Border Petroleum Inc.

Financial Statements

March 31, 2010 and April 30, 2009

Management's Report

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

Collins Barrow Calgary 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 fulfils 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 that the financial statements be presented to the Board of Directors for approval.

"Kelly E. Kimbley"
President and Chief Executive Officer

"Gerry R. Mendyk"
Chief Financial Officer

Collins Barrow
Chartered Accountants & Consultants

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Auditors' Report

To the Shareholders
Border Petroleum Inc.

We have audited the balance sheets of Border Petroleum Inc. as at March 31, 2010 and April 30, 2009 and the statements of loss, comprehensive loss and deficit and cash flows for the eleven months ended March 31, 2010 and year ended April 30, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2010 and April 30, 2009 and the results of its operations and its cash flows for the periods then ended in accordance with Canadian generally accepted accounting principles.

Collins Barrow Calgary LLP

CHARTERED ACCOUNTANTS

Calgary, Alberta
May 7, 2010 (except for note 16(a)
which is as of May 17, 2010)

Border Petroleum Inc.
Balance Sheets

	March 31, 2010	April 30, 2009 (restated - note 4)
Assets		
Current assets		
Cash	$ -	$ 41,041
Accounts receivable	124,315	80,552
Prepaid expenses and deposits	12,819	25,405
	137,134	146,998
Lease reclamation deposits	67,105	-
Property and equipment (note 5)	1,033,679	2,342,355
	$ 1,237,918	$ 2,489,353
Liabilities		
Current liabilities		
Bank overdraft	$ 20,483	$ -
Accounts payable and accrued liabilities (note 12(a))	567,150	433,338
	587,633	433,338
Asset retirement obligations (note 6)	246,114	210,396
	833,747	643,734
Shareholders' Equity		
Share capital (note 8(b))	8,188,840	7,351,624
Contributed surplus (note 9(c))	162,366	57,844
Deficit	(7,947,035)	(5,563,849)
	404,171	1,845,619
	$ 1,237,918	$ 2,489,353

Going concern (note 1)
Commitment (note 15)
Subsequent events (note 9(a) and 16)

Approved by the Board,

Per: *"Tyler D. Cran"* **Director**

Per: *"Kelly Kimbley"* **Director**

See accompanying notes to financial statements.

Border Petroleum Inc.
Statements of Loss, Comprehensive Loss and Deficit

	Eleven Months Ended March 31, 2010	Year Ended April 30, 2009 (restated - note 4)
Revenue		
Oil and natural gas	**$ 583,996**	$ 349,075
Royalties	**(56,755)**	(43,861)
	527,241	305,214
Other revenue		
Interest	**-**	6,045
	527,241	311,259
Expenses		
Operating and transportation	**617,717**	232,536
General and administrative (note 12(a))	**724,984**	581,379
Stock-based compensation (recovery) (note 9(c))	**104,522**	(4,640)
Depletion, depreciation and accretion	**229,641**	181,244
Gain on settlement of accounts payable and accrued liabilities (note 8(b))	**(94,938)**	
Loss on disposal of property and equipment	**1,328,501**	-
	2,910,427	990,519
Net loss and comprehensive loss	**(2,383,186)**	(679,260)
Deficit, beginning of period	**(5,563,849)**	(4,884,589)
Deficit, end of period	**$ (7,947,035)**	$ (5,563,849)
Net loss per share (note 10)		
Basic and diluted	**$ (0.04)**	$ (0.01)

See accompanying notes to financial statements.

Border Petroleum Inc.
Statements of Cash Flows

	Eleven Months Ended March 31, 2010	Year Ended April 30, 2009 (restated - note 4)
Cash provided by (used for):		
Operating activities		
Net loss	$ (2,383,186)	$ (679,260)
Items not involving cash		
Stock-based compensation (recovery)	104,522	(4,640)
Depletion, depreciation and accretion	229,641	181,244
Gain on settlement of accounts payable and accrued liabilities	(94,938)	-
Loss on disposal of property and equipment	1,328,501	-
	(815,460)	(502,656)
Net changes in non-cash working capital (note 11)	150,860	259,244
	(664,600)	(243,412)
Financing activity		
Issue of common shares for cash, net of issuance expenses	818,779	2,370,000
Investing activities		
Property and equipment expenditures	(413,748)	(2,313,203)
Lease reclamation deposits	(67,105)	
Proceeds on disposal of property and equipment	200,000	
Net changes in non-cash working capital (note 11)	65,150	24,904
	(215,703)	(2,288,299)
Cash outflow	(61,524)	(161,711)
Cash, beginning of period	41,041	202,752
Cash (bank overdraft), end of period	$ (20,483)	$ 41,041
Supplemental cash flow information:		
Interest paid	$ -	$ -
Income taxes paid	$ -	$ -

See accompanying notes to financial statements.

1. Nature of operations

Border Petroleum Inc. (the "Company") is a public company whose shares trade on the NEX board, a division of the TSX Venture Exchange. The Company changed its name from Moneta Resources Inc. to Border Petroleum Inc. on August 7, 2008. The Company's activities are the exploration for, development and production of 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.

The Company changed its fiscal year end from April 30 to March 31. As a result, the Company's current fiscal year end is the eleven-month period ending March 31, 2010.

As at March 31, 2010, the Company had a working capital deficiency of $450,499 (April 30, 2009 - $286,340), and incurred a net loss and comprehensive loss of $2,383,186 for the eleven months ended March 31, 2010 (Year ended April 30, 2009: $679,260) 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 raised $600,000 in bridge financing subsequent to year end (note 16(a)).

The global credit market crisis, the volatility in the price of oil and natural gas, and the slowdown of economic growth in the world has created a substantially more difficult business environment, resulting in an extremely limited ability to execute capital market transactions. Furthermore, the volatile oil and natural gas prices are expected to negatively affect the Company's operating performance. If improvements in market conditions and higher oil and natural gas prices are not realized, the Company may be unable to pay its obligations in the normal course of operations in 2011 or service its obligations in a timely fashion. The Company's suppliers might respond to an apparent weakening of the Company's liquidity position and to address their own liquidity needs by requesting faster payment of invoices or other assurances. If this were to happen, the Company's need for cash would be intensified and the Company might be unable to make payments to the Company's suppliers as they become due.

The Company's working capital deficiency, recent operating losses and uncertainty regarding its ability to obtain financing in a timely manner, continues to raise substantial 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 9(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 13(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. Restatement of results for the year ended April 30, 2009

During the period ended March 31, 2010, it was determined that the proved reserves and future development costs used in the depletion and depreciation calculation for the year ended April 30, 2009 were overstated which resulted in an understatement of depletion and depreciation expense and overstatement of property and equipment as at, and for the period ended, April 30, 2009.

The Company has restated its financial statements for the year ending April 30, 2009 and the effect on the Company's financial results is as follows:

	As originally reported $	Adjustment $	As restated $
Balance Sheet			
Property and equipment	2,396,471	(54,116)	2,342,355
Deficit	5,509,733	54,116	5,563,849
Statement of Loss, Comprehensive Loss and Deficit			
Depletion, depreciation and accretion	127,128	54,116	181,244
Net loss and comprehensive loss	625,144	54,116	679,260

5. Property and equipment

	March 31, 2010		
	Cost	Accumulated Depletion and Depreciation	Net Book Value
Petroleum and natural gas properties and lease and well equipment	$ 1,044,242	$ 10,563	$ 1,033,679

	April 30, 2009 (restated - note 4)		
	Cost	Accumulated Depletion and Depreciation	Net Book Value
Petroleum and natural gas properties and lease and well equipment	$ 2,513,489	$ 171,134	$ 2,342,355

During the period ended March 31, 2010 the Company sold interests in certain petroleum and natural gas properties for total cash consideration of $200,000. The disposal resulted in an overall change to the rate of depletion and depreciation by more than 20% therefore a loss of $1,328,501 has been recognized on disposal.

Undeveloped properties with a cost of $1,004,064 (April 30, 2009: $812,000) 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 (April 30, 2009 - $453,000) have been included in the depletion calculation.

The benchmark oil and natural gas selling prices used in the March 31, 2010 ceiling test calculations are as follows:

	Oil			Gas	
	Edmonton Par	**Hardisty Heavy 12 API**	**Company Average**	**AECO SPOT**	**Company Average**
	Cdn$/Bbl	*Cdn$/Bbl*	*Cdn$/Bbl*	*Cdn$/Mcf*	*Cdn$/Mcf*
2010	83.73	68.66	75.50	5.77	5.99
2011	86.75	70.27	77.76	6.46	6.70
2012	89.85	70.08	79.92	6.55	6.80
2013	93.05	69.78	82.21	6.80	7.06

Adjustments were made to the benchmark prices to reflect varied delivery points and quality differentials in the products delivered.

6. Asset retirement obligations

The Company estimates the total undiscounted cash flows required to settle its asset retirement obligations is approximately $338,820 (April 30, 2009 - $311,000), which will be incurred between 2011 and 2018. A credit-adjusted risk-free rate of approximately 7% (April 30, 2009 – 7%) was used to calculate the fair value of the asset retirement obligations.

A reconciliation of the asset retirement obligations is provided below:

	March 31, 2010	April 30, 2009
Balance, beginning of year	**$ 210,396**	$ -
Liabilities incurred	**59,407**	200,286
Liabilities disposed	**(38,993)**	-
Accretion expense	**15,304**	10,110
Balance, end of year	**$ 246,114**	$ 210,396.0

7. Income taxes

(a) Income tax recovery differs from that which would be expected from applying the effective Canadian federal and provincial income tax rates of 28.73% (Year ended April 30, 2009 – 29.33%) to loss before income taxes as follows:

	March 31,2010	April 30, 2009
Net loss for the year	$ (2,383,186)	$ (679,260)
Expected income tax recovery	$ (684,700)	$ (199,200)
Differences resulting from:		
Effect of changes in tax rates and other	90,900	39,800
Stock-based compensation (recovery)	30,000	(1,300)
Net change in valuation allowance	563,800	160,700
Future income tax recovery	$ -	$ -

(b) The components of the future income tax asset at March 31, 2010 and April 30, 2009 include the following:

	March 31, 2010	April 30, 2009
Future income tax assets:		
Non-capital loss carry-forwards	$ 510,000	$ 307,000
Property and equipment net of related asset retirement obligations	471,200	81,700
Share issue costs	59,300	88,000
Less: valuation allowance	(1,040,500)	(476,700)
Future income taxes	$ -	$ -

(c) The Company has accumulated at March 31, 2010 approximately $2,040,000 of unused non-capital loss carry-forwards that may be applied against future taxable income. The non-capital losses expire as follows:

2014	14,000
2015	101,000
2026	79,000
2027	34,000
2028	295,000
2029	610,000
2030	907,000
	$ 2,040,000

In addition, the Company has approximately $2,672,400 in tax pools related to its resource properties as well as $237,100 in share issuance costs, which have not been deducted at March 31, 2010.

8. Share capital

(a) Authorized

Unlimited number of voting common shares

(b) Issued common shares

	March 31, 2010		April 30, 2009	
	Number	Stated Value	Number	Stated Value
Balance, beginning of period	57,226,763	$ 7,351,624	33,526,763	$ 4,981,624
Private placements	16,500,000	825,000	-	-
Exercise of warrants (note 8(c))	-	-	23,700,000	2,370,000
Shares issued for settlement of accounts payable	737,500	18,437	-	-
Share issue costs	-	(6,221)	-	-
Balance, end of period	74,464,263	$ 8,188,840	57,226,763	$ 7,351,624

During the period ended March 31, 2010, the Company completed private placements of 16,500,000 units at a price of $0.05 per unit for total proceeds of $825,000. Each unit is comprised of one common share and one-half of one common share purchase warrant, with each whole warrant entitling the holder thereof to purchase one common share at a price of $0.10 per share expiring on October 30, 2010. The Company applied the residual approach in valuing the units and determined that the total proceeds of $825,000 be allocated to the common shares and $NIL to the warrants based on the trading price of the common shares when the private placement was announced and completed. Officers and directors subscribed for $238,100 of the units.

On August 13, 2009, the Company issued 250,000 common shares to a supplier in exchange for an outstanding accounts payable balance of $50,000 and 487,500 common shares to another supplier in exchange for an outstanding accounts payable balance of $63,375. The common shares have been ascribed a value of $.025 per share based on the trading price of the common shares at the time of issuance. The difference between the carrying value of the accounts payable and the fair value of the shares issued of $94,938 has been recognized as a gain on the settlement of accounts payable.

(c) Warrants

A summary of the status of the Company's outstanding share purchase warrants as of March 31, 2010 and April 30, 2009 and changes during the periods then ended is as follows:

	March 31, 2010		April 30, 2009	
	Number of Warrants	**Weighted Average Exercise Price**	**Number of Warrants**	**Weighted Average Exercise Price**
Outstanding, beginning of period	-	-	23,725,000	$ 0.10
Issued	8,250,000	$0.10	-	-
Exercised	-	-	(23,700,000)	$ 0.10
Expired	-	-	(25,000)	$ 0.10
Outstanding and exercisable, end of period	8,250,000	$0.10	-	$ -

9. 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 NEX 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 March 31, 2010 and April 30, 2009 and changes during the periods then ended is as follows:

	March 31, 2010		April 30, 2009	
	Number of Options	**Weighted Average Exercise Price**	**Number of Options**	**Weighted Average Exercise Price**
Outstanding, beginning of period	250,000	$0.20	900,000	$0.20
Granted	7,295,000	$0.10	-	-
Exercised	-	-	-	-
Expired	(250,000)	$0.20	(650,000)	$0.20
Outstanding, end of period	7,295,000	$0.10	250,000	$0.20
Exercisable, end of period	3,647,500	$0.10	187,500	$0.20

Subsequent to March 31, 2010, 3,000,000 options at a price of $0.10 per share were cancelled, at no cost to the Company.

(b) The following table summarizes information about stock options outstanding and exercisable at March 31, 2010:

Exercise Price	**Number Outstanding at March 31, 2010**	**Weighted Average Remaining Contractual Life**	**Number Exercisable at March 31, 2010**	**Weighted Average Remaining Contractual Life**
$ 0.10	7,295,000	4.66 years	3,647,500	4.66 years

(c) Contributed surplus

	March 31, 2010	April 30, 2009
Balance, beginning of period	$ 57,844	$ 62,484
Stock-based compensation expense (recovery)	104,522	(4,640)
Balance, end of period	$ 162,366	$ 57,844

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. The fair value of the stock options granted during the period ended March 31, 2010 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 period ended March 31, 2010, the Company recognized stock-based compensation expense of $104,522 (Year ended April 30, 2009 – recognized a recovery of $4,640 relating to stock options that were cancelled and had not vested during the year) with a corresponding increase (April 30, 2009 – decrease) to contributed surplus.

There were no stock options granted during the year ended April 30, 2009.

10. Per share amounts

Net loss per share has been calculated based on the weighted average number of common shares outstanding for the period of 64,999,017 (Year ended April 30, 2009 - 53,460,735). The calculation of diluted income per share for the period ended March 31, 2010 does not include 7,295,000 (Year ended April 30, 2009 - 250,000) stock options with a weighted average exercise price of $0.10 (Year ended April 30, 2009 - $0.20), and excludes all outstanding warrants as inclusion of these items would be anti-dilutive.

11. Supplemental cash flow information

	Eleven Months Ended March 31, 2010	Year Ended April 30, 2009
Changes in non-cash working capital balance		
Accounts receivable	$ (43,763)	$ (78,386)
Prepaid expenses and deposits	12,586	(16,518)
Accounts payable and accrued liabilities	247,187	379,052
	$ 216,010	$ 284,148

	Eleven months Ended March 31, 2010	Year Ended April 30, 2009
Changes in non-cash working capital related to		
Operating activities	$ 150,860	$ 259,244
Investing activites	65,150	24,904
	$ 216,010	$ 284,148

Changes in accounts payable and accrued liabilities excludes $113,375 settled through the issuance of common shares of the Company (note 8(b)).

12. Related party transactions

a. During the period ended March 31, 2010, $286,040 (year ended April 30, 2009 - $157,918) in remuneration, 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. As of March 31, 2010, the majority of these arrangements were discontinued. Included in accounts payable and accrued liabilities is $46,474 (April 30, 2009 - $23,728) due to officers and companies controlled by officers and directors of the Company of which $21,474 is due under normal credit terms and $25,000 bears interest at a rate of 10% per annum, is due on or before June 30, 2010, is secured by the Company's interest in certain property and equipment and upon successful completion of a convertible debenture offering (note 16 (a)) the company controlled by the director of the Company agrees to convert the $25,000 owing into convertible debentures. These transactions are recorded at the exchange amount, which is the amount of the consideration established and agreed to by the related parties.

b. During the period ended March 31, 2010, the Company purchased land included in petroleum and natural gas properties for $42,064, from officers and directors of the Company. These transactions are recorded at the carrying amount, which is equivalent to the exchange amount, which is the original cost of the land paid for by the related parties.

13. 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 March 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 March 31, 2010 and there is $13,371 in accounts receivable outstanding greater than 90 days at March 31, 2010, which the Company would consider past due under normal conditions.

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 March 31, 2010 is comprised of $124,315 in accounts receivable and $67,105 in lease reclamation deposits.

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 March 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 March 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 14 for a discussion on the Company's capital management policy and note 1 for a discussion of the going concern assumption.

14. 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:

	March 31, 2010	April 30, 2009
Cash	$ -	$ 41,041
Accounts receivable and prepaid expenses	137,134	105,957
Bank overdraft	(20,483)	-
Accounts payable and accrued liabilities	(567,150)	(433,338)
Working capital deficiency	$ (450,499)	$ (286,340)

15. Commitment and Contingent Acquisition Costs

The Company has entered into a farm-in agreement dated effective July 1, 2009 to a date of two years after the effective date of which the Company may elect to acquire 100% of certain lands ("acquired lands") from the farmor. Pursuant to the agreement, the Company has exercised it's rights to acquire an interest in certain petroleum and natural gas rights in addition to certain equipment for a cost of $500,000 which the Company shall pay in two increments. The first increment of $150,000 was paid at closing of the agreement and the second increment of $350,000 shall be paid out of 100% of the net revenues of all production, if any, from the lands. For greater clarity, the $350,000 is only payable should there be net revenues from the acquired lands. As there is currently no production from, or reserves assigned to, the acquired lands, management believes the payment of $350,000 in contingent consideration to be undeterminable and therefore this amount has not been recorded in the accounts of the Company. Upon full payment of the $500,000, the terms of the farm-in agreement shall apply regarding the interest of all parties.

16. Subsequent events

a) The Company intends to complete a private placement of up to $2,000,000 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 post-consolidation common share (see note 16(b)) for each $0.10 of the principal amount of debenture and accrued interest, subject to regulatory approval. In the event the consolidation of common shares is not approved and completed on or before June 30, 2010, this will constitute an event of default under the terms of the debenture and they will be immediately due and payable.

   The Company has received a commitment letter for $1,700,000 of the debenture issuance, and has received a $600,000 demand secured bridge loan (the "Bridge Loan") which bears interest at a rate of 10% per annum compounded semi-annually and payable after, as well as before maturity, whereas overdue interest shall be compounded monthly. Repayment of the loan shall be allowed at any time without penalty and is secured by demand promissory notes in the amount of $600,000, first fixed and floating charge debentures from the Company, a general security agreement and a general assignment of book debts of the Company. Coincident with funding of the Bridge Loan, two of the three lenders under the Bridge Loan facility were appointed to the Board of Directors of the Company. Also as a condition of the Bridge Loan, the Company cannot incur further secured indebtedness, allow a change in control of the Company, pay dividends, redeem common shares or contract to sell any oil or natural gas on a fixed price basis, without the prior consent of the lenders.

   The Company has received subscription agreements for 1,729,000 debentures and funds of $1,729,000 which are currently being held in escrow, and the Company expects to complete a first closing of the debentures immediately upon receipt of final documentation. $600,000 of the funds received will be used to repay the Bridge Loan.

b) At an annual and special meeting of shareholders to be held on June 15, 2010 the Company plans to seek approval for a consolidation of the common shares of the Company on the basis of one new common share for each four existing common shares held.