

CANADA GAS CORP.
(An Exploration Stage Company)

Interim Financial Statements
October 31, 2010 and 2009

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of Canada Gas Corp. are the responsibility of the Company's management. The financial statements are prepared in accordance with Canadian generally accepted accounting principles and reflect management's best estimates and judgment based on information currently available.

Management has developed and maintains a system of internal controls to ensure that the Company's assets are safeguarded, transactions are authorized and properly recorded and financial information is reliable.

The Board of Directors is responsible for ensuring management fulfills its responsibilities for financial reporting and internal control through an audit committee, which is comprised primarily of non-management directors. The Audit Committee reviews the results of the audit and the annual financial statements prior to their submission to the Board of Directors for approval.

We have compiled the interim balance sheet of Canada Gas Corp. as at October 31, 2010 and the interim statements of loss and deficit and cash flows for the nine months then ended. Independent accountants have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of such information. Per NI 51-102 Section 4.3(3)(a), Continuous Disclosure Obligations, provides that if an auditor has not performed a review of interim financial statements, the interim financial statements must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor. Readers are cautioned that these statements may not be appropriate for their purposes.

"Chad McMillan"

.....
Chad McMillan
President and Chief Executive Officer

"David McMillan"

.....
David McMillan
Director

Vancouver, British Columbia
December 20, 2010

CANADA GAS CORP.
(an exploration stage company)
Balance Sheets

	October 31, 2010	January 31, 2010
Assets		
Current		
Cash	\$ 113,934	\$ 2,609
Marketable securities (note 5)	55,698	-
Accounts receivable	9,680	30,833
	179,312	33,442
Property and Equipment (note 5)	81,766	300,310
	\$ 261,078	\$ 333,752
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 2,477	\$ 132,582
Short-term loans (note 7 (a))	100,000	-
Due to related parties (note 6)	15,683	248,563
	118,160	381,145
Asset Retirement Obligations (note 10)	4,707	4,707
	122,867	385,852
Shareholders' Deficiency		
Capital Stock (note 8)	23,288,245	23,104,130
Contributed Surplus (note 8(c))	1,544,809	1,544,809
Accumulated Other Comprehensive Income (Loss)	5,699	-
Deficit	(24,700,542)	(24,701,039)
	138,211	(52,100)
	\$ 261,078	\$ 333,752

Going Concern (note 2)

Contingency (note 9)

Approved on behalf of the Board:

"David McMillan"

..... Director

David McMillan

"Chad McMillan"

..... Director

Chad McMillan

CANADA GAS CORP.
(an exploration stage company)
Statements of Operations and Deficit
For the Nine Month Periods Ended

	9 Months Ended Oct 31, 2010	9 Months Ended Oct 31, 2009	3 Months Ended Oct 31, 2010	3 Months Ended Oct 31, 2009
Revenues, net	\$ 29,358	\$ 61,634	\$ -	\$ 22,903
General and Administrative Expenses				
Consulting fees, net	47,431	(16,667)	8,663	(6,667)
Accounting, audit and legal fees (note 6(d))	41,726	44,012	3,829	25,507
Operating	26,939	34,861	-	18,878
Transfer agent, listing and filing fees	25,425	15,946	6,444	4,329
Bank charges and interest, net (note 7 (a))	21,867	9,289	1,675	1,365
Travel and entertainment	8,764	4,605	5,725	-
Office	6,934	11,063	474	3,179
Communications	953	3,140	340	606
Rent	(2,178)	12,103	-	3,026
Management fees (note 6(b))	(23,692)	83,250	7,500	27,750
Amortization, depletion and accretion	9,091	17,955	-	6,212
	163,260	219,557	34,650	84,185
Loss Before Other Items	133,901	157,923	34,650	61,281
Gain from disposition of gas property (note 5(a))	134,398	-	-	-
Net Gain (Loss) and Comprehensive Loss for Period	497	(157,923)	(36,650)	(61,281)
Deficit, Beginning of Period	(24,701,039)	(24,495,135)	(24,665,893)	(24,591,777)
Deficit, End of Period	\$ (24,700,542)	\$ (24,653,058)	\$ (24,700,542)	\$ (24,653,058)
Gain (Loss) Per Share, Basic and Diluted	\$ 0.00006	\$ (0.022)	\$ (0.003)	\$ (0.008)
Weighted Average Number of Common Shares Outstanding - Basic and Diluted	8,921,675	6,893,840	9,671,275	7,192,192

CANADA GAS CORP.
(an exploration stage company)
Statements of Cash Flows
For the Nine Month Periods Ended

	9 Months Ended Oct 31, 2010	9 Months Ended Oct 31, 2009	3 Months Ended Oct 31, 2010	3 Months Ended Oct 31, 2009
Operating Activities				
Net gain (loss) for the period	\$ 497	\$ (157,923)	\$ (34,649)	\$ (61,281)
Items not involving cash				
Amortization, depletion and accretion	9,091	17,955	-	6,212
Interest on short term loan (note 7 (a))	20,000	-	-	-
Gain from disposition of gas property (note 5(a))	(134,398)	-	-	-
	(104,810)	(139,968)	(34,649)	(55,069)
Changes in non-cash working capital				
Accounts receivable	16,153	(5,535)	3,940	(6,757)
Accounts payable and accrued liabilities	(114,422)	8,484	(34,490)	138,806
Prepaid expense	-	(1,000)	38	-
Cash Used in Operating Activities	(203,079)	(138,019)	(65,161)	73,979
Investing Activities				
Disposition of gas property (note 5(a))	300,000	-	-	-
Exploration costs deferred- oil and gas interests	(1,149)	(23,837)	-	(5,588)
Cash Used in Investing Activities	298,851	(23,837)	-	(5,588)
Financing Activities				
Due to related parties	(84,448)	157,744	(47,683)	(68,456)
Advance (repayment) of short term loans	-	-	-	-
Proceeds from short-term loans (note 7(a))	100,000	-	-	-
Cash Provided by Financing Activities	15,552	157,744	(47,683)	(68,456)
Increase (Decrease) in Cash	113,324	(4,112)	(112,844)	(65)
Cash, Beginning of Period	2,610	3,079	226,778	(968)
Cash, End of Period	\$ 113,934	\$ (1,033)	\$ 113,934	\$ (1,033)

CANADA GAS CORP.
(an exploration stage company)
Notes to Financial Statements
Interim Periods Ended October 31, 2010 and 2009

1. NATURE OF OPERATIONS

Canada Gas Corp. (the "Company") was incorporated under the *Company Act* of British Columbia on February 1, 1984. The Company is involved in the exploration for and operation of oil and gas properties in Canada. The Company presently operates in one geographical area, namely Canada. The Company is publicly traded and is listed on the TSX Venture Exchange ("TSX-V") in Canada.

2. GOING CONCERN

These financial statements have been prepared on a going concern basis which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business.

The Company has incurred significant operating losses over the past several fiscal years and is currently unable to self-finance operations. The Company reported net gain of \$497 and net loss of \$157,923 respectively, for the nine month periods ended October 31, 2010 and 2009, and as at October 31, 2010 has an accumulated deficit of \$24,700,542 (2009 - \$24,653,058). The Company has a working capital of \$61,152 (2009 – deficit \$376,387). On July 26, 2010, the Company received final acceptance from the TSX Venture Exchange and closed the disposition of its gas producing Trutch Property and Pipelines. The Company received a total consideration of \$350,000 from the sale which includes \$300,000 in cash and 214,225 common shares of Hemisphere Energy Corp., for a deemed value of \$50,000. The Company recorded a gain of \$134,398 from the disposition. On July 21, 2010, the Company closed shares for debt settlement with related parties and settled \$164,115 of outstanding debt by issuing 1,094,101 common shares with a deemed value of \$0.15 per share. As a result of these activities, the Company was able to reduced a significant amount of outstanding liabilities and improve its working capital. The Company will require additional equity financing to meet its administrative overhead costs, and to continue exploration work on its oil and gas interests in 2011.

The application of the going concern concept is dependent upon the Company's ability to generate future profitable operations and receive continued financial support from its creditors and shareholders or raise additional equity financing. The current financial equity market conditions and the challenging funding environment make it difficult to raise funds by placement of common shares. There is no assurance that the Company will be successful with any financing ventures. Management is actively engaged in the review and due diligence on new projects, is seeking to raise the necessary capital to meet its funding requirements and has undertaken available cost cutting measures. There can be no assurance that management's plan will be successful. Therefore a significant uncertainty exists in relation to the Company's ability to continue as a going concern.

If the going concern assumption were not appropriate for these financial statements, adjustments would be necessary in the carrying values of assets and liabilities, the reported expenses and the balance sheet classifications used. Such adjustments would be material.

The business of oil and gas exploration involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable operations. The Company has limited sources of revenue, and has significant cash requirements to meet its administrative overhead and maintain its oil and gas interests. The recoverability of amounts shown for resource properties is dependent on several factors. These include the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development of these properties, and future profitable production or proceeds from disposition of oil and gas interests.

CANADA GAS CORP.
(an exploration stage company)
Notes to Financial Statements
Interim Periods Ended October 31, 2010 and 2009

3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The functional and reporting currency of the Company is the Canadian dollar. Significant accounting policies are:

(a) Financial instruments

The Company classifies its financial instruments into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments are measured in the balance sheet at fair value, except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is no longer recognized or impaired, at which time the amounts would be recorded in net income.

Transaction costs that are directly attributable to the acquisition or issuance of financial instruments that are classified as other than held-for-trading, which are expensed as incurred, are included in the initial carrying value of such instruments.

The Company classifies its financial instruments measured at fair value at one of three levels according to the relative reliability of the inputs used to estimate the fair value:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(b) Oil and gas interests

The Company follows the full cost method of accounting for petroleum and natural gas interests whereby all costs of exploration for and development of petroleum and natural gas reserves are capitalized. These costs include leasehold acquisition costs, geological and geophysical expenses, drilling costs of successful as well as unsuccessful wells and overhead charges related directly to exploration and development activities.

If the interests are sold, the proceeds of the interests will be applied against capitalized costs unless such sale significantly impacts the rate of depletion.

The Company records an impairment loss when the carrying amount of a cost centre is considered not recoverable and exceeds its fair value. The carrying value is considered not recoverable when the carrying amount exceeds the sum of the undiscounted cash flows based on expected prices. Fair value is determined using the expected present value approach. This approach incorporates risk and uncertainties in the expected future cash flows, which are discounted using a risk-free rate of return.

CANADA GAS CORP.
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Notes to Financial Statements
Interim Periods Ended October 31, 2010 and 2009

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Depletion

Depletion of oil and gas interests and wellhead equipment is computed using the unit-of-production method whereby the ratio of current year production to estimated proved future production determines the proportion of depletable costs to be expensed. Undeveloped properties are excluded from the depletion calculation until quantities of proved reserves are found or if impairment occurs.

(d) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates include determination of environment obligations, asset retirement obligation ("ARO"), rates for amortization, depletion and accretion, the impairment of mineral property interests, impairment of oil and gas interests, valuation allowance for future tax assets and the assumptions used in estimating the fair value of stock-based compensation. Management believes the estimates are reasonable; however, actual results could differ from those estimates and could impact future results of operations and cash flows.

(e) Unit offerings

Proceeds received on the issuance of units, consisting of common shares and warrants, are allocated first to common shares based on the market trading price of the common shares at the time the units are priced or issued, and any excess is allocated to warrants.

(f) Non-monetary transactions

All non-monetary transactions are measured at the fair value of the asset surrendered or the asset received, whichever is more reliable, unless the transaction lacks commercial substance or the fair value cannot be reliably established. The commercial substance requirement is met when the future cash flows are expected to change significantly as a result of the transaction. When the fair value of a non-monetary transaction cannot be reliably measured, it is recorded at the carrying amount (after reduction, when appropriate, for impairment) of the asset given up adjusted by the fair value of any monetary consideration received or given. When the asset received or the consideration given up is shares in an actively traded market, the value of those shares will be considered fair value.

(g) Amortization

Amortization of property and equipment is calculated on the straight-line basis over the useful lives of the assets as follows:

Furniture and equipment	–	5 years
Leasehold improvements	–	5 years
Software license	–	2 years

Additions during the year are amortized at one-half the annual rates.

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Notes to Financial Statements
Interim Periods Ended October 31, 2010 and 2009

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Asset retirement obligation

The Company recognizes an estimate of the liability associated with an ARO in the financial statements at the time the liability is incurred. The estimated fair value of the ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of oil and gas interests. The capitalized amount is depleted on a unit-of-production method based upon proven oil and gas reserves. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to operations in the period. The ARO can also increase or decrease due to changes in the estimates of timing of cash flows or changes in the original estimated undiscounted cost. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded.

(i) Stock-based compensation

The Company accounts for stock-based compensation using a fair value based method with respect to all stock-based payments measured and recognized, to directors, employees and non-employees. For directors and employees, the fair value of the options is measured at the date of grant. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is completed or the date the performance commitment is reached or the date at which the equity instruments are granted if they are fully vested and non-forfeitable. The fair value of the options is accrued and charged to operations, with the offset credit to contributed surplus. For directors and employees the options are recognized over the vesting period, and for non-employees the options are recognized over the related service period. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to capital stock.

(j) Loss per share

Basic loss per share is computed using the weighted average number of common shares outstanding during the year. Diluted loss per share amounts are calculated giving effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares using the treasury stock method. The treasury stock method assumes that proceeds received from the exercise of stock options and warrants are used to repurchase common shares at the prevailing market rate. However, the calculation of diluted loss per share excludes the effects of convertible instruments that would be anti-dilutive.

Shares held in escrow, other than where their release is subject to the passage of time, are excluded from the computation of loss per share until the conditions for their release are satisfied.

(k) Income taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method of tax allocation, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax basis, and losses carried forward. Future income tax assets and liabilities are measured using the tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in operations in the period in which the change is enacted or substantially assured. The amount of future income tax assets recognized is limited to the amount of the benefit that is more likely than not to be realized.

CANADA GAS CORP.
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Notes to Financial Statements
Interim Periods Ended October 31, 2010 and 2009

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Flow-through shares

Flow-through shares entitle a company that incurs certain resource expenditures in Canada to renounce them for tax purposes allowing the expenditures to be deducted for income tax purposes by the investors who purchased the shares. A future income tax liability arises from the renunciation of mineral exploration costs to investors of flow-through shares.

(m) Joint interest operations

The Company's oil and natural gas exploration and production activities are conducted jointly with others and, accordingly, the financial statements reflect only the Company's proportionate interest in such activities.

(n) Revenue recognition

Revenue from the sale of oil and natural gas is recorded when the oil or natural gas is delivered and collectability is reasonably assured. The costs associated with the delivery including operating and production based royalties are recognized in the same period in which related revenues are earned.

(o) Change in accounting policy

The Canadian Institute of Chartered Accountants ("CICA") has issued the following new Handbook section that became effective for the Company on February 1, 2009:

Goodwill and Intangible Assets

In February 2008, the CICA issued Handbook Section 3064, "Goodwill and Intangible Assets", replacing Section 3062, "Goodwill and Other Intangible Assets", and Section 3450, "Research and Development Costs". These sections establish standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The adoption of this standard had no effect on the Company's financial statements.

(p) Future accounting changes

(i) International Financial Reporting Standards ("IFRS")

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that January 1, 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canadian generally accepted accounting principles. The IFRS standards will be effective for the Company for interim and annual financial statements relating to the Company's fiscal year beginning on or after January 1, 2011. The effective date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the interim periods and year ended January 31, 2011. The Company has begun the planning and scoping phase of the transition to IFRS and intends to transition to IFRS financial statements during fiscal 2012. While the Company has begun assessing the adoption of IFRS for fiscal 2012, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

CANADA GAS CORP.
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Notes to Financial Statements
Interim Periods Ended October 31, 2010 and 2009

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Future accounting changes (Continued)

(ii) Business Combinations

In January 2009, the CICA issued Handbook Section 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-Controlling Interests". These sections replace the former Section 1581, "Business Combinations", and Section 1600, "Consolidated Financial Statements", and establish a new section for accounting for a non-controlling interest in a subsidiary.

Sections 1582 and 1602 will require net assets, non-controlling interests and goodwill acquired in a business combination to be recorded at fair value and non-controlling interests will be reported as a component of equity. In addition, the definition of a business is expanded and is described as an integrated set of activities and assets that are capable of being managed to provide a return to investors or economic benefits to owners. Acquisition costs are not part of the consideration and are to be expensed when incurred. Section 1601 establishes standards for the preparation of consolidated financial statements.

These new sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after February 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently.

4. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The Company classifies its cash as held for trading; accounts receivable as loans and receivables; and accounts payable, short term loans and due to related parties as other financial liabilities.

(a) Fair value

The carrying values of cash, accounts receivable, accounts payable and short-term loans approximate their fair values due to the short term to maturity of these financial instruments; therefore, disclosure is not made of their level in the fair value hierarchy.

The fair values of due to related parties have not been disclosed as their fair values cannot be reliably measured since the parties are not at arm's length and there is no active, liquid market for similar instruments.

(b) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk with respect to its cash; however, the risk is minimized as cash is held at a major financial institution.

(c) Interest rate risk

The Company is not exposed to significant interest rate price risk due to the short term to maturity of its monetary assets and liabilities.

CANADA GAS CORP.
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Notes to Financial Statements
Interim Periods Ended October 31, 2010 and 2009

4. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

(d) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in satisfying its financial obligations as they fall due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. At October 31, 2010, the Company had a cash balance of \$113,934 (2009 - deficit \$1,099) and accounts payable and accrued liabilities of \$118,160 (2009 - \$144,604), amounts due to related parties of \$nil (2009 - \$218,200), and amounts due for short term loans of \$100,000 (2009- \$85,000). The accounts payables and accrued liabilities are due within 30 days. The Company will be required to raise additional debt or equity and/or sell existing assets to meet its obligations in 2011 as the Company does not have sufficient cash to meet its current obligations.

(e) Other price risk

Other price risk is the risk that the fair or future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk or currency risk. The Company is not exposed to significant other price risk on its financial instruments.

5. PROPERTY AND EQUIPMENT

October 31, 2010					
	Cost	Impairment	Accumulated Amortization and Depletion	Disposition	Net
Oil and gas interests, and well equipment	\$ 10,656,753	\$ 9,667,865	\$ 700,810	\$ 215,602	\$ 72,476
Furniture and equipment	3,200	-	1,997	-	1,203
Leasehold improvements	14,967	-	9,339	-	5,628
Software license	10,930	-	8,471	-	2,459
	\$ 10,685,850	\$ 9,667,865	\$ 720,617	\$ 215,602	\$ 81,766

October 31, 2009					
	Cost	Impairment	Accumulated Amortization and Depletion	Disposition	Net
Oil and gas interests, and well equipment	\$ 10,650,604	\$ 9,607,818	\$ 684,199	-	\$ 358,587
Furniture and equipment	3,200	-	1,357	-	1,843
Leasehold improvements	14,967	-	6,346	-	8,621
Software license	10,930	-	3,005	-	7,925
	\$ 10,679,701	\$ 9,607,818	\$ 694,907	-	\$ 376,975

CANADA GAS CORP.
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Notes to Financial Statements
Interim Periods Ended October 31, 2010 and 2009

5. PROPERTY AND EQUIPMENT (Continued)

- (a) The Company received shareholder approval at its Annual and Special Meeting of the Shareholders on June 16, 2010 and TSX Venture Exchange approval on July 26, 2010 and closed the sale of its gas producing Trutch Property and Pipelines to Hemisphere Energy Corporation ("Hemisphere"). The June 21, 2010 Purchase and Sale Agreement (the "Agreement") between the Company and Hemisphere entitles Hemisphere to 100% title and interest to the Company's 9% - 30% working interest in various assets throughout the Trutch Property and Pipelines effective June 1, 2010. As consideration, Hemisphere has paid the Company an aggregate of \$350,000 comprised of \$300,000 cash and 214,225 common shares of Hemisphere with a deemed value of \$50,000. As at October 31, 2010, these common shares from Hemisphere have a fair market value of \$55,698 (2009- \$nil). The Company recorded a gain of \$134,398 as a result of this disposition.
- (b) As at October 31, 2010, the Company has one natural gas asset, Prophet River, with a book value of \$72,476. During the year ended January 31, 2008, assessment completed by an independent engineering firm revealed a significant decline in the proven reserves to the Prophet River. Based on this information, the Company completed an impairment test in order to assess the recoverable value of the oil and gas interests. As a result of the test, the Company wrote-down 100% of the book value of the Prophet River, \$6,457,147 for the year ended January 31, 2008.

During the year ended January 31, 2009, the Company engaged Sproule Associates Ltd., Independent Qualified Reserves Evaluator in Calgary to perform an independent exploration and development review of the Prophet River property, specifically related to the seismic and D-60-E/94-G-15 well log interpretation. As a result of this analysis, the Company plans to conduct additional testing on the D-60-E/94-G-15 well in the future dependent upon economics and the Company's ability to finance the project.

6. RELATED PARTY TRANSACTIONS

The following amounts were incurred by the Company during the period ended October 31, 2010:

- (a) On July 22, 2010, the Company received TSX Venture Exchange approval and closed shares for debt arrangements with directors, officers and a company controlled by directors and officers and reduced outstanding accounts payable by \$164,115 by issuing 1,094,101 common shares with a deemed value of \$0.15 per share.
- (b) During the period, the Company recovered a net balance of \$23,692 (2009- expensed \$83,250) in management fees. In addition to the July 22, 2010 shares for debt settlement, directors and officers have forgiven \$60,192 of outstanding accounts payable owed by the Company for past management fees. During the period, the Company expensed \$39,500 (2009- \$55,000) in management fees. As at October 31, 2010, the Company has an outstanding balance of \$nil (2009 - \$111,374) payable to these directors/officers.
- (c) The Company expensed \$18,883 (2009 - \$31,762) for rent, office expense and investor relations fees to a company controlled by directors/officers of the Company for use of shared office space. A balance of \$15,683 (2009 - \$15,684) was outstanding at October 31, 2010; and

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6. RELATED PARTY TRANSACTIONS (Continued)

- (d) The Company expensed \$17,250 (2009 – \$29,250) for accounting fees payable to a company controlled by an officer of the Company. At October 31, 2010 \$nil (2009 – \$12,300) is payable to this officer.

All of the above transactions and balances are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

- (e) During the period ended October 31, 2010, the Company received \$100,000 (2009- \$nil) from a related party per a Short Term Loan Agreement the Company entered into on May 14, 2010. The Company received TSX Venture Exchange approval on the loan agreement on June 7, 2010 (see note 7 (a)).

7. SHORT-TERM LOANS

- (a) On April 30, 2010, the Company entered into a short-term loan agreement with a related party (the "Lender") for a principal amount \$100,000. The short term loan matures on October 31, 2010 ("Maturity Date"). As consideration, the Company issued 133,333 common shares with a deemed value of \$20,000 to the Lender. The short term loan bears zero interest unless the loan remains outstanding after the Maturity Date. If the principal balance is not paid in full by Maturity Date, the Company is obligated to pay interest of 5.0% pa to the Lender calculated from Maturity Date. Anytime after the Maturity Date, the Lender has the option to convert the outstanding principal to Units at \$0.15 per Unit. Each Unit is comprised of one common share and one common share purchase warrant of the Company exercisable at \$0.30 per share for a period three years from conversion date. As at October 31, 2010, the balance of this loan is \$100,000 (2009- \$nil).

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7. SHORT-TERM LOANS (Continued)

- (b) On March 9, 2007 the Company entered into a short-term loan agreement with an arm's length third party (the "Lender") for a principal amount of \$340,000. A payment for principal of \$255,000 and interest of \$7,813 was repaid to the Lender on February 28, 2008.

The terms of the loan are as follows:

- (i) Principal is payable within six months (the "maturity date"). The maturity date was revised to November 30, 2008;
- (ii) Interest at a rate of 5% per annum on the portion of the loan amount that remains outstanding after the original maturity date, such interest to be calculated from the original maturity date; and
- (iii) Pay administration fees of \$5,000 (paid) and issue 20,000 common shares at a fair value of \$0.75 per share (issued) upon execution of the loan agreement. The fair value was determined using the market value at the time of issuance.

On November 23, 2009, the Company entered into a debt assignment agreement with AVL and assigned the remaining \$85,000 principal balance owed to the Lender. As a result of the debt assignment, the Company reduced its liabilities and recorded a recovery of \$85,000 for past due diligence fees the Company paid on behalf of AVL. At October 31, 2010, the balance owed to the Lender is \$nil (2009 – \$85,000).

- (c) On December 20, 2007, the Company entered into a short-term loan agreement with Score Resources Ltd. ("Score") for a principal amount of \$92,000. The terms of the loan agreement are as follows:
- (i) Principal and interest are due by the earlier of April 30, 2008 (the "maturity date"), event of default or completion of equity financing; and
 - (ii) The Company issued 6,133 common shares at a fair value of \$1.50 per share as a financing fee (reflected in interest expense).

During the year ended January 31, 2010, the Company entered into shares for debt agreement with Score to settle \$110,000 of the short-term loan including the principal amount of \$92,000 and \$18,000 of interest. The Company received regulatory approval on October 7, 2009 and issued 733,333 shares at a deemed value of \$0.15 per share. These common shares are subject to a four month hold period. The balance of this loan as at October 31, 2010 is \$nil (2009 - \$nil).

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8. CAPITAL STOCK

(a) Authorized

Unlimited common shares without par value

(b) Issued and outstanding

On August 31, 2010, the Company initiated the share consolidation on the basis of three (3) old common shares for one (1) new common share resulting in 9,671,275 common shares outstanding after the consolidation. This resolution was approved by Shareholders at the Company's June 16, 2010 Annual and Special Meeting of the Shareholders. All historical common shares, warrants and options have been adjusted according to this consolidation.

	Number of Shares	Amount
Balance – January 31, 2008	5,331,041	\$ 21,867,857
Issued for cash - private placements (notes 8 (b)(i) and (ii))	1,406,667	972,073
Short-term loan agreements- financing fee (note 8 (b)(iii))	6,133	9,200
Balance – January 31, 2009	6,743,841	22,849,130
Shares issued for debt (note 8(b)(iv))	1,700,000	255,000
Balance – January 31, 2010	8,443,841	23,104,130
Shares issued for debt (note 8(b)(vi))	1,094,101	164,115
Short-term loan agreements- financing fee (note 8 (b)(v))	133,333	20,000
Balance- October 31, 2010	9,671,275	\$ 23,288,245

- (i) On February 20, 2008, the Company completed tranche 1 of a non-brokered private placement by issuing 900,000 units at \$0.75 per unit for gross proceeds of \$675,000. Each unit consists of one common share and one common share purchase warrant. Each common share purchase warrant entitles the warrant holder to purchase an additional common share for two years at \$0.78. The Company paid \$38,000 and issued 50,667 warrants, valued at \$12,388, with the same terms as the placement warrants described above. The warrants were valued using the Black-Scholes method with the following assumptions:

Expected life (years)	2
Interest rate	3.25%
Volatility	167.00%
Dividend yield	0.00%

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8. CAPITAL STOCK (Continued)

(b) Issued and outstanding (Continued)

- (ii) On March 17, 2008, the Company completed tranche 2 of a non-brokered private placement by issuing 50,667 units at \$0.75 per unit for gross proceeds of \$380,000. Each unit consists of one common share and one common share purchase warrant. Each common share purchase warrant entitles the warrant holder to purchase an additional common share for two years at \$0.78. The Company paid \$27,525 and issued 31,833 warrants, valued at \$5,014, with the same terms as the placement warrants described above. The warrants were valued using the Black-Scholes method with the following assumptions:

Expected life (years)	2
Interest rate	3.25%
Volatility	167.00%
Dividend yield	0.00%

- (iii) On February 22, 2008, the Company issued 6,133 common shares pursuant to the obligation to issue shares (note 7 (c)(ii)).
- (iv) On October 7, 2009, the Company received regulatory approval and closed shares for debt agreements by issuing 1,700,000 common shares at a fair value of \$0.15 per share. The Company settled \$255,000 in short-term loans comprised of \$140,500 owed to related parties, and \$114,500 owed to lenders on short-term loans.
- (v) On June 7, 2010, the Company issued 133,333 common shares pursuant to the obligation to issue shares (note 7 (a)).
- (vi) On July 22, 2010, the Company received TSX Venture Exchange approval and closed shares for debt arrangements with directors, officers and a company controlled by directors and officers and reduced outstanding accounts payable by \$164,115 by issuing 1,094,101 common shares with a deemed value of \$0.15 per share;

(c) Contributed surplus

	2010	2009
Contributed surplus, beginning of year	\$ 1,544,809	\$ 1,544,809
Finder's fees	-	-
Stock-based compensation for year	-	-
Contributed surplus, end of period	\$ 1,544,809	\$ 1,544,809

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8. CAPITAL STOCK (Continued)

(d) Stock options

The Company has established a stock option plan whereby the Board of Directors may, from time to time, grant options to directors, officers, employees or consultants. Options granted must be exercised no later than five years from the date of grant or such lesser period as determined by the Company's Board of Directors. The exercise price of an option is not less than the closing price of the stock on the last trading day preceding the grant date. The maximum number of options to be granted under this plan is 2,901,382 options.

	October 31, 2010		October 31, 2009	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Options outstanding and exercisable, beginning of year	666,667	\$ 0.78	766,667	\$ 0.78
Granted	-	-	-	-
Forfeited	(666,667)	\$ 0.78	-	-
Options outstanding and exercisable, end of the period	Nil	\$ 0.78	766,667	\$ 0.78

The Company applies the fair value method using the Black-Scholes option pricing model in accounting for stock options. During the period ended October 31, 2010, the Company granted nil (2009 – nil) stock options, vesting immediately. Stock-based compensation cost for the options granted and vested was \$nil (2009 - \$nil).

The fair value of each option grant is calculated using the following weighted average assumptions:

	2010	2009
Expected life (years)	N/A	N/A
Interest rate	N/A	N/A
Volatility	N/A	N/A
Dividend yield	N/A	N/A

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8. CAPITAL STOCK (Continued)

(d) Stock options (Continued)

As at October 31, 2010, all share purchase options were expired.

Expiry Date	Exercise Price	Number of Options	
		2010	2009
June 30, 2010	\$ 0.78	-	766,667

The weighted average grant date fair value of the stock options granted in 2010 was \$nil (2009 – \$nil). The weighted average remaining contractual life of stock options outstanding at October 31, 2010 is nil years (2009 – 0.66 years).

(e) Share purchase warrants

	October 31, 2010		October 31, 2009	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Warrants outstanding and exercisable, beginning of year	1,489,167	\$ 0.78	1,767,967	\$ 0.78
Issued	-	-	-	-
Expired	(1,489,167)	\$ 0.78	(278,800)	\$ 0.78
Warrants outstanding and exercisable, end of period	-	-	1,489,167	\$ 0.78

The weighted average remaining contractual life of the warrants at October 31, 2010 is nil (2009 – 0.33 years). During the period ended October 31, 2010, no warrants were issued (2009 – nil).

As at October 31, the following share purchase warrants were outstanding and exercisable:

Expiry Date	Exercise Price	Number of Warrants	
		2010	2009
February 20, 2010	\$ 0.78	-	950,667
March 17, 2010	\$ 0.78	-	538,500
		-	1,489,167

9. CONTINGENCY

Commencing in March 2005, the Company received letters from the operators of the Bougie Trutch Oil and Gas property requesting additional funding in the amount of \$137,326 for payment of expenditures. In 2007, the Company requested an external audit of the Bougie Trutch Oil and Gas property from the operators. It is the Company's position that the operators' request is without merit. The Company believes it has not received sufficient documentation from the operators to justify payment of the expenditures. The Company believes the operators should not be incurring these expenditures on the premise that the well has been abandoned by the operators for a significant period of time. No amounts have been accrued as the Company is negotiating with the operators. October 31, 2010, no further requests for additional funding have been made by the operators.

10. ASSET RETIREMENT OBLIGATIONS

The Company's AROs result from its net ownership interest in oil and gas interests including well sites, gathering systems and processing facilities. The Company's expected future cash flows have decreased which has resulted in a decrease in AROs. The Company estimates the total undiscounted amount of cash flows required to settle its AROs is approximately \$14,000 at January 31, 2010 (2009 - \$14,000). These costs will be incurred between 2017 and 2025. A credit-adjusted, risk-free rate of 10% was used to calculate the fair value of the AROs. The discounted amount of \$4,707 is included in the Company's oil and gas interests.

11. CAPITAL MANAGEMENT

The Company manages its capital structure, being its capital stock, and makes adjustments to it based on the funds available to the Company in order to support future business opportunities. The Board of Directors does not establish quantitative returns on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company currently has limited revenues and is dependent upon external financings to fund activities. In order to carry future projects and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the period ended October 31, 2010. The Company is not subject to externally imposed capital requirements.