MOUNTAINVIEW ENERGY LTD.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010 and 2009

US Funds

PRICEWATERHOUSECOOPERS

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Independent Auditor's Report

To the Shareholders of Mountainview Energy Ltd.

We have audited the accompanying consolidated financial statements of Mountainview Energy Ltd. and its subsidiary, which comprise the consolidated balance sheets as at December 31, 2010 and 2009 and the consolidated statements of income (loss) and comprehensive income (loss) and retained earnings and cash flows for the years then ended, and the related notes including a summary of significant accounting policies.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Mountainview Energy Ltd. and its subsidiary as at December 31, 2010 and 2009 and the results of their operations and their cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Signed "PricewaterhouseCoopers LLP"

Chartered Accountants
May 2, 2011
Vancouver, British Columbia

Mountainview Energy Ltd.

Consolidated Balance Sheets

As at December 31

US Funds

ASSETS		**2010**		2009
Current				
Cash and cash equivalents	**$**	**2,661,118**	$	353,506
Short-term investments *(Note 3)*		**207,336**		203,805
Accounts receivable - trade		**323,838**		251,261
Inventory		**5,014**		8,017
		3,197,306		816,589
Property, Plant and Equipment *(Note 7)*		**224,351**		254,380
Petroleum and Natural Gas Interests *(Note 5)*		**3,489,879**		3,492,536
Deferred costs *(Note 15b)*		**43,465**		-
Reclamation Bond *(Note 5b)*		**115,323**		110,883
	$	**7,070,324**	$	4,674,388

LIABILITIES				
Current				
Accounts payable and accrued liabilities – trade *(Note 4)*	**$**	**717,092**	$	1,235,210
Current portion of long-term debt *(Note 8)*		**26,077**		24,408
Income tax payable *(Note 11)*		**275,241**		64,571
		1,018,410		1,324,189
Long-Term Debt *(Note 8)*		**57,537**		85,993
Asset Retirement Obligation *(Note 6)*		**295,811**		271,761
Future Income Tax Payable *(Note 12)*		**221,463**		161,438
		1,593,221		1,843,381

SHAREHOLDERS' EQUITY				
Share Capital *(Note 9)*		**1,071,140**		1,071,140
Share Subscriptions *(Note 15a)*		**2,142,561**		-
Contributed Surplus		**212,930**		212,930
Retained Earnings –*Statement 2*		**2,050,472**		1,546,937
		5,477,103		2,831,007
	$	**7,070,324**	$	4,674,388

Commitments *(Note 8b)*

Subsequent Events *(Note 16)*

ON BEHALF OF THE BOARD:

"Patrick V. Montalban" , Director

"Bruce P. Young" , Director

- See Accompanying Notes -

Mountainview Energy Ltd.

Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) and Retained Earnings

For the Years Ended December 31

US Funds

	2010	2009
Revenue		
Gross sales	**$ 2,900,253**	$ 2,357,475
Less royalties	**(246,015)**	(338,067)
	2,654,238	2,019,408
Cost of Sales		
Inventory - Beginning of year	**8,017**	4,999
Depletion, accretion and amortization	**496,622**	674,037
Production taxes	**315,313**	232,777
Labour	**256,381**	199,357
Repairs and maintenance	**148,202**	181,119
Utilities	**139,402**	135,596
Materials	**116,654**	124,693
Vehicle	**96,585**	70,817
Amortization - Equipment	**81,900**	68,588
Miscellaneous production costs	**55,429**	31,269
Engineering	**22,786**	17,034
Insurance	**13,214**	3,598
Property taxes	**4,621**	4,831
Inventory - End of year	**(5,014)**	(8,017)
	1,750,110	1,740,698
Gross Profit *(2010 –34.06%; 2009 – 13.80%)*	**904,128**	278,710
General and Administrative Expenses	**(855,558)**	(684,535)
Income (loss) before the Undernoted	**48,570**	(405,825)
Other Income (Expenses)		
Interest income	**9,339**	11,650
Recovery of Royalty Expense *(Note 4)*	**803,000**	-
Income (Loss) Before Income Taxes	**860,909**	(394,175)
Recovery (Provision) for Income Tax – Current *(Note 11)*	**(297,350)**	91,028
Recovery (Provision) for Income Tax – Future *(Note 12)*	**(60,025)**	11,455
	(357,374)	102,483
Net Income (Loss) and Comprehensive Income (Loss) for the Year	**503,535**	(291,692)
Retained Earnings - Beginning of year	**1,546,937**	1,838,629
Retained Earnings - End of Year	**$ 2,050,472**	$ 1,546,937
Income (Loss) per Share – Basic and Fully Diluted	**$ 0.05**	$ (0.03)
Weighted Average Number of Common Shares Outstanding - Basic	**9,766,850**	9,766,850
Weighted Average Number of Common Shares Outstanding - Fully Diluted	**10,541,850**	9,766,850

- See Accompanying Notes -

Mountainview Energy Ltd.

Consolidated Statements of Cash Flows

For the Years Ended December 31

US Funds

Cash Resources Provided By (Used In)	**2010**	2009
Operating Activities		
Cash receipts from customers	**$ 2,599,432**	$ 2,249,506
Cost of sales	**(1,136,326)**	(928,919)
Cash paid to suppliers and employees	**(819,556)**	(678,282)
Income tax paid	**(64,571)**	(377,158)
Interest income and expense	**9,339**	11,650
	588,318	276,797
Investing Activities		
Cash paid to suppliers of petroleum and natural gas interests	**(342,026)**	(523,182)
Cash paid to suppliers of property, plant and equipment	**(54,453)**	(134,172)
	(396,480)	(657,354)
Financing Activities		
Share subscriptions received	**2,142,561**	-
Short-term Investments	**-**	200,000
Long-term debt	**(26,787)**	(110,401)
	2,115,774	89,599
Net Increase (Decrease) in Cash and Cash Equivalents	**2,307,612**	(290,958)
Cash position - Beginning of year	**353,506**	644,464
Cash Position - End of Year	**$ 2,661,118**	$ 353,506

Supplemental Schedule of Non-Cash Transactions:		
Amortization	**$ 83,836**	$ 71,151
Depletion, accretion and amortization	**$ 496,622`**	$ 674,037
Foreign exchange (gain) loss	**$ (25,988)**	$ 6,830
Petroleum and natural gas interests costs included in accounts payable	**$ 174,599**	$ 3,247
Provision (Recovery) for income tax - current	**$ 297,350**	$ (91,028)
Provision (Recovery) for income tax - future	**$ 60,025**	$ (11,455)

- See Accompanying Notes -

1. Nature of Business

The Company was incorporated on May 31, 2000 in the province of British Columbia. The Company is a Tier 2 issuer on the TSX-V and is an operating oil and gas company. All revenues are from oil and gas extraction in the state of Montana, USA.

2. Summary of Significant Accounting Policies

Basis of Consolidation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the accounts of the Company and its wholly owned subsidiary, Mountain View Energy, Inc., incorporated in Montana, USA.

All significant inter-company transactions and balances have been eliminated.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, term deposits and short term highly liquid investments with the original term to maturity of three months or less, which are readily convertible to known amounts of cash and which, in the opinion of management, are subject to an insignificant risk of changes in value.

Inventory

Inventory is recorded at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and the estimated cost necessary to perform the sale. Cost of oil and gas is determined on a first in, first out basis.

Oil and Gas Properties

The Company follows the full cost method of accounting for oil and gas operations, whereby all costs of exploring for and developing oil and gas reserves are capitalized and accumulated in cost centres established on a country-by-country basis. Such costs include land acquisition costs, geological and geophysical expenses, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells, interest costs on significant investments in unproved properties and major development projects and overhead charges directly related to acquisition, exploration and development activities, less any government incentives relating thereto.

The costs related to each cost centre from which there is production, together with the costs of production equipment, are depleted and amortized on the unit-of-production method based on the estimated gross proved reserves of each country. Oil and natural gas reserves and production are converted into equivalent units based upon estimated relative energy content. Costs of acquiring and evaluating significant unproved properties are initially excluded from depletion calculations. These unevaluated properties are assessed periodically to ascertain whether impairment in value has occurred. When proved reserves are assigned or the value of the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion.

Oil and Gas Properties – *Continued*

Impairment is determined when the carrying amount of property and equipment exceeds the sum of the undiscounted gross cash flows expected to result from the Company's proved reserves (determined pursuant to evaluation by independent engineers as dictated by National Instrument 51-101), based on future pricing. If the carrying value is impaired, the amount of impairment is measured by comparing the carrying amounts of property and equipment to an amount equal to the estimated net present value of future cash flows from proved plus probable reserves. This calculation incorporates risks and uncertainties in the expected future cash flows that are discounted using a risk-free rate. Any excess carrying value above the net present value of the future cash flows would be recorded as a permanent impairment and charged to earnings. The Company applies this test at least annually or more frequently as events or circumstances dictate.

The costs (including exploratory dry holes) related to cost centres from which there has been no commercial production are not subject to depletion until commercial production commences. The capitalized costs are periodically assessed to determine whether it is likely such costs will be recovered in the future. Costs unlikely to be recovered in the future are included within the costs subject to depletion. Proceeds from the sale of oil and gas properties are applied against capitalized costs, with no gain or loss recognized, unless such a sale would significantly alter the rate of depletion and amortization.

Management's estimates of oil and gas prices and reserves, and of asset retirement costs, are subject to certain risks and uncertainties that may affect the determination of the recoverability of the oil and gas property costs. Although management has made its best estimates of these factors, it is possible that material changes could occur which may adversely affect management's estimate of the net cash flows generated from its properties.

Property, Plant and Equipment

Property, plant and equipment are valued at cost less accumulated amortization. The Company provides for amortization using the declining balance method as follows:

i) Computer equipment – 30%
ii) Vehicle – 30%
iii) Field equipment – 30%

Share Capital

Share capital issued for non-monetary consideration is recorded at fair value on the date of issuance.

The proceeds from the issue of units is allocated between common shares and common share purchase warrants on a pro-rata basis on relative fair values as follows: the fair value of common shares is based on the market close on the date the units are issued: and the fair value of the common share purchase warrants is determined using the Black-Scholes pricing model.

Earnings (loss) per Share

Basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the period. The computation of diluted earnings per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings per share. The dilutive effect of convertible securities is reflected in diluted earnings per share by application of the "if converted" method. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted earnings per share by application of the treasury stock method. Since the Company has loss during 2009, the exercise of outstanding stock options has not been included in this calculation of that year as it would be anti-dilutive.

Revenue Recognition

Revenues associated with sales of petroleum and natural gas is recognized in the period that title passes to the purchaser along with the risks and rewards of ownership, amounts to be received are known and collectability is reasonably assured. Revenues are recorded net of transportation charges incurred by the Company.

Management's Estimates

The preparation of consolidated 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 dates of the financial statements and the reported amounts of revenues and expenses during the reported period. Significant areas requiring the use of management estimates relate to impairment of oil and natural gas interests, determination of asset retirement obligations, royalty accrual, values of future income tax assets and liabilities and assumptions used in determining the fair value of non-cash stock-based compensation.

These estimates are limited by the availability of reliable comparable data, and the uncertainty of predications concerning future events. Accordingly, by their nature, estimates as described above are subjective

Foreign Currency Translations

The Company's functional and reporting currency is the U.S. dollar. All transactions initiated in other currencies are translated into the functional currency as follows:

i) Monetary assets and liabilities at the rate of exchange in effect at the balance sheet date,
ii) Non-monetary assets and liabilities, and equity at historical rates, and
iii) Revenue and expense items at the average rate of exchange prevailing during the period.

Gains and losses on translation are included in determining net income for the period

Stock-Based Compensation

All stock-based awards made to employees and non-employees are measured and recognized using a fair value based method. For employees, the fair value of the options is measured at the date of the grant. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is complete 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. For employees and non-employees, the fair value of the options is accrued and charged to operations, with the offsetting credit to contributed surplus, on a straight-line basis over the vesting period. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital.

Impairment of Long-lived Assets

Management reviews property, plant and equipment with finite useful lives whenever events of changes in circumstances indicate that an impairment may have occurred. Recoverability is assessed by management comparing the carrying amount to the estimated future net cash flows the assets are expected to generate. Where the carrying value exceeds estimated net cash flows, the assets are written down to their estimated fair value.

Asset Retirement Obligations

The Company recognizes the estimated liability associated with an asset retirement obligation ("ARO") in the financial statements at the time the asset is acquired and the liability is incurred. The estimated fair value of the ARO liability is recorded as a long term liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount is depleted on a unit-of-production method over the life of the proved reserves. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings 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. Differences between the actual costs incurred and the fair value of the liability recorded are recognized in earnings in the period incurred.

Leases

Leases are classified as capital or operating leases. A lease that transfers substantially all the benefits and risks incident to the ownership of property is classified as a capital lease. All others leases are accounted for as operating leases whereby lease payments are expensed. Gains and losses arising on the sale and leaseback transactions, when the leaseback is classified as a capital lease, are deferred and amortized in proportion to the amortization of he leased asset. Lease inducements received are recorded as a deferred credit and amortized as a reduction of lease expense over the term of the lease.

Income Taxes

The asset and liability method is used for determining future income taxes. Under the asset and liability method, the change in the net future tax asset or liability is included in income. The income tax effects of temporary differences in the time when income and expenses are recognized in accordance with Company accounting practices and the time they are recognized for income tax purposes are reflected as future income tax assets or liabilities. Future income tax assets and liabilities are measured using statutory rates that are expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled.

Joint Interests

A portion of the Company's exploration, development and production activities is conducted jointly with others. Accordingly, these financial statements reflect only the Company's proportionate interest in such activities.

Financial Instruments

The Company classifies its financial assets as either held-for-trading, available-for-sale, or loans and receivables. Financial liabilities are classified as either held-for-trading, or other financial liabilities. Held-for-trading financial assets and liabilities are recorded at fair value as determined by active market prices and valuation models, as appropriate. Changes in fair value of held-for-trading financial instruments are recorded in net earnings. Available-for-sale financial assets are recorded at fair value as determined by active market prices. Unrealized gains and losses on available-for-sale investments are recognized in other comprehensive income. If a decline in fair value is deemed to be other-than temporary, the unrealized loss is recognized in net earnings. Investments in equity instruments that do not have an active quoted market price are measured at cost. Loans and receivables and other financial liabilities are recorded initially at fair value, net of transaction costs incurred, and subsequently at amortized cost using the effective interest rate method.

The Company is also required to provide disclosures about the inputs to fair value measurement, including their classification within a hierarchy that prioritizes the inputs to fair value measurement. The three levels of fair value hierarchy are:

- Level 1 – Unadjusted quote prices in active markets for identical asset or liability,
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, and
- Level 3 – Inputs that are not based on observable market data

The Company adopted this amended standard for the year ended December 31, 2009 and required disclosures are included in Note 15.

Future Canadian Accounting Pronouncements

Business Combinations (Section 1582)

In January 2009, the CICA issued Handbook Section 1582, “Business Combinations”, which requires that all assets and liabilities of an acquired business be recorded at fair value at acquisition. Obligations for contingent considerations and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the period after the acquisition date. The Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period on or after January 1, 2011. The Company has early adopted this Standard effective January 1, 2010 for the fiscal year ending December 31, 2010. There was no material impact on the consolidated financial statements as a result of this adoption.

Consolidations (Section 1601) and Non-Controlling Interest (Section 1602)

In January 2009, the CICA issued Handbook Section 1601, “Consolidations” (“CICA 1601”), and Section 1602, “Non-Controlling Interests” (CICA 1602”). CICA 1601 establishes standards for preparing consolidated financial statements and CICA 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011 The Company has early adopted this Standard effective January 1, 2010 for the fiscal year ending December 31, 2010. There was no material impact on the consolidated financial statements as a result of this adoption.

3. Short-term Investments

Short-term investments at December 31, 2010 consist of the following:

Type of Investment	Face Value	Annual Interest Rate	Maturity Date
Term deposit	$ 100,000	1.70%	September 25, 2011
Term deposit	100,000	1.49%	December 24, 2011
Accrued interest receivable	7,336		
	$ 207,336		

At December 31, 2009 the Company had short-term investments of $200,000 plus accrued interest thereon of $3,805.

4. Royalty Recovery

The Company is obliged to pay royalties on its Red Creek and Lake Frances properties. In addition to the royalties paid to known parties, management had previously estimated an accrual for royalties potentially owing to other unidentified parties that may have been entitled to royalty payments from these properties. The estimation of these obligations was dependent on the best information available to management of the royalty rates applicable on each tract of land where the Company has producing wells.

During the year ended December 31, 2010, a legal search and opinion was received by the Company in relation to the actual royalty rates payable royalty holders. As a result, the royalty payable amount included in accounts payable and accrued liabilities of $972,319 (2009 - $972,319) was reduced to $187,090. The reduction in royalty payable of $803,000 was credited to the income statement as a change in estimate based on this new information available to management.

5. Petroleum and Natural Gas Interests

a) Details of cumulative expenditures are as follows:

Proved and Producing	2010	2009
Petroleum and Natural gas interests	**$ 5,760,128**	$ 5,290,213
Asset retirement cost	**194,420**	176,323
Accumulated amortization and depletion	**(2,464,669)**	(1,974,000)
Total petroleum and natural gas interests	**$ 3,489,879**	$ 3,492,536

b) The Company is required by the State of Montana to deposit monies into a reclamation bond. The bond is refundable at the time that the Company performs the site restoration of the wells that are dry or are no longer in use. The amount of the bond is $115,323 (2009 - $110,883), which includes accrued interest of $35,323 (2009 - $30,883).

c) In April 2010, the Company acquired a 100% working interest of the third parties 30% interest in all wells and oil and gas leases in the Snoose Coulee Field located in Liberty County, Montana for $55,000.

d) During the prior year, the Company entered into agreements to acquire a 25% working interest in two additional wells and a 50% working interest in one well. To participate in the drilling of these wells the Company paid or accrued costs of $Nil (2009 - $274,021) as their share of costs to a company with a director and officer in common.

e) Impairment was identified in the Company's unproved Tie Creek property in the year ended December 31, 2009. As a result, these costs have been included in the cost pool subject to depletion and depreciation. These leases lapsed in January 2011. The Company has no other unproved properties in 2010.

f) The following table outlines the benchmark prices used in the impairment test at December 31, 2010:

Year	Oil Price (1)
2011	$ 102.50
2012	$ 99.50
2013	$ 98.80
2014	$ 97.40
2015(2)	$ 99.70

(1) Prices based upon future forecast price for WTI – (40 API rating) – prices have been adjusted herein for quality and transportation.
(2) Prices escalated at a rate of 2.0 percent per annum thereafter.

6. Asset Retirement Obligation

The asset retirement obligations for the years ended December 31, 2010 and 2009 are as follows:

		2010		2009
Asset retirement obligation at the beginning of the year	**$**	**271,761**	$	243,053
Net present value of new obligations during the year		**33,500**		13,183
Accretion expense		**5,953**		20,170
Revision in estimated cash flows on existing obligations		**(15,403)**		(4,645)
Asset retirement obligation at the end of the year	**$**	**295,811**	$	271,761

The Company has calculated the fair value of the asset retirement obligation using a discount rate of 4.75% to 8.5% and an inflation rate of 1.5%. The estimated total future undiscounted cash flows to settle the asset retirement obligations are $525,526 (2009 - $492,026) and are expected to be incurred over a period of approximately 5 to 18 years.

7. Property, Plant and Equipment

			2010			2009
	Cost $	Accumulated Amortization $	Net Book Value $	Cost $	Accumulated Amortization $	Net Book Value $
Office furniture equipment	**22,757**	**16,091**	**6,666**	21,476	13,509	7,967
Field equipment	**355,754**	**233,837**	**121,917**	302,581	192,981	109,600
Vehicles **	**200,407**	**104,639**	**95,768**	200,408	63,595	136,813
	578,918	**354,567**	**224,351**	524,465	270,085	254,380

** Included in vehicles is the cost of capital leases of $147,750 (2009 - $147,750) and accumulated amortization of $59,839 (2009 - $22,163).

8. Long-Term Debt

a) The Company has long-term debt as at December 31, 2010 of $83,614 (2009 - $110,401) relating to the purchase of vehicles for the Company. The current portion relating to the long-term debt is $26,077 (2009 $24,408). The interest rates on the long-term debt range from 1.9% -6% and are fixed for the duration of the loans.

b) Commitments

The Company's commitments in relation to long-term debt over the next five years is as follows:

2011	$ 26,077
2012	26,986
2013	18,944
2014	11,607
2015 and beyond	-
	$ 83,614

9. Share Capital

a) Authorized:

100,000,000 common shares without par value
100,000,000 preference shares without par value

b) Issued and fully paid:

	Common Shares		Amount	
	2010	2009	**2010**	2009
Balance	**9,766,850**	9,766,850	**$ 1,071,140**	$ 1,071,140

No preference shares have been issued.

c) Share Purchase Options

The Company has established a share purchase option plan which authorizes the board of directors to grant options for the purchase of up to 10% of the issued and outstanding common shares. 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 Company's stock option activity at December 31, 2010 is as follows:

Balance at December 31, 2009	Granted	Exercised	Expired	Balance at December 31, 2010	Exercise Price	Expiry Date
775,000	-	-	-	775,000	$0.24	June 17, 2013

The Company's stock option activity at December 31, 2009 is as follows:

Balance at December 31, 2008	Granted	Exercised	Expired	Balance at December 31, 2009	Exercise Price	Expiry Date
775,000	-	-	-	775,000	$0.24	June 17, 2013

All of the 775,000 options outstanding vested in 2008.

d) Stock-based Compensation

During the year ended December 31, 2010 and 2009, the Company granted no stock options and did not incur any stock based compensation expense.

10. Related Party Transactions

Related party transactions not disclosed elsewhere in these financial statements are as follows:

a) During the year, wages and benefits of $168,808 (2009 - $160,880) were paid to directors and officers of the Company.

b) During the year, investor relation fees of $36,297 (2009 - $31,536) were paid to a relative of a director and officer of the Company.

c) During the year, director fees of $12,500 (2009 - $10,500) were paid to directors of the Company.

d) During the year, the Company acquired all of Altamont Oil & Gas, Inc's right, title and interest in the Loneman Coulee acreage located in Pondera County, Montana for an acquisition price of $51,553.

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

11. Income Taxes

Details of income taxes for the year are as follows:

		2010		2009
Net income (loss) before income taxes	**$**	**860,909**	$	(394,175)
Income tax at statutory rates		**28.50%**		30.00%
Expected income tax expense		**245,359**		(118,252)
Non-deductible items and other		**29,061**		56,595
Difference in foreign tax rates		**82,954**		(40,826)
Income tax (recovery) expense	**$**	**357,374**	$	(102,483)

Details of income tax expense are as follows:

		2010		2009
Current income tax (recovery) expense	**$**	**297,350**	$	(91,028)
Future income tax (recovery) expense		**60,025**		(11,455)
Total income tax expense	**$**	**357,374**	$	(102,483)

12. Future Income Tax

The significant components of the Company's future income tax liabilities applying substantially US enacted corporate tax rates of 38% are as follows:

		2010		2009
Petroleum and Natural Gas Interests	**$**	**221,463**	$	161,438
Future Tax Liability	**$**	**221,463**	$	161,438

13. Capital Risk Management

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern, to provide an adequate return to shareholders, while satisfying other stakeholders, and to support any growth plans.

In the management of its capital, the Company includes the components of shareholders' equity and long-term debt.

The Company's objectives when managing capital are to:

i) Continue the development of its Petroleum and Natural Gas Interests
ii) Support any expansion plans; and
iii) Maintain a capital structure which optimizes the cost of capital at an acceptable risk.

As at December 31, 2010, the Company had no bank indebtedness and long-term debt of $83,614.

As at December 31, 2009, the Company had no bank indebtedness and long-term debt of $110,401.

There were no changes in the Company's approach to capital management during the year ended December 31, 2010 compared to the year ended December 31, 2009. The Company is not subject to externally imposed capital requirements.

14. Financial Instruments

a) Categories of financial assets and liabilities

As at December 31, 2010, the carrying and fair value amounts of the Company's financial instruments are the same. The carrying value of the Company's financial instruments is classified into the following categories:

		December 31, 2010		December 31, 2009
Held for trading	$	**2,868,454**	$	557,311
Loans and receivables	$	**323,838**	$	251,260
Held to maturity	$	**115,323**	$	110,883
Other financial liabilities	$	**1,075,949**	$	1,410,182

b) Classification of Financial Instruments

The Company designated its cash and cash equivalents and short-term investments as held-for-trading, and these are measured using level 2 fair value measures (in accordance with the CICA Handbook Section 3862). GST and other receivables have been designated as loans and receivables, which are measured at amortized cost. The reclamation bond is designated at held-to-maturity and is measured at amortized cost. Accounts payable and accrued liabilities and long-term debt are classified as other financial liabilities, which are measured at amortized cost.

14. Financial Instruments – *Continued*

c) Credit Risk

The Company's trade accounts receivable is comprised of oil and gas revenue receivable and this amount is due from one specific entity. Therefore, the collectability is dependent upon the general economic conditions of the purchaser. The receivable amount is not collateralized and to date the Company has never recorded any bad debts.

The maximum exposure to credit risk is represented by the carrying amount of cash and equivalents, short term investments, and accounts receivable in the balance sheet. The Company's cash and equivalents and short term investments are deposited with a US regional bank.

d) Foreign Currency Exchange Risk

The majority of the Company's operations are conducted in U.S. dollars. The Company is exposed to foreign currency fluctuations to the extent cash, GST receivable and accounts payable and accrued liabilities of the Company not denominated in US dollars. A change in the US Dollar to Canadian Dollar exchange rate in neither 2010 nor 2009 would have a significant effect on the Company.

At December 31, 2010, the Company had the following assets and liabilities dominated in Canadian dollars.

		December 31, 2010		December 31, 2009
Cash	$	**1,962,311**	$	4,559
GST receivable	$	**14,432**	$	6,933
Accounts payable and accrued liabilities	$	**95,381**	$	93,371

e) Commodity Price Risk

The Company is exposed to market risk and commodity price risk. Based on these commodity price exposures at December 31, 2010 and 2009 a $10 decrease or increase in the average price of oil would result in a decrease or increase of gross revenues of approximately $402,000 (2009 - $445,000). Declines in the market price of commodities, most significantly oil and gas, can not only adversely affect operating results, but may also affect the Company's ability to raise additional capital. As at the balance sheet date, the Company did not have any commodity price risk contracts in place to mitigate these risks.

f) Interest Rate Risk

The Company's bank accounts earn interest income at variable rates. The Company's future interest income is exposed to changes in short-term rates. The Company is not exposed to fluctuations in interest expense from the long-term debt as the rates are fixed. Fluctuations do not give rise to significant changes in income.

14. Financial Instruments – *Continued*

g) Liquidity Risk

The Company seeks to manage liquidity risk by maintaining sufficient cash and short-term investment balances for settlement of its obligations as they fall due. As at December 31, 2010, the Company had a working capital of $2,178,896 (2009 – deficit of $507,600). Management expects to be able to meet its obligations through cash inflows from operations based on higher expected oil prices in 2011 and beyond.

15. Subsequent Events

a) In February 2011, the Company completed a non-brokered private placement for 21,000,000 units at $0.225 per unit for gross proceeds of $4,725,000. Each unit consists of one common share and one-quarter share purchase warrant. One whole share purchase warrant entitles the holder to purchase an additional common share for $0.32 per share until August 11, 2011. The Company paid a finder's fee in cash of $118,105, in common shares of 876,660, and warrants of 738,253, the finder's warrants are subject to the same terms as the warrants in the private placement. Prior to the year ended December 31, 2010 the Company, had received $2,142,560 relating to the private placement.

b) In February 2011, the Company completed the acquisition of 62 oil and gas leases and all rights and title in Sheridan County, Montana. As consideration the Company paid $3,350,000 in cash and issued 18,611,110 common shares at a price of $0.18 per share.

c) In March 2011, the Company completed a non-brokered private placement for 2,777,777 units at $0.90 per unit for gross proceeds of $2,500,000. Each unit consists of one common share and one-quarter share purchase warrant. One whole share purchase warrant entitles the holder to purchase an additional common share for $1.12 per share until September 28, 2011. The Company paid a finder's fee of $12,440.

d) In March 2011, the Company acquired a 12.5% working interest in certain lands in the Williston Basin in Montana. Consideration was $160,000.

e) In March 2011, the Company granted 3,555,000 stock options to its employees and independent consultants with an exercise price of $1.20 per share. All of the options vested immediately and have a term of five years.

f) In April 2011, the Company acquired an additional 15% working interest in all wells and oil and gas leases in the Snoose Coulee Field located in Liberty County, Montana for $48,000.

g) In April 2011, the Company agreed to acquire, subject to shareholder approval, certain oil and gas leaseholds in Pondera County, Montana. As consideration the Company has agreed to issue 7,822,727 common shares at a price of $0.44 per share to a company with a Director and officer in common, issue 5,072,273 common shares at a price of $0.44 per share to arms-length parties. In addition the Company agreed to acquire, subject to shareholder approval, from a company with a Director and officer in common a Compressor plant and equipment for consideration of $283,000 and a $1,100,000 debenture convertible into common shares at a price of $2.50 per share.