Border Petroleum Corp.

Interim Financial Statements
For the three and nine month periods ended

December 31, 2010 and January 31, 2010
(Unaudited)

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UNAUDITED INTERIM FINANCIAL STATMENTS

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited financial statements for the period ended December 31, 2010.

NOTICE TO READER OF THE INTERIM FINANCIAL STATMENTS

The Consolidated financial statements of Border Petroleum Corp. comprising the accompanying interim balance sheet as at December 31, 2010 and the consolidated interim statements of loss, comprehensive loss and deficit and cash flows for the nine months ended December 31, 2010 are the responsibility of the Company's management.

These financial statements have not been reviewed on behalf of the shareholders by the independent external auditors of the Company, Collins Barrow Calgary LLP. The interim financial statements have been prepared by management and include the selection of appropriate accounting principles, judgments and estimates necessary to prepare these financial statements in accordance with Canadian generally accepted accounting principles.

Signed:

Per: *"Ying Yuen"*
Chief Financial Officer

Per: *"Kelly Kimbley"*
President and Director

Border Petroleum Corp.
Balance Sheets
(Unaudited)

	December 31, 2010	March 31, 2010 (audited)
Assets		
Current assets		
Cash	**$ 357,750**	$ -
Accounts receivable	**286,238**	124,315
Prepaid expenses and deposits	**11,299**	12,819
	655,287	137,134
Lease reclamation deposits	**67,427**	67,105
Property and equipment (note 5)	**3,615,300**	1,033,679
	$ 4,338,014	$ 1,237,918
Liabilities		
Current liabilities		
Bank overdraft	**$ -**	$ 20,483
Accounts payable and accrued liabilities	**1,089,859**	567,150
	1,089,859	587,633
Asset retirement obligations (note 6)	**313,679**	246,114
Secured convertible debenture (Note 4)	**1,775,865**	-
Shareholders' Equity		
Share capital (note 7)	**9,413,021**	8,188,840
Warrants (note 7(c))	**25,007**	-
Contributed surplus (note 8(b))	**174,610**	162,366
Convertible debenture conversion feature (note 4)	**105,857**	-
Deficit	**(8,559,884)**	(7,947,035)
	1,158,611	404,171
	$ 4,338,014	$ 1,237,918

Going concern (note 1)
Commitment (note 14)

See accompanying notes to financial statements.

Border Petroleum Corp.
Statements of Loss, Comprehensive Loss and Deficit
(Unaudited)

	Three Months Ended		Nine Months Ended	
	December 31, 2010	January 31, 2010	**December 31, 2010**	January 31, 2010
Revenue				
Oil and natural gas	**$ 180,247**	$ 149,961	**$ 581,559**	$ 454,107
Royalties	**(18,603)**	(13,746)	**(73,144)**	(43,966)
	161,644	136,215	**508,415**	410,141
Expenses				
Operating and transportation	**152,655**	199,165	**425,653**	494,990
General and administrative	**113,478**	234,945	**461,325**	523,232
Stock-based compensation (note 8)	**6,897**	(7,844)	**12,244**	(7,844)
Interest on convertible debentures (note 4)	**43,580**	-	**108,615**	-
Accretion on convertible debentures (note 4)	**17,643**	-	**44,107**	-
Depletion, depreciation and accretion	**42,420**	70,167	**69,321**	197,575
	376,673	496,433	**1,121,265**	1,207,953
Net loss and comprehensive loss	**(215,029)**	(360,218)	**(612,850)**	(797,812)
Deficit, beginning of period	**(8,344,855)**	(5,947,327)	**(7,947,034)**	(5,509,733)
Deficit, end of period	**$ (8,559,884)**	$ (6,307,545)	**$ (8,559,884)**	$ (6,307,545)
Net loss per share (note 9)				
Basic and diluted	**$ (0.01)**	$ (0.02)	**$ (0.03)**	$ (0.05)

See accompanying notes to financial statements.

Border Petroleum Corp.
Statements of Cash Flows
(Unaudited)

	Three Months Ended		Nine Months Ended	
Cash provided by (used for):	**December 31, 2010**	January 31, 2010	**December 31, 2010**	January 31, 2010
Operating activities				
Net loss	**$ (215,029)**	$ (360,218)	**$ (612,850)**	$ (797,812)
Items not involving cash				
Stock-based compensation	**6,897**	(7,844)	**12,244**	(7,844)
Interest on convertible debenture	**43,580**	-	**108,615**	-
Accretion on convertible debenture	**17,643**	-	**44,107**	-
Depletion, depreciation and accretion	**42,420**	70,167	**69,321**	197,575
	(104,489)	(297,895)	**(378,563)**	(608,081)
Change in non-cash working capital (note 10)	**(82,624)**	(4,622)	**(423,467)**	16,842
	(187,113)	(302,517)	**(802,030)**	(591,239)
Financing activity				
Issue of common shares for cash, net	**1,249,188**	375,500	**1,249,188**	825,000
Issue of convertible debentures (note 4)		-	**1,729,000**	-
	1,249,188	375,500	**2,978,188**	825,000
Investing activities				
Property and equipment expenditures	**(1,093,330)**	(215,421)	**(2,583,699)**	(409,992)
Sale of property and equipment	**-**	200,000	**-**	200,000
Change in non-cash working capital (note 10)	**283,966**	-	**785,774**	-
	(809,364)	(15,421)	**(1,797,925)**	(209,992)
Cash inflow (outflow)	**252,711**	57,562	**378,233**	23,769
Cash (bank overdraft), beginning of period	**105,039**	7,248	**(20,483)**	41,041
Cash, end of period	**$ 357,750**	$ 64,810	**$ 357,750**	$ 64,810
Supplemental cash flow information:				
Interest paid	$ -	$ -	$ -	$ -
Income taxes paid	$ -	$ -	$ -	$ -

See accompanying notes to financial statements.

1. Nature of operations

Border Petroleum Corp. (the "Company") is a public company whose shares trade on the TSX Venture Exchange. The Company changed its name from Moneta Resources Inc. to Border Petroleum Inc. on August 7, 2008 and to Border Petroleum Corp. on June 15, 2010. The Company's activities are the exploration for, development and production from oil and natural gas properties in Western Canada and Montana.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") that are applicable to a going concern, which contemplates the realization of assets and the payment of liabilities and commitments in the ordinary course of business. Should the Company 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.

During the year, the Company changed its fiscal year end from April 30 to March 31 to align itself with normal industry reporting periods. Previous year's quarterly results have not been restated to match the new year-end, and as a result the comparative figures are for the three and nine months ended January 31, 2010.

As at December 31, 2010, the Company had a working capital deficiency of $434,572 (March 31, 2010 – $450,499), and incurred a net loss and comprehensive loss of $612,850 for the nine months ended December 31, 2010 (January 31, 2010: $797,812) and had negative cash used in operations. The Company's ability to continue as a going concern is dependent upon management's ability to successfully develop and execute a business plan which includes raising adequate long-term financing for future growth, achieving profitable operations, and generating positive cash flow, and on maintaining continued support from its directors and shareholders in the form of debt or equity financings.

The Company's working capital deficiency, operating losses and uncertainty regarding its ability to obtain financing in a timely manner, continues to raise doubt as to the Company's ability to continue as a going concern. If the going concern basis is not appropriate, adjustments may be necessary to the carrying amounts and classification of the Company's assets and liabilities. The accompanying financial statements do not include any adjustments that might result if the Company is unable to continue as a going concern.

2. Significant accounting policies

(a) Property and equipment

Capitalized costs

The Company follows the full cost method of accounting for oil and natural gas operations, whereby all costs relating to the exploration for and the development of oil and natural gas reserves are initially capitalized by cost centre. Costs capitalized include land acquisition costs, geological and geophysical expenditures, rentals on undeveloped properties, costs of drilling productive and non-productive wells, together with overhead directly related to exploration and development activities, and lease and well equipment. Gains or losses are not recognized upon disposition of oil and natural gas properties unless such a disposition would alter the rate of depletion and depreciation by 20% or more.

Depletion and depreciation

Costs capitalized are depleted and depreciated using the unit-of-production method based upon production volumes before royalties in relation to estimated proved oil and natural gas reserves as determined by independent engineers. Costs eligible for depletion and depreciation include total capitalized costs, less the cost of unproved properties and estimated salvage values, plus estimated future development costs of proved undeveloped reserves. The cost of unproved properties is excluded from the depletion and depreciation base until it is determined whether proved reserves are attributable to the properties or impairment occurs.

Production and reserves of oil and natural gas are converted to common units of measure based on their relative energy content, where one barrel of oil equates to six thousand cubic feet of natural gas.

Asset retirement obligations

The Company recognizes the fair value of obligations associated with the retirement of tangible long-lived assets in the period the asset is put into use and a reasonable estimate of the fair value can be made, with a corresponding increase to the carrying amount of the related asset. Fair value is estimated based on the present value of the estimated future cash outflows to abandon the asset, discounted at the Company's credit-adjusted risk-free interest rate. The liability is increased with the passage of time through charges to accretion expense. The costs capitalized to the related assets are depleted and depreciated using the unit-of-production method. Actual costs incurred to abandon the asset reduce the asset retirement obligations.

Ceiling test

Oil and natural gas properties are evaluated at least annually to determine whether the carrying amount in each cost centre is recoverable and that it does not exceed the fair value of the properties in the cost centre.

The carrying amounts are assessed to be recoverable when the sum of the undiscounted cash flows expected from the production of proved reserves plus the lower of cost and market of unproved properties exceeds the carrying amount of the cost centre. When the carrying amount is not assessed to be recoverable, an impairment is recognized to the extent that the carrying amount of the cost centre exceeds the sum of the discounted cash flows expected from the production of proved and probable reserves and the lower of cost and market of unproved properties that contain no probable reserves. The cash flows are estimated using expected future product prices and costs and are discounted using a risk-free interest rate.

(b) Joint venture accounting

Substantially all of the Company's exploration and production activities are conducted jointly with others and, accordingly, these financial statements reflect only the Company's proportionate interest in such activities.

(c) Income taxes

Income taxes are accounted for using the liability method of income tax allocation. Under the liability method, income tax assets and liabilities are recorded to recognize expected future income tax inflows and outflows arising from the settlement or recovery of assets and liabilities at their carrying values. Income tax assets are also recognized for the benefits from tax losses and deductions that cannot be identified with particular assets or liabilities, provided those benefits are more likely than not to be realized. Future income tax assets and liabilities are determined based on the tax laws and rates that are anticipated to apply in the period of realization.

(d) Stock-based compensation

The Company has a stock-based compensation plan as described in note 8(a). Stock-based compensation and other stock based payments granted to employees, officers, directors and consultants are accounted for using the fair value method. Under this method, stock-based compensation expense is recognized when an option is granted based on the fair value of the option on the date of the grant. The fair-value of options granted are estimated using the Black-Scholes option-pricing model. Compensation expense is recorded over the vesting period as an expense with a corresponding increase in contributed surplus. As the options are exercised, the consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase in share capital.

The Company has not incorporated an estimated forfeiture rate for stock options but accounts for actual forfeitures as they occur.

(e) Per share amounts

Basic net loss per share is calculated by dividing net loss by the weighted average number of common shares outstanding during the period. The Company applies the treasury stock method for the calculation of diluted income per share whereby the effect of in-the-money instruments such as stock options and warrants affect the calculation. The treasury stock method assumes that the proceeds from the exercise of in-the-money stock options and warrants along with the unamortized portion of stock-based compensation expense are used to repurchase common shares of the Company at the weighted average market price during the period.

(f) Revenue recognition

Revenue from the sale of oil and natural gas is recognized when collectability is reasonably assured and is based on volumes delivered to customers at contractual delivery points and rates. The costs associated with the delivery, including operating and maintenance costs, transportation and production based royalty expenses are recognized in the same period in which the related revenue is earned and recorded. Interest income is recognized as it is earned.

(g) Measurement uncertainty

The amounts recorded for depletion and depreciation of oil and natural gas properties, the provision for asset retirement obligations and the ceiling test are based on estimated proved and probable reserves, production rates, future oil and natural gas prices, future costs and other relevant assumptions.

The amounts recorded relating to fair values of stock options and warrants granted are based on estimates of future volatility of the Company's share price, expected lives of the options and warrants, expected dividends to be paid by the Company and other relevant assumptions.

Future income taxes are based on estimates as to the timing of the reversal of temporary differences, tax rates currently substantially enacted and the determination of the valuation allowance. Tax returns and tax filing positions are subject to audit by taxation authorities.

By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be material.

(h) Financial instruments and derivatives

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 in one of five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale and other financial liabilities. The Company has designated its financial instruments into the following categories applying the indicated measurement methods:

Financial instrument	**Category**	**Measurement method**
Cash (bank overdraft)	Held-for-trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost using the effective interest rate method
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost using the effective interest rate method

Bank overdraft at March 31, 2010 consists of outstanding cheques issued in excess of cash on deposit.

The Company 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.

Transaction costs incurred in relation to the acquisition of a financial asset or liability are immediately expensed by the Company.

The Company may use various types of derivative financial instruments to manage risks associated with oil and natural gas price fluctuations. These instruments are not used for trading or speculative purposes. Proceeds and costs realized from holding the related contracts are recognized at the time each transaction under a contract is settled. For the unrealized portion of such contracts, the Company utilizes the fair value method of accounting. The fair value is based on an estimate of the amounts that would have been paid to or received from counter parties to settle these instruments given future market prices and other relevant factors. The method requires the fair value of the derivative financial instruments to be recorded at the balance sheet date with unrealized gains or losses on those contracts recorded though net earnings. Transaction costs, if any, related to derivative financial instruments are expensed as incurred.

An embedded derivative is a component of a contract that affects the terms in relation to another factor. These hybrid contracts are considered to consist of a "host" contract plus an embedded derivative. The embedded derivative is separated from the host contract and accounted for as a derivative, which requires separate recognition and measurement.

3. Changes in accounting policies and future accounting pronouncements

Changes in accounting policies

As of May 1, 2009, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064, *Goodwill and Intangible Assets* which replaced the existing Handbook Section 3062, Goodwill and Other Intangible Assets standard. The new standard revises the requirement for recognition, measurement, presentation and disclosure of intangible assets. The adoption of this standard did not have an impact on the Company's financial statements.

In June 2009, the CICA issued 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 amendments are effective for annual financial statements for fiscal years ending after September 30, 2009. The Company has included these incremental disclosures in note 12(a) to the financial statements.

Future accounting pronouncements

In January 2009, the Accounting Standards Board (the "AcSB") issued Section 1582, *Business Combinations,* which replaces former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. This standard applies prospectively to business combinations for which the acquisition date is on or after January 1, 2011 with earlier application permitted. The Company plans to adopt this standard prospectively effective April 1, 2010 and does not expect the adoption of this statement to have a material impact on the Company's results of operations or financial position.

In January 2009, the AcSB issued Sections 1601, *Consolidated Financial Statements,* and 1602, *Non-controlling Interests,* which replaces 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. These standards are effective on or after the beginning of the first annual reporting period beginning on or after January 1, 2011 with earlier adoption permitted. The Company plans to adopt these standards effective April 1, 2010 and does not expect the adoption will have a material impact on the Company's results of operations or financial position.

In February 2008, the AcSB confirmed that all Canadian publicly accountable enterprises will be required to adopt International Financial Reporting Standards (IFRS) for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011 with comparative 2010 periods converted as well.

Although IFRS is principles based and uses a conceptual framework similar to Canadian GAAP, there are significant differences and choices in accounting policies, as well as increased disclosure requirements under IFRS. Currently, the application of IFRS to the oil and gas industry in Canada requires clarification. The International Accounting Standards Board has made certain amendments and exemptions to IFRS 1 relating to full cost oil and gas accounting. The amendments permit the Company to apply IFRS prospectively to their full cost pool of capitalized exploration and development expenses, with an initial impairment test, at the transition date. The Company will then be required to adopt a form similar to "successful efforts" method of accounting for oil and gas on a prospective basis.

The transition from current Canadian GAAP to IFRS is a significant undertaking that may materially affect the Company's reported financial position and results of operations. The Company is currently assessing the impact on the convergence of Canadian GAAP with IFRS on the Company's results of operations, financial position and disclosures. At this time, the Company is at a very preliminary stage of its IFRS conversion process and changeover plan. The plan will include an assessment of differences between Canadian GAAP and IFRS, accounting policy choices under IFRS, internal controls over financial reporting, potential system changes required, potential corporate governance changes, and affects on internal controls and processes. Initial activities will include training sessions and acquisition of written standards and examples of IFRS disclosure. Based on work completed to date, management has determined that the accounting differences that will lead to the largest changes relate mainly to property and equipment however, at this time, the overall impact on the Company’s future financial position and results of operations is not reasonably determinable or estimable. The Company will provide disclosure of the key elements of its plan and progress on the project as information becomes available during the transition period.

4. Secured Convertible Debenture

During the nine months ended December 31, 2010, the Company closed a private placement of $1,729,000 of secured convertible debentures (the “debentures”), which will mature 18 months from the date of issuance, bearing interest at the rate of 10% per annum compounded semi-annually payable after as well as before maturity and are secured by a first fixed and floating charge debenture registered against the assets of the Company and an assignment of book debts. The debentures are convertible into common shares on the basis of one share for each $0.10 of the principal amount of debenture and accrued interest.

The debentures are a debt security with an embedded conversion option. The equity component represents the value of the holders’ option to convert the debt into common shares at the time the debenture is issued. Using the residual value method, the Company allocated a fair value of $1,623,143 to the debt component and $105,857 to the equity component. The Company valued the debt component of the debentures by calculating the present value of the principal and interest payments, discounted at a rate of 15%, being the estimate of the rate a non convertible debenture with similar terms would bear. The equity conversion feature of the debentures comprises the value of the conversion option, being the difference between the face value of the debentures and the liability element calculated above. The liability component of $1,623,143 is accreted to its face value of $1,729,000 at maturity through non-cash charges as accretion on convertible debenture. The accretion expense for the nine months ended December 31, 2010 amounted to $44,107.

Interest expense accrued on the face value of the debentures for the nine months ended December 31, 2010 amounts to $108,615, which has been recorded as an interest expense in the period and added to the amount owing pursuant to the debentures.

Subsequent to December 31, 2010, all of the secured convertible debentures and accrued interest were converted to common shares of the Company.

5. Property and equipment

	December 31, 2010			March 31, 2010
	Cost	Accumulated Depletion and Depreciation	Net Book Value	Net Book Value
Petroleum and natural gas properties and lease and well equipment	$ 3,678,440	$ (63,140)	$ 3,615,300	$ 1,033,679

Undeveloped properties with a cost of $1,004,064 (March 31, 2010: $1,004,064) have been excluded from the depletion calculation. Undeveloped properties are located in Montana, USA ($812,000) and in northern Alberta ($192,064) and all developed properties are located in Alberta. Future development costs of proved reserves of $NIL have been included in the depletion calculation.

6. Asset retirement obligations

The Company estimates the total undiscounted cash flows required to settle its asset retirement obligations is approximately $372,260, which will be incurred between 2011 and 2026. A credit-adjusted risk-free rate of 7% (March 31, 2010 – 7%) was used to calculate the fair value of the asset retirement obligations.

A reconciliation of the asset retirement obligations is provided below:

	December 31, 2010	March 31, 2010
Balance, beginning of period	$ 246,114	$ 210,396
Liabilities incurred	50,821	59,407
Liabilities disposed	-	(38,993)
Accretion expense	16,744	15,304
Balance, end of period	$ 313,679	$ 246,114

7. Share capital

(a) Authorized

Unlimited number of voting common shares

(b) Issued common shares

	December 31, 2010		March 31, 2010	
	Number	Stated Value	Number	Stated Value
Balance, beginning of period	74,464,263	$ 8,188,840	57,226,763	$ 7,351,624
Reduced by way of 4:1 consolidation of common shares (*)	(55,848,197)	-	-	-
Private Placements	9,379,667	1,322,693	16,500,000	825,000
Issued for settlement of accounts payable	-	-	737,500	18,437
Share issue costs	-	(98,512)	-	(6,221)
Balance, end of period	27,995,733	$ 9,413,021	74,464,263	$ 8,188,840

(*) On September 13, 2010 the TSX Venture Exchange provided its final acceptance of the consolidation of the common shares of the Company on the basis of one new common share for each four existing common shares held. During the three months ended December 31, 2010, the Company issued 1,975,000 common shares at a price of $0.12 per share for proceeds of $237,000 and also issued 7,404,667 flow-through shares at a price of $0.15 per share for proceeds of $1,110,700.

(c) Warrants

A summary of the status of the Company's outstanding share purchase warrants as of December 31, 2010 and March 31, 2010 and changes during the periods then ended is as follows:

	December 31, 2010		March 31, 2010	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of period	8,250,000	$ 0.10	-	$ -
Reduced by way of 4:1 consolidation of common shares (*)	(6,187,500)	-	-	-
Issued	987,500	0.15	8,250,000	0.10
Exercised	-	-	-	-
Expired	(2,062,500)	0.40	-	-
Outstanding and exercisable, end of period	987,500	$ 0.15	8,250,000	$ 0.10

As part of the common shares issued in December 2010, the Company issued 987,500 warrants to purchase common shares of the Company at a price of $0.15 for a period of 18 months. The fair value ascribed to the warrants was $25,007. The fair value of the warrants was estimated based on the Black-Scholes option pricing model using an expected life of 2 years, a risk-free rate of 1.65% and a volatility of 0.50 as underlying assumptions. All previous warrants have expired.

8. Stock-based compensation

(a) The Company has established a stock option plan (the "Plan"), which is administered by the Board of Directors, allowing the Board of Directors to grant stock options. The Company adopted a 10% Rolling Stock Option Plan, which allows for the granting of stock options for the purchase of up to 10% of the outstanding shares of the Company.

Additionally, options may not be granted to any one person, any one consultant or any persons performing investor relations duties in any twelve month period which could, when exercised, result in the issuance of shares exceeding 5%, 2% or 2% respectively of the issued and outstanding shares of the Company. All options granted under the Plan shall expire not later than the fifth anniversary of the date the options were granted.

The exercise price of the options is to be determined by the Board of Directors, but shall not be less than the market price of the common shares of the Company on the TSXV on the last business day before the date on which the options are granted, less any discount permitted by the rules of the exchange. Vesting of the options is at the discretion of the Board of Directors but generally will occur no earlier than 50% at award date and 25% at each of twelve and twenty-four months following the award date. A summary of the status of the Company's stock option plan as at December 31, 2010 and March 31, 2010 and changes during the periods then ended is as follows:

	December 31, 2010		March 31, 2010	
	Number of Options	**Weighted Average Exercise Price**	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	**7,295,000**	**$ 0.10**	250,000	$ 0.20
Reduced by way of 4:1 consolidation of common shares (*)	**(2,996,250)**	**-**	-	-
Granted	**1,000,000**	**0.10**	7,295,000	0.10
Exercised	**-**	**-**	-	-
Cancelled or expired	**(3,300,000)**	**0.40**	(250,000)	0.20
Outstanding, end of period	**1,998,750**	**$ 0.25**	7,295,000	$ 0.10
Exercisable, end of period	**1,082,363**	**$ 0.31**	3,647,500	$ 0.10

As a result of the 4:1 consolidation of the Company's outstanding shares, the Option's were also consolidated on a 4:1 basis and re-priced at $0.40 per share. During the nine months ended December 31, 2010, 3,300,000 options at a price of $0.40 per share were cancelled, at no cost to the Company. 1 million new options were issued during the quarter at a price of $0.10 per share.

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

Average Exercise Price	**Number Outstanding at December 31, 2010**	**Weighted Average Remaining Contractual Life**	**Number Exercisable at December 31, 2010**	**Weighted Average Remaining Contractual Life**
$ 0.25	1,998,750	4.42 years	1,082,363	4.42 years

(b) Contributed surplus

	December 31, 2010	March 31, 2010
Balance, beginning of period	$ 162,366	$ 57,844
Stock-based compensation expense	12,244	104,522
Balance, end of period	$ 174,610	$ 162,366

On November 23, 2009, the Company granted 7,295,000 stock options to officers and directors of the Company to purchase common shares at $0.10 per share for a period of five years from the date of grant. During the nine months ended December 31, 2010, 3,300,000 options were cancelled at no cost to the Company. On November 3, 2010, the Company granted 1,000,000 stock options to officers and directors of the Company to purchase common shares at $0.10 per share for a period of five years from the date of grant. The net result is that there are 1,998,750 options outstanding at December 31, 2010 convertible at an average price of $0.25 per share. The fair value of the stock options has been estimated using the Black-Scholes option-pricing model with the following assumptions:

Risk-free interest rate	2.54%
Expected life	5 years
Expected volatility	75%
Expected dividends	Nil
Fair value per share	$0.02

For the nine months ended December 31, 2010, the Company recognized stock-based compensation expense of $12,244 (Year ended March 31, 2010 – $104,522).

9. Per share amounts

Net loss per share for the nine months ended December 31, 2010 has been calculated based on the weighted average number of common shares outstanding for the period of 19,554,032. The comparative net loss per share for the nine months ended January 31, 2010 was retrospectively restated based on 15,743,149 common shares after reflecting the common share consolidation on a four-for-one basis.

10. Supplemental cash flow information

	Three Months Ended		Nine Months Ended	
	December 31, 2010	January 31, 2010	**December 31, 2010**	January 31, 2010
Changes in non-cash working capital balance:				
Accounts receivable	**$ (87,858)**	$ (37,327)	**$ (161,923)**	$ (34,378)
Subscriptions receivable	**-**	259,500	**-**	-
Prepaid expenses and deposits	**10,827**	(58,051)	**1,520**	(60,220)
Accounts payable and accrued liabilities	**278,373**	90,756	**522,710**	111,440
	$ 201,342	$ 254,878	**$ 362,307**	$ 16,842
Changes in non-cash working capital related to:				
Operating activities	**$ (82,624)**	$ (4,622)	**$ (423,467)**	$ 16,842
Investing activities	**283,966**	-	**785,774**	-
Financing activities	**-**	259,500	**-**	-
	$ 201,342	$ 254,878	**$ 362,307**	$ 16,842

11. Related party transactions

During the nine months ended December 31, 2010, $102,699 (January 31, 2010 - $240,950) in renumeration, fees and rent which is included in general and administrative expenses was paid to officers and or companies controlled by officers and directors of the Company. Included in accounts payable and accrued liabilities is $NIL (January 31, 2010 - $NIL) due to officers and companies controlled by officers and directors of the Company.

During the nine months ended December 31, 2010 officers and directors of the Company participated in the Private Placement of Secured Convertible Debentures and purchased $1,089,000 of the Debentures. Officers and directors also purchased $68,000 of the flow-through shares sold in December, 2010.

12. Financial instruments

(a) Fair values

The fair values of accounts receivable, bank overdraft, and accounts payable and accrued liabilities, approximate their carrying value due to the short term maturity of these instruments.

At December 31, 2010, the Company does not hold any financial instruments for which it has elected to apply hedge accounting under Section 3865. Consequently, the Company's financial instruments were recorded at fair value on the balance sheet with changes to fair value being reported in the statement of loss and comprehensive loss.

The fair value of transactions are classified according to the following hierarchy based on the amount of observable inputs used to value the instrument.

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – Inputs are other than quoted prices in Level 1 that are either directly or indirectly observable for the asset or liability.
- Level 3 – Inputs for the asset or liability that are not based on observable market data.

Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level.

The Company’s bank overdraft has been valued using Level 1 inputs.

(b) Risks

The Company is exposed to financial risks arising from its financial assets and liabilities. The Company manages its exposure to financial risks by operating in a manner that minimizes its exposure to the extent practical. The main financial risks affecting the Company are as follows:

Credit risk

Credit risk is primarily related to the Company's receivables from oil and natural gas marketers and joint venture partners and the risk of financial loss if a customer, partner, or counterparty to a financial instrument fails to meet its contractual obligations. Receivables from oil and natural gas marketers are normally collected on the 25th day of the month following production. To mitigate credit risk associated with the sale of its production to oil and gas marketers, the Company maintains marketing relationships with large credit-worthy purchasers. The Company historically has not experienced any collection issues with its oil and natural gas marketers. Joint venture receivables are typically collected within one to three-months of the joint venture bill being issued to the partner. The Company attempts to mitigate the risk from joint venture receivables by obtaining partner approval of significant capital expenditures prior to expenditure. The Company does not typically obtain collateral from joint venture partners; however, in certain circumstances, it may cash-call a partner in advance of the work and as well the Company has the ability in most cases to withhold production from joint venture partners in the event of non-payment.

The Company establishes an allowance for doubtful accounts as determined by management based on their assessed collectability; therefore, the carrying amount of accounts receivable generally represents the maximum credit exposure. The Company believes that its counterparties currently have the financial capacity to settle outstanding obligations in the normal course of business. There were no receivables allowed for or written off during the period ended December 31, 2010 and there is $18,936 in accounts receivable outstanding greater than 90 days at December 31, 2010, which the Company would consider past due under normal conditions. These amounts are due from joint venture partners, and have been collected subsequent to December 31, 2010.

Cash balances consist of amounts on deposit with banks whereas bank overdraft consists of outstanding cheques issued in excess of cash on deposit. The Company manages the credit exposure of cash by selecting financial institutions with high credit ratings. Total credit risk at December 31, 2010 is comprised of $357,750 in cash and $286,238 in accounts receivable.

Market risk

Market risk consists of commodity price, foreign exchange and interest rate risk, that may affect the value of the Company's financial instruments.

(i) Commodity price risk

Commodity price risk is the risk that the future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas are impacted by the world and continental/regional economy and other events that dictate the levels of supply and demand. The Company has not attempted to mitigate commodity price risk through the use of financial derivative contracts. The Company had no financial derivative sales contracts as at or during the period ended December 31, 2010.

(ii) Foreign currency exchange risk

Foreign currency exchange risk is the risk that future cash flows will fluctuate as a result of changes in foreign exchange rates. Although all the Company's oil and natural gas sales are denominated in Canadian dollars, the underlying market prices in Canada for oil and natural gas are impacted by changes in the exchange rate between the Canadian dollar and the United States dollars. The Company had no forward exchange rate contracts in place as at or during the period ended December 31, 2010.

(iii) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company currently has no debt and, therefore, has no interest rate risk.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking harm to the Company's reputation. The Company prepares capital expenditure budgets which are regularly monitored and updated as considered necessary. As well, the Company utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures. Also see note 13 for a discussion on the Company's capital management policy and note 1 for a discussion of the going concern assumption.

13. Capital management

The Company's policy is to maintain a strong capital base with the following objectives:

- Maintaining financial flexibility
- Maintaining creditor and investor confidence, and
- Sustaining the future development of the business.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying oil and natural gas assets. Shareholders' equity and working capital are the components of the Company's capital structure to be managed. The most significant alternatives available for the management of the capital structure include adjusting capital spending to manage projected debt levels or to issue shares or debentures when management and the Board of Directors feel the timing is appropriate. Management continually monitors the Company's projected capital spending and its net debt to maintain a sound capital position.

Working capital, which includes cash and bank overdraft, is a non-GAAP measure, which is determined on the following basis:

	December 31, 2010	March 31, 2010
Cash (Bank overdraft)	**$ 357,750**	$ (20,483)
Accounts receivable and prepaid expenses	**297,537**	137,134
Accounts payable and accrued liabilities	**(1,089,859)**	(567,150)
Working capital deficiency	**$ (434,572)**	$ (450,499)

14. Commitment and contingent acquisition costs

Pursuant to an agreement effective July 1, 2009 the Company had a contingent liability of $350,000 which was payable only from production associated with the certain lands. As there has been no production from these lands, and the agreement was replaced during the nine months ended December 31, 2010 by industry standard royalty based terms, the contingent liability has been extinguished.

Pursuant to the Company's flow through financing in December, 2010, the Company is required to spend $1,110,700 on oil and gas development and/or exploration by December 31, 2011, of which the Company had incurred approximately $587,000 at December 31, 2010.

15. Subsequent events

On February 3, 2011 the Company announced that it sold 24,000,000 units of the Company (″Units″) at a price of $0.25 per Unit for gross proceeds of $6,000,000. Each Unit consists of one common share of the Company (″Common Share″) and one-half of one common share purchase warrant (″Warrant″), with each whole Warrant entitling the holder to acquire one Common Share at a price of $0.35 per share for 18 months from the closing date of issuance of the Offering (the ″Closing Date″). All securities issued pursuant to the Offering will be subject to a four-month hold period expiring on June 3, 2011. As a condition of the financing, all secured convertibles debentures, including accrued interest, were converted to common shares of the Corporation at a price of $0.10 per share.

Canaccord Genuity Corp. (the ″Agent″) acted as agent of the Company pursuant to the Offering. The Agent was paid a cash commission equal to 6% of the gross proceeds and was granted broker options (″Broker Options″) to purchase 1,440,000 Units, with each Broker Option entitling the holder to acquire one Unit at a price of $0.25 per Unit for a period of 18 months from the Closing Date.

The net proceeds of the Offering will be used to fund the Company′s Slave Point program at Red Earth and for general corporate purposes.