valuation allowance	**562,000**	390,000
Future income tax provision (recovery)	**$ -**	**$ -**

8. FUTURE INCOME TAX (continued)

As at December 31, 2009, the Company had approximately $2,935,000 (2008 - $478,000) of non-capital losses, which can be applied against taxable income earned in Canada with following expiry dates:

- $4,000 on December 31, 2014
- $91,000 on December 31, 2026
- $253,000 on December 31, 2027
- $130,000 on December 31, 2028
- $2,457,000 on December 31, 2029

As at December 31, 2009, the Company had also capital losses of approximately $5,053,000 (2008 - $5,053,000) which carry forward indefinitely to reduce capital gains.

9. COMMITMENTS AND CONTRACTUAL OBLIGATIONS

As at December 31, 2009, the Company had following contractual obligations:

	Total	Less than One Year	One to Three Years	Four to Five Years	After Five Years
Office lease - Calgary	$ 4,856,000	$ 535,000	$ 1,069,000	$1,069,000	$2,183,000
Office lease - London	1,327,000	279,000	559,000	489,000	-
Bridge loan	2,367,000	2,367,000	-	-	-
Financial advisory services	267,000	188,000	79,000	-	-
	8,817,000	3,369,000	1,707,000	1,558,000	2,183,000

Office Lease - Calgary
The Company is committed under operating lease agreements for the rental of office space. The approximate lease payments total to $4.9 million for the Calgary office location and is payable over the next 10 years.

Office Lease – London, UK
As at December 31, 2009, the Company was committed under operating lease agreements for the rental of office space in London, UK. The approximate lease payments total to $1.3 million and was payable over the next 5 years. Further to restructuring of the Company’s business, in March 2010 the London office was closed and the lease agreement was terminated without further costs to the Company (except for the loss of three months rent deposit, of approximately $81,000, which has been included in prepaid expenses).

Bridge Loan
The Bridge Loan obligations relate to loan from Endeavour (as described in Note 5).

Financial Advisory Services
The obligation in respect of financial advisory services relate to the service agreement with Endeavour International (as discussed in Note 6(c)). The agreement was signed for a period of 18 months (with option to extend) and provides for a monthly retainer fee of US$ 15,000 per month.

The Company is currently pursuing contracts that will require additional financing. The ability of the Company to meet the above commitments is dependent on its ability to obtain additional financing.

10. RELATED PARTY TRANSACTIONS

Before August 1, 2009

Related party transactions were with directors and a company controlled by a director and officer of the Company. During the first quarter of 2009, $3,000 in management fees were paid to a company controlled by a director of the Company (2008 - $2,000). These transactions were in the normal course of operations and are measured at the exchange amount, being the amount of consideration established and agreed to by the related parties.

After August 1, 2009

Transactions are with the Company's directors and officers in the form of consulting services which totaled $789,400 for the period ended December 31, 2009, including $701,400 in accrued liabilities as at December 31, 2009. These transactions occurred in the normal course of business and have been valued at exchange amounts based on commercial rates and terms agreed to in the related consulting contracts.

11. FINANCIAL INSTURMENTS

The Company has classified its cash, cash equivalents and term deposits as financial assets held-for–trading and has measured them at fair value. Accounts receivable, prepaid expenses and deposits are classified as loans and receivables. Accounts payable, accrued liabilities and loans are classified as other liabilities and are measured at amortized cost.

(a) Fair values

The Company categorizes its financial instruments carried at fair value into one of three different levels depending on the observability of the inputs employed in the measurement:

- Level 1 – includes assets and liabilities measured at fair value based on unadjusted quoted prices for identical assets or liabilities in active markets that are accessible at the measurement date;
- Level 2 - includes assets and liabilities measured at fair value using directly and indirectly observable inputs other than quoted prices included in Level 1;
- Level 3 - includes assets and liabilities measured at fair value based on inputs which are less observable, unavailable or where observable data does not support a significant portion of the instrument's fair value.

As at December 31, 2009 and 2008, the fair values of all financial instruments approximated their carrying values due to their short-term maturity. Cash and cash equivalents and term deposits have been categorized as Level 1 financial instruments.

(b) Credit risk:

The Company's current receivables are mainly due from the government (GST) and from its consultants in respect of travel advances. The Company believes there is no unusual exposure associated with these receivables.

11. FINANCIAL INSTURMENTS (continued)

(c) Interest rate risk:

The Company's current policy is to invest excess cash in redeemable guaranteed investment certificates ("GICs") issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. As of December 31, 2009, the Company's cash and cash equivalents balance included $1,100,000 in redeemable GICs, maturing January 11, 2010 and January 18, 2010.

12. CAPITAL MANAGEMENT

The Company's objectives when managing capital are:

- to safeguard the Company's ability to continue as a going concern;
- to maintain balance sheet strength and optimal capital structure, while ensuring the Company's strategic objectives are met; and
- to provide an appropriate return to shareholders relative to the risk of the Company's underlying assets

In the management of capital, the Company includes shareholders' equity (deficiency) and interest bearing debt defined as long term loans and current portion of long-term loans. Shareholders' equity includes share capital, contributed surplus and deficit.

The Company maintains and adjusts its capital structure based on changes in economic conditions and the Company's planned requirements. The Company may adjust its capital structure by issuing new equity and/or debt, selling and/or acquiring assets, and controlling the capital expenditure program.

The Company is not subject to any external capital requirements. There were no changes in the Company's capital management policies during the year other than extension of capital definition to include interest bearing debt.

As at December 31, 2009, the Company had a shareholders' deficiency of $1,771,541 and working capital deficiency of $1,911,992. Management of the Company is currently working on obtaining additional financing.