International Frontier Resources Corporation

Consolidated Financial Statements

December 31, 2009

Contents

Deloitte.

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Auditors' Report

To the Shareholders of
International Frontier Resources Corporation

We have audited the consolidated balance sheets of International Frontier Resources Corporation as at December 31, 2009 and 2008 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our 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 consolidated financial statements present fairly, in all material respects, the financial position of International Frontier Resources Corporation as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP
Chartered Accoutants

Calgary, Alberta
April 9, 2010

International Frontier Resources Corporation
Consolidated Balance Sheets

December 31	2009	2008
Assets		
Current		
Cash and cash equivalents (Note 14)	$ 4,099,740	$ 9,081,465
Receivables	144,295	62,590
Prepaids and deposits	115,555	43,815
Current portion of restricted cash on deposit (Note 5)	-	1,342,115
Discontinued operations (Note 15)	3,978,035	-
	8,337,625	10,529,985
Inventory (Note 4)	-	16,200
Restricted cash on deposit (Note 5)	640,670	925,060
Property and equipment (Note 6)	11,969,305	20,846,600
Intangibles (Note 7)	25,000	30,000
Discontinued operations (Note 15)	-	5,907,230
	$ 20,972,600	$ 38,255,075
Liabilities		
Current		
Payables and accruals	$ 212,575	$ 1,204,280
Discontinued operations (Note 15)	259,415	53,030
	471,990	1,257,310
Asset retirement obligations (Note 8)	327,720	339,615
Future income taxes (Note 9)	-	2,028,630
	799,710	3,625,555
Shareholders' Equity		
Share capital (Note 10)	42,064,435	42,064,435
Contributed surplus (Note 10)	10,746,850	10,490,030
Deficit	(32,638,395)	(17,924,945)
	20,172,890	34,629,520
	$ 20,972,600	$ 38,255,075

Commitments and contingencies (Note 13)
Subsequent events (Note 17)

On behalf of the Board

(Signed) "Wm. Patrick Boswell" Director Signed) "W.J. McNaughton" Director

See accompanying notes to the interim consolidated financial statements.

International Frontier Resources Corporation

Consolidated Statements of Operations, Comprehensive Loss and Deficit

Years ended December 31,	2009	2008
Revenue		
Oil	$ 770,810	$ 1,229,080
Less: Royalties	(167,575)	(259,020)
	603,235	970,060
Interest income	46,950	460,895
	650,185	1,430,955
Expenses		
Field operating costs	333,315	376,145
Depletion, depreciation and impairments (Note 6)	9,239,980	4,230,080
Accretion (Note 8)	48,935	29,450
Foreign exchange gain (loss)	1,685	(21,345)
General and administration	557,755	623,460
Non- recoverable Sidox costs (Note 4)	-	55,165
Inventory write down (Note 4)	16,200	61,875
Stock based compensation (Note 10)	256,820	-
	10,454,690	5,354,830
Loss before income taxes from continuing operations	(9,804,505)	(3,923,875)
Future income tax recovery (Note 9)	(2,028,630)	(1,201,000)
Net loss from continuing operations	(7,775,875)	(2,722,875)
Net loss from discontinued operations (Note 15)	(6,937,575)	(1,437,345)
Net loss	$ (14,713,450)	$ (4,160,220)
Deficit, beginning of year	(17,924,945)	(13,764,725)
Deficit, end of year	$ (32,638,395)	$ (17,924,945)
Net loss from continuing operations per share (Note 11)		
Basic and diluted	$ (0.13)	$ (0.05)
Net loss from discontinued operations per share (Note 11)		
Basic and diluted	$ (0.12)	$ (0.02)
Net loss per share (Note 11)		
Basic and diluted	$ (0.25)	$ (0.07)

See accompanying notes to the consolidated financial statements.

International Frontier Resources Corporation
Consolidated Statements of Cash Flows

Years ended December 31	2009	2008
Operating		
Net loss from continuing operations	$ (7,775,875)	$ (2,722,875)
Non Cash Items:		
Depletion, depreciation and impairments	9,239,980	4,230,080
Accretion	48,935	29,450
Write down of inventory	16,200	61,875
Stock based compensation	256,820	-
Future income tax expense	(2,028,630)	(1,201,000)
Asset retirement liabilities settled (Note 8)	(60,830)	(25,855)
	(303,400)	371,675
Change in non-cash operating working capital (Note 14)	(107,785)	(210,920)
Cash flow from continuing operations	(411,185)	160,755
Cash flow from discontinued operations (Note 15)	15,690	24,475
	(395,495)	185,230
Investing		
Additions to property and equipment	(357,420)	(9,676,575)
Decrease in restricted cash on deposit	1,626,505	-
Change in non-cash investing working capital (Note 14)	(1,037,355)	1,238,745
Cash flow from continuing investing activities	231,730	(8,437,830)
Cash flow from discontinued investing activities (Note 15)	(4,817,960)	(5,425,765)
	(4,586,230)	(13,863,595)
Financing		
Share issue costs (Note 10)	-	30,710
Redemption of convertible debenture	-	(65,000)
	-	(34,290)
Net decrease in cash and cash equivalents	(4,981,725)	(13,712,655)
Cash and cash equivalents (Note 14)		
Beginning of year	9,081,465	22,794,120
End of year	$ 4,099,740	$ 9,081,465

See accompanying notes to the consolidated financial statements.

1. Nature of operations and basis of presentation

The Company, since inception, is engaged primarily in the exploration for and development of petroleum and natural gas reserves. These activities are conducted in two geographical areas, being Canada and the United Kingdom. These financial statements are denoted in Canadian dollars.

The consolidated financial statements include the accounts of the Company, its wholly owned United Kingdom subsidiary, Britcana Energy Ltd. and its 50% jointly controlled interest in Sidox Chemicals Canada Ltd. ("Sidox Canada") accounted for on the proportionate consolidation method. All inter-company transactions and balances are eliminated upon consolidation. At December 31, 2009, operations in the United Kingdom have been accounted for as discontinued pursuant to sale of the Company`s wholly owned subsidiary Britcana Energy Ltd. in 2010.

The consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles within the framework of the accounting policies summarized below.

Starting in 2008 and continuing into 2010, the global credit market crisis, the volatility in the price of oil and natural gas, the recessions in the United States ("U.S.") and Canada and the slowdown of economic growth in the rest of the world have created a substantially more volatile business environment. These conditions may limit certain of the Corporation's planned business development activities and will continue to present risks.

2. Summary of Significant accounting policies

Measurement uncertainty

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses during the reporting period. Accordingly, actual results may differ from estimated amounts as future confirming events occur.

The most significant estimate is related to the recoverability of petroleum and natural gas properties. Amounts recorded for depletion and depreciation, asset retirement obligations and amounts used in impairment test calculations are based upon estimates of petroleum and natural gas reserves and future costs to develop those reserves. By their nature, these estimates of reserves, costs and related future cash flows are subject to uncertainty, and the impact on the consolidated financial statements of future periods could be material.

The calculation of asset retirement obligations include estimates of the ultimate settlement amounts, inflation factors, credit adjusted discount rates and timing of settlement.

The amounts recorded relating to the fair value of stock options issued are based on estimates of the future volatility of the Company's share price, expected lives of the options, expected dividends and other relevant assumptions.

2. Summary of significant accounting policies (Continued)

Measurement uncertainty (continued)

The Company may from time to time issue flow-through shares to finance a portion of its capital expenditure program. The income tax deductions associated with the expenditures funded by flow-through arrangements are renounced to investors in accordance with the appropriate tax legislation. To recognize the foregone tax benefits to the Company, share capital is reduced and a future tax liability is recorded equal to the estimated amount of future income taxes when the expenditure renouncements are filed.

Property and equipment

The Company follows the full cost method of accounting for petroleum and natural gas operations as determined by the Canadian Institute of Chartered Accountants ("CICA"), Accounting Guideline 16, whereby all costs of exploration for and development of petroleum and natural gas reserves are capitalized in a cost centre for each country in which the Company has operations. Costs include lease acquisition costs, geological and geophysical expenses, costs of drilling both successful and unsuccessful wells and overhead charges directly related to exploration activities. Proceeds from the sale of oil and gas properties will be applied against the capitalized costs, with no gain or loss recognized, unless such a sale would significantly alter the rate of depletion and depreciation.

Depletion of exploration and development costs and depreciation of production equipment is provided using the unit-of-production method based upon estimated proved petroleum and natural gas reserves before royalties as determined by independent engineers. The costs of significant undeveloped properties are excluded from costs subject to depletion until it is determined whether or not proved reserves are attributable to the properties or impairment has occurred. Estimated future costs to be incurred in developing proved reserves are included in costs subject to depletion.

The costs associated with the acquisition and development thereon to date is recognized in these consolidated financial statements in accordance with the accounting policies outlined in this note. Accordingly, their carrying value represents costs incurred to date and do not necessarily reflect present or future values. The recoverability of these amounts is dependent upon the existence of economically recoverable petroleum and natural gas reserves.

At each reporting period, the Company performs an impairment test to determine the recoverability of capitalized costs associated with reserves. An impairment loss is recognized in net earnings when the carrying amount of a cost centre exceeds its fair value. The carrying amount of the cost centre is not recoverable if the carrying amount exceeds the sum of the undiscounted cash flows from proved reserves plus the costs of unproved properties. If the sum of the cash flows is less than the carrying amount, the impairment loss is limited to the amount by which the carrying amount exceeds the sum of the fair value of proved and probable reserves and the cost of unproved properties.

At the end of each reporting period, the Company looks for any indication of impairment; if any indication of impairment exists the company performs an impairment test with respect to the costs of its unproved properties. An impairment loss is recognized in net earnings when the carrying amount of its unproved properties exceeds their fair value assessed based on management's best estimate using the relevant information available at the time.

Depreciation of office furniture and equipment is provided on a diminishing balance basis over the estimated useful lives of those assets at rates ranging from 20% to 30% per annum.

2. Summary of significant accounting policies (Continued)

Asset retirement obligations

The Company recognizes the fair value of estimated asset retirement obligations on the consolidated balance sheet when a reasonable estimate of fair value can be made. Asset retirement obligations include those obligations where the Company will be required to retire tangible long lived assets such as well sites, pipelines and facilities. The asset retirement cost, equal to the initially estimated fair value of the asset retirement obligation, is capitalized as part of the cost of the related long lived asset. Changes in the estimated obligation resulting from revisions to estimated timing or amount of undiscounted cash flows are recognized as a change in the asset retirement obligation and the related asset retirement cost.

Asset retirement costs are amortized using the unit-of-production method and are included in depletion and depreciation in the consolidated statements of operations. Increases in the asset retirement obligations resulting from the passage of time are recorded as accretion of asset retirement obligations in the consolidated statements of operations. Actual expenditures incurred are charged against the accumulated obligation.

Joint venture operations

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

Flow-through common shares

Resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. The estimated tax benefits transferred to shareholders upon renouncement are recorded as an increase to future income taxes and a reduction to share capital at the time the resource expenditure deductions are renounced.

Financial Instruments

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

Cash and cash equivalents and restricted cash are classified as held-for-trading, which are measured at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable are classified as other financial liabilities, which are measured at amortized cost. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired.

2. Summary of significant accounting policies (Continued)

Financial Instruments (continued)

For financial assets and financial liabilities that are not classified as held-for-trading, the transaction costs that are directly attributable to the acquisition or issue of a financial asset or financial liability are adjusted to the fair value initially recognized for that financial instrument. These costs are expensed using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances with banks and short-term deposits with original maturities of three months or less.

Inventory

Inventory is comprised of Sidox chemical inventory that is stated at the lower of cost and net realizable value. Cost is determined on a weighted average cost basis.

Intangible assets

The Company's proportionate share of an exclusive licensing agreement for the Sidox product in Canada is held by Sidox Chemicals Canada Ltd. The agreement covering an exclusive license for Canada has a ten-year term and costs related thereto are being amortized on a straight line basis over the period. Intangible assets are subject to an annual impairment test whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Income taxes

Income taxes are recorded using the liability method. Future income taxes are calculated based on temporary differences arising from the difference between the tax basis of an asset and liability and its carrying value using substantively enacted income tax rates. Changes in income taxes rates that are substantively enacted are reflected in the period the change occurs. A valuation allowance is recorded against any future income tax asset if the Company is not "more likely than not" to be able to utilize the associated tax deductions.

Per share amounts

Basic earnings per share are computed by dividing the earnings for the period by the weighted average number of common shares outstanding during the year. Diluted earnings per share reflects the potential dilution that could occur if potentially dilutive securities were exercised or converted to common stock. The dilutive effect of options and warrants and their equivalent is computed by application of the treasury stock method and the effect of convertible securities by the "if converted" method. Diluted amounts are not presented when the effect of the computations are anti-dilutive due to the losses incurred. Accordingly, there is no difference in the amounts presented for basic and diluted loss per share.

2. Summary of significant accounting policies (Continued)

Stock-based compensation

The Company has a stock option plan as described in Note 10. The Company uses the fair value method of accounting for stock options granted to employees and directors. Fair values are determined using the Black-Scholes option pricing model. Compensation costs are recognized in the statement of operations at the date of grant as the options vest immediately. Compensation expense is adjusted for the estimated amount of forfeitures at the time compensation expense is recognized.

Revenue recognition

Revenue associated with the production and sales of crude oil, natural gas and natural gas liquids owned by the Company are recognized when title passes from the Company to its customer. Other revenue is recognized in the period that the service is provided to the customer or when income is earned.

Foreign currency translation

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

The Company's foreign subsidiary is an integrated operation. Integrated foreign subsidiaries are accounted for using the temporal method. Under this method, monetary assets and liabilities are translated at the exchange rate in effect at the balance-sheet date. Non-monetary assets are translated at historical rates. Revenue and expenses are translated at average rates for the period. Foreign exchange gains and losses are included in net loss in the period in which they arise.

Changes in accounting policies and new pronouncements

- In January 2009, the Emerging Issues Committee ("EIC") of the CICA issued EIC 173, which details guidance on the implications of credit risk in determining fair value of an entity's financial assets and financial liabilities. The guidance clarifies that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments, for presentation and disclosure purposes. The conclusion of the EIC was effective from the date of issuance of the abstract and did not have any impact on the Company's consolidated financial statements.

- Effective January 1, 2009, the Corporation adopted Section 3064, "Goodwill and Intangible Assets" issued by the Canadian Institute of Chartered Accountants ("CICA"). Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets subsequent to its initial recognition. This new section has no current impact on the Corporation or its Consolidated Financial Statements

2. Summary of significant accounting policies (Continued)

- During 2009, amendments were made to Section 3862, Financial Instruments – Disclosures. The amendments include enhanced disclosures relating to the fair value of financial instruments and the liquidity risk associated with financial instruments. Section 3862 now requires that all financial instruments measured at fair value be categorized into one of three hierarchy levels. See Note 16 for the enhanced disclosures and liquidity risk disclosures. The amendments are consistent with recent amendments to financial instruments disclosure under International Financial Reporting Standards

- In July 2009, the CICA amended CICA Section 3855, "Financial Instruments – Recognition and Measurement", in relation to the impairment of financial assets. Amendments to this section have revised the definition of "loans and receivables" and provided that when certain conditions have been met, reclassification of financial assets from the held-for trading and available-for-sale categories into the loans and receivables category is permitted. The amendments also provide one method of assessing impairment for all financial assets regardless of classification. The Company adopted this standard prospectively effective December 31, 2009. The adoption of the amendments of this standard did not have a material impact on the financial statements of the Company.

- In January 2009, the CICA issued new standards for Business Combinations. This standard is effective January 1, 2011 and applies prospectively to business combinations for which the acquisition date is on or after the first annual reporting period beginning on or after January 1, 2011 for the Company. Early adoption is permitted. This standard replaces Handbook Section 1581 Business Combinations, and harmonizes the Canadian standards with IFRS. This standard was amended to require additional use of fair value measurements, recognition of additional assets and liabilities, and increased disclosure. The adoption of this standard will not have a material impact on the Company's financial statements.

- January, 2009, CICA Handbook Section 1601 – Consolidated Financial Statements was issued which, together with new CICA Handbook Section 1602 – Non-controlling Interests, replaces the former Section 1600 – Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. Section 1602 is equivalent to the corresponding provisions of International Financial Report Standards IAS 27 – Consolidated and Separate Financial Statements. Sections 1601 and 1602 apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. The Corporation does not anticipate that these sections will have a material impact on its financial statements.

3. Capital Management

In the management of capital, the Company includes shareholders' equity and working capital in the definition of capital. Management reviews its capital requirements on an ongoing basis and believes that its approach, given the relative size of the Company, is reasonable. As at December 31, 2009, the Company's capital as defined above was as follows:

	2009	2008
Total shareholder's equity	$ **20,172,890**	$ 34,629,520
Working capital:		
Cash and cash equivalents	**4,099,740**	9,081,465
Current portion of restricted cash	-	1,342,115
Payables and accruals	**(212,575)**	(1,204,280)
	$ **24,060,055**	$ 43,848,820

The Company is in the business of oil and gas exploration in Canada. Management determines the Company's capital structure and makes adjustments to it based on funds available to the Company, in order to support the acquisition, exploration and development of oil and gas properties. The Board of Directors has not established quantitative return on capital criteria for capital management but rather relies upon the expertise of the management team to sustain the future development of the business.

The majority of the properties in which the Company currently has an interest are in the exploration stage and do not generate any revenue. The Company does earn revenue from properties owned in Alberta. The Company therefore is dependent upon partnerships with industry and external financing to fund the majority of its future exploration programs and its administrative costs. The Company will spend existing working capital and will seek additional financing as needed. The Company will continue to assess new properties and to seek to acquire an interest in additional properties if management feels there is sufficient geologic or economic potential.

Historically, the Corporation has relied on proceeds from the sale of its common shares to fund its operations. In order to accelerate the Corporation's current exploration programs the Corporation may require additional capital. The timing, pace, scope and amount of the Corporation's capital expenditures is largely dependent on the operators' capital expenditure programs and the availability of capital to the Corporation.

The Corporation may obtain funds for future capital investments from strategic alliances with other energy or financial partners, the issuance of additional Common Shares, preferred shares or debt securities, project financing, sale of property interests, or other arrangements, all of which may dilute the interest of the Corporation's existing shareholders. In the current economic environment there can be no assurances that the Company can raise capital through the sale of its shares.

4. Investment in Sidox Chemicals Canada Ltd. ("Sidox Canada")

The investment in Sidox Canada is subject to joint control and accordingly has been proportionately consolidated in these financial statements at December 31, 2009.

The Company's proportionate share of balances included in these consolidated financial statements related to Sidox Canada is:

	2009	2008
Assets		
Cash	$ 7,610	$ 8,045
Receivables	8,560	15,660
Inventory	-	16,200
Intangibles	25,000	30,000
	41,170	69,905
Liabilities		
Payables	-	135
Net assets	$ 41,170	$ 69,770
Revenues	$ -	$ -
Expenditures	28,600	71,880
Net Loss	$ 28,600	$ 71,880

At December 31, 2009 Sidox chemical inventory was written down by $32,400 (2008 - $123,750) to its net realizable value of $Nil. The Company's proportionate share of this write down of $16,200 has been recorded as an expense resulting in a net realizable value of $Nil at December 31, 2009.

During 2008, the Company wrote off $55,165 of non recoverable costs, which represent its proportionate share of amounts owed to the Company by Sidox Canada at December 31, 2008 that were not collectible.

5. Restricted cash on deposit

As at December 31, 2009, the Company has provided an assignment of cash totaling $640,670 (2008 - $2,267,175) as security on the irrevocable standby letters of credit for the Northwest Territories Exploration Licenses (see Note 13a) as follows:

	2009	2008
EL – 423	$ -	$ 509,180
EL – 429	-	781,250
EL – 432	-	250,000
EL – 441	266,365	352,440
EL – 445	68,750	68,750
EL – 443	305,555	305,555
	640,670	2,267,175
Current portion	-	(1,342,115)
	$ 640,670	$ 925,060

6. Property and equipment

Property and equipment includes costs incurred in Canada to December 31, 2009. All costs incurred in the U.K. have been included in Discontinued Operations (Note 15).

December 31, 2009	Cost	Accumulated Depletion, Depreciation and Impairments	Net Book Value
Petroleum and natural gas properties	$ 28,560,600	$ 16,605,325	$ 11,955,275
Office furniture and equipment	84,980	70,950	14,030
Petroleum and natural gas properties	$ 28,645,580	$ 16,676,275	$ 11,969,305

December 31, 2008	Cost	Accumulated Depletion, Depreciation and Impairments	Net Book Value
Petroleum and natural gas properties	$ 28,202,735	$ 7,374,150	$ 20,828,585
Office furniture and equipment	84,980	66,965	18,015
Petroleum and natural gas properties	$ 28,287,715	$ 7,441,115	$ 20,846,600

During 2009, $65,475 (2008 - $58,300) of overhead expenses directly related to exploration activities in the Northwest Territories were capitalized. Of these amounts, $Nil (2008 - $3,600) related to interest expense was capitalized for activities in the Northwest Territories.

As at December 31, 2009, the Company has accumulated capital expenditures for land, seismic, and drilling in the Northwest Territories of $28,560,600 (2008 - $28,202,735). Included in this amount are costs of $10,072,160 (2008 - $19,431,260) which have been included in petroleum and natural gas properties as unproved properties and have not been included in the respective cost centers for purposes of calculating depletion. During 2009, the Company transferred $9,713,320 of unproved property costs incurred in the Northwest Territories to the full cost pool.

In 2009, an $8,561,840 (2008 - $3,796,330) impairment of petroleum and natural gas assets in Canada has been recorded as part of depletion to reflect the excess carrying amount of assets over fair value of future reserves.

The prices used in the ceiling test evaluation of the Company's petroleum properties were as follows:

	2010	2011	2012	2013	2014	2015	Increase Thereafter
Alberta Bow River Hardisty Crude Oil ($C/Bbl)	$72.30	$73.80	$74.40	$75.80	$79.20	$82.60	2.0%

7. Intangible assets

December 31, 2009

	Cost	Accumulated Depreciation	Net Book Value
Sidox license	$ 50,000	$ 25,000	$ 25,000

December 31, 2008

	Cost	Accumulated Depreciation	Net Book Value
Sidox license	$ 50,000	$ 20,000	$ 30,000

8. Asset retirement obligations

The Company's asset retirement obligations result from net ownership interest in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Company estimates the total undiscounted amount of cash flows before inflation required to settle its asset retirement obligations is approximately $832,500 (2008 - $832,500) in Canada and $203,000 (2008 - $Nil) in the North Sea (Note 15). A credit-adjusted risk-free rate of 9% and inflation rate of 2% was used to calculate the fair value of the asset retirement obligations. A reconciliation of the asset retirement obligations is provided below:

	2009	2008
Balance, beginning of year	$ 339,615	$ 336,020
Liabilities settled	(60,830)	(25,855)
Accretion expense	48,935	29,450
Balance, end of year	$ 327,720	$ 339,615

9. Income taxes

a) The total provision for income taxes differs from the expected amount calculated by applying the combined federal and provincial tax rates of approximately 29.00% (2008- 29.50%) to loss before income taxes. This difference results from the following items:

December 31, 2009

	2009	2008
Loss before income taxes from continuing operations	$ (9,804,505)	$ (3,923,875)
Expected tax recovery of combined federal and provincial statutory rates	(2,843,305)	(1,157,545)
Increase (decrease) resulting from:		
Statutory rate change	392,185	(63,600)
Stock based compensation	74,480	-
Other	32,765	17,425
	(2,343,875)	(1,203,720)
Valuation allowance	315,245	2,720
Future income tax recovery	$ (2,028,630)	$ (1,201,000)

9. Income taxes (continued)

b) Future income taxes consist of the following temporary differences and other items

December 31, 2009

	2009	2008
Excess of carry value of property and equipment over tax values	$ (760,795)	$ (3,003,535)
Asset retirement obligations	81,930	84,905
Share issue costs	197,340	311,140
Non-capital loss carry-forwards	934,160	716,250
	452,635	(1,891,240)
Valuation allowance	(452,635)	(137,390)
Future income tax liability	$ -	$ (2,028,630)

c) Tax losses

The Company has incurred losses for income tax purposes of approximately $3,735,000 (2008 - $2,860,000) in Canada. The related benefit of these losses in Canada has been recognized in the consolidated financial statements to reduce future income taxes. Unless sufficient taxable income is earned, these losses will expire as follows:

2010	$ 66,000
2011	265,000
2012	508,000
2013	593,000
2026	268,000
2027	634,000
2028	436,000
2029	965,000
	$ 3,735,000

10. Share capital

a) **Authorized:**
Unlimited common shares
Unlimited preferred shares

b) **Issued:**

	December 31, 2009		December 31, 2008	
	Number of Shares	Amount	Number of Shares	Amount
Common shares				
Beginning of period	59,578,965	$ 42,064,435	59,578,965	$ 44,121,725
Tax effect of flow through shares	-	-	-	(2,088,000)
Share issue costs	-	-	-	30,710
Balance, end of year	59,578,965	$ 42,064,435	59,578,965	$ 42,064,435

10. Share capital (continued)

c) Stock options

The Company has a stock option plan available to consultants, officers, directors, and employees of the Company to be granted options of up to 10 percent of the issued and outstanding common shares of the Corporation. The exercise price of each option approximates the market price for the common shares on the date the option was granted. As at December 31, 2009, 3,895,000 common shares were reserved for issuance under the plan. Options granted under the plan vest upon granting and have a term of five years to expiry.

Outstanding and exercisable

	December 31, 2009		December 31, 2008	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance, beginning of period	**1,015,000**	**$ 1.16**	5,855,000	$ 1.23
Granted	**3,320,000**	**$ 0.10**	-	$ -
Expired	**(440,000)**	**$ 1.16**	(4,840,000)	$ 1.31
Exercised	**-**	**$ -**	-	$ -
Balance, end of year	**3,895,000**	**$ 0.26**	1,015,000	$ 1.16

December 31, 2009

	Options Outstanding			Options Exercisable	
Exercise Price	Options Outstanding	Weighted Average Contractual Life (years)	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercisable Price
$0.10	3,320,000	4.33	$ 0.10	3,320,000	$ 0.10
$0.82	350,000	2.49	$ 0.82	350,000	$ 0.82
$1.35 - $1.95	225,000	0.88	$ 1.68	225,000	$ 1.68
	3,895,000	3.96	$ 0.26	3,895,000	$ 0.26

The weighted average fair market value of options granted in 2009 was $0.06 per option. The fair value of each option granted was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	December 31, 2009
Risk-free interest rate	2.0%
Expected life of options	5 years
Volatility	111%
Dividend yield rate	0%

10. Share capital (continued)

d) Contributed surplus:

	December 31, 2009	December 31, 2008
Balance, beginning of year	$ 10,490,030	$ 6,732,940
Value attributed to stock options granted	256,820	-
Fair value of expired warrants	-	3,757,090
Balance, end of year	$ 10,746,850	$ 10,490,030

11. Per share

	2009	2008
Net loss from continuing operations	$ (7,775,875)	$ (2,722,875)
Weighted average number of shares	59,578,965	59,578,965
Basic and diluted loss per share	$ (0.13)	$ (0.05)
Net loss from discontinued operations	$ (6,937,575)	$ (1,437,345)
Weighted average number of shares	59,578,965	59,578,965
Basic and diluted loss per share	$ (0.12)	$ (0.02)
Net loss	$ (14,713,450)	$ (4,160,220)
Weighted average number of shares	59,578,965	59,578,965
Basic and diluted loss per share	$ (0.25)	$ (0.07)

In calculating diluted common share amounts for the year ended December 31, 2009, the Company excluded 3,895,000 (2008 – 1,015,000) options, because the exercise price was greater than the average market price of its common shares during the year.

12. Related party transactions

a) During 2009, the Company paid compensation to certain officers and directors as follows:

	2009	2008
Executive officers compensation	$ 109,500	$ 108,000
Director's fees	-	14,500
Royalty incentive program	11,145	16,745
	$ 120,645	$ 139,245

At December 31, 2009, $10,475 (December 31, 2008 – $16,745) of the above amounts were included in payables and accruals.

b) During 2009, $17,270 (2008 - $6,310) was paid to a law firm in which a Director of the Company is a partner. Of this amount, $Nil (2008 - $675) is included in payables and accruals at December 31, 2009. These costs are included in general and administrative expenses on the consolidated statements of operations and deficit.

c) During 2009, two of the directors of the Company were also directors of Sidox Chemicals Canada Ltd. Details of transactions with Sidox Chemicals Canada Ltd during 2009 are disclosed in Note 4.

The above transactions were incurred in the normal course of operations of the Company and have been recorded at the exchange amounts that were established and agreed upon by the related parties.

13. Commitments and contingencies

a) The Company has letters of credit for its share of refundable deposits on Northwest Territories exploration licenses. The letters of credit are secured by a total assignment of cash of $640,670 (2008 – $2,267,175). The Company is contingently liable under the letters of credit for $640,670 (2008 - $2,267,175). The deposits will be refunded by $1 for every $4 spent on qualified expenditures on each exploration license. At December 31, 2009, the Company has included a provision of $68,750 in payables and accruals and depletion, depreciation and impairments with respect to license EL-445. The Company does not plan to fulfill its work commitment on this license and it will be forfeited and the amount paid out upon expiry on May 2, 2011.

b) The Company is party to an agreement to lease its premises until December 31, 2011. The annual rent of premises consists of a minimum rent plus occupancy costs. Minimum rent payable for premises until the end of the lease is as follows:

2010	$	53,400
2011	$	53,400

c) The Company has established a Royalty Incentive Agreement for officers who are also Directors and consultants. Under the plan, the compensation committee issues units and pays royalties on an annual basis to employees, consultants and directors. The units entitle the holder to receive an annual payment based on 2% of the Company's annual gross oil and gas production revenue, net of transportation and processing fees from licenses and lands owned by the Company. Under the terms of the agreement, once the Company has recovered payout of 100% of its cumulative annual capital expenditures from licenses and lands owned by the Company, the payment to employees, consultants and directors is based on 4% of the Company's annual production revenue less transportation and processing fees. At December 31, 2009, payout of 100% of cumulative annual capital expenditures had not been reached. At December 31, 2009, the Company recorded costs of $14,965 (2008 - $23,920) with respect to this plan.

14. Supplemental cash flow information

Changes in non-cash working capital items for continuing operations increase (decrease) cash as follows:

		2009		2008
Receivables	$	**(81,705)**	$	823,200
Prepaids and deposits		**(71,740)**		118,875
Payables and accruals		**(991,695)**		85,750
	$	**(1,145,140)**	$	1,027,825
Operating activities	$	**(107,785)**	$	(210,920)
Investing activities		**(1,037,355)**		1,238,745
Financing activities		-		-
	$	**(1,145,140)**	$	1,027,825
Taxes paid	$	-	$	-
Interest paid	$	-	$	3,600

Cash and cash equivalents are comprised of:

Cash	$	**3,729,270**	$	148,015
Short term bankers' acceptances (bearing interest rates ranging from 0.15% - 0.75% (2008: 1.30% - 1.34%)		**370,470**		8,933,450
	$	**4,099,740**	$	9,081,465

15. Discontinued Operations

a) On December 14, 2009, the Company entered into an agreement to sell its 8.33% interest in UK License P.233 (Maria block 15/18a) for proceeds of $650,000 USD. Pursuant to this agreement, the net book value of the property was written down by $3,079,085 to its fair value.

b) On March 25, 2010, the Company entered into an agreement to sell 100% of the ordinary shares in its wholly owned U.K. subsidiary Britcana Energy Ltd. to Nexen Petroleum U.K. Limited. The purchase price for the shares will be $5,000,000 USD comprised of an initial consideration of $3,000,000 USD to be received upon closing and two future payments of $1,000,000 USD. Due to the fact that the second and third payments are contingent on the successful development of Britcana's 10% interest in UK License P 1465 (block 15/23c), the Company cannot assess at this time whether or not these amounts will be received.

The Company's net investment in Britcana Energy Ltd. and its North Sea operations for the year ended December 31, 2009 have been presented as discontinued operations in these financial statements. Consequently, as a result of classification of Britcana's North Sea activities as discontinued operations, the Company now has one reportable geographical segment.

A summary of discontinued operations is as follows:

	2009	2008
Oil revenues, net	$ -	$ -
Less: royalties	-	-
	-	-
Interest income	-	62,820
	-	62,820
Expenses		
Field operating costs	-	-
Depletion, depreciation, impairments and writedowns	6,664,380	1,435,375
Accretion	-	-
Foreign exchange (gain) loss	286,735	35,245
General and administration	13,270	3,915
Bad debt expenses (recovery)	(26,810)	25,630
	6,937,575	1,500,165
Net loss from discontinued operations	$ (6,937,575)	$ (1,437,345)

At December 31, 2009 there was a future tax asset from discontinued operations of $3,128,160 (2008 -$1,461,570). The future tax asset was not recognized at December 31, 2009 and a valuation allowance was recorded to bring the balance of future income taxes in to $Nil (2008 - $Nil).

15. Discontinued Operations (continued)

The following table represents the balances that have been classified on the consolidated balance sheets as discontinued operations:

	2009	2008
Cash	$ 3,660	$ 523,835
Receivables	9,020	92,105
Property and equipment	3,965,335	5,291,290
Total assets of discontinued operations	3,978,035	5,907,230
Payables and accruals	(56,415)	(53,030)
Asset retirement obligations	(203,000)	-
Total liabilities of discontinued operations	(259, 415)	(53,030)
Net assets of discontinued operations	$ 3,718,620	$ 5,854,200

During 2009, $65,475 (2008 - $58,300) of overhead expenses directly related to exploration activities in the North Sea were capitalized.

All of the above balances have been classified as current on the consolidated balance sheet at December 31, 2009 due to the fact that the transactions closed in April 2010.

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the current year consolidated financial statements.

16. Financial Instruments

The Company is exposed to financial risk in a range of financial instruments including cash and cash equivalents, restricted cash, trade accounts receivable, and trade accounts payable. 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 discussed below:

a) Credit risk

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date. A portion of the Company's financial assets at the balance sheet date arise from crude oil sales. Industry standard dictates that commodity sales are settled on the 25th day of the month following the month of production.

At December 31, 2009, substantially all of the accounts receivable are with customers and joint venture partners in the oil and gas industry and are subject to normal industry credit risks. The Company markets its oil through one marketer the increased risk arising from exposure to one entity is mitigated by the fact that oil production is not a significant part of the Company's business at this time as the Company is engaged primarily in the exploration for and development of petroleum and natural gas reserves.

The following table presents the aging of the Company's accounts receivable at December 31, 2009:

Total receivables:	0 to 30 days	31 to 60 days	61 to 90 days	Greater than 90 days
$ 144,295	$ 80,595	$ -	$ -	$ 63,700

The maximum exposure to credit risk is represented by the carrying amount on the balance sheet of all the financial assets. There are no material financial assets that are past due. During 2009, there was no allowance for doubtful accounts recorded as all amounts outstanding at December 31, 2009 are deemed collectible.

Should the Company determine that the ultimate collection of a receivable is in doubt, it will provide the necessary provision in its allowance for doubtful accounts with a corresponding charge to earnings. If the Company subsequently determines an account is uncollectible, the account is written off with a corresponding charge to the allowance account. At December 31, 2009, the Company's allowance for doubtful accounts balance was $Nil (2008 – $Nil).

b) Foreign currency risk

Foreign currency risk is the risk that a variation in exchange rates between the Canadian dollar and foreign currencies will affect the Company's operating and financial results. The Company is exposed to foreign currency risk as the Company holds some cash and cash equivalents on hand that are denominated in British pounds and is exposed to foreign currency fluctuations on its operations in the United Kingdom as these are denominated in British pounds. The Company's management monitors the exchange rate fluctuations on a regular basis. The Company does not use currency derivative instruments to manage the Company's exposure to foreign currency fluctuations.

At December 31, 2009, the carrying amount of the Company's U.K. pound denominated net monetary assets was approximately C$43,735. Assuming all other variables remain constant, a fluctuation of one cent in the exchange rate of the Canadian dollar to the British pound would not result in a material change in income.

c) Interest Rate Risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. The Company is exposed to interest rate cash flow risk to the extent the changes in market interest rates will impact the Company's interest rate price risk with respect to funds invested in short term marketable securities. As at December 31, 2009, the Company did not have any financial assets based on variable interest rates and as such the Company has no specific interest rate risk at year end. The Company does not use interest rate hedges or fixed interest rate contracts to manage the Company's exposure to interest rate fluctuations.

d) Liquidity Risk

Liquidity risk includes the risk that:

- The Company will not have sufficient funds to settle a transaction on the due date;
- The Company will be forced to sell financial assets at a value which is less than what they are worth; or
- The Company may be unable to settle or recover a financial asset at all.

16. Financial Instruments (continued)

The Company's operating cash requirements including, amounts projected to complete budgeted capital expenditures are continuously monitored and adjusted as input variables change. These variables include, but are not limited to, opening cash and cash equivalents balance, available bank lines, oil and natural gas production from existing wells, results from new wells drilled, commodity prices, and cost overruns on capital projects and changes to government regulations relating to prices, taxes, royalties, land tenure, allowable production and access to equity markets. As these variables change, liquidity risks may necessitate the need for the Company to conduct equity issues or obtain project debt financing.

At December 31, 2009 the Company had cash and cash equivalents of $4,099,740 (2008 - $9,081,465), and working capital was $7,865,635 (2008 - $9,272,675). The Company has sufficient working capital to fund its share of its current 2010-2011 budgeted firm and contingent capital expenditures. Subsequent to December 31, 2009 the Company received $3,789,760 from the sale of North Sea properties and the sale of its 100% owned U.K. subsidiary Britcana Energy Ltd. (Note 15).

e) Fair value of financial instruments

The Company's financial instruments as at December 31, 2009 and 2008 include cash and cash equivalents, trade accounts receivable, restricted cash and trade accounts payable. The fair values of trade accounts receivable and trade accounts payable approximate their carrying amounts due to their short terms to maturity. The restricted cash balances are equal to their fair values. The Company classifies the fair value of financial instruments held for trading according to the following hierarchy based on the amount of observable inputs used to value the instrument.

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

At December 31, 2009 cash and cash equivalents and restricted cash have been classified as Level 1.

17. Subsequent events

In April 2010 the Company closed the sale of its 8.33% interest in U.K. License P.233 (Maria block 15/18a) and the sale of its 100% shareholding in its wholly owned U.K. subsidiary Britcana Energy Ltd. The total consideration received for the two sales was $3,789,760 CAD.