

WESTERN PLAINS PETROLEUM LTD.

(FORMERLY SAHA PETROLEUM LTD.)

FINANCIAL STATEMENTS

For the years ended

**DECEMBER 31, 2009
AND DECEMBER 31, 2008**

Management's Report

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

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

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. It exercises its responsibilities primarily through the Audit Committee. All Board members are also members of 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 approved.

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

David Forrest
President, Chief Executive Officer and Director

Stephen Johnson
Chief Financial Officer and Director

April 7, 2010

Auditors' Report

To the Shareholders of Western Plains Petroleum Ltd.:

We have audited the balance sheets of Western Plains Petroleum Ltd. ("the Company") as at December 31, 2009 and 2008 and the 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 statements presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance in Canadian generally accepted accounting principles.

Meyer Norris Penny LLP

Calgary, Alberta
March 2, 2010

Chartered Accountants



WESTERN PLAINS PETROLEUM LTD. (FORMERLY SAHA PETROLEUM LTD.)
Balance Sheets

	As at December 31, 2009	As at December 31, 2008
Assets	\$	\$
Current		
Cash and cash equivalents	95,962	82,432
Accounts receivable (Note 9(b))	159,454	246,221
Prepaid expenses and deposits	18,054	11,663
	273,470	340,316
Property, plant and equipment (Note 4)	2,179,215	4,479,457
	2,452,685	4,819,773
Liabilities		
Current		
Accounts payable and accrued liabilities	481,463	601,046
Bank debt and cheques issued in excess of balance with bank (Note 5)	-	612,555
	481,463	1,213,601
Note payable (Note 5)	-	1,783,399
Asset retirement obligations (Note 6)	192,353	222,916
	673,816	3,219,916
Shareholders' equity		
Share capital (Note 8(b))	3,641,207	3,219,928
Contributed surplus (Note 8 (f))	237,745	207,745
Deficit	(2,100,083)	(1,827,816)
	1,778,869	1,599,857
	2,452,685	4,819,773

Basis of presentation (Note 1)

Commitment (Note 8 (b))

Subsequent event (Note 12)

Contingent Liability (Note 13)

See accompanying notes to the financial statements.

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS

David Forrest
 Director

Stephen Johnson
 Director

WESTERN PLAINS PETROLEUM LTD. (FORMERLY SAHA PETROLEUM LTD.)
Statements of Operations, Comprehensive Loss and Deficit

	Year Ended	
	December 31, 2009	December 31, 2008
Revenue	\$	\$
Petroleum revenue	1,847,383	3,134,080
Expenses		
Royalties	365,443	760,698
Production and transportation	677,488	760,723
General and administrative	463,516	895,951
Interest	92,168	170,901
Depletion, depreciation and accretion	1,029,112	1,280,763
Stock-based compensation	-	81,587
	2,627,727	3,950,623
Loss from operations	(780,344)	(816,543)
Interest income	-	4,906
Gain on debt settlement (note 5)	85,200	-
Gain from sale of property, plant and equipment (note 4)	422,877	-
Net loss and comprehensive loss for the year	(272,267)	(811,637)
Deficit, beginning of year	(1,827,816)	(1,016,179)
Deficit, end of year	(2,100,083)	(1,827,816)
Basic and diluted loss per share (note 8(d))	(0.011)	(0.055)

See accompanying notes to the financial statements

WESTERN PLAINS PETROLEUM LTD. (FORMERLY SAHA PETROLEUM LTD.)
Statements of Cash Flows

	Year Ended	
	December 31, 2009	December 31, 2008
Operating activities	\$	\$
Net loss and comprehensive loss for the year	(272,267)	(811,637)
Items not affecting cash:		
Depletion, depreciation, and accretion	1,029,112	1,280,763
Stock-based compensation	-	81,587
Gain on debt settlement	(85,200)	-
Gain on sale of property, plant and equipment	(422,877)	-
	248,768	550,713
Changes in non-cash working capital (note 11)	(113,604)	222,681
	135,164	773,394
Financing activities		
Increase (decrease) in bank debt	(400,000)	400,000
Issuance of share capital	285,000	500,000
Share issue costs	(32,521)	-
Repayment of note payable	-	(791,601)
Changes in non-cash working capital (note 11)	68,651	-
	(78,870)	108,399
Investing activities		
Additions to property, plant and equipment	(1,035,960)	(807,964)
Disposal of property, plant and equipment	1,200,000	-
Business combinations (note 14)	-	(937,347)
Changes in non-cash working capital (note 11)	5,750	79,591
	169,790	(1,665,720)
Increase (decrease) in cash for year	226,084	(783,927)
Cash and cash equivalents, beginning of year (note 11)	(130,122)	653,805
Cash and cash equivalents, end of year (note 11)	95,962	(130,122)

See accompanying notes to the financial statements.

WESTERN PLAINS PETROLEUM LTD. (FORMERLY SAHA PETROLEUM LTD.)

Notes to Financial Statements

December 31, 2009 and 2008

1. BASIS OF PRESENTATION

Western Plains Petroleum Ltd. (the “Corporation” or “Western Plains”) was originally incorporated as Mises Capital Corporation under the Business Corporations Act (Alberta) on November 19, 2004 and was classified as a Tier 2 “oil and gas exploration and production” corporation under the symbol “MPP” on the TSX Venture Exchange (“TSXV”) on August 11, 2006. On April 1, 2008, the Corporation changed its name to “Saha Petroleum Ltd.” and began trading under the symbol “SPZ” on the TSXV on April 25, 2008. On August 24, 2009, the Corporation changed its name to “Western Plains Petroleum Ltd.” and began trading under the symbol “WPP” on the TSXV on August 25, 2009.

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

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

The Corporation’s ability to continue as a going concern is dependent upon its ability to attain profitable operations and generate sufficient cash from operating and financing activities to meet the Corporation’s needs. As at December 31, 2009 the Corporation has a deficit of \$2.1 million (2008 - \$1.8 million) and has a working capital deficiency of \$0.2 million (2008 - \$0.9 million). These financial statements do not reflect the adjustments or reclassification of assets and liabilities which would be necessary if the Corporation were unable to continue as a going concern and therefore be required to realize its assets and liabilities in other than the normal course of business and potentially at amounts significantly different from those recorded in these financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

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

Measurement uncertainty

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

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

Cash and cash equivalents

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

Property, plant and equipment

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

Impairment

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

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

Depletion and depreciation

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

Certain production equipment was amortized in 2008 on a 10% declining balance method. Effective January 1, 2009 the Company changed its amortization method to include the net book value of this production equipment in the costs subject to depletion on the unit-of production method. This change in method of estimating amortization has been accounted for prospectively. Depletion and depreciation in 2009 was greater by \$18,130 as a result of this change in amortization method.

Revenue recognition

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

Asset retirement obligations

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

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

Income taxes

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

Flow-through shares

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

Earnings per share

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

Stock based compensation

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

Financial instruments

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

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

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

The Corporation may enter into certain financial derivative and physical delivery sales contracts in order to reduce its exposure to market risks from fluctuations in commodity prices and would not be used for trading or speculative purposes.

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

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

Comprehensive Income or Loss

Comprehensive Income or Loss represents the change in shareholders' equity from transactions and other events from non-owner sources and includes unrealized gains and losses on financial assets that are classified as available for sale. There were no other comprehensive income or loss transactions in 2009 or 2008.

3. CHANGES IN ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS

(a) Changes in Accounting Policies

In February 2008, the Accounting Standards Board (AcSB) issued amended CICA Handbook Section 1000, "Financial Statement Concepts" which clarifies the criteria for recognizing assets, intangible assets and internally developed assets. The standard is effective for fiscal years beginning on or after February 1, 2008. The adoption of this standard has no material effect on the financial statements of the Corporation.

Effective January 1, 2009, the Corporation implemented the provisions of CICA Handbook Section 3064, "Goodwill and Intangible Assets". This standard establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. There was no impact on the financial statements of the Corporation.

On January 20, 2009 the Emerging Issues Committee ("EIC") issued a new abstract 173 "Credit risk and the fair value of financial assets and financial liabilities". This abstract concludes that an entity's own credit risk and the credit risk of the counterparty should be taken into account when determining the fair value of financial assets and liabilities. This abstract is to apply to all financial assets and liabilities measured at fair value in interim and annual financial statements for periods ending on or after January 2, 2009. The adoption of this abstract did not impact the Corporation's financial statements.

The Accounting Standards Board of Canada agreed to adopt the final version of the amendments to IFRS 7, Financial Instruments – Disclosure, issued in March 2009. The amendments were made to Section 3862, Financial Instruments – Disclosures. The amendments to Section 3862 are to enhance the disclosures about fair value measurements, including the relative reliability of the inputs used in those measurements, and about the liquidity risk of financial instruments. This policy was adopted by the Corporation in 2009 and the required disclosure incorporated into note 9 (f).

(b) Recent Accounting Pronouncements

International Financial Reporting Standards

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

accordance with IFRS. The Corporation will assess the following key elements as it plans for the changeover in 2010:

- determine appropriate changes to accounting policies and required additions and amendments to financial disclosure,
- review and modify internal controls or systems as necessary, and
- complete appropriate training.

Business Combinations

In January 2009, the Canadian Accounting Standards Board issued Section 1582, Business Combinations, which replaces former guidance on business combinations. The new standard 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 the beginning of the first reporting period beginning on or after January 2011 with earlier application permitted. The Corporation will evaluate the effects of adopting these changes at the time a business combination is pending.

Consolidated Financial Statements

As of January 1, 2011, the Corporation will be required to adopt CICA Handbook Section 1601 “Consolidated Financial Statements”, which together with Section 1602 below, replace the former consolidated financial statements standard. Section 1601 establishes the requirements for the preparation of consolidated financial statements. The adoption of this standard may have a material impact on the Corporation’s financial statements should it acquire a subsidiary.

Non-controlling Interests

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

4. PROPERTY, PLANT AND EQUIPMENT

Petroleum and natural gas properties	Cost	Accumulated Depletion & Depreciation	Net book value
	\$	\$	\$
At December 31, 2009	4,463,183	(2,283,968)	2,179,215
At December 31, 2008	5,751,834	(1,272,377)	4,479,457

Cost for undeveloped land of \$ nil (2008 - \$110,398) have been excluded from cost subject to depletion.

In May 2009 a producing oil property in Saskatchewan was sold for proceeds of \$2.7 million. The proceeds consisted of cash of \$1.2 million and the assumption of notes payable of \$1.5 million, resulting in a gain on disposal of \$0.4 million. Subsequently, the Corporation made three acquisitions of oil properties from arm’s length vendors for cash consideration totaling \$0.5 million. All properties are located in the Lloydminster area of eastern Alberta.

The Corporation performed an impairment test of its capitalized assets as at December 31, 2009 and determined there was no impairment (\$33,000 for the year ended December 31, 2008). The following benchmark prices, on which the impairment test was based, were prepared by the Corporation's independent reserve evaluator as at December 31, 2009:

Year	Heavy Oil (12 API) \$ per bbl
2010	70.31
2011	72.98
2012	75.65
2013	79.21
2014	82.77
2015	86.99
2016	88.99
2017	90.79
2018	92.62
2019	94.49
2020	96.40

Benchmark prices increase at a rate of 2.0% per year after 2021. Adjustments were made to benchmark prices above for purposes of valuation of the reserves and for purposes of the impairment test for varied delivery points and quality differentials for the heavy oil produced by the Corporation.

5. DEBT SETTLEMENT - BANK DEBT AND NOTE PAYABLE

On June 29, 2009, the Corporation repaid all of its bank debt and no longer has a bank line of credit. The former line of credit was for an amount up to \$800,000 (December 31, 2008 - \$800,000) which was secured by the assets of the Corporation and was subject to various covenants. The credit facility bore interest at prime plus 1.25%. At December 31, 2008, the Corporation had drawn \$400,000 of the available facility and the Corporation was in violation of the working capital covenant, for which the lender provided a written waiver.

The note payable at December 31, 2008 was held by a corporation of which an officer and director of the Corporation was also an officer and director. The note payable of \$1,783,399 at December 31, 2008 was repaid as follows:

- \$1,500,000 was assumed by the purchaser of petroleum and natural gas properties sold effective May 1, 2009 (see note 4), and
- The remaining debt was settled in July 2009 by issuing 5,680,000 common shares (see note 8 (b)) pursuant to a debt settlement agreement. The fair value of the common shares was \$198,800, based on the trading value of the Corporation's common shares on the settlement agreement date. The Corporation recorded \$85,200 as a gain on this debt settlement.

The former note payable bore interest at 9%. Interest only payments were payable monthly.

6. ASSET RETIREMENT OBLIGATIONS

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

	Year ended December 31, 2009 \$	Year ended December 31, 2008 \$
Asset retirement obligations, beginning of year	222,916	-
Liabilities incurred or acquired	137,201	156,195
Liabilities settled or disposed	(111,780)	-
Change of estimates	(71,066)	57,604
Accretion	15,082	9,117
Asset retirement obligations, end of year	192,353	222,916

The total undiscounted amount of estimated cash flows required to settle the obligation as at December 31, 2009 was \$571,000 (December 31, 2008 - \$352,000), which has been discounted using credit adjusted risk free rates of 8-10%. An inflation rate of two percent has been used throughout. All of these obligations are estimated to be incurred between 2018 and 2029 and will be funded from general corporate resources at that time of the retirement.

7. INCOME TAXES

The provision for future income taxes varies from the amounts that would be computed by applying the effective Canadian federal and provincial income tax rates to the income before income taxes as follows:

	2009 \$	2008 \$
Loss before income taxes	(272,267)	(811,637)
Expected income tax rate	29%	29.5%
Expected income tax recovery	(78,957)	(239,433)
Differences resulting from:		
Stock based compensation	-	24,100
Gain on debt settlement	(24,708)	-
Income tax rate affect for future income taxes	32,496	28,977
Other	12,307	-
Change in valuation allowance	58,862	186,356
Future income tax recovery	-	-

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

	2009	2008
Timing differences related to:	\$	\$
Property, plant and equipment	90,696	(19,100)
Asset retirement obligations	48,088	61,300
Share issue costs and other	8,476	11,700
Non capital loss carry forward	112,102	146,600
	259,362	200,500
Less valuation allowance	(259,362)	(200,500)
Future income tax asset (liability)	-	-

The non capital losses for income tax purposes carried forward from the current and prior year's total \$448,000 of which \$258,000 expires in 2027 and the balance in 2028.

8. SHARE CAPITAL

(a) Authorized

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

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

(b) Issued and Outstanding

	Year Ended December 31, 2009		Year Ended December 31, 2008	
	Number of Shares	Amount \$	Number of Shares	Amount \$
Common shares, beginning of year	21,226,834	3,219,928	8,082,833	1,504,643
Acquisitions (Note 14)	-	-	10,366,224	1,215,285
Warrants	-	(30,000)	-	-
Private placement flow-through	3,352,940	285,000	2,777,777	500,000
Shares issued to settle debt (note 5)	5,680,000	198,800	-	-
Share issue costs	-	(32,521)	-	-
Common shares, end of year	30,259,774	3,641,207	21,226,834	3,219,928

During 2009 the 1,517,984 shares remaining in escrow at December 31, 2008 were released. There are no shares in escrow at December 31, 2009.

In December 2008, the Corporation issued 2,777,777 flow-through shares for gross proceeds of \$500,000, for which an officer and director subscribed for the entire offering. The Corporation is eligible to allocate Canadian Development Expense as Canadian Exploration Expense to meet this commitment. The Corporation incurred \$280,000 of eligible expenses in 2009 and will renounce that amount to the investor effective December 31,

2009. The Corporation has a commitment to incur eligible expenditures for the remaining \$220,000 in 2010 and renounce those expenditures to the investor effective December 31, 2010.

In December 2009, the Corporation issued 3,352,940 units at a price of \$0.085 per Unit pursuant to a private placement for gross proceeds of \$285,000. Each unit was comprised of one common share issued on a flow through basis under applicable tax law, and one common share purchase warrant, each warrant exercisable into one common share. Each of the 3,352,940 warrants has a term of 12 months from the date of issuance at an exercise price of \$0.15 per share.

The fair value of the warrants was estimated using the Black-Scholes option pricing model assuming a risk free interest rate of 1.3%, volatility of 88% for the one year life and with no expected dividends.

(c) Stock option plan

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

A summary of the options for 2008 and 2009 follows:

	Year Ended December 31, 2009		Year Ended December 31, 2008	
	Number of Options	Weighted Average Price \$	Number of Options	Weighted Average Price \$
Options, beginning of year	1,702,000	0.14	756,000	0.23
Granted	-	-	1,518,000	0.11
Expired	(250,000)	0.17	(572,000)	0.17
Options, end of year	1,452,000	0.14	1,702,000	0.14

Expiry	Weighted Average Remaining Life (Years)	Exercise Price	Outstanding and Exercisable
June 28, 2010	0.50	\$0.20	400,000
August 11, 2011	1.62	\$0.30	42,000
March 14, 2013	3.20	\$0.11	260,000
July 23, 2013	3.55	\$0.14	150,000
December 17, 2013	3.95	\$0.10	600,000
			1,452,000

No options were granted in 2009. The fair value of options granted in 2008 was \$81,587. The fair value of the warrants issued in 2009 was \$30,000. These were determined using the following assumptions:

	2009	2008
Risk free interest rate (%)	1.3 %	3.36%
Expected volatility (%)	88 %	59%
Expected life (in years)	1 year	5 years
Expected dividends	-	-

(d) Per share amounts

The weighted average number of shares used in calculating the basic net loss per share for the year ended December 31, 2009 was 24,365,763 (2008 – 14,750,998).

Diluted per share information is not presented as the result would decrease the loss per share.

(f) Contributed Surplus

Changes to contributed surplus are summarized as follows:

	2009	2008
	\$	\$
Contributed surplus, beginning of the year	207,745	126,158
Warrants issued	30,000	
Stock based compensation expensed	-	81,587
Contributed surplus, end of the year	237,745	207,745

9. FINANCIAL RISK MANAGEMENT

(a) Overview

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

(b) Credit risk

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

	December 31, 2009	December 31, 2008
	\$	\$
Marketers	112,162	147,955
Joint venture partners	1,593	1,184
Trade and other	45,699	97,072
	159,454	246,211

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

(c) Liquidity risk

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

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

(d) Market risk

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

The Corporation is not subject to interest rate risk since interest bearing debt was repaid by June 30, 2009.

(e) Capital management

The Corporation's objective is to maintain access to sources of capital, defined to be shareholders' equity, credit facilities and other debt (long term debt and working capital) and cash, with which to finance its operations. The Corporation maintains a capital structure of equity and debt where appropriate. In the past it has utilized a line of credit with the Corporation's bank and a note payable. All bank debt and the note payable were retired by July 2009. The Corporation manages its capital structure and makes changes to it in light of changes in economic conditions, opportunities for accretive acquisitions and the risk characteristics of the underlying investments. The Corporation balances its overall capital structure through share issues and the use of debt as deemed appropriate in the circumstances.

The Corporation monitors net debt closely. The net debt includes the working capital deficiency and is a non-GAAP measure which is determined on the following basis:

Balance sheet component	As at December 31, 2009	As at December 31, 2008
Cash and cash equivalents	95,962	82,432
Accounts receivable	159,454	246,221
Prepaid expenses and deposits	18,054	11,663
Accounts payable and accrued liabilities	(481,463)	(601,046)
Bank debt	-	(612,555)
Note payable	-	(1,783,399)
Net debt	(207,993)	(2,656,684)

(f) Fair value of financial instruments

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

The Company classifies the fair value of the financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument:

Level 1 – inputs to the valuation methodology are quoted prices for identical assets or liabilities in active markets.

Level 2 – inputs to the valuation methodology included quoted prices for identical assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 – inputs to the valuation methodology are not based on observable market data.

10. RELATED PARTY TRANSACTIONS

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

- Legal services provide by a law firm in which an officer and director is a partner:
 - \$104,479 was incurred in 2009 (\$278,430 in 2008) of which \$32,402 (\$88,595) at December 31, 2008) was in accounts payable and accrued liabilities at the year end;
 - Costs were recorded as general and administrative expense, share issue costs or as a capital expenditure depending on the activity for which legal services were provided;
- Interest paid to a corporation in which an officer and director of the Corporation is an officer and a director. This debt was settled by July 2009 (see note 5):
 - \$80,436 was incurred in 2009 (\$232,536 in 2008) of which \$nil (\$17,196 at December 31, 2008) was in accounts payable and accrued liabilities at the year end;
 - Costs were recorded as interest expense;
- Various oil field services and products provided by a corporation in which an officer and director of the Corporation is an officer and a director:
 - \$278,358 was incurred in 2009 (\$70,265 in 2008) of which \$13,723 (\$35,090 at December 31, 2008) was in accounts payable and accrued liabilities at the year end;
 - Costs were recorded as either production expense or capital expenditures depending on the nature of the expenditure;
- Oil sold to a corporation in which an officer and director of the Corporation is an officer and a director:
 - \$nil was earned in 2009 (\$44,639 in 2008) of which \$nil (\$44,639 at December 31, 2008) was in accounts receivable at the year end;
 - Proceeds were recorded as petroleum revenue.
- Executive services provided by a corporation in which an officer and a director of the Corporation is an officer and director:
 - \$120,000 was incurred in 2009 (\$105,000 in 2008) of which \$nil (\$nil at December 31, 2008) was in accounts payable and accrued liabilities at the year end;
 - Costs were recorded as general and administrative expense.
- Accounting services provided by a professional service firm or corporation controlled by former officers:
 - \$53,609 was incurred in 2009 (\$44,731 in 2008) of which \$nil (\$14,028 at December 31, 2008) was in accounts payable and accrued liabilities at the year end;
 - Costs were recorded as general and administrative expense.

11. SUPPLEMENTAL CASH FLOW INFORMATION

	Year Ended	
	December 31, 2009	December 31, 2008
Changes in Non-Cash Working Capital	\$	\$
Accounts receivable	86,767	(236,185)
Prepaid expenses and deposits	(6,391)	(2,817)
Accounts payable and accrued liabilities	(119,579)	541,274
Changes in non-cash working capital relating to:	(39,203)	302,272
Operating activities	(113,604)	222,681
Financing activities	68,651	-
Investing activities	5,750	79,591
Interest paid	92,168	146,612
Cash and cash equivalents are comprised of:	December 31, 2009	December 31, 2008
Balance with bank	95,962	82,432
Cheques issued in excess of balance with bank	-	(212,554)
	95,962	(130,122)

12. SUBSEQUENT EVENT

In January 2010 the Corporation issued 1,877,500 common shares at a price of \$0.08 per share in a private placement, for gross proceeds of \$150,200. Insiders of the Corporation subscribed to 62,500 of the 1,877,500 common shares. No finders' fee was paid in connection with the private placement. In accordance with TSX Venture Exchange policies and applicable securities laws, all securities issued under this private placement are subject to a four month hold period which expires May 12, 2010.

13. CONTINGENT LIABILITY

In 2006 Corporation issued a guarantee in the amount of USD\$110,000 (CAD\$127,000) as security in favor of National Hydrocarbons Agency, the Colombian oil and gas governmental agency. During the year ended December 31, 2007, the purchaser of the assets in Colombia issued a letter of credit replacing the Corporation's guarantee and therefore, the restricted cash of USD\$110,000 (CAD\$127,000) was released by the bank to the Corporation. However, the bank holding the letter of credit from the purchaser has not yet fully removed the Corporation's guarantee and therefore the Corporation's guarantee remains outstanding. It is the position of the Corporation that it is very unlikely this guarantee will result in a liability and the Corporation is taking steps to have it removed.

14. BUSINESS COMBINATIONS

In 2008 the Corporation purchased 100% of the issued and outstanding common shares of an entity for total consideration of \$1,477,179. This 100% owned subsidiary was amalgamated with the Corporation in April 2008.

The acquisition was accounted for using the purchase method and the results of the acquired entity have been consolidated with the results of the Corporation from the date of the acquisition. The following table shows the consideration paid and the fair values of the net assets acquired at the date of acquisition:

Consideration:	Amount \$
Common shares issued – 7,866,224 common shares at \$0.11 each	865,285
Transaction costs	111,894
Cash	500,000
Total consideration	1,477,179

Net assets acquired:	
Working capital	210,678
Property, plant and equipment	3,991,951
Promissory note payable	(2,575,000)
Due to officer and director	(50,000)
Asset retirement obligation	(100,450)
Net assets acquired	1,477,179

In 2008 the Corporation purchased 100% of the issued and outstanding common shares of three private companies for total consideration of \$836,131. These 100% owned subsidiaries were amalgamated with the Corporation in November 2008.

The acquisitions were accounted for using the purchase method and the results of the acquired entities have been consolidated with the results of the Corporation from the date of the acquisition. The following table shows the consideration paid and the fair values of the net assets acquired at the date of acquisition:

Consideration:	Amount \$
Common shares issued – 2,500,000 common shares at \$0.14 each	350,000
Transaction costs	36,131
Cash	450,000
Total consideration	836,131

Net assets acquired:	
Property, plant and equipment	891,876
Asset retirement obligation	(55,745)
Net assets acquired	836,131