EAGLEWOOD ENERGY INC.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS AT SEPTEMBER 30, 2010 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

EAGLEWOOD ENERGY INC.

CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

As at		September 30, 2010		December 31, 2009
ASSETS				
Current Assets				
Cash and cash equivalents	$	**8,799,412**	$	13,622,795
Accounts receivable		**244,652**		394,652
Prepaid expenses		**21,627**		-
		9,065,691		14,017,447
Restricted cash (note 3)		**5,659,018**		-
Petroleum and natural gas properties (note 4)		**40,341,473**		16,471,069
	$	**55,066,182**	$	30,488,516
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities				
Accounts payable and accrued liabilities	$	**4,144,583**	$	424,182
Shareholders' Equity				
Share capital (note 5)		**63,933,317**		41,289,488
Contributed surplus (note 5)		**3,051,443**		2,340,195
Deficit		**(16,063,161)**		(13,565,349)
		50,921,599		30,064,334
	$	**55,066,182**	$	30,488,516

See accompanying notes to consolidated financial statements

Contingencies and commitments (note 10)

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 September 30		For the nine months ended September 30	
	2010	2009	**2010**	2009
Revenue				
Interest income	**$ 17,258**	$ 18	**$ 39,338**	$ 19,112
Expenses				
Bank charges and interest	**35,386**	3,888	**41,747**	9,774
Management fees	**3,000**	3,000	**9,000**	9,000
General and administrative	**438,606**	349,473	**1,351,447**	1,168,136
Professional fees	**38,326**	15,599	**118,553**	77,549
Public company	**18,900**	20,710	**156,077**	63,099
Consulting	**16,128**	3,690	**42,494**	12,026
Stock-based compensation	**313,387**	132,509	**846,164**	461,929
Depreciation	**19,235**	4,746	**30,162**	15,058
Travel	**78,294**	128,668	**267,557**	305,774
Other	**167**	(253)	**381**	3,727
Foreign exchange loss/(gain)	**172,995**	155,761	**(326,432)**	127,825
	1,134,424	817,791	**2,537,150**	2,253,897
Net loss and comprehensive loss for the period	**(1,117,166)**	(817,773)	**(2,497,812)**	(2,234,785)
Deficit, beginning of period	**(14,945,995)**	(11,436,471)	**(13,565,349)**	(10,019,459)
Deficit, end of period	**$ (16,063,161)**	$ (12,254,244)	**$ (16,063,161)**	$ (12,254,244)
Net loss per common share - basic and diluted	**$ (0.02)**	$ (0.01)	**$ (0.04)**	$ (0.04)
Weighted average common shares - basic and diluted	**72,638,942**	57,744,942	**68,470,495**	57,744,942

See accompanying notes to consolidated financial statements

EAGLEWOOD ENERGY INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	For the three months ended September 30		For the nine months ended September 30	
	2010	2009	**2010**	2009
Cash flows related to the following activities:				
Operating Activities				
Net loss	**$ (1,117,166)**	$ (817,773)	**$ (2,497,812)**	$ (2,234,785)
Items not involving cash:				
Stock-based compensation	**313,387**	132,509	**846,164**	461,929
Depreciation	**19,235**	4,746	**30,162**	15,058
	(784,544)	(680,518)	**(1,621,486)**	(1,757,798)
Changes in non-cash working capital (note 9)	**(86,468)**	507	**(77,053)**	(80,425)
	(871,012)	(680,011)	**(1,698,539)**	(1,838,223)
Investing Activities				
Additions to petroleum and natural gas properties	**(12,087,270)**	(1,455,009)	**(23,900,566)**	(2,402,309)
Proceeds from farm-out	**-**	3,257,807	**-**	4,990,909
Restricted cash (note 3)	**(5,659,018)**	-	**(5,659,018)**	-
Changes in non-cash working capital (note 9)	**3,154,151**	1,117,471	**3,925,828**	1,097,482
	(14,592,137)	2,920,269	**(25,633,756)**	3,686,082
Financing Activities				
Issue of common shares, net of commissions	**-**	-	**22,684,650**	-
Issue costs	**-**	-	**(175,738)**	-
Changes in non-cash working capital (note 9)	**(3,559)**	-	**-**	-
	(3,559)	-	**22,508,912**	-
Net increase (decrease) in cash	**(15,466,708)**	2,240,258	**(4,823,383)**	1,847,859
Cash and cash equivalents, beginning of period	**24,266,120**	2,389,586	**13,622,795**	2,781,985
Cash and cash equivalents, end of period	**$ 8,799,412**	$ 4,629,844	**$ 8,799,412**	$ 4,629,844
Cash and cash equivalents composed of:				
Cash in banks	**$ 8,799,412**	$ 4,629,844	**$ 8,799,412**	$ 4,629,844
Supplementary information:				
Interest received	**$ 17,258**	$ 18	**$ 39,338**	$ 19,112
Interest paid	**$**	$ -	**$**	$ -
Taxes paid	**$**	$ -	**$**	$ -

See accompanying notes to consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT SEPTEMBER 30, 2010 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 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.

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 nine months ended September 30, 2010, the Company reported a net loss of approximately $2.5 million. At September 30, 2010, the Company had an accumulated deficit of approximately $16.1 million and net working capital of approximately $4.9 million. In addition to its ongoing working capital requirements, the Company has financial commitments related to its PNG licenses as described in note 10(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 equity offering for net proceeds of approximately $22.3 million, which is described more fully in note 5(b). 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.

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.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT SEPTEMBER 30, 2010 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009 (UNAUDITED)

3. RESTRICTED CASH

In conjunction with the rig assignment agreement for the drilling rig to be used within PPL 259, the Company was required to provide Letters of Credit ("LOCs") in the amount of US $5,500,000. The LOCs were provided by a major Canadian bank in the form of a hold on the Company's funds. The LOCs are for an initial one-year term. However, under the rig assignment agreement, the Company must keep the LOCs in place until such time as the drilling rig has been demobilized. As the Company has the potential for three drilling slots under the rig assignment agreement, it is expected that the LOCs will be renewed and will not be released until late 2011 or early 2012.

4. PETROLEUM AND NATURAL GAS PROPERTIES

September 30, 2010:	**Cost**	**Accumulated depletion and depreciation**	**Net book value**
Petroleum and natural gas properties	40,038,051	-	40,038,051
Office furniture and equipment	375,395	71,973	303,422
	40,413,446	**71,973**	**40,341,473**

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**

As at September 30, 2010, the cost of the petroleum and natural gas properties includes $40,038,051 (as at December 31, 2009 - $16,402,882) relating to unproved properties which have been excluded from costs subject to depletion and depreciation.

Included in petroleum and natural gas properties is $776,960 (as at December 31, 2009 - $464,291) of capitalized general and administrative expenses related to exploration activities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT SEPTEMBER 30, 2010 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009 (UNAUDITED)

5. SHARE CAPITAL

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

(b) Common shares issued:

	September 30, 2010		December 31, 2009	
	Number	**Amount**	Number	Amount
Opening balance	**58,544,942**	**$41,289,488**	57,744,942	$40,771,686
Issue of shares (1)	**13,500,000**	**22,443,750**	-	-
Share issue costs	**-**	**(175,738)**	-	-
Exercise of options	**594,000**	**375,817**	800,000	517,802
Closing balance	**72,638,942**	**$63,933,317**	58,544,942	$41,289,488

(1) On March 24, 2010, the Company closed a special warrant private placement offering for gross proceeds of $23,625,000 (net proceeds of $22,268,012). 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. On April 12, 2010 the special warrants were deemed exercised and the Company issued 13,500,000 common shares to the holders of the special warrants.

(c) 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 last closing price of the Company's shares on the TSX-V prior to the grant, subject to a permitted discount. Options granted under the plan have an exercise period not exceeding ten years. The vesting period is determined at the time of grant at the discretion of the Board of Directors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT SEPTEMBER 30, 2010 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009 (UNAUDITED)

Stock option continuity

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

	As at September 30, 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	**575,000**	**$1.64**	1,000,000	$1.25
Exercised	**(594,000)**	**$0.41**	(800,000)	$0.36
Forfeited	**(600,000)**	**$1.02**	(400,000)	$0.96
Outstanding end of period	**4,956,000**	**$0.75**	5,575,000	$0.65
Exercisable, end of period	**2,406,000**	**$0.69**	3,141,666	$0.67

The following table summarizes the stock options outstanding at September 30, 2010:

	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	1,906,000	$ 0.10	3.15	731,000	$ 0.10
$0.51 - $1.00	975,000	$ 0.77	2.39	925,000	$ 0.77
$1.01 - $1.50	1,500,000	$ 1.24	3.08	750,000	$ 1.18
$1.51 - $1.64	575,000	$1.64	4.58	-	-
$0.10 - $1.64	**4,956,000**	**$ 0.75**	**3.14**	**2,406,000**	**$ 0.69**

(d) 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 SEPTEMBER 30, 2010 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009 (UNAUDITED)

Performance warrants continuity

	As at September 30, 2010	
	Number of Warrants	**Weighted Average Exercise Price**
Outstanding beginning and end of period	**8,000,000**	**$1.19**
Exercisable, end of period	**6,000,000**	**$1.00**

(e) Stock-based compensation

Stock-based compensation of $313,387 and $846,164 has been recorded in the consolidated statement of loss for the three and nine months ended September 30, 2010 (September 30, 2009 - $132,509 and $461,929). The fair value of common share options granted is estimated on the grant date using the Black-Scholes option pricing model. No options were granted during the three month period ended September 30, 2010. During the nine month period ended September 30, 2010, 575,000 stock options were granted with a fair value of $1.16 per share and an exercise price of $1.64.

(f) Contributed surplus continuity

	As at September 30, 2010	As at December 31, 2009
Balance, beginning of period	**$ 2,340,195**	$ 1,953,154
Stock-based compensation	**846,164**	614,844
Transfer to share capital on exercise of options	**(134,916)**	(227,803)
Balance, end of period	**$ 3,051,443**	$ 2,340,195

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT SEPTEMBER 30, 2010 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009 (UNAUDITED)

6. 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 and Papua New Guinea dollars; and (ii) its operations in Papua New Guinea.

The Company's foreign currency exchange risk arises from cash and cash equivalents and current liabilities. With a 10% strengthening or weakening of the Canadian dollar against all exchange rates, the net loss for the nine months ended September 30 would reduce by $1.1 million or increase by $0.9 million.

(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 September 30, 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 September 30, 2010 are summarized below:

Classification	Carrying Value	Fair Value
Held-for-trading (Cash and cash equivalents and restricted cash)	$ 14,458,430	$ 14,458,430
Loans and receivables (Accounts receivable)	244,652	244,652
Held-to-maturity	-	-
Available-for-sale	-	-
Other liabilities (Accounts payable and accrued liabilities)	4,144,583	4,144,583

7. 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 or joint venture or farm-out arrangements. 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.

In 2010, the Company completed a private placement common special warrants offering for net proceeds of approximately $22.3 million. The Company will continue 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.

8. 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 and nine months ended September 30, 2010, the related party transactions were as follows:

(a) the Company paid $3,000 and $9,000 (September 30, 2009 - $3,000 and $9,000) 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 September 30, 2010, $nil (September 30, 2009 - $nil) was included in accounts payable and accrued liabilities.

(b) the Company paid $19,591 and $128,223 (September 30, 2009 - $11,586 and $56,684) for legal services to a law firm of which an officer of the Company is a partner. At September 30, 2010, $18,360 (September 30, 2009 - $3,567) was included in accounts payable and accrued liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT SEPTEMBER 30, 2010 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009 (UNAUDITED)

9. SUPPLEMENTARY CASH FLOW INFORMATION

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

	Three months ended September 30		Nine months ended September 30	
	2010	2009	**2010**	2009
Provided by (used in):				
Accounts receivable	**$ 415,937**	$ 7,858	**$ 150,001**	$ 95,771
Prepaid expenses	**(8,071)**	-	**(21,627)**	-
Accounts payable and accrued liabilities	**2,656,258**	1,110,120	**3,720,401**	921,286
	$ 3,064,124	$ 1,117,978	**$ 3,848,775**	$ 1,017,057
Operating	**$ (86,468)**	$ 507	**$ (77,053)**	$ (80,425)
Investing	**3,154,151**	1,117,471	**3,925,828**	1,097,482
Financing	**(3,559)**	-	**-**	-
	$ 3,064,124	$ 1,117,978	**$ 3,848,775**	$ 1,017,057

10. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT SEPTEMBER 30, 2010 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009 (UNAUDITED)

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 which was not met. The Company estimates that the cost of drilling one exploration well is approximately US $60,000,000. On March 18, 2010, the Company submitted a request for a five year extension of the license upon its expiry in October 2010. Under the PNG Oil and Gas Act, the license is deemed to still be in effect while the Company awaits review of its extension request by the Minister. In accordance with the terms of the license extension, the Company will relinquish 50 percent of the area for PPL 257 when, and if, 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 expects that PPL 257 will be extended and that the previous drilling commitment will be added to future work commitments.
PPL 258	There was a commitment to drill one exploration well by October 20, 2009 which was not met. The Company estimates that the cost of drilling one exploration well is approximately US $30,000,000. On March 18, 2010, the Company submitted a request for a five year extension of the license upon its expiry in October 2010. Under the PNG Oil and Gas Act, the license is deemed to still be in effect while the Company awaits review of its extension request by the Minister. In accordance with the terms of the license renewal, the Company will relinquish 50 percent of the area for PPL 258 when, and if, 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. For PPL 258, there is a risk that the Petroleum Advisory Board may recommend against extension to the PNG government. In the event that PPL 258 is not extended, the Company would be advised and would be provided the opportunity to appeal such decision.
PPL 259	There was originally a commitment to drill one exploration well by June 29, 2009. On September 21, 2010 the Minister for Petroleum and Energy approved a variation to the drilling commitment moving it to year five of the license term which is 2010. Pre-drilling preparations are well underway for the exploration well, Ubunutu-1, and the Company intends to commence drilling in the fourth quarter of 2010. In November 2010, the Company farmed-out a 50 percent interest in two graticular blocks surrounding the Ubuntu prospect to Talisman Energy Niugini Limited reducing the Company's share of Ubuntu-1 to 40 percent. The estimated gross cost of the well is approximately US $25,000,000. (net cost to the Company approximately US $10,000,000).
PPL 260	There was a commitment to drill one exploration well by March 13, 2010. Pre-drilling activities for the first exploration well, Korka-1, began in March and drilling was underway during April 2010. Unfortunately, the exploration well encountered no hydrocarbons and was plugged and abandoned. The gross cost of the exploration well was approximately US $55,000,000 (net cost to the Company estimated at approximately US $6,400,000). PPL 260 has other prospects and timing and location for a second well is under review but there are no commitments to do so.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT SEPTEMBER 30, 2010 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009 (UNAUDITED)

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.

11. 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 September 30, 2010		
	Canada	Papua New Guinea	Consolidated
Total revenues	$ 17,258	$ -	$ 17,258
Expenses	792,480	341,944	1,134,424
Net loss	$ 775,222	$ 341,944	$ 1,117,166
Segment assets	$ 14,498,415	$ 40,567,767	$ 55,066,182
Segment petroleum and natural gas properties	$ -	$ 40,038,051	$ 40,038,051
Capital additions	$ -	$ 12,087,270	$ 12,087,270

	Nine months ended September 30, 2010		
	Canada	Papua New Guinea	Consolidated
Total revenues	$ 39,338	$ -	$ 39,338
Expenses	1,835,934	701,216	2,537,150
Net loss	$ 1,796,596	$ 701,216	$ 2,497,812
Segment assets	$ 14,498,415	$ 40,567,767	$ 55,066,182
Segment petroleum and natural gas properties	$ -	$ 40,038,051	$ 40,038,051
Capital additions	$ 1,497	$ 23,899,069	$ 23,900,566

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT SEPTEMBER 30, 2010 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009 (UNAUDITED)

	Three months ended September 30, 2009		
	Canada	Papua New Guinea	Consolidated
Total revenues	$ 18	$ -	$ 18
Expenses	503,251	314,540	817,791
Net loss	$ 503,233	$ 314,540	$ 817,773
Segment assets	$ 4,671,800	$ 27,506,243	$ 32,178,043
Segment petroleum and natural gas properties	$ 59,707	$ 27,400,063	$ 27,459,770
Capital additions	$ -	$ 1,455,009	$ 1,455,009

	Nine months ended September 30, 2009		
	Canada	Papua New Guinea	Consolidated
Total revenues	$ 19,112	$ -	$ 19,112
Expenses	1,383,901	869,996	2,253,897
Net loss	$ 1,364,789	$ 869,996	$ 2,234,785
Segment assets	$ 4,671,800	$ 27,506,243	$ 32,178,043
Segment petroleum and natural gas properties	$ 59,707	$ 27,400,063	$ 27,459,770
Capital additions	$ 1,071	$ 2,401,238	$ 2,402,309

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT SEPTEMBER 30, 2010 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009 (UNAUDITED)

12. SUBSEQUENT EVENTS

On November 11, 2010, the Company entered into a farm-out arrangement with Talisman Energy Niugini Limited ("Talisman") on the Ubuntu prospect on its PPL 259 license. Under the terms of the farm-out agreement, Talisman will earn a 50 percent participating interest in the two graticular blocks of PPL 259 containing the Ubuntu prospect by paying US $4,500,000, comprised of Talisman's acquisition of engineering work to date on river transport and liquids handling designs and previous expenditures on the Ubuntu prospect. In addition, Talisman will pay its 50 percent share of the drilling costs incurred to date and its share of drilling and other costs going forward.