EAGLEWOOD ENERGY INC.
ANNUAL REPORT
FOR THE YEAR ENDED
DECEMBER 31, 2009

PRESIDENT'S MESSAGE

The year ending 2009 saw significant achievements for both Eaglewood and Papua New Guinea ("PNG"). In PNG, the final investment decision was made for the $15 billion Exxon-led PNG LNG Project, InterOil Corporation drilled two gas wells that produced world record flow tests, and Talisman Energy Inc. and SASOL made major investments and began operations in the country.

In the past year, Eaglewood established itself as a serious participant in the rapidly developing energy business of PNG. Eaglewood successfully completed two farm-out transactions which are anticipated to result in two exploration wells being drilled in 2010, and we made meaningful progress in the further exploration of all four petroleum prospecting licenses. Airborne gravity and magnetic surveys were completed on PPL 257 and 258. Additionally, 370 line kilometres of offshore seismic was shot and processed over PPL 257. On PPL 260, seismic over three prospects was shot and processed, a drilling location selected and well site constructed. On PPL 259, an engineering study with respect to our plans for condensate stripping and small-scale LNG neared completion and contracting for rigs, helicopters and other services were underway in preparation for drilling our first exploration well on the license in 2010.

One of the farm-out transactions completed in 2009 was with a Thailand company, Mega Fortune International ("Mega"), for an interest in PPL 259. Mega acquired a 10 percent participating interest in exchange for payment of US $15,000,000. Eaglewood retains 90 percent of the license and is in discussions with several other parties to farm down up to a further 23 percent of the license prior to spudding the well on the Ubuntu prospect in the third quarter of this year. The other farm-out transaction was with Oil Search (PNG) Limited ("OSPNG") for an interest in PPL 260. OSPNG acquired an initial 10 percent participating interest in PPL 260 for a payment of US $1,500,000 and will earn an additional 60 percent participating interest by paying 90 percent of the drilling costs, up to a maximum of US $50,000,000, for the first exploration well on the Korka prospect during the first half of 2010.

With Transeuro Energy Corp.'s ("Transeuro") reduction of its holdings of Eaglewood shares, changes were made at the board level. Hal Hemmerich, who was Chairman of the Board, resigned in late 2009. Aage Thoen, Transeuro's Chairman and an independent director of Eaglewood, has also resigned and we thank them both for their efforts on behalf of Eaglewood during their time as directors.

Subsequent to year end 2009, Eaglewood completed an equity financing, raising gross proceeds of CAD $23.6 million which, along with cash recoveries from farm-outs, will fund the current 2010 capital program. Eaglewood was also recognized as one of the TSX Venture® 50 companies. Looking forward, management believes the year 2010 will be a milestone year for Eaglewood with the drilling of our first two exploration wells, the Korka prospect on PPL 260 and the Ubuntu prospect on PPL 259, and our expectation to complete two more farm-out transactions, one on each of PPL 259 and PPL 257.

I would like to thank the shareholders for their continued support and the board of directors and management for all their efforts in getting Eaglewood to the position where we can begin operations in earnest.

Brad Hurtubise, President and CEO

EAGLEWOOD ENERGY INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2009

(Amounts expressed in Canadian Dollars unless otherwise indicated)

Management's discussion and analysis ("MD&A") of Eaglewood Energy Inc.'s (the "Company" or "Eaglewood") financial condition and results of operations should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2009, six months ended December 31, 2008 and year ended June 30, 2008 and related notes therein prepared in accordance with Canadian generally accepted accounting principles. The effective date of this MD&A is March 29, 2010.

Additional information relating to the Company is available on SEDAR at www.sedar.com and the Company's website at www.eaglewoodenergy.ca .

FORWARD-LOOKING STATEMENTS

Certain statements contained in this MD&A may constitute forward-looking statements. These statements relate to future events or the Company's future performance. All statements, other than statements of historical fact, may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "propose", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes that the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should not be unduly relied upon as actual results may vary. These statements speak only as of the date of this MD&A and are expressly qualified, in their entirety, by this cautionary statement.

In particular, this MD&A contains forward-looking statements, pertaining to the following:

- capital expenditure programs;
- development of resources;
- treatment under governmental regulatory and taxation regimes;
- expectations regarding the Company's ability to raise capital;
- expenditures to be made by the Company to meet certain work commitments; and
- work plans to be conducted by the Company.

With respect to forward-looking statements listed above and contained in this MD&A, the Company has made assumptions regarding, among other things:

- the Papua New Guinea legislative and regulatory environment;
- the impact of increasing competition;
- unpredictable changes to the market prices for oil and natural gas;
- that costs related to development of the oil and gas properties in Papua New Guinea will remain consistent with historical experiences;
- anticipated results of exploration activities;
- availability of additional financing and farm-in or joint venture partners; and
- the Company's ability to obtain additional financing in timely manner and on satisfactory terms.

The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this MD&A:

- volatility in the market prices for oil and natural gas;
- uncertainties associated with estimating resources;
- geological, technical, drilling and processing problems;
- liabilities and risks, including environmental liabilities and risks, inherent in oil and natural gas operations;
- fluctuations in currency and interest rates;
- incorrect assessments of the value of acquisitions;
- unanticipated results of exploration activities;
- competition for, among other things, capital, acquisitions of reserves, equipment, undeveloped lands and skilled personnel;
- lack of availability of additional financing and farm-in or joint venture partners;
- unpredictable weather conditions; and
- other factors referred to under "Risk Factors" in the Company's annual information form for the year ended December 31, 2009, dated March 29, 2010 and filed on SEDAR on March 30, 2010.

The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth above.

Undue reliance should not be placed on forward-looking statements as the plans, intentions or expectations upon which they are based might not occur. Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement. The Company does not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by law.

COMPANY OVERVIEW

Eaglewood's primary activity is exploration of its Papua New Guinea ("PNG") licenses. Eaglewood's common shares are traded on the TSX Venture Exchange under the symbol "EWD". In 2007, Eaglewood acquired a 100 percent interest in four petroleum exploration licenses granted by the government of PNG and related technical data (the "Licenses") from Transeuro Energy Corp. and its wholly owned subsidiary (collectively, "Transeuro") in exchange for 30,000,000 common shares of the Company valued at $25,500,000 and a back-in right for 10 percent of the Licenses (see DESCRIPTION OF LICENSES) (the "Transeuro Transaction"). The Company's primary objective is to explore and develop the Licenses. The Company has no oil and gas properties other than the Licenses. The Company has not yet completed any exploration drilling and there is currently no production or reserves associated with the Licenses.

In April 2009, the Company entered into a farm-out agreement relating to PPL 260 with Oil Search (PNG) Limited ("OSPNG"). OSPNG paid Eaglewood US $1,500,000 and conducted a seismic program at its sole cost to earn an initial 10 percent interest in PPL 260. Under the farm-out agreement, OSPNG had an option to earn an additional 60 percent interest in exchange for agreeing to pay 90 percent of the cost of drilling one exploration well up to a maximum gross cost of US $50,000,000. In August 2009, OSPNG elected to drill a well to earn the additional interest. Upon completion of the well, which is expected to commence drilling in the first half of

2010, Eaglewood's participating interest in PPL 260 will be 30 percent. OSPNG assumed operatorship of PPL 260 in August 2009.

In June 2009, Eaglewood entered into a farm-out agreement relating to PPL 259 with Mega Fortune International Limited ("Mega"). Under the terms of the farm-out agreement, Mega paid Eaglewood US $15,000,000 to earn a 10 percent participating interest in PPL 259. Mega had the opportunity to earn an additional 50 percent participating interest in PPL 259 by paying Eaglewood US $20,000,000 by December 15, 2009 to fund the cost of drilling the first exploration well, Ubuntu-1. However, Mega was unable to complete the funding within the required time period and as a result will remain holding a 10 percent participating interest in PPL 259.

In relation to the farm-out of PPL 259, Eaglewood paid a finder's fee of US $900,000 to Metropower Asia Limited ("Metropower"), a private energy and minerals advisory services company headquartered in Hong Kong.

SUBSEQUENT EVENTS

On February 23, 2010, Eaglewood announced that it had entered into an agreement with respect to a private placement of up to 12,000,000 special warrants at a price of $1.75 per special warrant for aggregate gross proceeds of $21,000,000. On February 24, 2010, Eaglewood announced an increase to the private placement financing to 13,500,000 special warrants for gross proceeds of $23,625,000. The offering closed on March 24, 2010. Eaglewood issued 13,500,000 special warrants and received net proceeds after sales commissions of approximately $22.4 million, excluding other issue costs, which will be used to fund ongoing exploration and development expenditures, working capital and general corporate purposes.

DESCRIPTION OF LICENSES

Each of the Licenses gives the Company the right to explore for oil and natural gas on specified blocks in PNG. If exploration is successful, the Company can apply to the PNG government for either a retention license or a development license. A retention license is generally applied for if natural gas reserves have been identified but additional time is required to either prepare a development plan or, if the amount of natural gas reserves is not of a sufficient commercial quantity, to explore for further natural gas reserves. A development license is generally applied for if oil and/or natural gas reserves have been discovered and production is commercially viable. The PNG government has historically granted retention or development licenses however there is a risk that a retention or development license may not be granted to the Company when, or on the terms, applied for.

PPL 257
PPL 257 was originally granted on October 20, 2004 and has a six year term that expires October 19, 2010. PPL 257 currently covers 1,741,500 gross acres located in the Cape Vogel Basin of PNG. The Company has applied for a five year extension to the license (see LICENSE COMMITMENTS) and will relinquish 50 percent of the area when the five-year extension is approved by the PNG government. The prospective area is predominantly offshore but includes a significant onshore area that will be instrumental for conducting geological field work. PPL 257 is an anticipated natural gas play for the Company.
PPL 258
PPL 258 was originally granted on October 20, 2004 and has a six year term that expires October 19, 2010. PPL 258 currently covers 2,227,500 gross acres, all onshore, in the North New Guinea Basin of PNG. The Company has applied for a five year extension to the license (see LICENSE COMMITMENTS) and will relinquish 50 percent of the area when the five-year extension is approved by the PNG government. PPL 258 is an anticipated oil play for the Company.
PPL 259
PPL 259 was originally granted on June 30, 2005 and has a six year term that expires June 29, 2011. It covers 1,377,000 gross acres, all onshore, in the foreland region of the Papuan Fold Belt of PNG. PPL 259 is an anticipated natural gas and natural gas liquids play for the Company.
PPL 260
PPL 260 was originally granted on March 14, 2005 and has a six year term that expires March 13, 2011. It covers 1,559,250 gross acres, all onshore, in the highland region of the Papuan Fold Belt of PNG. PPL 260 is an anticipated natural gas and natural gas liquids play for the Company.

The PNG government retains a 22.5 percent back-in right at cost which can be exercised at the time a development license is granted. The PNG government also has a two percent royalty over any oil or natural gas production that may occur with respect to the Licenses.

Pursuant to the Transeuro Transaction, the Company granted Transeuro the right to acquire a 10 percent interest in all, but not less than all, of the Licenses, exercisable within 60 days from the date which the Company completes the drilling and testing of a third well on the Licenses by paying to the Company 10 percent of all costs incurred in respect of the Licenses up to that date and by agreeing to pay 10 percent of the ongoing costs with respect to the exploration and development of the Licenses.

LICENSE COMMITMENTS

Each of the Licenses has specified work and financial commitments as follows:

PPL 257
There was a commitment to drill one exploration well, acquire 1,000 line kilometres of offshore seismic and spend a minimum of US $10,000,000 by October 20, 2009. In 2008/2009, the Company conducted an aero-gravity/magnetic survey at a cost of approximately $510,000 and in September 2009, the Company completed an offshore seismic acquisition program at a cost of approximately $1,100,000. On March 18, 2010, the Company submitted a request for a five year extension to the license which is subject to PNG government approval. In accordance with the terms of the license renewal, the Company will relinquish 50 percent of the area for PPL 257 when the extension is approved by the PNG government. The area to be relinquished was determined by the Company after an extensive review of the license. The Company estimates that the cost of drilling one exploration well is approximately US $60,000,000.
PPL 258
There was a commitment to drill one exploration well, acquire 1,000 kilometres of aero-gravity/magnetic survey and spend a minimum of US $10,500,000 by October 20, 2009. The Company completed the aero-gravity/magnetic survey which was conducted in 2008/2009 at a cost of approximately $524,000. On March 18, 2010, the Company submitted a request for a five year extension for PPL 258 which is subject to PNG government approval. In accordance with the terms of the license renewal, the Company will relinquish 50 percent of the area for PPL 258 when the extension is approved by the PNG government. The area to be relinquished was determined by the Company after an extensive review of the license. The Company estimates that the cost of drilling one exploration well is approximately US $30,000,000.
PPL 259
There was a commitment to drill one exploration well and conduct geological and geophysical studies by June 29, 2009. On February 3, 2010, the Company applied for an extension to the drilling commitment to September 2010 which is subject to PNG government approval. On March 8, 2010, the Company received a letter from the PNG Department of Petroleum and Energy acknowledging receipt of the variation application and advising that the department was satisfied with the request and would present it for deliberation and approval at the next scheduled meeting. The Company estimates that the gross cost of drilling one exploration well is approximately US $22,000,000 (net cost approximately US $19,800,000).
PPL 260
There was a commitment to drill one exploration well and conduct geological and geophysical studies by March 13, 2010 which has been met as pre-drilling activities were underway by this date. In April 2009, the Company entered into a farm-out agreement with OSPNG (see COMPANY OVERVIEW). Subsequent to the farm-out, seismic programs were conducted at a cost of approximately US $7.7 million (Eaglewood's net cost approximately $847,000). The first exploration well is expected to be drilled in the first half of 2010 at an estimated gross cost of approximately US $57,000,000 (net cost approximately US $7,100,000).

The Company has issued bank guarantees totaling approximately $160,000 (100,000 Papua New Guinea dollars for each license) as security against the capital requirements associated with the Licenses. If the Company does not fulfill its commitments under a License and has not applied

for and been granted an extension, it could potentially lose its guarantee and the applicable License could be revoked by the PNG government.

As the Company does not currently generate sufficient cash flow from operating activities to fund its activities, it will need to raise equity financing and/or enter into joint venture or farm-out arrangements to finance its exploration commitments in the Licenses. In April 2009, the Company entered into a farm-out arrangement with OSPNG relating to PPL 260 and in June 2009, the Company entered into a farm-out arrangement relating to PPL 259 with Mega (described more fully in COMPANY OVERVIEW). In March 2010, the Company closed a private placement for net proceeds after sales commissions of approximately $22.4 million, excluding other issue costs (see SUBSEQUENT EVENTS). Pursuant to the farm-out agreements and the private placement, the Company anticipates that the commitments for PPL 259 and 260 will be met within the approved or approval pending revised time periods. The Company is in active discussions with potential farm-out partners to meet the other License commitments.

SELECTED ANNUAL INFORMATION

($000's except per share data)	**Year ended December 31, 2009**	Six months ended December 31, 2008	Year ended June 30, 2008
Revenue	**21**	51	195
Loss before discontinued operations	**3,546**	1,575	3,102
Net loss	**3,546**	1,575	3,102
Loss per share before discontinued operations	**0.06**	0.03	0.07
Loss per share	**0.06**	0.03	0.07

RESULTS OF OPERATIONS

The Company had a net loss of $3,545,890 for the year ended December 31, 2009. For the six months ended December 31, 2008, the Company had a net loss of $1,575,149 and for the year ended June 30, 2008, the Company had a net loss of $3,102,489.

Total expenses for the year ended December 31, 2009 were $3,567,101. The Company's most significant expenses, in comparison to the prior periods, are as follows:

	Year ended Dec 31, 2009	Six months ended Dec 31, 2008	Year ended Jun 30,2008
General and administrative	**$ 1,746,102**	$ 782,205	$ 1,142,865
Professional fees	**145,513**	407,961	255,959
Public company	**63,275**	64,410	90,826
Stock-based compensation	**614,844**	296,085	1,250,802
Travel	**417,581**	195,476	398,779

The following table provides a breakdown of the Company's general and administrative ("G&A") expenses by material component:

	Year ended Dec 31, 2009	Six months ended Dec 31, 2008	Year ended Jun 30,2008
Salaries & wages	**$ 1,428,817**	$ 592,176	$ 879,542
Office costs	**121,856**	104,204	152,845
Office rent	**214,851**	56,088	73,955
Other general and administrative	**29,481**	29,737	36,523
Overhead recoveries	**(48,903)**	-	-
Total	**$ 1,746,102**	$ 782,205	$ 1,142,865

The G&A expenses for the year ended December 31, 2009 are approximately 12% higher than the annualized G&A expenses for the six months ended December 31, 2008 and approximately 53% higher than the year ended June 30, 2008. The most significant G&A expense is salaries and wages. During the year ended June 30, 2008, the Company was in the start-up phase and the full staff complement had not yet been hired. On an annualized basis, the December 31, 2008 salaries and wages are approximately $1.2 million or about 21% lower than the year ended December 31, 2009. Salaries and wages increased in the year ended December 31, 2009 as a result of additional performance based compensation. Office rent is the next most significant G&A expense and has increased period over period due to the set up of the Company's technical office in Australia. For the year ended December 31, 2009, the Company had overhead recoveries from its joint interest partners in PPL 259 and 260.

The following table compares the other significant expenses on a period by period basis:

	Year ended Dec 31, 2009 compared to six months ended Dec 31, 2008		**Year ended Dec 31, 2009 compared to year ended Jun 30, 2008**	
	Increase/(decrease)	**% change**	**Increase/(decrease)**	**% change**
Professional fees	$ (262,448)	64%	$ (110,446)	43%
Public company	(1,135)	2%	(27,551)	30%
Stock-based compensation	318,759	108%	(635,958)	51%
Travel	222,105	114%	18,802	5%

Professional fees decreased approximately $262,000 and $110,000 in comparison to the six month period ended December 31, 2008 and the year ended June 30, 2008. During the six month period ended December 31, 2008, the Company incurred fees relating to the July 2008 preliminary short form prospectus. During the year ended June 30, 2008, the Company incurred fees relating to the acquisition of the Licenses.

Public company expenses for the year ended December 31, 2009 in comparison to the six month period ended December 31, 2008 are approximately the same. However, the prior period is only six months. During the six month period ended December 31, 2008, the Company incurred additional TSX Venture Exchange and SEDAR fees related to the filing of the July 2008 preliminary short form prospectus. During the year ended June 30, 2008, the Company incurred additional filing fees relating to the acquisition of the Licenses.

Stock-based compensation increased approximately $319,000 in comparison to the six month period ended December 31, 2008 and decreased approximately $636,000 in comparison to the

year ended June 30, 2008. If the stock-based compensation for the period ended December 31, 2008 was annualized, it would be similar to the current year. For the year ended June 30, 2008, the stock-based compensation expense is much higher than the current year due to the expense calculation being weighted more towards the initial grant date. There were more stock options issued in the year ended June 30, 2008 than in the current year.

Travel expenses increased approximately $222,000 and $19,000 in comparison to the six month period ended December 31, 2008 and the year ended June 30, 2008. During the year ended December 31, 2009, there was significantly more international travel as the farm-outs were being negotiated.

SELECTED QUARTERLY INFORMATION

The following is a summary of selected financial information for the Company for the periods indicated:

($000's except per share data)	Dec 31 2009	Sep 30 2009	Jun 30 2009	Mar 31 2009	Dec 31 2008	Sep 30 2008	Jun 30 2008	Mar 31 2008
Revenue	2	-	5	14	22	29	40	56
Loss before discontinued operations	1,311	818	716	701	652	923	736	699
Net loss	1,311	818	716	701	652	923	736	699
Loss per share before discontinued operations	0.03	0.01	0.01	0.01	0.01	0.02	0.01	0.01
Total loss per share	0.03	0.01	0.01	0.01	0.01	0.02	0.01	0.01
Total assets	30,488	32,178	31,753	32,416	33,030	33,406	34,345	34,863

- The Company currently has no oil or gas production to offset its expenses. The Company's expenses are described more fully in RESULTS OF OPERATIONS.
- The Company's main assets are petroleum and natural gas properties and cash.

FINANCIAL CONDITION

At December 31, 2009, the Company had total assets of $30,488,516 compared to $33,029,613 at December 31, 2008. During the year ended December 31, 2009, the Company received US $16,500,000 from the farm-outs of PPL 259 and 260 (approximately CDN $18.2 million) resulting in an increase in cash and cash equivalents and a decrease in petroleum and natural gas properties. Total assets were reduced by the operating loss and capital expenditures for the year ended December 31, 2009.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2009, the Company had net working capital of $13,593,265 compared to net working capital of $2,641,953 at December 31, 2008. The increase in working capital is mainly due to the cash received from the farm-outs of PPL 259 and 260 offset by cash used in operations and for capital expenditures.

Funds used in operations were $2,909,027 for the year ended December 31, 2009 compared to $1,227,910 for the six months ended December 31, 2008 and $1,850,750 for the year ended June 30, 2008. The increase in funds used in operations for the year ended December 31, 2009 is mainly a result of the larger operating loss.

Net cash from investing activities for the year ended December 31, 2009 was $13,459,837. During 2009, the Company completed farm-outs for PPL 259 and 260 and received a total of US $16,500,000 (approximately CDN $18.2 million) (see COMPANY OVERVIEW for details of the farm-outs). During 2009, the Company incurred capital expenditures of $4,587,237 as follows:

PPL 257 - offshore seismic acquisition program	$ 1,129,039
PPL 259 – finder's fee re: farm-out	954,613
PPL 260 - seismic program	847,335
PPL 258 - aero-gravity/magnetic survey	467,933
PPL 257 - aero-gravity/magnetic survey	454,153
Overhead	243,919
Other	490,245
Total capital expenditures for 2009	$ 4,587,237

Contributed surplus at December 31, 2009 increased $387,041 over December 31, 2008. The increase is due to the stock-based compensation expense of $614,844 for the year ended December 31, 2009 offset by transfers of $227,803 to share capital upon exercise of stock options.

The Company does not currently generate sufficient cash flow from its operating activities to fund its activities and has relied upon fees from farm-outs and the issuance of common shares to provide additional funding. The Company's financial statements are presented on a going-concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company's ability to continue as a going concern is dependent upon its ability to raise equity financing and/or enter into joint venture or farm-out arrangements in the Licenses within the next twelve months to meet its exploration commitments and working capital requirements. The Company entered into a farm-out arrangement relating to PPL 260 with OSPNG in April 2009 and entered into a farm-out arrangement relating to PPL 259 with Mega in June 2009 (see COMPANY OVERVIEW). In March 2010, the Company closed a private placement for net proceeds of approximately $22.4 million, excluding other issue costs (see SUBSEQUENT EVENTS). Management believes there is the opportunity for the Company to enter into further farm-out or joint venture arrangements and/or raise further equity in 2010 and therefore continue as a going concern. However, there are no assurances that the Company will be successful in achieving these objectives. If the Company is unable to raise equity financing and/or secure farm-out or joint venture partners, the Company may be unable to continue as a going concern. The Company's financial

statements do not reflect the adjustments to the carrying values of assets and liabilities, including any impairment in its petroleum and natural gas properties, and the reported expenses and balance sheet classifications that would be necessary if the Company is unable to continue as a going concern, and such adjustments could be material.

2010 WORK PROGRAM AND OUTLOOK

The Company's optimal 2010 work program is based on meeting its License commitments. However, as the Company does not currently have sufficient working capital available to meet its entire 2010 License commitments, the Company is in discussions with industry partners to enter into further joint venture or farm-out arrangements in the Licenses and has applied to the PNG Government for a deferral of certain of the work commitments or extensions to the Licenses.

For PPL 260, a seismic program was conducted during June 2009 over the Kelebo, Auwi and Kopiago prospects. The estimated gross cost of the seismic program was approximately US $7,650,000. Under the terms of the farm-out agreement with OSPNG, approximately 90 percent of the cost of the seismic was paid by OSPNG; see COMPANY OVERVIEW. OSPNG elected in August 2009 to drill a well in PPL 260 on the Kelebo prospect to earn an additional 60 percent participating interest. The Company and OSPNG have selected a location, Korka-1, for the first exploration well and expect drilling to commence in the first half of 2010. OSPNG will pay 90 percent of the cost of drilling Korka-1 up to a maximum gross cost of US $50,000,000. The Company estimates the gross cost of drilling Korka-1 will be approximately US $57,000,000 (net cost approximately US $7,100,000).

For PPL 259, the Company plans to drill the first exploration well in 2010 and has applied to the PNG government for an extension to the drilling work commitment to September 2010. In 2009, the Company entered into a farm-out agreement with Mega (see COMPANY OVERVIEW) whereby Mega paid US $15,000,000 for a 10 percent participating interest in PPL 259. The Company is currently seeking additional farm-out or joint venture partners to help fund the cost of drilling the first exploration well, Ubuntu-1 which is estimated at approximately US $22,000,000 (net cost to the Company US $19,800,000).

For PPL 257 and 258, the Company has applied to the PNG government for a five-year extension to the licenses and the drilling commitments. The Company also continues to discuss farm-out/joint venture arrangements with financially strong partners for these licenses. The estimated costs for the remaining work commitments for PPLs 257 and 258 are as follows:

PPL 257
Drill one exploration well at a gross estimated cost of approximately US $60,000,000.
PPL 258
Drill one exploration well at a gross estimated cost of approximately US $30,000,000.

As a result of the nature of the petroleum and natural gas exploration, development and exploitation industry, budgets are regularly reviewed with respect to both the success of expenditures and other opportunities that become available. Accordingly, while it is currently intended by management of the Company that the general expenditures set out in the work program above will be made by the Company, actual expenditures may in fact differ from these plans, amounts and allocations.

Additionally, completion of activities are subject to potential barriers such as, but not limited to, lack of capital, lack of available equipment and poor weather which may impact the time of completions. Additional risk factors are disclosed in the Company's Annual Information Form dated March 29, 2010 which is available on SEDAR at www.sedar.com.

OUTSTANDING SHARE DATA

As at March 29, 2010, the Company had 59,138,942 common shares outstanding and 4,981,000 stock options outstanding under its stock option plan. The Company also had 8,000,000 performance warrants and 13,500,000 special warrants outstanding.

NEW ACCOUNTING STANDARDS ADOPTED

On January 1, 2009, the Company adopted the new CICA Handbook Section 3064, *Goodwill and Intangible Assets,* replacing Section 3062, *Goodwill and Other Intangible Assets*, and Section 3450, *Research and Development*. The adoption of this standard has had no material impact on Eaglewood's net loss or cash flows.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

For the year ended December 31, 2009, the Company paid $70,795 for legal services to a firm of which an officer of the Company is a partner.

For the year ended December 31, 2009, the Company paid $12,000 in management fees to a company controlled by a director. These fees were paid for administrative services which were provided by the director.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, accounts receivable and accounts payable. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that International Financial Reporting Standards ("IFRS") will replace Canadian GAAP in 2011 for profit-oriented Canadian publicly accountable enterprises. Eaglewood will transition to IFRS effective January 1, 2011 and intends to issue its first interim financial statements for the period ending March 31, 2011. The Company has developed a project plan for the transition to IFRS which includes the following three phases:

- *Diagnostic phase* which includes the identification of significant differences between IFRS and Canadian GAAP at a high level as relevant to the Company;
- *Detailed assessment and design phase* which includes:
  - the identification, evaluation and selection of accounting policies necessary for the Company to transition to IFRS;
  - the assessment of IFRS 1, *First-Time Adoption of IFRS*, elections;
  - the identification of any business impacts resulting from the identified accounting differences; and
  - training analysis and information systems analysis.
- *Implementation phase* which includes implementing all of the required changes necessary for IFRS compliance.

Diagnostic Phase

During the fourth quarter of 2009, the Company completed its initial diagnostic phase to identify differences between IFRS and Canadian GAAP. This diagnostic indicated that the areas of accounting difference of the highest potential impact to the Company include property, plant and equipment, impairment of assets, the requirements of IFRS 1 dealing with first time adoption choices and presentations and disclosures. There are other areas of IFRS that will impact the Company but to a lesser extent.

Under IFRS 1, the Company will have the option to value the property, plant and equipment assets at their deemed cost, that being the Canadian GAAP net book value assigned to these assets at the date of transition, providing that all assets are tested for impairment on adoption. Eaglewood expects that it will use this option.

Upon transition to IFRS, the Company will be required to re-classify its exploration and evaluation ("E&E") expenditures that are currently included in property, plant and equipment on the consolidated balance sheet. This will include the book value for the PNG Licenses that relate to exploration. E&E assets may not be depleted and must be assessed for impairment when indicators suggest the possibility of impairment.

Detailed Assessment and Design Phase

The Company has begun the second phase which is expected to be completed by the end of the second quarter of 2010. The Company is currently analyzing accounting policy alternatives for the areas of greatest potential impact to the Company's consolidated financial statements. At this time the Company does not anticipate that the transition to IFRS will have a significant impact on its information systems or internal controls. The process of training key accounting personnel began in 2009 and will continue in 2010. IFRS training has included external workshops and seminars specific to the oil and gas industry.

Implementation Phase
The Company anticipates the implementation phase will be conducted during the fourth quarter of 2010.

The Company is monitoring the IASB's active projects and any changes to IFRS prior to January 1, 2011 will be addressed as required. At this time, the impact of the transition to IFRS on the Company's consolidated financial statements cannot be reasonably determined.

ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE

The Company is a venture issuer that has not had significant revenue from operations in either of its last two financial years. In accordance with National Instrument 51-102, additional disclosure on material costs is presented below.

	Year ended Dec 31, 2009	Six months ended Dec 31, 2008	Year ended Jun 30, 2008
General and administrative:			
Salaries & wages	**$ 1,428,817**	$ 592,176	$ 879,542
Office costs	**121,856**	104,204	152,845
Office rent	**214,851**	56,088	73,955
Other general and administrative	**29,481**	29,737	36,523
Overhead recoveries	**(48,903)**	-	-
Total general and administrative	**$ 1,746,102**	$ 782,205	$ 1,142,865
Capitalized exploration and development costs	**$ 4,574,062**	$ 619,127	$ 29,371,010

EAGLEWOOD ENERGY INC.

ANNUAL FINANCIAL STATEMENTS

For the year ended December 31, 2009

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
Chartered Accountants
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Calgary, Alberta
Canada T2P 5L3
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March 29, 2010

Auditors' Report

To the Shareholders of Eaglewood Energy Inc.

We have audited the consolidated balance sheets of Eaglewood Energy Inc. as at December 31, 2009 and for the six months ended December 31, 2008 and the consolidated statements of net loss, comprehensive loss and deficit and cash flows for the periods then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated 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 periods then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at June 30, 2008 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated September 4, 2008.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta

"PricewaterhouseCoopers" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership, or, as the context requires, the PricewaterhouseCoopers global network or other member firms of the network, each of which is a separate legal entity.

EAGLEWOOD ENERGY INC.

CONSOLIDATED BALANCE SHEETS

As at		**December 31 2009**		December 31 2008		June 30 2008
ASSETS						
Current Assets						
Cash and cash equivalents	$	**13,622,795**	$	2,781,985	$	4,829,458
Accounts receivable		**394,652**		184,200		57,180
Prepaid expenses		**-**		-		13,007
		14,017,447		2,966,185		4,899,645
Petroleum and natural gas properties (note 6 and 7)		**16,471,069**		30,063,428		29,445,761
	$	**30,488,516**	$	33,029,613	$	34,345,406
LIABILITIES AND SHAREHOLDERS' EQUITY						
Current Liabilities						
Accounts payable and accrued liabilities	$	**424,182**	$	324,232	$	360,961
Shareholders' Equity						
Share capital (note 8)		**41,289,488**		40,771,686		40,771,686
Contributed surplus (note 8)		**2,340,195**		1,953,154		1,657,069
Deficit		**(13,565,349)**		(10,019,459)		(8,444,310)
		30,064,334		32,705,381		33,984,445
	$	**30,488,516**	$	33,029,613	$	34,345,406

See accompanying notes to consolidated financial statements

Contingencies and commitments (note 14)

Approved by the Board of Directors

"signed" Ray Antony, Director and Chairman

"signed" Stan Grad, Director

EAGLEWOOD ENERGY INC.

CONSOLIDATED STATEMENTS OF NET LOSS, COMPREHENSIVE LOSS AND DEFICIT

		Year ended December 31, 2009		Six months ended December 31, 2008		Year ended Jun 30, 2008
Revenue						
Interest income	**$**	**21,211**	$	50,888	$	194,508
Expenses						
Bank charges and interest		**11,384**		5,151		5,509
Management fees		**12,000**		12,000		48,000
General and administrative		**1,746,102**		782,205		1,142,865
Professional fees		**145,513**		407,961		255,959
Public company		**63,275**		64,410		90,826
Consulting		**14,268**		25,464		54,395
Stock-based compensation		**614,844**		296,085		1,250,802
Depreciation		**18,279**		7,435		16,097
Travel		**417,581**		195,476		398,779
Other		**3,912**		7,248		729
Foreign exchange loss/(gain)		**519,943**		(177,398)		33,036
		3,567,101		1,626,037		3,296,997
Net loss and comprehensive loss for the year		**(3,545,890)**		(1,575,149)		(3,102,489)
Deficit, beginning of year		**(10,019,459)**		(8,444,310)		(5,341,821)
Deficit, end of year	**$**	**(13,565,349)**	$	(10,019,459)	$	(8,444,310)
Net loss per common share - basic and diluted	**$**	**(0.06)**	$	(0.03)	$	(0.07)
Weighted average common shares - basic and diluted		**57,863,983**		57,744,942		47,187,565

See accompanying notes to consolidated financial statements

EAGLEWOOD ENERGY INC.

CONSOLIDATED STATEMENTS OF CASH FLOW

	Year ended December 31, 2009	Six months ended December 31, 2008	Year ended June 30, 2008
Cash flows related to the following activities:			
Operating Activities			
Net loss	**$ (3,545,890)**	$ (1,575,149)	$ (3,102,489)
Items not involving cash:			
Stock-based compensation	**614,844**	296,085	1,250,802
Depreciation	**18,279**	7,435	16,097
	(2,912,767)	(1,271,629)	(1,835,590)
Changes in non-cash working capital (note 12)	**3,740**	43,719	(15,160)
	(2,909,027)	(1,227,910)	(1,850,750)
Investing Activities			
Additions to petroleum and natural gas properties	**(4,587,237)**	(625,102)	(3,833,609)
Proceeds from farm-outs	**18,161,316**	-	-
Changes in non-cash working capital (note 12)	**(114,242)**	(194,461)	250,716
	13,459,837	(819,563)	(3,582,893)
Financing Activities			
Issue of common shares	**290,000**	-	10,200,000
Share issue costs	**-**	-	(520,175)
	290,000	-	9,679,825
Net increase (decrease) in cash	**10,840,810**	(2,047,473)	4,246,182
Cash and cash equivalents, beginning of period	**2,781,985**	4,829,458	583,276
Cash and cash equivalents, end of period	**$ 13,622,795**	$ 2,781,985	$ 4,829,458
Cash and cash equivalents composed of:			
Cash in banks	**13,622,795**	781,985	829,458
Term deposits	**-**	2,000,000	4,000,000
	$ 13,622,795	$ 2,781,985	$ 4,829,458
Supplementary information:			
Interest received	**$ 21,211**	$ 5,129	$ 183,987
Interest paid	**$ -**	$ -	$ -
Taxes paid	**$ -**	$ -	$ -

See accompanying notes to consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2009 AND FOR THE YEAR ENDED DECEMBER 31, 2009, THE SIX MONTHS ENDED DECEMBER 31, 2008 AND THE YEAR ENDED JUNE 30, 2008

1. NATURE OF OPERATIONS AND GOING CONCERN

Eaglewood Energy Inc. (collectively with its subsidiary, the "Company" or "Eaglewood") is a development stage enterprise whose primary activity is exploration of its Papua New Guinea ("PNG") licenses. The Company has not yet commenced exploration drilling activities and does not have any production revenue.

Effective October 17, 2008, the Company changed its financial year end from June 30 to December 31. As a result of this change in year end, the Company had a six month transitional financial period ending December 31, 2008.

The Company's consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company has not generated any petroleum revenue to date and for the year ended December 31, 2009, the Company reported a net loss of approximately $3.5 million. At December 31, 2009, the Company had an accumulated deficit of approximately $13.6 million and net working capital of approximately $13.6 million. In addition to its ongoing working capital requirements, the Company has financial commitments related to its PNG licenses as described in note 14(b). These circumstances raise substantial doubt as to the ability of the Company to continue as a going concern.

The Company's ability to continue as a going concern is dependent upon its ability to raise equity financing and/or enter into joint venture or farm-out arrangements in the next twelve months. In April 2009, the Company entered into a farm-out arrangement with Oil Search (PNG) Limited ("OSPNG") relating to PPL 260 and in June 2009, the Company entered into a farm-out arrangement with Mega Fortune International Limited ("Mega") relating to PPL 259. The farm-outs are described more fully in note 7. In March 2010, the Company closed a private placement for net proceeds after sales commissions of approximately $22.4 million, excluding other issue costs, which is described more fully in note 16. Management believes there is the opportunity for the Company to raise additional equity and/or enter into further farm-out or joint venture arrangements in 2010 and therefore continue as a going concern. However, there are no assurances that the Company will be successful in achieving these objectives. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities, including any impairment in the petroleum and natural gas properties, and the reported expenses and balance sheet classifications that would be necessary if the Company is unable to continue as a going concern, and such adjustments could be material.

2. FINANCIAL STATEMENT PRESENTATION

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary Eaglewood Energy (BVI) Ltd. which was incorporated on July 4, 2007. The consolidated financial statements are presented in Canadian dollars and in accordance with Canadian GAAP.

3. SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents
Cash and cash equivalents include cash in bank accounts and short-term deposits that are redeemable at any time without penalty. Cash and cash equivalents are designated as held-for-trading and are carried at fair value. Fair value was determined using Level 2 as described in note 4.

Petroleum and natural gas properties
The Company has adopted the Canadian Accounting Standard for Enterprises in the Development Stage. All direct costs relating to the exploration and development of the PNG petroleum prospecting licenses to date, including capital expenditures and pre-operating costs, are capitalized including the cost of the acquisition of the licenses, exploration and development, annual license fees and administrative costs that are directly related to exploration activities. When production begins, these capitalized costs will be amortized following the unit-of-production method based on proved reserves.

The carrying values of petroleum and natural gas properties are not intended to reflect their future value. In particular, the future value of the petroleum and natural gas properties depends on the ability of the Company to obtain financing, the start-up of commercial production and the future profitability of the properties. Accordingly, the petroleum and natural gas properties are assessed in each reporting period to determine if there are events or circumstances that would indicate it is unlikely such costs will be recovered in the future. If there are costs that are considered unlikely to be recovered, they are charged to earnings.

Amortization of petroleum and natural gas properties will follow the unit-of-production method based on proved reserves when production begins. Office equipment and furniture are depreciated at declining balance rates of 20 to 30 percent.

Asset Retirement Obligations
The Company recognizes the estimated fair value of future retirement obligations associated with capital assets as a liability in the period in which they are incurred, normally when the asset is purchased or developed. The fair value of future retirement obligations is capitalized and amortized over the same period as the underlying asset. The Company estimates the liability based on the estimated costs to abandon and reclaim the wells and well sites under the terms of the exploration licenses. Actual retirement obligations settled during the period reduce the asset retirement liability.

Financial Instruments
The Company follows CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement*, which establishes the recognition and measurement criteria for financial assets, liabilities and derivatives. All financial instruments are required to be measured at fair value on initial recognition of the instrument, except for certain related-party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as "held-for-trading", "available-for-sale", "held-to-maturity", "loans and receivables" or "other financial liabilities" as defined by the standard.

Cash equivalents are designated as "held-for-trading" and are measured at fair value. Accounts receivable are designated as "loans and receivables" and are carried at cost. Accounts payable are designated as "other financial liabilities" and are carried at cost.

Stock-based Compensation
The Company uses the fair value method for valuing stock option grants. The estimated fair value is expensed over the vesting period with a corresponding increase to contributed surplus. Upon exercise of the stock options, consideration paid by the option holder together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

Foreign Currency Translation
The Company's reporting currency is Canadian dollars.

Business conducted in PNG is considered to be an "integrated foreign operation" for accounting purposes and therefore its financial statements are translated into Canadian dollars using the temporal method. Under the temporal method, foreign denominated monetary assets and liabilities are translated at the exchange rates in effect at the balance sheet date. Foreign denominated non-monetary assets and liabilities are translated at historical exchange rates.

Foreign denominated revenues and expenses are translated at the average exchange rate for the period, except for charges related to non-monetary assets which are translated at the historical exchange rate for the assets to which the charge relates, and material items where a specific date can be identified for the transaction which is translated at the exchange rate on that specific date. Any resulting foreign exchange gains or losses are included in the determination of net income.

Per share amounts
Basic per share amounts are calculated using the weighted average number of common shares outstanding for the period. The Company follows the treasury stock method to calculate diluted per share amounts. The treasury stock method assumes that any proceeds from the exercise of in-the-money stock options or other dilutive instruments, in addition to stock-based compensation not yet recognized, would be used to purchase common shares at the average market price during the period. Diluted earnings per share do not include any anti-dilutive conversions.

Income taxes
The Company follows the liability method of accounting for income taxes. Under this method, income tax liabilities and assets are recognized for the estimated tax consequences attributed to differences between the amounts reported in the financial statements and their respective tax bases, using substantively enacted income tax rates. The effect of a change in income tax rates on future income tax assets is recognized in income in the period that the change occurs.

Measurement uncertainty
The timely preparation of the consolidated financial statements in conformity with GAAP requires that management make estimates and assumptions and use judgment regarding the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. These estimates are subject to measurement uncertainty. Accordingly, actual results may differ from estimated amounts and affect the results reported in these consolidated financial statements.
Significant estimates used in the preparation of the consolidated financial statements include future income taxes, stock-based compensation and asset impairment.

4. ACCOUNTING CHANGES IN 2009

Goodwill and intangible assets
CICA Handbook Section 3064, *Goodwill and Intangible Assets*, was adopted on January 1, 2009 and establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets subsequent to their initial recognition. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The adoption of these new accounting standards did not impact the amounts reported in the Company's consolidated financial statements.

Credit risk and fair value of financial assets and liabilities
Emerging Issues Committee Abstract 173 – This abstract took effect on January 1, 2009 and requires entities to take both counterparty and their own credit risk into account when measuring the fair value of financial assets and liabilities, including derivatives. The abstract did not affect the Company's consolidated financial statements.

Financial statements disclosures
Amendments were issued in June 2009 to CICA Handbook Section 3862, *Financial Instruments Disclosure*, which are effective for fiscal years ending after September 30, 2009. The amendments include enhanced disclosures related to the fair value of financial instruments and are consistent with recent amendments to financial instrument disclosure standards in International Financial Reporting Standards. This section was amended to require disclosures about the inputs to fair value measurements, including their classification within a hierarchy that prioritizes the inputs to fair value measurement. The three levels of the fair value hierarchy are:

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

The amendments to this standard were adopted December 31, 2009 and result in increased note disclosures for financial instruments.

5. FUTURE ACCOUNTING CHANGES

The following CICA Handbook sections will become effective January 1, 2011:

- Section 1582, *Business Combinations*, replaces the previous business combinations standard. The new standard requires that assets and liabilities acquired in a business combination, contingent consideration and certain acquired contingencies be measured at their fair values as of the date of acquisition. In addition, acquisition-related and restructuring costs are to be recognized separately from the business combination and included in the statement of earnings. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

- Section 1601, *Consolidated Financial Statements*, together with Section 1602 below, replaces the former consolidated financial statements standard. Section 1601 establishes the requirements for the preparation of consolidated financial statements. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

- Section 1602, *Non-controlling Interests*, 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 the non-controlling interest. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2009 AND FOR THE YEAR ENDED DECEMBER 31, 2009, THE SIX MONTHS ENDED DECEMBER 31, 2008 AND THE YEAR ENDED JUNE 30, 2008

International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that International Financial Reporting Standards ("IFRS") will replace Canadian GAAP in 2011 for profit-oriented Canadian publicly accountable enterprises. As a result, the Company will be required to report its results in accordance with IFRS beginning in 2011. The Company has developed a changeover plan to complete the transition to IFRS by January 1, 2011, including the preparation of required comparative information. The impact of IFRS on the Company's consolidated financial statements is not reasonably determinable at this time.

6. PETROLEUM AND NATURAL GAS PROPERTIES

December 31, 2009:	Cost	Accumulated depletion and depreciation	Net book value
Petroleum and natural gas properties	$16,402,882	-	$16,402,882
Office furniture and equipment	109,997	41,810	68,187
	$16,512,879	**41,810**	**$16,471,069**

December 31, 2008:	Cost	Accumulated depletion and depreciation	Net book value
Petroleum and natural gas properties	$29,990,137	-	$29,990,137
Office furniture and equipment	96,823	23,532	73,291
	$30,086,960	**23,532**	**$30,063,428**

June 30, 2008:	Cost	Accumulated depletion and depreciation	Net book value
Petroleum and natural gas properties	$29,371,010	-	$29,371,010
Office furniture and equipment	90,848	16,097	74,751
	$29,461,858	**16,097**	**$29,445,761**

The petroleum and natural gas properties were reduced for the amount of cash received from the farm-outs of PPL 259 and 260 (see note 7).

As at December 31, 2009, the cost of the petroleum and natural gas properties includes $16,402,882 (as at December 31, 2008 - $29,990,137; as at June 30, 2008 - $29,371,010) relating to unproved properties which have been excluded from costs subject to depletion and depreciation.

Included in petroleum and natural gas properties is $464,291 (as at December 31, 2008 - $220,372; as at June 30, 2008 - $103,613) of capitalized general and administrative expenses related to exploration activities.

7. FARM-OUTS

In April 2009, Eaglewood entered into a farm-out agreement relating to PPL 260 with OSPNG. Under the terms of the farm-out agreement, OSPNG paid Eaglewood US $1,500,000 and conducted a seismic program at its sole cost to earn a 10 percent participating interest in PPL 260. Under the farm-out agreement, OSPNG had the right to elect to earn an additional 60 percent participating interest in PPL 260 in exchange for agreeing to pay 90 percent of the cost of drilling one exploration well up to a maximum gross cost of US $50,000,000. In August 2009, OSPNG elected to drill a well to earn the additional interest. Upon completion of the well, which is expected to commence drilling in the first half of 2010, Eaglewood's participating interest in PPL 260 will be 30 percent. OSPNG has assumed operatorship.

In June 2009, Eaglewood entered into a farm-out agreement relating to PPL 259 with Mega. Under the terms of the farm-out agreement, Mega paid Eaglewood US $15,000,000 to earn a 10 percent participating interest in PPL 259. Mega had the opportunity to earn an additional 50 percent participating interest in PPL 259 by paying Eaglewood US $20,000,000 by December 15, 2009 to fund the cost of drilling the first exploration well, Ubuntu-1. However, Mega was unable to complete the funding within the required time period and as a result will remain holding a 10 percent participating interest in PPL 259.

The petroleum and natural gas properties were reduced for the amount of cash received from the farm-outs of PPL 259 and 260.

In relation to the PPL 259 farm-out, Eaglewood paid a finder's fee of US $900,000 to Metropower Asia Limited ("Metropower"), a private energy and minerals advisory services company headquartered in Hong Kong. No further fees are due to Metropower for the PPL 259 farm-out.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2009 AND FOR THE YEAR ENDED DECEMBER 31, 2009, THE SIX MONTHS ENDED DECEMBER 31, 2008 AND THE YEAR ENDED JUNE 30, 2008

8. SHARE CAPITAL

(a) Authorized:
The Company is authorized to issue an unlimited number of common shares and preferred shares.

(b) Common shares issued:

	December 31, 2009		December 31, 2008		June 30, 2008	
	Number	**Amount**	Number	Amount	Number	Amount
Opening balance	**57,744,942**	**$40,771,686**	57,744,942	$40,771,686	15,744,942	$ 5,807,409
Private placement (i)	**-**	**-**	-	-	12,000,000	10,200,000
Acquisition of PNG Licenses (ii)	**-**	**-**	-	-	30,000,000	25,500,000
Issue costs	**-**	**-**	-	-	-	(735,723)
Exercise of options	**800,000**	**517,802**	-	-	-	-
Closing balance	**58,544,942**	**$41,289,488**	57,744,942	$40,771,686	57,744,942	$40,771,686

(i) On October 1, 2007, the Company issued 12,000,000 common shares pursuant to a private placement for gross proceeds of $10,200,000. The agent was paid a cash commission of six percent of the gross proceeds and was granted warrants to purchase 600,000 common shares. The fair value of the warrants was included in the issue costs.

(ii) On October 1, 2007, in consideration for the acquisition of a 100 percent interest in four exploration prospecting licenses granted by the PNG government and all related geological, seismic and technical data, the Company issued to the vendor 30,000,000 common shares at a deemed price of $0.85 per common share. The value of the common shares was determined based upon the average trading price at the announcement date of the transaction.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2009 AND FOR THE YEAR ENDED DECEMBER 31, 2009, THE SIX MONTHS ENDED DECEMBER 31, 2008 AND THE YEAR ENDED JUNE 30, 2008

(c) Warrants outstanding:

	As at December 31, 2008		As at June 30, 2008	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding beginning of period	600,000	$0.85	-	-
Issued (i)	-	-	600,000	$0.85
Expired (i)	(600,000)	$0.85	-	-
Outstanding end of period	-	-	600,000	$0.85

(i) Pursuant to a private placement in 2007, the agent was granted warrants to purchase 600,000 common shares at $0.85 per common share. The warrants were not exercised and expired on September 30, 2008.

(d) Stock options:

The Company has a stock option plan for directors, officers, employees and consultants. Under the Company’s stock option plan, the Company may grant options of up to 10 percent of the issued and outstanding common shares. The plan is administered by the Board of Directors. In accordance with the policies of the TSX Venture Exchange, the option exercise price, when granted, is based on the closing price of the Company’s shares on the TSX-V on the last trading day prior to the grant, subject to a permitted discount. Options granted under the plan have an exercise period not exceeding five years. The vesting period is determined at the time of grant at the discretion of the Board of Directors.

Stock option continuity

The Company had stock options outstanding to acquire common shares as follows:

	As at December 31, 2009		As at December 31, 2008		As at June 30, 2008	
	Number of Options	**Weighted Average Exercise Price**	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding beginning of period	**5,775,000**	**$0.53**	3,325,000	$0.86	600,000	$0.45
Granted	**1,000,000**	**$1.25**	2,500,000	$0.10	2,775,000	$0.95
Exercised	**(800,000)**	**$0.36**	-	-	-	-
Forfeited	**(400,000)**	**$0.96**	(50,000)	$1.06	(50,000)	$0.85
Outstanding end of period	**5,575,000**	**$0.65**	5,775,000	$0.53	3,325,000	$0.86
Exercisable, end of period	**3,141,666**	**$0.67**	2,116,671	$0.82	1,341,669	$0.76

The following table summarizes the stock options outstanding at December 31, 2009:

	Options outstanding			**Options exercisable**	
Range of exercise prices	**Number**	**Weighted average exercise price**	**Weighted average life (years)**	**Number**	**Weighted average exercise price**
$0.10 - $0.50	2,300,000	$ 0.10	3.89	1,125,000	$ 0.10
$0.51 - $1.00	1,325,000	$ 0.79	3.04	966,666	$ 0.81
$1.01 - $1.35	1,950,000	$ 1.22	3.76	1,050,000	$ 1.14
$0.10 - $1.35	**5,575,000**	**$ 0.65**	**3.64**	**3,141,666**	**$ 0.67**

(e) Performance warrants:

In 2008, the Company granted performance warrants to certain employees. The performance warrants entitle the employees to purchase an equivalent number of common shares of the Company if the common shares close at or above pre-determined prices for specified periods of time. The performance warrants vest in four equal tranches over a two year period and expire three years from the date of grant. The exercise price of the performance warrants escalates with each tranche and ranges from $0.75 to $1.75.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2009 AND FOR THE YEAR ENDED DECEMBER 31, 2009, THE SIX MONTHS ENDED DECEMBER 31, 2008 AND THE YEAR ENDED JUNE 30, 2008

Performance warrants continuity

	As at December 31, 2009	
	Number of Warrants	**Weighted Average Exercise Price**
Outstanding beginning and end of period	**8,000,000**	**$1.19**
Exercisable, end of period	**4,000,000**	**$0.88**

(f) Stock-based compensation

The fair value of common share options and performance warrants granted is estimated on the date of grant and is recognized over the vesting period. During the year ended December 31, 2009, stock-based compensation in the amount of $614,844 (six months ended December 31, 2008 - $296,085; year ended June 30, 2008 - $1,250,802) was recorded in the consolidated statement of loss using the Black-Scholes option pricing model based on the following assumptions:

	Year ended December 31, 2009	Six months ended December 31, 2008	Year ended June 30, 2008
Weighted average fair value of stock options granted (per option)	**$1.12**	$0.16	$0.45
Weighted average fair value of performance warrants granted	**-**	$0.03	-
Expected life of stock options	**4 years**	4 years	4 years
Expected life of performance warrants	**3 years**	3 years	-
Expected volatility	**156% - 162%**	150%	57%
Risk-free rate of return	**2.19% - 2.25%**	2.16% - 2.40%	4.11%
Dividend yield	**0%**	0%	0%

(g) Contributed surplus continuity

	As at December 31, 2009	As at December 31, 2008	As at June 30, 2008
Balance, beginning of period	**$ 1,953,154**	$ 1,657,069	$ 294,667
Stock-based compensation	**614,844**	296,085	1,250,802
Transfer to share capital on exercise of options	**(227,803)**	-	-
Fair value of warrants	**-**	-	111,600
Balance, end of period	**$ 2,340,195**	$ 1,953,154	$ 1,657,069

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9. FINANCIAL INSTRUMENTS

The Company does not utilize derivative instruments to manage risks. The Company is exposed to the following risks related to its financial assets and liabilities:

(a) Foreign currency exchange risk
The Company is exposed to risk arising from fluctuations in foreign currency exchange rates and the volatility of those rates. This exposure primarily relates to: (i) certain expenditure commitments, deposits and accounts payable which are denominated in foreign currencies including US dollars, Australian dollars or Papua New Guinea dollars; and (ii) its operations in Papua New Guinea.

(b) Credit Risk
Credit risk is the risk that a third party fails to meet its contractual obligations that could result in the Company incurring a loss. The Company's accounts receivable are primarily with joint venture partners. Receivables from joint partners arise when the Company conducts joint operations on behalf of its partners and invoices them for their share of costs. As at December 31, 2009, there was no allowance for doubtful accounts for the joint venture receivables as all amounts receivable were current.

(c) Fair values
The carrying amounts of financial instruments comprising cash and cash equivalents, accounts receivable and accounts payable approximate their fair values due to the immediate or short term nature of these financial instruments.

The carrying value and fair value of financial assets and liabilities as at December 31, 2009 are summarized below:

Classification	Carrying Value	Fair Value
Held-for-trading (Cash and cash equivalents)	$ 13,622,795	$ 13,622,795
Loans and receivables (Accounts receivable)	394,652	394,652
Held-to-maturity	-	-
Available-for-sale	-	-
Other liabilities (Accounts payable and accrued liabilities)	424,182	424,182

10. Capital management

The Company's objective when managing its capital structure is to maintain adequate levels of available working capital, including cash and cash equivalents, to meet its license commitments in PNG.

The Company funds its share of expenditures of all commitments from existing cash and cash equivalent balances received primarily from fees from farming out its Licenses and issuances of shareholders' equity. In order to maintain positive working capital, the Company may issue new shares. The Company does not utilize debt and is not subject to any financial covenants.

The Board of Directors regularly reviews the Company's cash and cash equivalents against the expenditure commitments and assesses the timing and need for additional equity financing. The Company's results will impact its access to the capital necessary to meet these expenditure commitments. There can be no assurance that equity financing will be available or sufficient to meet those requirements, or for other corporate purposes, or if equity financing is available, that it will be on terms acceptable to the Company.

Subsequent to December 31, 2009, the Company completed a private placement for net proceeds of approximately $22.4 million, excluding other issue costs, (see note 16) which will be used primarily for its exploration activities. In 2010, the Company plans to seek additional farm-out or joint venture partners as a further source of capital to meet its license commitments and may consider additional equity financing.

11. Related party transactions

The Company has entered into transactions with related parties in the normal course of business, which were valued at the exchange amount established and agreed to by the related parties. During the year ended December 31, 2009, the related party transactions were as follows:

(a) the Company paid $12,000 (six months ended December 31, 2008 - $12,000; year ended June 30, 2008 - $48,000) to a company controlled by a director. These fees were paid for administration services which were provided by the director who previously acted as an officer of the Company. At December 31, 2009, $nil (December 31, 2008 - $nil; June 30, 2008 - $nil) was included in accounts payable and accrued liabilities.

(b) the Company paid $70,795 (six months ended December 31, 2008 - $77,938; year ended June 30, 2008 - $105,769) for legal services to a law firm of which an officer of the Company is a partner. At December 31, 2009, $1,491 (December 31, 2008 - $6,071; June 30, 2008 - $3,527) was included in accounts payable and accrued liabilities.

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(c) the Company paid $nil (six months ended December 31, 2008 - $89,330; year ended June 30, 2008 - $2,838,265) to a company with common directors. The payments for the periods ended December 31, 2008 and June 30, 2008 were predominantly for reimbursement of costs relating to the Licenses incurred prior to the closing of the acquisition of the Licenses. The amounts were recorded at cost. The majority of the costs were included in petroleum and natural gas properties and the remainder in general and administrative expenses. At December 31, 2009, $nil (December 31, 2008 - $nil; June 30, 2008 - $96,390) was included in accounts payable and accrued liabilities.

12. SUPPLEMENTARY CASH FLOW INFORMATION

The following table details the components of non-cash working capital:

	Year ended December 31, 2009	Six months ended December 31, 2008	Year ended June 30, 2008
Provided by (used in):			
Accounts receivable	**$ (210,452)**	$ (127,020)	$ (53,289)
Prepaid expenses	**-**	13,007	(13,007)
Accounts payable and accrued liabilities	**99,950**	(36,729)	301,852
	$ (110,502)	$ (150,742)	$ 235,556
Operating	**$ 3,740**	$ 43,719	$ (15,160)
Investing	**(114,242)**	(194,461)	250,716
	$ (110,502)	$ (150,742)	$ 235,556

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13. INCOME TAXES

The following tables reconcile income taxes calculated at the Canadian statutory rate with recorded income taxes:

	Year ended December 31, 2009		
	Canada	Papua New Guinea	**Total**
Loss before taxes	$ (2,654,242)	$ (891,648)	**$ (3,545,890)**
Statutory income tax rate	29.0%	29.0%	**29.0%**
	$ (769,730)	$ (258,578)	**$ (1,028,308)**
Stock-based compensation	178,305	-	**178,305**
Foreign exchange losses	-	9,266	**9,266**
Change in valuation allowance	515,933	5,197,576	**5,713,509**
Loss subject to tax in foreign jurisdictions	-	(170,183)	**(170,183)**
Non-taxable farm-out proceeds	-	(4,685,993)	**(4,685,993)**
Other	(6,084)	(92,088)	**(98,172)**
Change in tax rates	81,576	-	**81,576**
Tax expense	$ -	$ -	**$ -**

	Six months ended December 31, 2008		
	Canada	Papua New Guinea	**Total**
Loss before taxes	$ (780,687)	$ (794,462)	**$ (1,575,149)**
Statutory income tax rate	29.5%	29.5%	**29.5%**
	$ (230,303)	$ (234,366)	**$ (464,669)**
Stock-based compensation	87,345	-	**87,345**
Change in valuation allowance	121,151	238,338	**359,489**
Loss subject to tax in foreign jurisdictions	-	(3,972)	**(3,972)**
Change in tax rates	21,807	-	**21,807**
Tax expense	$ -	$ -	**$ -**

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	Year ended June 30, 2008		
	Canada	Papua New Guinea	**Total**
Loss before taxes	$ (2,212,904)	$ (889,585)	**$ (3,102,489)**
Statutory income tax rate	29.5%	29.5%	**29.5%**
	$ (652,807)	$ (262,427)	**$ (915,234)**
Non-deductible G&A	3,695	2,899	**6,594**
Stock-based compensation	368,987	-	**368,987**
Other	33,142	-	**33,142**
Change in valuation allowance	96,748	171,839	**268,587**
Income subject to tax in foreign jurisdictions	-	87,689	**87,689**
Change in tax rates	150,235	-	**150,235**
Tax expense	$ -	$ -	**$ -**

The components of future income tax assets are as follows:

	Year ended December 31, 2009		
	Canada	Papua New Guinea	**Total**
Property, plant and equipment	$ 36,679	$ 4,847,754	**$ 4,884,433**
Share issue costs	95,573	-	**95,573**
Non-capital losses	1,140,343	760,000	**1,900,342**
Capital losses	472,492	-	**472,492**
ECE	100	-	**100**
Valuation allowance	(1,745,186)	(5,607,754)	**(7,352,940)**
Future tax asset	$ -	$ -	**$ -**

The Company has losses to carry forward in Canada and Papua New Guinea of $7,094,702 (2008 - $4,064,865) that expire from 2013 to 2029.

	Six months ended December 31, 2008		
	Canada	Papua New Guinea	**Total**
Property, plant and equipment	$ 40,507	$ 4	**$ 40,511**
Share issue costs	132,828	-	**132,828**
Non-capital losses	583,326	410,174	**993,500**
Capital losses	472,492	-	**472,492**
ECE	100	-	**100**
Valuation allowance	(1,229,253)	(410,178)	**(1,639,431)**
Future tax asset	$ -	$ -	**$ -**

	Year ended June 30, 2008		
	Canada	Papua New Guinea	**Total**
Property, plant and equipment	$ 38,648	$ 4	**$ 38,652**
Share issue costs	151,609	-	**151,609**
Non-capital losses	445,254	171,835	**617,089**
Capital losses	472,492	-	**472,492**
ECE	100	-	**100**
Valuation allowance	(1,108,103)	(171,839)	**(1,279,942)**
Future tax asset	$ -	$ -	**$ -**

14. CONTINGENCIES AND COMMITMENTS

a) Pursuant to the acquisition of a 100 percent interest in four exploration prospecting licenses granted by the Government of PNG and all related geological, seismic and technical data (the "Licenses"), the vendor has the right to acquire a 10 percent interest in all, but not less than all, of the Licenses exercisable within 60 days from the date that the Company completes the drilling and testing of a third well on the Licenses by paying to the Company 10 percent of all costs incurred in respect of the Licenses up to the election date and by agreeing to pay 10 percent of the ongoing costs with respect to the exploration and development of the Licenses.

b) Pursuant to the terms of the Licenses, the Company has assumed certain financial and work commitments relating to the licenses as described below:

License	Commitment
PPL 257	There was a commitment to drill one exploration well, acquire 1,000 line kilometres of offshore seismic and spend a minimum of US $10,000,000 by October 20, 2009. In 2008/2009, the Company conducted an aero-gravity/magnetic survey at a cost of approximately $510,000 and in September 2009, the Company completed an offshore seismic acquisition program at a cost of approximately $1,100,000. On March 18, 2010, the Company submitted a request for a five year extension of the license. In accordance with the terms of the license renewal, the Company will relinquish 50 percent of the area for PPL 257 when the extension is granted. The area to be relinquished was determined by the Company after an extensive review of the license. The Company estimates that the cost of drilling one exploration well is approximately US $60,000,000.
PPL 258	There was a commitment to drill one exploration well, acquire 1,000 kilometres of aero-gravity/magnetic survey and spend a minimum of US $10,500,000 by October 20, 2009. The Company completed the aero-gravity/magnetic survey which was conducted in 2008/2009 at a cost of approximately $524,000. On March 18, 2010, the Company submitted a request for a five year extension of the license. In accordance with the terms of the license renewal, the Company will relinquish 50 percent of the area for PPL 258 when the extension is granted. The area to be relinquished was determined by the Company after an extensive review of the license. The Company estimates that the cost of drilling one exploration well is approximately US $30,000,000.
PPL 259	There was a commitment to drill one exploration well and conduct geological and geophysical studies by June 29, 2009. On February 3, 2010, the Company applied for an extension to the drilling work commitment to September 2010 which is subject to PNG government approval. On March 8, 2010, the Company received a letter from the PNG Department of Petroleum and Energy acknowledging receipt of the variation application and advising that the department was satisfied with the request and would present it for deliberation and approval at the next scheduled meeting. The Company estimates that the gross cost of drilling one exploration well is approximately US $22,000,000 (net cost approximately US $19,800,000).
PPL 260	There was a commitment to drill one exploration well and conduct geological and geophysical studies by March 13, 2010 which was met as the pre-drilling activities were underway by this date. In April 2009, the Company entered into a farm-out agreement with OSPNG (see note 7). Subsequent to the farm-out, seismic programs were conducted at a cost of approximately US $7.7 million (Eaglewood's net cost approximately $847,000). The first exploration well is expected to be drilled in the first half of 2010 at an estimated cost of approximately US $57,000,000 (net cost approximately US $7,100,000).

The Company has issued bank guarantees totaling approximately $160,000 (100,000 Papua New Guinea dollars for each license) as security against the capital requirements associated with the Licenses. If the Company does not fulfill its commitments under a License and has not applied for and been granted an extension, it could potentially lose its guarantee and the applicable License could be revoked by the PNG government.

c) The PNG government retains a 22.5 percent back-in right which can be exercised at the time a development license is granted. If the PNG government exercises its back-in right, it would be required to pay the Company 22.5 percent of all costs incurred in respect of the Licenses up to the election date and to pay 22.5 percent of the ongoing production and development costs of the Licenses.

d) The Company has a commitment to obtain a reclamation certificate relating to an abandoned well site in Alberta which relates to a predecessor company. The cost of any reclamation work relating to the site is not determinable at this time.

15. SEGMENTED INFORMATION

The Company has one reportable business segment, that being oil and gas exploration and development. The Company's operations were carried on in the following geographic locations:

	Year ended December 31, 2009		
	Canada	Papua New Guinea	Consolidated
Total revenues	$ 21,211	$ -	$ 21,211
Expenses	2,675,453	891,648	3,567,101
Net loss	$ 2,654,242	$ 891,648	$ 3,545,890
Segment assets	$ 13,636,062	$ 16,852,454	$ 30,488,516
Segment petroleum and natural gas properties	$ -	$ 16,402,822	$ 16,402,882
Capital additions	$ 1,071	$ 4,586,166	$ 4,587,237

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	Six months ended December 31, 2008		
	Canada	Papua New Guinea	Consolidated
Total revenues	$ 50,888	$ -	$ 50,888
Expenses	831,574	794,463	1,626,037
Net loss	$ 780,686	$ 794,463	$ 1,575,149
Segment assets	$ 2,919,991	$ 30,109,622	$ 33,029,613
Segment petroleum and natural gas properties	$ -	$ 29,990,137	$ 29,990,137
Capital additions	$ 6,222	$ 618,880	$ 625,102

	Year ended June 30, 2008		
	Canada	Papua New Guinea	Consolidated
Total revenues	$ 193,640	$ 868	$ 194,508
Expenses	2,406,545	890,452	3,296,997
Net loss	$ 2,212,905	$ 889,584	$ 3,102,489
Segment assets	$ 4,907,060	$ 29,438,346	$ 34,345,406
Segment petroleum and natural gas properties	$ -	$ 29,371,010	$ 29,371,010
Capital additions	$ 90,600	$ 29,371,258	$ 29,461,858

16. SUBSEQUENT EVENTS

On February 23, 2010, Eaglewood announced that it had entered into an agreement with respect to a private placement of up to 12,000,000 special warrants at a price of $1.75 per special warrant for aggregate gross proceeds of $21,000,000. On February 24, 2010, Eaglewood announced an increase to the private placement financing to 13,500,000 special warrants for gross proceeds of $23,625,000. The offering closed on March 24, 2010. Eaglewood issued 13,500,000 special warrants and received net proceeds after sales commissions of approximately $22.4 million, excluding other issue costs, which will be used to fund ongoing exploration and development expenditures, working capital and general corporate purposes.