NEW RANGE resources ltd.

**FINANCIAL STATEMENTS**

**FOR THE THREE AND NINE MONTH**

**PERIODS ENDED SEPTEMBER 30, 2009 and 2008**

NOTICE OF NO AUDITOR REVIEW

Pursuant to National Instrument 51-102, Part 4, subsection 4.3(3)(a), the accompanying unaudited interim financial statements have been prepared by management and the Corporation's independent auditors have not performed a review of these financial statements.

# NEW RANGE RESOURCES LTD.
BALANCE SHEETS
(unaudited)

| | SEPTEMBER 30 2009 | DECEMBER 31 2008 |
|---|---|---|
| **ASSETS** | | |
| CURRENT | | |
| Accounts receivable | $ 120,675 | $ 291,316 |
| Prepaid expenses | 49,082 | 32,245 |
| | 169,757 | 323,561 |
| PETROLEUM AND NATURAL GAS PROPERTIES (note 6) | 2,970,070 | 3,190,000 |
| | $ 3,139,827 | $ 3,513,561 |
| **LIABILITIES** | | |
| CURRENT | | |
| Bank indebtedness (note 7) | $ 647,514 | $ 877,152 |
| Accounts payable and accrued liabilities | 489,192 | 365,854 |
| Loan payable (note 8) | 650,000 | 650,000 |
| Refundable deposit (note 12) | 100,000 | - |
| Contingent liability (note 11) | 20,000 | 20,000 |
| | 1,906,706 | 1,913,006 |
| ASSET RETIREMENT OBLIGATION | 483,994 | 483,994 |
| | 2,390,700 | 2,397,000 |
| **SHAREHOLDERS' EQUITY** | | |
| SHARE CAPITAL (note 9) | 3,230,411 | 3,230,411 |
| CONTRIBUTED SURPLUS (note 10) | 410,179 | 410,179 |
| DEFICIT | (2,891,463) | (2,524,029) |
| | 749,127 | 1,116,561 |
| | $ 3,139,827 | $ 3,513,561 |

Going concern (note 3)

Contingent liability (note 11)

Approved on behalf of the Board

Director *“signed” Hugh Thomson*

Director *“signed” Thomas Robinson*

**NEW RANGE RESOURCES LTD.**
STATEMENTS OF OPERATIONS
(unaudited)

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| **REVENUE** | | | | |
| Revenue | $ 173,087 | $ 609,504 | $ 553,704 | $ 1,666,695 |
| Royalties | (1,501) | (94,860) | (38,688) | (253,117) |
| | 171,586 | 514,644 | 515,016 | 1,413,178 |
| **OTHER INCOME** | 529 | 33,346 | (1,952) | 36,687 |
| | 172,115 | 547,990 | 513,064 | 1,450,265 |
| **EXPENSES** | | | | |
| Amortization, depletion and accretion | 88,185 | 214,436 | 295,227 | 571,391 |
| Operating Expenses | 95,872 | 180,378 | 349,250 | 484,594 |
| Administration Expenses (note 5) | 56,921 | 79,838 | 183,251 | 201,007 |
| Interest and Bank Charges | 18,387 | 25,354 | 55,308 | 77,040 |
| | 259,365 | 500,006 | 883,036 | 1,334,072 |
| **INCOME (LOSS) BEFORE INCOME TAXES** | (87,250) | 47,984 | (369,972) | 116,233 |
| **INCOME TAX EXPENSE** | | | | |
| Current | - | - | (2,538) | |
| Future | - | - | | - |
| | - | - | | - |
| **NET AND COMPREHENSIVE INCOME (LOSS)** | $ (87,250) | $ 47,984 | $ (367,434) | $ 116,233 |
| **BASIC AND DILUTED INCOME (LOSS) PER SHARE (NOTE 13)** | $ (0.003) | $ 0.002 | $ (0.015) | $ 0.005 |

See accompanying notes to the financial statements.

**NEW RANGE RESOURCES LTD.**
STATEMENTS OF CASH FLOWS
(unaudited)

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Net and comprehensive income (loss) | $ (87,250) | $ 47,984 | $ (367,434) | $ 116,233 |
| Items not affecting cash | | | | |
| Amortization, depletion and accretion | 88,185 | 214,436 | 295,227 | 571,391 |
| **CASH FLOW** | 935 | 262,420 | (72,207) | 687,624 |
| Change in non-cash working capital items | 128,986 | (101,763) | 377,142 | (339,781) |
| | 129,921 | 160,657 | 304,935 | 347,843 |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | | | |
| Additions to petroleum and natural gas properties | (29,351) | (117,599) | (75,297) | (482,079) |
| | (29,351) | (117,559) | (75,297) | (482,079) |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | | | |
| Increase (decrease) in bank indebtedness | (100,570) | (43,058) | (229,638) | 134,236 |
| | (100,570) | (43,058) | (229,638) | 134,236 |
| **CHANGE IN CASH POSITION** | - | - | - | - |
| **CASH, beginning of period** | - | - | - | - |
| **CASH, end of period** | $ - | $ - | $ - | $ - |

See accompanying notes to the financial statements

## 1. NATURE OF OPERATIONS

New Range Resources Ltd. (the "Company") was incorporated under the provisions of the Business Corporations Act (Alberta) on April 7, 2004 as Open Range Capital Corp. and became New Range Resources Ltd. on June 30, 2006 upon the consummation of the plan of arrangement involving the Company, Open Range Resources Ltd. ("OR Resources"), a private company related by way of common control, and Siga Resources Limited ("Siga Resources"). The Company began trading on October 14, 2004 and trades under the symbol of RGE on the TSX Venture Exchange.

The Company's principal business activity is the participation in various producing oil and gas properties in Alberta and is also in the process of exploring and developing other oil and gas properties in Alberta.

## 2. CHANGE IN ACCOUNTING POLICY

### Going Concern

The Canadian Institute of Chartered Accountants amended ("CICA") Handbook Section 1400, General Standards of Financial Statement Presentation. There were no changes required to the financial statements as a result of this change.

### Financial Instruments

Effective January 1, 2009 the Company prospectively adopted the new CICA Handbook Sections 3862, Financial Instruments – Disclosures and 3863, Financial Instruments – Presentation. The purpose of these sections is to enhance the financial statement users' ability to evaluate, the significance of financial instruments on an entity's financial position, performance and cash flows; the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date; and how the entity manages those risks.

The new standards require additional disclosure with no effect on the financial position, results of operations or cash flows in 2009.

### Capital Disclosure

Effective January 1, 2009 the Company adopted the new CICA Handbook Section 1535, Capital Disclosures for disclosure of an entity's objectives, policies and processes for managing capital. The new standard requires additional disclosure with no effect on the financial position, results of operations or cash flows in 2009.

## 3. GOING CONCERN

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

The global credit market crisis, the volatility in the price of oil and gas, the recession in Canada and the slowdown of economic growth in the rest of the world has created a substantially more difficult business environment, resulting in an extremely limited ability to secure capital market transactions. In addition, the volatile oil and gas prices are expected to negatively affect the Company’s operating performance. If improvements in market conditions and oil and gas prices are not realized, the Company may be unable to pay its obligations in the normal course of operations or service its debt obligations (Notes 7 and 8) in a timely fashion.

The Company’s suppliers might respond to an apparent weakening of the Company’s liquidity position and to address their own liquidity needs by requesting faster payment of invoices or other assurances. If this were to happen, the Company’s need for cash would be intensified and the Company might be unable to make payments to the Company’s suppliers as they become due.

In order to continue as a going concern, the Company has decreased its 2009 capital expenditures program and overhead costs where possible. The Company is also, among other things, in the process of assessing and redeveloping operations to reduce expenditures, continually working to optimize all available financing options, examining options to sell under utilized assets, and focusing on optimizing oil and gas production. There is no assurance management will be successful in these efforts.

In September, 2009 New Range entered into a pre-acquisition agreement with New North Resources Ltd. (“New North”), a non-arm's-length private, Calgary-based petroleum and natural gas company, pursuant to which New North has agreed to make an offer to acquire all of the common shares of New Range for cash consideration of 3.5 cents per share representing a total cash consideration of approximately $828,750.

On October 23, 2009 New Range’s potential acquirer New North announced that it has delayed mailing its previously announced offer to acquire all of the common shares of New Range for cash consideration of 3.5 cents per share, pending the completion and receipt of a formal valuation of the common shares of New Range.

Furthermore, in order to manage New Range's liquidity risk, by providing additional capital resources for meeting financial obligations as they come due, New Range also announced it has entered into a letter agreement with New North to sell all of its interests in the natural gas well located in the Knopcik area of Alberta, at 14-9-74-11 W6M, and the associated facilities, to New North for the cash purchase price of $790,000, subject to normal industry closing adjustments. The sale closed on November 24, 2009.

The sale of the 14-9 well will not have an impact on the purchase price of 3.5 cents per share under the offer of New North. However, the sale of the 14-9 well (and New North's assumption of any benefits and liabilities relating to the associated civil litigation) may have a beneficial impact on the ability of New Range to seek strategic alternatives to that of the offer. As a result, New

North further agreed under the offer to provide New Range with additional time to seek strategic alternatives for consideration and recommendation by the independent committee of the board of New Range, for the purposes of maximizing shareholders' value.

Given the recent state of the economy, the Company's inability to replace its reserves with minimal capital for, there is uncertainty as to the Company's ability to continue as a going concern. If the going concern basis is not appropriate, adjustments may be necessary to the carrying amounts and classification of the Company's assets and liabilities and reported amounts of revenues and expenses. The accompanying financial statements do not include any adjustments that might result if the Company is unable to continue as a going concern and such adjustments may be significant.

## 4. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared using the historical cost basis in accordance with Canadian generally accepted accounting principles. These financial statements have, in management's opinion, been properly prepared within the framework of the accounting policies summarized as follows:

### 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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. By their nature, these estimates are subject to measurement uncertainty. The effect of changes in such estimates on the financial statements in future periods could be significant. Accounts specifically affected by estimates in these financial statements are accounts receivable, petroleum and natural gas properties, accounts payable and accrued liabilities, asset retirement obligation and stock-based compensation.

### Cash

Cash on deposit consists of cheques in excess of funds on deposit.

### Capitalized costs

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 whether successful or not. Such costs include land acquisitions, geological and geophysical costs, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells, production equipment, asset retirement costs and the portion of general and administrative expenses directly attributable to exploration and development activities.

Proceeds from the sale of petroleum and natural gas properties are applied against capitalized costs, with no gain or loss recognized unless such a sale would alter the rate of depletion by greater than twenty percent.

**Amortization and depletion**

Amortization and depletion of petroleum and natural gas properties and equipment is provided for using the unit-of-production method based on estimated proven petroleum and natural gas reserves before any royalty deductions as determined by independent engineers. For the purpose of this calculation, petroleum and natural gas reserves are converted to a common unit of measurement on the basis of their relative energy content where six thousand cubic feet of gas equates to one barrel of oil. Costs of acquiring and evaluating unproven properties are excluded from costs subject to amortization and depletion until it is determined whether proven reserves are attributable to the properties or impairment occurs.

Other property, plant and equipment are recorded at cost and amortized at an annual rate of 20% using declining balance method.

**Asset retirement obligations**

The fair value of an asset retirement obligation is recognized in the period in which the obligation is incurred, and is discounted to its present value using the Company's credit adjusted risk-free interest rate. The fair value of the estimated obligation is recorded as a long term liability, with a corresponding increase in the carrying amount of the related asset. The costs capitalized to the related assets are amortized to earnings in a manner consistent with the depletion, depreciation and amortization of the underlying asset. The liability amount is increased in each reporting period due to passage of time and the amount of accretion is charged to earnings in the period. Revisions to the estimated timing of cash flows or to the original estimated undiscounted costs could also result in an increase or decrease to the obligation. Actual costs incurred upon settlement of the retirement obligation are charged against the obligation to the extent of the liability recorded.

**Ceiling test**

The net amount at which petroleum and natural gas properties are carried is subject to a cost recovery test (the "ceiling test"). Under this test, an estimate is made of the total amount that is recoverable based on expected cash flows at undiscounted future prices. If the carrying amount exceeds the ultimate recoverable amount, an impairment loss is recognized in net earnings. The impairment loss is limited to the amount by which the carrying amount exceeds: (i) the sum of the fair value of proved and probable reserves; and (ii) the costs of unproved properties that have been subject to a separate impairment test and contain no probable reserves.

**Joint ventures**

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

**Revenue recognition**

Revenues associated with sales of crude oil, natural gas, and natural gas liquids are recorded when the products are delivered. Delivery occurs when the customer has taken title and has assumed the risks and rewards of ownership, prices are fixed or determinable and collectability is reasonably assured. Royalty revenues are recognized when they become receivable. The Company does not enter into ongoing arrangements whereby it is required to repurchase its products, nor does the Company provide the customer with a right of return.

Interest income is recognized in the period it is earned.

**Future income taxes**

The Company follows the asset and liability method of accounting for income taxes. Under this method, the Company records future income taxes for the effect of any difference between the accounting and income tax basis of an asset or liability, using the substantively enacted income tax rates. Accumulated future income tax balances are adjusted to reflect changes in income tax rates that are substantively enacted with the adjustment being recognized in earnings in the period that the change occurs. Future tax assets are recognized to the extent that they are more likely than not to be realized.

**Loss per share**

The calculation of basic loss per share is based on net earnings divided by the weighted average number of common shares outstanding.

The treasury stock method of calculating diluted per share amounts is used whereby any proceeds from the exercise of stock options or other dilutive instruments are assumed to be used to purchase common shares at the average market price during the period. In addition, diluted common shares also include the effect of the potential exercise of any outstanding warrants.

**Financial instruments**

The Company has classified their financial instruments in the following categories:

Cash is classified as “held-for-trading”. It is measured at fair value and changes in fair value are recognized in earnings.

Accounts receivable is classified as “loans and receivables” and is measured at amortized cost, which is generally the amount on initial recognition less an allowance for doubtful accounts.

Accounts payable and accrued liabilities, bank indebtedness and loan payable are classified as other financial liabilities and are measured at cost.

Transaction costs are included in the initial carrying amount of financial instruments except for held-for-trading items, in which case they are expensed as incurred. Measurement in subsequent periods depends on the classification of the financial instrument.

**Stock-based compensation**

The Company has a stock based compensation plan, which is described in note 10. Awards of options under this plan are expensed based on the fair value of the options at the grant date and credited to contributed surplus. Fair values are determined using the Black-Scholes option-pricing model. If the options are subject to a vesting period, the expense is recognized over this period. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to share capital plus the amounts originally recorded as contributed surplus.

**Flow-through shares**

The resource expenditure deductions for income tax purposes related to exploratory and development activities funded by flow-through share arrangements are renounced to investors in accordance with tax legislation. A future tax liability is generated when the renouncements related to the corresponding exploration and development expenditures are filed with the tax authorities.

## 5. RELATED PARTY TRANSACTIONS

During the three months ended September 30, 2009, the Company paid $22,256 (2008 - $15,675) for office and administrative expenses, to a company related by a common director. Legal fees totaling $8,812 (2008 - $4,419) were paid to a law firm who employs a director of the Company.

The Company is also a joint venture partner with a company related by a common director. Certain revenue and expense amounts related to the joint venture are allocated from this related-company to the Company on a monthly basis.

At September 30, 2009, the Company had a short term loan from a related party, related by a common shareholder, totaling $650,000 (2008 - $650,000). The loan bears interest payable monthly at prime plus 4% per annum. There is no collateral and the balance is due on demand.

In September, 2009 New Range entered into a pre-acquisition agreement with New North Resources Ltd. ("New North"), a non-arm's length private, Calgary based petroleum and natural gas company, pursuant to which New North has agreed to make an offer to acquire all of the common shares of New Range for cash consideration of 3.5 cents per share representing a total cash consideration of approximately $828,750.

On October 23, 2009 New Range's potential acquirer New North announced that it has delayed mailing its previously announced offer to acquire all of the common shares of New Range for cash consideration of 3.5 cents per share, pending the completion and receipt of a formal valuation of the common shares of New Range.

Furthermore, in order to manage New Range's liquidity risk, by providing additional capital resources for meeting financial obligations as they come due, New Range also announced it has entered into a letter agreement with New North to sell all of its interests in the natural gas well located in the Knopcik area of Alberta, at 14-9-74-11 W6M, and the associated facilities, to New North for the cash purchase price of $790,000, subject to normal industry closing adjustments. The sale closed on November 24, 2009.

The sale of the 14-9 well will not have an impact on the purchase price of 3.5 cents per share under the offer of New North. However, the sale of the 14-9 well (and New North's assumption of any benefits and liabilities relating to the associated civil litigation) may have a beneficial impact on the ability of New Range to seek strategic alternatives to that of the offer. As a result, New North further agreed under the offer to provide New Range with additional time to seek strategic alternatives for consideration and recommendation by the independent committee of the board of New Range, for the purposes of maximizing shareholders' value.

These transactions are in the normal course of operations and have been valued in these financial statements at the exchange amount which is the amount of consideration established and agreed to by the related parties.

## 6. PETROLEUM AND NATURAL GAS PROPERTIES

| | September 30, 2009 | | |
|---|---|---|---|
| | Cost | Accumulated amortization, depletion & impairment | Net |
| Petroleum and natural gas properties | $ 7,874,693 | $ 4,903,623 | $ 2,970,070 |

| | September 30, 2008 | | |
|---|---|---|---|
| | Cost | Accumulated amortization and depletion | Net |
| Petroleum and natural gas properties | $ 7,763,551 | $ 3,182,021 | $ 4,581,530 |

## 7. BANK INDEBTEDNESS

The Company has a demand revolving operating loan facility with a Canadian chartered bank, to be used for development and acquisition of petroleum and natural gas properties and related assets. At September 30, 2009, the credit facility available was for up to $650,000 (2008 -$1,000,000). This credit facility is secured by a fixed and floating charge debenture over all assets, a general security agreement and a general assignment of book debts. The bank loan bears interest at prime + 2.75% annually with a minimum interest rate of 5.25% annually. Effective June 1, 2009 the credit facility requires principal repayments of $25,000 per month.

## 8. LOAN PAYABLE

At September 30, 2009, the Company had a short term loan from a related party, related by a common shareholder, totaling $650,000 (2008 - $650,000). The loan bears interest payable monthly at prime plus 4% per annum. There is no collateral and the balance is due on demand.

## 9. SHARE CAPITAL

Authorized

Unlimited number of common voting shares, without nominal or par value.

Unlimited number of preferred shares, without nominal or par value, issuable in series. The directors are authorized to fix the number of shares in each series and to determine the designation, rights, privileges, restrictions and conditions attached to the shares of each series.

Common shares issued

| | Number | Amount |
|---|---|---|
| Balance September 30, 2009 and December 31, 2008 | 23,678,500 | $ 3,230,411 |

Stock options

The Company has adopted an incentive stock option plan whereby options may be granted from time to time to directors, officers, employees and consultants to the Company with common shares to be reserved for issuance as options not to exceed 10% of the issued and outstanding common shares.

| | Number | Weighted average exercise price |
|---|---|---|
| Outstanding December 31, 2006 | 1,780,000 | $ 0.19 |
| Issued, February 9, and 15, 2007 | 510,000 | 0.30 |
| Expired in 2007 | (50,000) | 0.25 |
| Outstanding December 31, 2007 | 2,240,000 | 0.21 |
| Expired in 2008 | (530,000) | 0.22 |
| Outstanding September 30, 2009 and December 31, 2008 | 1,710,000 | $ 0.21 |

| Options outstanding | Exercise price | Options exercisable at September 30, 2009 | Expiry date |
|---|---|---|---|
| 545,000 | $ 0.10 | 545,000 | October 10, 2009 |
| 725,000 | 0.25 | 725,000 | April 11, 2011 |
| 30,000 | 0.25 | 30,000 | August 15, 2011 |
| 60,000 | 0.30 | 60,000 | February 9, 2012 |
| 350,000 | 0.30 | 350,000 | February 15, 2012 |

During 2008, upon cessation of a consultant’s contract, 50,000 options were cancelled.

On February 9 and 15, 2007, the Company granted a total of 510,000 options to purchase common shares to officers, directors and consultants. These options vest immediately, carry an exercise price of $0.30 per share and expire on February 9 and 15, 2012. Upon cessation of employment of an officer, director or consultant, the options will expire 90 days from the cessation date. Stock-based compensation expense of $123,716 was recorded, with a corresponding credit to contributed surplus.

The fair value of the stock options granted have been determined using the Black-Scholes option-pricing model using the following assumptions; dividend yield, expected volatility of 112%, market risk-free interest rate of 3.0%, and expected life of 5 years.

During 2008, upon resignation of a director, 530,000 options were cancelled with a weighted average exercise price of $0.22.

## 10. CONTRIBUTED SURPLUS

| | | |
|---|---|---|
| Balance September 30, 2009 and December 31, 2008 | $ | 410,179 |

## 11. CONTINGENT LIABILITY

During 2006 the Company amalgamated with OR Resources and as a result it consolidated operations with OR Resources and Siga Resources, a company owned by OR Resources. Subsequently a claim relating to an unpaid working interest has been brought against Siga Resources. Being that the Company is the amalgamation successor of Siga Resources it is likely that a settlement for the claim will be paid. As a result, a contingent liability of $20,000 is recorded on the balance sheet and in the statement of operations.

## 12. REFUNDABLE DEPOSIT

In Q3 2009 the Company received a $100,000 deposit related to the sale of certain PNG properties in connection with a related party transaction.

## 13. LOSS PER SHARE

Basic loss per share is calculated using the weighted average number of shares outstanding during the year. Diluted loss per share is calculated to reflect the dilutive effect of stock options outstanding. Net income (loss) per share is calculated as follows:

| | Three months ended September 30 2009 | | |
|---|---|---|---|
| | Net income (loss) | Weighted average common shares | Net income (loss) per share |
| Basic and diluted | $ (87,250) | 23,678,500 | $ (0.003) |

| | Nine months ended September 30 2008 | | |
|---|---|---|---|
| | Net income (loss) | Weighted average common shares | Net income (loss) per share |
| Basic and diluted | $ (367,434) | 423,678,500 | $ (0.015) |

## 14. SUBSEQUENT EVENT

On October 23, 2009 in order to manage New Range's liquidity risk, by providing additional capital resources for meeting financial obligations as they come due, New Range entered into a letter agreement with a related party, related by a common shareholder, to sell all of its interests in the natural gas well located in the Knopcik area of Alberta, at 14-9-74-11 W6M, and the associated facilities, for the cash purchase price of $790,000, subject to normal industry closing adjustments. The sale closed on November 24, 2009.

## 15. FINANCIAL INSTRUMENTS

Financial instruments consist of recorded amounts of accounts receivable which will result in future cash receipts, as well as bank indebtedness, accounts payable and accrued liabilities and loan payable which will result in future cash outlays.

The nature of the Company's operations result in exposure to fluctuations in commodity prices, exchange rates and interest rates. The Company does not use derivative financial instruments to manage its exposure to these risks.

(a) Market risk

Market risk is the risk or uncertainty arising from possible market price or interest rate movements and their impact on the future performance of the business. These market risks are evaluated by monitoring changes in key economic indicators and market information on an on-going basis.

(b) Interest rate risk

The Company is exposed to interest rate cash flow risk on its outstanding borrowings, specifically, on the floating rate element of its credit facility and bank indebtedness. All the Company's borrowings have a floating interest rate component. The Company manages this risk through regular review of market conditions and interest rates, for which, if considered necessary, recommendations for changes to existing financing or new arrangements are presented to the board of directors for approval.

A 1% change in the interest rate would affect net loss for the three month period ended September 30, 2009 by $3,250. This was calculated by applying the percentage change to the average quarterly balance of the credit facility and bank indebtedness over the period.

(c) Commodity price risk

The Company is exposed to movements in the prices of oil commodities sold during its normal course of operations. Management does not currently use derivative instruments to hedge commodity prices.

A $1 change in the price of oil and gas production (Boe) would affect net loss for the three month period ended September 30, 2009 by $5,066. This was calculated by applying the change to the total average production for the period.

(d) Liquidity risk

Liquidity risk encompasses the risk that a company cannot meet its financial obligations in full. The Company's main source of liquidity is its cash generated from operations, and credit facilities. These funds are primarily used to finance working capital, operating expenses, and capital expenditures.

The Company manages its liquidity risk by regularly monitoring its cash flows from operating activities. The current year's budget is planned to be funded from a combination cash flow from operations with the remaining requirements from the credit facility.

The Company has a strong relationship with the holder of it's credit facility and if required management could propose that the Board approve increasing the facility amounts.

(e) Credit risk

Credit risk is the risk of economic loss arising when a counterparty fails to meet its obligations as they come due. Credit risk encompasses both the direct risk of default and the risk of a deterioration of creditworthiness and the respective concentration risk.

Credit risk resulting from joint venture operations is managed through the use of cash calls to partners prior to incurring expenditures. Therefore, management believes that there is no significant credit risk inherent in the Company's accounts receivable from joint venture partners.

The maximum exposure to credit risk is equal to the carrying amount of financial instruments classified as loans and receivables and cash and cash equivalents.

(f) Fair value

It is management's opinion that the Company's carrying values of accounts receivable, bank indebtedness, accounts payable and accrued liabilities and loan payable approximate their fair values due to the immediate or short-term maturity of these instruments.

## 16. COMPARATIVE AMOUNTS

The financial statements have been reclassified, where applicable, to conform to the presentation used in the current quarter. The changes do not affect prior quarter earnings.

## 17. RECENT ACCOUNTING PRONOUNCEMENTS

The CICA Accounting Standards Board has adopted the following new or amended Handbook Sections:

(a) The following standards were issued by the CICA during 2009 and will be effective for the Company beginning on January 1, 2009:

In February 2009 , the CICA issued Section 3064, Goodwill and intangible assets, ("Section 3064") replacing Sections 3062, Goodwill and other intangible assets ("Section 3062") and 3450, Research and development costs. Various changes have been made to other standards to be consistent with Section 3064. Section 3064 will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2009 . Accordingly, the Company will adopt the new standards for its fiscal year beginning January 1, 2009. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill and of intangible assets. Standards concerning goodwill are unchanged from the standards included in Section 3062. The Company is currently evaluating the impact of the adoption of Section 3064 on its financial statements, however, it is not expected that the adoption will have a material impact on the financial statements.

(b) The following standards were issued by the CICA during 2009 and will be effective for the Company beginning on January 1, 2011:

In February 2008, the CICA Accounting Standard Board (AcSB) confirmed the changeover to International Financial Reporting Standards ("IFRS") from Canadian Generally Accepted Accounting Principles (GAAP) will be required for publicly accountable enterprises interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011. The eventual changeover to IFRS represents a change due to new accounting standards. The transition from current Canadian GAAP to IFRS is a significant undertaking that may materially affect the Company's reported financial position and results of operations. The Company intends to review the standards to determine the potential impact on its financial statements.

On July 23, 2009 the IASB adopted certain amendments and exemptions to IFRS 1 in order to make it more useful to Canadian entities adopting IFRS for the first time. One such exemption relating to full cost oil and gas accounting is expected to reduce the administrative burden in transition from the current Canadian Accounting Guideline 16 (related to the full cost method of accounting for oil and gas activities) to IFRS. The amendment permits the Company to apply IFRS prospectively to its full cost pool, rather than the retrospective assessment of capitalized exploration and development expenses, with the proviso that an impairment test, under IFRS standards, be conducted at the transition date.

The CICA has issued Section 1582, "Business Combinations". Under the new section, the term "business" will be more broadly defined than in the existing standard, most assets acquired and liabilities assumed will be measured at fair value, any interest in an acquiree owned prior to obtaining control will be re-measured at fair value at the acquisition date (eliminating the need for guidance on step acquisitions), a bargain purchase will result in recognition of a gain, and acquisition costs must be expensed. The CICA has also issued Sections 1601, "Consolidations" and 1602 "Non-controlling Interests", Section 1601 carries forward the requirements of Section 1600, "Consolidated Financial Statements", other than those relating to non-controlling interests which would be covered in Section 1602. Under Section 1602, any non-controlling interest will be recognized as a separate component of shareholder's equity and net income will be calculated without deducting non-controlling interest and instead net income is allocated between the controlling and non-controlling interests. These standards apply prospectively to business combinations on or after January 1, 2011.

The Company does not expect the new sections to impact the financial statements.