

EAGLEWOOD ENERGY INC.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**AS AT MARCH 31, 2010 AND FOR THE THREE MONTHS
ENDED MARCH 31, 2010 AND 2009**

**The auditor of Eaglewood Energy Inc. has not performed a review of the
unaudited interim financial statements for the three months ended
March 31, 2010 and 2009.**

EAGLEWOOD ENERGY INC.

CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

As at	March 31, 2010	December 31, 2009
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 33,877,983	\$ 13,622,795
Accounts receivable	65,719	394,652
Prepaid expenses	12,822	-
	33,956,524	14,017,447
Petroleum and natural gas properties (note 3)	18,064,111	16,471,069
	\$ 52,020,635	\$ 30,488,516
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 436,089	\$ 424,182
Shareholders' Equity		
Share capital (note 4)	41,665,305	41,289,488
Special warrants (note 4)	22,308,941	-
Contributed surplus (note 4)	2,451,809	2,340,195
Deficit	(14,841,509)	(13,565,349)
	51,584,546	30,064,334
	\$ 52,020,635	\$ 30,488,516

See accompanying notes to consolidated financial statements

Contingencies and commitments (note 9)

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

(UNAUDITED)

	For the three months ended March 31	
	2010	2009
Revenue		
Interest income	\$ 5,704	\$ 14,157
Expenses		
Bank charges and interest	3,996	4,505
Management fees	3,000	3,000
General and administrative	459,284	422,551
Professional fees	31,952	20,899
Public company	111,897	20,435
Consulting	7,574	5,068
Stock-based compensation	246,531	173,349
Depreciation	4,833	5,222
Travel	59,504	52,542
Other	214	1,314
Foreign exchange loss	353,079	5,937
	1,281,864	714,822
Net loss and comprehensive loss for the period	(1,276,160)	(700,665)
Deficit, beginning of period	(13,565,349)	(10,019,459)
Deficit, end of period	\$ (14,841,509)	\$ (10,720,124)
Net loss per common share - basic and diluted	\$ (0.02)	\$ (0.01)
Weighted average common shares - basic and diluted	59,994,653	57,744,942

See accompanying notes to consolidated financial statements

EAGLEWOOD ENERGY INC.

CONSOLIDATED STATEMENTS OF CASH FLOW

(UNAUDITED)

	For the three months ended March 31	
	2010	2009
Cash flows related to the following activities:		
Operating Activities		
Net loss	\$ (1,276,160)	\$ (700,665)
Items not involving cash:		
Stock-based compensation	246,531	173,349
Depreciation	4,833	5,222
	(1,024,796)	(522,094)
Changes in non-cash working capital (note 8)	56,920	(112,331)
	(967,876)	(634,425)
Investing Activities		
Additions to petroleum and natural gas properties	(1,597,875)	(203,526)
Changes in non-cash working capital (note 8)	146,210	49,174
	(1,451,665)	(154,352)
Financing Activities		
Issue of common shares	240,900	-
Issue of special warrants, net of commission	22,443,750	-
Issue costs	(134,809)	-
Changes in non-cash working capital (note 8)	124,888	-
	22,674,729	-
Net increase (decrease) in cash	20,255,188	(788,777)
Cash and cash equivalents, beginning of period	13,622,795	2,781,985
Cash and cash equivalents, end of period	\$ 33,877,983	\$ 1,993,208
Cash and cash equivalents composed of:		
Cash in banks	33,877,983	493,208
Term deposits	-	1,500,000
	\$ 33,877,983	\$ 1,993,208
Supplementary information:		
Interest received	\$ 5,704	\$ 524
Interest paid	\$ -	\$ -
Taxes paid	\$ -	\$ -

See accompanying notes to consolidated financial statements

EAGLEWOOD ENERGY INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT MARCH 31, 2010 AND FOR THE THREE MONTHS ENDED MARCH 31, 2010 AND 2009 (UNAUDITED)

The interim consolidated financial statements of Eaglewood Energy Inc. (“Eaglewood” or “the Company”) have been prepared by management in accordance with Canadian generally accepted accounting principles (“GAAP”). The interim consolidated financial statements should be read in conjunction with the financial statements and notes thereto in the Company’s Annual Report as at and for the year ended December 31, 2009. The disclosures provided herein do not conform to the financial reporting requirements of annual financial statements.

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 commenced exploration drilling activities but does not have any production revenue.

The Company’s consolidated financial statements have been prepared in accordance with 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 three months ended March 31, 2010, the Company reported a net loss of approximately \$1.3 million. At March 31, 2010, the Company had an accumulated deficit of approximately \$14.8 million and net working capital of approximately \$33.5 million. In addition to its ongoing working capital requirements, the Company has financial commitments related to its PNG licenses as described in note 9(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 March 2010, the Company closed a private placement for net proceeds after sales commissions of approximately \$22.4 million, after sales commissions but before other issue costs, which is described more fully in note 4(c). Management believes there is the opportunity for the Company to raise additional equity and/or enter into 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.

EAGLEWOOD ENERGY INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT MARCH 31, 2010 AND FOR THE THREE MONTHS ENDED MARCH 31, 2010 AND 2009 (UNAUDITED)

2. SIGNIFICANT ACCOUNTING POLICIES

The interim consolidated financial statements are presented in Canadian dollars and in accordance with GAAP on the same basis as the annual audited consolidated financial statements as at and for the year ended December 31, 2009.

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.

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.

EAGLEWOOD ENERGY INC.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT MARCH 31, 2010 AND FOR THE THREE MONTHS ENDED MARCH 31, 2010 AND
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(UNAUDITED)**

3. PETROLEUM AND NATURAL GAS PROPERTIES

March 31, 2010:		Accumulated depletion and depreciation	Net book value
	Cost		
Petroleum and natural gas properties	\$17,998,945	-	\$17,998,945
Office furniture and equipment	111,809	46,643	65,166
	\$18,110,754	46,643	\$18,064,111

December 31, 2009:		Accumulated depletion and depreciation	Net book value
	Cost		
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

As at March 31, 2010, the cost of the petroleum and natural gas properties includes \$17,998,945 (as at December 31, 2009 - \$16,402,882) relating to unproved properties which have been excluded from costs subject to depletion and depreciation.

The cost of the petroleum and natural gas properties has been reduced for the amount of cash received from farm-outs of the licenses. As at March 31, 2010, the accumulated reduction to the cost of petroleum and natural gas properties for cash proceeds from farm-outs was \$18,163,463 (as at December 31, 2009 - \$18,161,316).

Included in petroleum and natural gas properties is \$531,324 (as at December 31, 2009 - \$464,291) of capitalized general and administrative expenses related to exploration activities.

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4. SHARE CAPITAL

(a) Authorized:

The Company is authorized to issue an unlimited number of common shares and preferred shares.

(b) Common shares issued:

	March 31, 2010		December 31, 2009	
	Number	Amount	Number	Amount
Opening balance	58,544,942	\$41,289,488	57,744,942	\$40,771,686
Exercise of options	594,000	375,817	800,000	517,802
Closing balance	59,138,942	\$41,665,305	58,544,942	\$41,289,488

(c) Special warrants:

On March 24, 2010, the Company closed a special warrant private placement offering for gross proceeds of \$23,625,000 (net proceeds of \$22,443,750 after sales commission but before other issue costs). A total of 13,500,000 special warrants were issued at a price of \$1.75 per special warrant. Each special warrant entitled the holder to receive, without the payment of any additional consideration, one common share of the Company on the exercise or deemed exercise of the special warrants. The special warrants were exercisable on the earlier of: (i) the date a final prospectus receipt was obtained, or (ii) July 25, 2010. The final prospectus receipt was obtained on April 12, 2010 and the Company issued 13,500,000 common shares to the holders of the special warrants.

	March 31, 2010	
	Number of Special Warrants	Amount
Issued during period	13,500,000	\$22,443,750
Issue costs	-	(134,809)
Outstanding end of period	13,500,000	\$22,308,941

(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.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Stock option continuity

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

	As at March 31, 2010		As at December 31, 2009	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding beginning of period	5,575,000	\$0.65	5,775,000	\$0.53
Granted	-	-	1,000,000	\$1.25
Exercised	(594,000)	\$0.41	(800,000)	\$0.36
Forfeited	(150,000)	\$1.30	(400,000)	\$0.96
Outstanding end of period	4,831,000	\$0.66	5,575,000	\$0.65
Exercisable, end of period	2,756,000	\$0.73	3,141,666	\$0.67

The following table summarizes the stock options outstanding at March 31, 2010:

Range of exercise prices	Options outstanding			Options exercisable	
	Number	Weighted average exercise price	Weighted average life (years)	Number	Weighted average exercise price
\$0.10 - \$0.50	1,906,000	\$ 0.10	3.65	731,000	\$ 0.10
\$0.51 - \$1.00	1,275,000	\$ 0.79	2.33	1,125,000	\$ 0.79
\$1.01 - \$1.35	1,650,000	\$ 1.22	3.30	900,000	\$ 1.16
\$0.10 - \$1.35	4,831,000	\$ 0.66	3.18	2,756,000	\$ 0.73

(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.

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Performance warrants continuity

	As at March 31, 2010	
	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

Stock-based compensation of \$246,531 has been recorded in the consolidated statement of loss for the three months ended March 31, 2010 (March 31, 2009 - \$173,349). The fair value of common share options granted is estimated on the grant date using the Black-Scholes option pricing model. No stock options were granted in the three month periods ended March 31, 2010 and 2009.

(g) Contributed surplus continuity

	As at March 31, 2010	As at December 31, 2009
Balance, beginning of period	\$ 2,340,195	\$ 1,953,154
Stock-based compensation	246,531	614,844
Transfer to share capital on exercise of options	(134,917)	(227,803)
Balance, end of period	\$ 2,451,809	\$ 2,340,195

EAGLEWOOD ENERGY INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT MARCH 31, 2010 AND FOR THE THREE MONTHS ENDED MARCH 31, 2010 AND 2009 (UNAUDITED)

5. 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 March 31, 2010, 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 March 31, 2010 are summarized below:

Classification	Carrying Value	Fair Value
Held-for-trading (Cash and cash equivalents)	\$ 33,877,983	\$ 33,877,983
Loans and receivables (Accounts receivable)	65,719	65,719
Held-to-maturity	-	-
Available-for-sale	-	-
Other liabilities (Accounts payable and accrued liabilities)	436,089	436,089

EAGLEWOOD ENERGY INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT MARCH 31, 2010 AND FOR THE THREE MONTHS ENDED MARCH 31, 2010 AND 2009 (UNAUDITED)

6. 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.

During the first quarter of 2010, the Company completed a special warrant private placement offering for net proceeds of \$22,443,750 after sales commissions but before other issue costs. In 2010, the Company plans to seek additional farm-out or joint venture partners as a source of capital to meet its license commitments and may consider additional equity financing.

7. 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 three months ended March 31, 2010, the related party transactions were as follows:

(a) the Company paid \$3,000 (March 31, 2009 - \$3,000) 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 March 31, 2010, \$nil (March 31, 2009 - \$nil) was included in accounts payable and accrued liabilities.

(b) the Company paid \$78,409 (March 31, 2009 - \$6,873) for legal services to a law firm of which an officer of the Company is a partner. At March 31, 2010, \$52,304 (March 31, 2009 - \$582) was included in accounts payable and accrued liabilities.

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8. SUPPLEMENTARY CASH FLOW INFORMATION

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

	Three months ended	
	March 31, 2010	March 31, 2009
Provided by (used in):		
Accounts receivable	\$ 328,933	\$ 22,723
Prepaid expenses	(12,822)	-
Accounts payable and accrued liabilities	11,907	(85,880)
	\$ 328,018	\$ (63,157)
Operating	\$ 56,920	\$ (112,331)
Investing	146,210	49,174
Financing	124,888	-
	\$ 328,018	\$ (63,157)

9. 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.

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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 by October 20, 2009. 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 extension, 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 seismic and aero/gravity magnetic surveys done on 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 by October 20, 2009. 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 seismic and aero/gravity magnetic surveys done on 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 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 intends to drill an exploration well in the third quarter of 2010 and estimates that the gross cost of the well will be approximately US \$22,000,000 (net cost to the Company approximately US \$19,800,000).
PPL 260	There was a commitment to drill one exploration well by March 13, 2010 which was met as the pre-drilling activities for the first exploration well were underway by this date. Drilling of the first exploration well began on April 18, 2010. The gross cost of the exploration well is estimated at approximately US \$57,000,000 (net cost to the Company 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.

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- c) The PNG government retains a back-in right for up to a 22.5 percent interest 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 the elected percentage, up to 22.5 percent, of all costs incurred in respect of the Licenses up to the election date and to pay the elected percentage of the ongoing production and development costs of the Licenses.

10. 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:

Three months ended March 31, 2010			
	Canada	Papua New Guinea	Consolidated
Total revenues	\$ 5,704	\$ -	\$ 5,704
Expenses	1,061,916	219,948	1,281,864
Net loss	\$ <u>1,056,212</u>	\$ <u>219,948</u>	\$ <u>1,276,160</u>
Segment assets	\$ <u>33,912,883</u>	\$ <u>18,107,752</u>	\$ <u>52,020,635</u>
Segment petroleum and natural gas properties	\$ -	\$ <u>17,998,946</u>	\$ <u>17,998,946</u>
Capital additions	\$ <u>1,812</u>	\$ <u>1,596,063</u>	\$ <u>1,597,875</u>

Three months ended March 31, 2009			
	Canada	Papua New Guinea	Consolidated
Total revenues	\$ 14,157	\$ -	\$ 14,157
Expenses	377,958	336,864	714,822
Net loss	\$ <u>363,801</u>	\$ <u>336,864</u>	\$ <u>700,665</u>
Segment assets	\$ <u>2,095,869</u>	\$ <u>30,320,548</u>	\$ <u>32,416,417</u>
Segment petroleum and natural gas properties	\$ -	\$ <u>30,192,580</u>	\$ <u>30,192,580</u>
Capital additions	\$ <u>1,071</u>	\$ <u>202,455</u>	\$ <u>203,526</u>

EAGLEWOOD ENERGY INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT MARCH 31, 2010 AND FOR THE THREE MONTHS ENDED MARCH 31, 2010 AND 2009 (UNAUDITED)

11. SUBSEQUENT EVENTS

On April 12, 2010, the Company announced that it had filed its final short form prospectus and received the final prospectus receipt in connection with the qualification of common shares to be issued on the exercise or deemed exercise of the special warrants issued on March 24, 2010. The Company issued 13,500,00 common shares to the holders of the special warrants and the special warrants were cancelled.

On April 18, 2010, the Company spud its first exploration well, Korka-1, which is located on PPL 260. The well is targeting the Toro and Giero sandstones. The planned total depth for the well is approximately 3,000 metres and drilling is expected to take approximately 60 days.