

McLAREN RESOURCES INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED SEPTEMBER 30, 2009

General

The following discussion of performance, financial condition and future prospects should be read in conjunction with the McLaren Resources Inc. (the "Company" or "McLaren") audited financial statements and notes thereto for the fiscal years ended September 30, 2009 and September 30, 2008, which were prepared in accordance with generally accepted accounting principles ("GAAP") in Canada. Additional information regarding the Company can be found on SEDAR at www.sedar.com. All amounts following are expressed in Canadian dollars unless otherwise stated. This discussion and analysis is dated January 26, 2010

Forward Looking Statements

Certain information in this MD&A and in other public announcements by the Company is forward-looking and is subject to important risks and uncertainties. Forward information includes information concerning the Company's future financial performance, business strategy, plans, goals and objectives.

Factors which could cause actual results to differ materially from current expectations include, among other things: the ability of the Company to successfully implement its strategic initiatives and whether such strategic initiatives will yield the expected benefits; competitive conditions in the business in which the Company participates; general economic conditions and normal business uncertainty; fluctuations in foreign exchange rates; and changes in laws, rules and regulations applicable to the Company.

The Company does not update forward-looking statements should circumstances or management's assumptions, expectations, or estimates change.

OVERVIEW

The Company is actively engaged in the acquisition of hydrocarbon exploration properties and the sourcing of financing to fund property acquisitions and work programs.

On February 17, 2009, the Ontario Securities Commission (the "Commission") issued a Notice of Order (Permanent Cease Trade Order) against the Company for failure to file annual financial statements and related Management Discussion and Analysis for the year ended September 30, 2008 with the Commission and its shareholders. Subsequent to the Cease Trade Order being issued, the Company filed the annual financial statements and MD&A for the year ended September 30, 2008. Subsequent to year-end, the Commission revoked the Cease Trade Order issued against the Company.

On January 13, 2009, the Company announced that the Board of Directors of the Company was at odds as to the future direction of the Company and that positions were evenly divided between the four directors. The Company announced that a dissident shareholders meeting had been called for February 26, 2009. The Company also announced that a legal proceeding had been commenced before the Ontario Superior Court of Justice ("the Court"), in which allegations of oppressive conduct were being asserted by two of the Directors (Victor Childs and John Holko) against the other two Directors (Gregory Liddy and Brian Berner) and the Company. Gregory Liddy and Brian Berner have advised the Company and the Court that in the context of that proceeding, a counter application for oppressive conduct will be brought against Victor Childs and John Holko.

On January 16, 2009, by way of a Court order, the meeting date for the dissident shareholders meeting was moved from February 26, 2009 to March 10, 2009. The legal proceeding regarding allegations of oppressive conduct was adjourned until after the March 10, 2009 shareholders meeting. Since the shareholders meeting, no further steps or proceedings have been taken in respect of the oppression application.

The dissident shareholders' meeting was held March 10, 2009. As a result, a new Board of Directors, including Victor Childs and John Holko, was elected and new management of the Company was appointed.

On December 2, 2008, a letter was sent to the Company's bank, on behalf of two of the Company's Directors, indicating a dispute among the directors regarding the signing authorities on the Company's bank account. Consequently the Company's bank placed the Company's bank account on a full hold until documentation evidencing the resolution of

the dispute was provided to the Company's bank. Following the election of the new Board of Directors and the appointment of new management, the Company has now restored normal banking operations.

The newly elected Board of Directors of the Company is currently considering appropriate next steps.

Subsequent to year end, on December 3, 2009, the Company signed a farmout agreement with CIVC giving McLaren the right, on a well-by-well basis, to participate in a planned three-well program slated to commence as early as possible in 2010 in the Green Point formation (GPF), both onshore and near shore throughout western Newfoundland. Shoal Point Energy Ltd. (SPE) will be the designated operator of the group. The Green Point formation is a thick (500-plus metres), dominantly shale unit which is developed on a regional scale. It is well recognized in geological literature as having high total organic carbon content (locally in excess of 10 per cent) and having the maturity to generate hydrocarbons. The GPF is the probable source, based on geochemical affinities, to numerous oil and gas seeps in the region as well as early production on Shoal Point and the major exhumed oil field at Port au Choix.

SPE, CIVC and McLaren have also agreed to establish an area of mutual interest (AMI), consisting of approximately 1.5 million acres, for lands outside of EL 1070 which are potentially prospective. It is the intent of the companies to gain additional prospective acreage through land sales and farmin deals with other parties holding lands within the AMI.

McLaren will pay 32 per cent of the cost of the well to earn a 16-per-cent working interest in the block on which the well is drilled. Provided McLaren participates in all three wells, it will have the right to pre-empt and match the terms of any third party offer on remaining blocks in EL 1070.

Deferred Petroleum and Natural Gas Exploration Costs

The Company entered into a joint venture with Ascent Resources PLC ("Ascent") in November 2005, whereby the Company acquired a 45% beneficial interest and a 62.5% paying interest in four offshore petroleum exploration blocks in the Netherlands sector of the North Sea. The exploration licenses were awarded in October 2006.

In April 2007, Energie Beheer Netherlands BV ("EBN BV"), the Dutch state-owned oil and gas company, exercised its back in right to acquire a 40% interest in the three exploration blocks, and will participate in the exploration of the licensed areas. As a result, the Company's beneficial interest in the exploration blocks was reduced to 27% and its paying interest to 37.5%. The exploration block licenses' term is up to August 2011. The expected total work budget for the initial two-year period, commencing October 10, 2006, was

approximately \$2,000,000, primarily relating to seismic evaluation work. To September 30, 2009, McLaren's share of total outlays was approximately \$747,000. This amount excludes the Company's acquisition costs of approximately \$150,000. The Company plans to invest approximately \$180,000 on its share of the North Sea exploration programs, which are currently under budget consideration for calendar 2010.

The 2010 program is to perform an engineering study to evaluate the economics of drilling through to development and production of the project.

Selected Financial Information

The following table provides selected financial information that should be read in conjunction with the financial statements of the Company.

	YEAR ENDED	
	September 30,	
	2009	2008
Interest and Other Income	\$17,124	\$88,575
Loss for the year	\$885,372	\$349,959
Loss per share	\$0.047	\$0.019
Total assets	\$2,359,276	\$3,239,298
Deferred petroleum and natural gas exploration	\$896,551	\$648,363
Total liabilities	\$36,100	\$30,750

Results of Operations

The Company incurred a net loss of \$885,372 for the year ended September 30, 2009, compared to a net loss of \$349,959 for the year ended September 30, 2008. To a large extent the increase in the loss was due to the increased professional fees charges as a result of the dispute among the directors.

Revenue

The Company is a junior exploration company with no revenue producing properties and earned no revenue for the quarter ended September 30, 2009 (September 30, 2008 - \$nil) other than interest earned of \$17,124 (2008 - \$88,575).

Expenses

	September 30, 2009	September 30, 2008	Change %
Consulting fees	\$64,287	\$40,650	58.1%
Management fees	\$155,502	\$183,280	(15.1)%
Office, general and administrative	\$100,920	\$64,072	57.5%
Investor relations	\$49,399	\$65,249	(24.3)%
Professional fees	\$538,400	\$52,850	918.7%

Consulting fees increased during the year ended September 30, 2009, compared to the prior year quarter, due mainly to the severance of administrative staff. Management fees decreased due to the severance of the CEO and the hiring of a CEO at a much-reduced cost. General, office and administration expenses increased for the year ended September 30, 2009 compared to the prior year as there was a higher demand on the office due to the ongoing dispute. Investor relations decreased for the year ended September 30, 2009 compared to the prior year, due to the termination of a IR contract. Professional fees increased over the comparable year in 2008 due, mostly in part, to the legal proceeding that had been commenced before the Ontario Superior Court of Justice (“the Court”), in which allegations of oppressive conduct were being asserted by two of the Directors (Victor Childs and John Holko) against the other two Directors (Gregory Liddy and Brian Berner) and the Company and the associated legal costs of the dissident shareholders meeting.

Properties

Deferred Petroleum and Natural Gas Exploration Costs

The Company incurred costs of \$248,188 during the year ended September 30, 2009, (2008 - \$212,767) for exploration, relating to its interest in three exploration blocks in the Netherlands North Sea. The Company plans to approximately invest a further \$180,000 on its share of the North Sea exploration programs, which are currently under budget considerations for calendar 2010.

Subsequent to year end the Company relinquished its license for exploration in the M8A and P4 block. The Company is maintaining blocks M10/11.

Liquidity and Capital Resources

At September 30, 2009 the Company had cash and cash equivalents of \$1,411,493 compared to \$2,528,280 as at September 30, 2008. The Company's main short-term obligations as at September 30, 2009 consisted of accounts payable and accrued liabilities of \$36,100 (September 30, 2008 - \$30,750). The Company plans to invest approximately \$180,000 on its share of the North Sea exploration programs which are currently under consideration for calendar 2010. Long-term results will depend upon the results of these exploration programs. The Company had no other long-term obligations as at September 30, 2009.

The Company's working capital at September 30, 2009 was \$1,425,366 (September 30, 2008 - \$2,559,017). Management believes that, at this level, capital is sufficient for the activities planned for the next twelve months.

Currently, the Company has sufficient cash reserves to meet its financial obligations for upcoming exploration programs. However, the Company may seek to raise additional funding to finance drilling and future exploration programs should the directors deem it to be advisable. The timing and ability to take such action will depend on the liquidity of the financial markets as well as the acceptance of investors to finance resource-based junior exploration stage companies.

During the year ended September 30, 2009, the Company did not issue any options or had any options exercised. During the year there were 1,175,000 options that expired.

Commitments

The expected total work budget over the initial two-year period, commencing October 10, 2006, with the EBN BV participation in the three North Sea exploration blocks is approximately \$2,000,000 on deferred petroleum and natural gas exploration programs, primarily seismic evaluation work. The Company has invested approximately \$746,551 (net of acquisition costs of approximately \$150,000) as its share of total expenditures in these exploration blocks, of which \$248,188 was invested during the year ended September 30, 2009. The Company has budgeted approximately \$180,000 as its share of the North Sea exploration programs which are under budget consideration for calendar 2010. Long-term funding requirements will depend upon the results of these exploration programs.

The structure of the transaction for the recovery of its pre-acquisition costs related to its Indonesian assets does not remove the Company's potential liability in the event of obligations incurred but not paid by the company who reimbursed the Company for its pre-acquisition costs. In the event of a default by the company, the Company could remain liable for the obligations incurred. Subsequent to year end the company who reimbursed the Company for its pre-acquisition costs, reorganized the sale of the asset and removed any potential liability from the Company.

Subsequent events

Further to the Special Shareholder's meeting held March 10, 2009, at which two of the former Board of Directors were replaced and a new management team was appointed, the Company is considering the appropriate next steps in respect of the allegations of oppressive conduct against Mr. Berner and Mr. Liddy. At this time management does not know what the outcome will be and has not made any adjustments in the financial statements of the Company in respect thereof.

On December 3, 2009, the Company entered into a Strategic Arrangement (the "Arrangement") with Canadian Imperial Venture Corp. ("CIVC") and Shoal Point Energy Limited ("SPE") to explore for petroleum in the Green Point Shale ("GPS") area, both onshore and near shore throughout Western Newfoundland. SPE will be the designated Operator of the group. SPE and the Company have a common officer.

Pursuant to the Arrangement, the Company will have the right to farm-in to certain rights in Exploration License 1070 ("EL 1070"), divided into 15 blocks comprising approximately 115,000 acres, currently owned by SPE and CIVC in Port au Port Bay. In addition, the Company will have the right to participate in a planned 3-well program slated to commence in 2010. The Company will pay 32% of the cost of the well to earn a 16% working interest in the block on which the well is drilled. In the event the Company participates in all 3 wells, it will have the right to pre-empt and match the terms of any third party offer on remaining

blocks in EL 1070. The Company, SPE and CIVC have also agreed to establish an Area of Mutual Interest ("AMI") for lands outside of EL 1070 which are not currently held by the above noted parties and which are potentially prospective. SPE will be designated Operator of the AMI and in the event an interest is acquired, ownership will be divided as follows: SPE 45%, CIVC 30%, and McLaren 25%. In addition, the Company will provide a financial facility of up to \$275,000 for the purpose of acquiring new lands acquired in the AMI.

On December 18, 2009, the Commission revoked the Cease Trade Order issued against the Company after filing, among other things, its annual audited financial statements and annual MD&A for the year ended September 30, 2008, the interim financial statements' and interim MD&As' for the three month period ended December 31, 2008, six month period ended March 31, 2009, and the nine month period ended June 30, 2009.

On December 31, 2009, the Company closed a non-brokered private placement of 850,000 flow-through common shares at \$0.20 per share for gross proceeds of \$170,000.

On December 30, 2009, the Company granted 1,400,000 options exercisable at \$0.20 per share, expiring December 30, 2015, to officers, directors and consultants.

Subsequent to year end, the Company agreed to reduce its net carried interest in the Indonesian concessions to 2%, capped at \$2 million in exchange for the beneficial owner of a certain portion of the Indonesian concession blocks having arranged an earn in arrangement with an arms length third party by which the third party has committed to incur exploration expenditures of up to US \$3,243,500 on these concessions.

Subsequent to year end, two of the four offshore petroleum exploration blocks held by the Company in the North Sea were relinquished.

Outstanding Share Data

A summary of common shares and common share options as at September 30, 2009 is tabled below:

Common shares issued	18,944,281
Common share options	200,000
Fully diluted common shares	19,144,281

Summary of Quarterly Results

The following table sets forth, for the quarter ended on the date indicated, information relating to the Company's revenue, net loss and loss per common prepared under Canadian GAAP:

Quarterly Financial Information (unaudited)				
	2009	2009	2009	2008
	Q4	Q3	Q2	Q1
(a) Revenue	\$-	\$-	\$-	\$-
(b) Net Income (loss)	\$(121,804)	\$(206,766)	\$(480,434)	\$(76,368)
(c) Net Income (loss) per share (basic & fully diluted)	(0.006)	\$(0.011)	\$(0.025)	\$(0.004)
	2008	2008	2008	2007
	Q4	Q3	Q2	Q1
(a) Revenue	\$-	\$-	\$-	\$-
(b) Net Income (loss)	\$(85,691)	\$(84,676)	\$(104,712)	\$(74,880)
(c) Net Income (loss) per share (Basic & Fully Diluted)	\$(0.005)	\$(0.004)	\$(0.006)	\$(0.004)

The Company is a junior exploration company with no revenue producing properties. Currently the Company's funding continues to be derived from issuing securities and its short-term investments.

For further quarterly financial information, please refer to the Company's financial statements that have been filed on SEDAR.

Related Parties Transactions

During the year ended September 30, 2009, the new officers and directors, as elected by the shareholders on March 10, 2009, and companies controlled by them charged consulting fees and management fees to the Company in the amount of \$88,000 (2008 - \$5,500). Accounts payable at September 30, 2009 includes \$1,325 (2008 - \$nil) owing to them.

During the year ended September 30, 2009, the new officers and directors, as elected by the shareholders on March 10, 2009, and companies controlled by them charged directors fees to the Company in the amount of \$4,800 (2008 - \$nil). Accounts payable at September 30, 2009 includes \$2,400 (2008 - \$nil) owing to them.

During the year ended September 30, 2009, the Company reimbursed certain directors, officers and individuals and companies related to directors of the Company at the time of the transaction, for corporate costs paid directly by them. These reimbursements were at cost and aggregated \$24,951 (2008 - \$9,695).

During the year ended September 30, 2009, the Company was charged \$121,011 (2008 - \$35,050) by a law firm of which an officer of the Company is a partner. Accounts payable at September 30, 2009 includes \$7,222 (2008 - \$7,844) owing to the law firm of which an officer of the Company is a partner.

During the year ended September 30, 2009, management fees were charged by the former Chief Financial Officer in the amount of \$25,002 (2008 - \$27,780).

During the year, consulting fees were charged by an individual related to an officer of the Company amounting to \$1,200 (2008 - \$nil)

During the year ended September 30, 2009, legal fees were paid on behalf of certain directors and a shareholder of the Company in the amount of \$356,437 (2008 - \$nil) related to the allegation of oppressive conduct legal proceedings and the dispute among the former board of directors over the general direction of the Company which resulted in a dissident shareholders meeting.

As at September 30, 2009, accounts receivable includes \$12,075 (2008 - \$nil) due from a company with a common officer.

These transactions, stated above, are in the normal course of operations and are measured at the exchange amount of consideration established and agreed to by the related parties.

The authority of some payments made to certain individuals who were directors of the Company at the time of the transactions, and companies related to them, have been challenged in an oppression application. During the year, total payments made to those individuals and companies are noted below.

During the year ended September 30, 2009, a former officer of the Company charged management fees in the amount of \$62,500 (2008- \$150,000). As at September 30, 2009, accounts payable includes \$688 (2008- \$nil) owing to this former officer.

During the year ended September 30, 2009, the Company was charged \$15,000 (2008- \$30,000) for investor relations services by a company controlled by an individual related to a former director of the Company. Accounts payable at September 30, 2009 includes \$2,625 (2008- \$nil) owing to this former related party.

During the year ended September 30, 2009, rent of \$18,750 (2008- \$37,250) was paid to a company with a director who was also a former director of the Company and an officer who is related to a former director of the Company.

During the year ended September 30, 2009, the Company was charged \$7,500 (2008- \$18,000) for corporate administrative services by a company controlled by an individual related to a former director of the Company.

On July 27, 2009, settlements were reached with companies related to a former director of the Company with respect to the above noted oppression application. As a result, no further amounts in respect of each contract will be challenged by the Company nor does the Company have any further commitments and/or encumbrances under such contracts. Total settlement payments made to the companies amounted to \$13,000, in aggregate.

Off-Balance Sheet Arrangements

The Company does not enter into off-balance sheet arrangements with special purpose entities in the normal course of business.

Management's Responsibility for Financial Information

Management has established processes which are in place to provide them sufficient knowledge to support management representations that they have exercised reasonable diligence that (i) the audited financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the audited financial statements; and (ii) the audited financial statements fairly present all material respects the financial condition, results of the operations and cash flows of the Company, as of the date of and for the periods presented by the audited financial statements.

In contrast to the certificate required under NI 52-109 Certification of Disclosure in Issuer's Annual and Interim Filings (NI 52-109), the Company utilizes the Venture Issuer Basic Certificate which does not include representations relating to the establishment and maintenance of disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as defined in MI 52-109. In particular, the certifying officers filing

the Certificate are not making any representations relating to the establishment and maintenance of:

- i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
- ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP. The Company's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in this certificate.

Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

Change In Accounting Policies

Effective October 1, 2007, the Company adopted the following accounting policies as recommended by the CICA handbook:

Section 3855 - Financial Instruments - Recognition and Measurement: Section 3855 requires that all financial assets, except those classified as held-to-maturity, and derivative financial instruments, must be measured at fair value. All financial liabilities must be measured at fair value when they are classified as held-for-trading; otherwise, they are measured at cost. Investments classified as available-for-sale are reported at fair market value based on quoted market prices with unrealized gains or losses excluded from earnings and reported as other comprehensive income or loss.

Section 1530 - Comprehensive Income: This standard introduces new rules for the reporting and display of comprehensive income. Comprehensive income represents a change in shareholders' equity (net assets) of an enterprise during a reporting period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. These items include holding gains and losses on certain

investments, gains and losses on certain derivative instruments, and foreign currency gains and losses related to self-sustaining foreign operations.

The Company has designated its financial instruments as follows:

- i. Cash and cash equivalents are classified as “Held-for-Trading”. Due to their short-term nature, their carrying value is equal to their fair value. The classification did not have a material impact on the financial statements;
- ii. Accounts receivable are classified as “Loans and Receivables”. These financial assets are recorded at values that approximate their amortized cost using the effective interest method. The classification did not have a material impact on the financial statements; and
- iii. Accounts payable and accrued liabilities are classified as “Other Financial Liabilities”. These financial liabilities are recorded at values that approximate their amortized cost using the effective interest method. The classification did not have a material impact on the financial statements.

Transition adjustment to opening balance: The adoption of Sections 1530 and 3855 did not impact the opening equity and losses of the Company.

The Company adopted the revised CICA Handbook *Section 1506, Accounting Changes*, which requires that: (a) a voluntary change in accounting principals can be made if, and only if, the changes result in more reliable and relevant information, (b) changes in accounting policies are accompanied with disclosures of prior period amounts and justification for the change and (c) for changes in estimates, the nature and amount of the change should be disclosed. The Company has not made any voluntary change in accounting principles since the adoption of the revised standard.

Capital Disclosures – Section 1535 specifies the disclosure of (i) an entity’s objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such noncompliance. The Company has included disclosures recommended by the new Handbook section in note 12 to these financial statements.

Financial instruments – Sections 3862 and 3863 replace Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The Company has included disclosures recommended by the new section in note 13 to the financial statements.

GENERAL STANDARDS ON FINANCIAL STATEMENT PRESENTATION

CICA Section 1400, “General Standards on Financial Statement Presentation”, has been amended to include requirements to assess and disclose an entity’s ability to continue as a going concern. The changes are effective for interim and annual financial statements beginning on or after January 1, 2008. The Company has included disclosures recommended by this new standard in note 1 to these financial statements.

GOODWILL AND INTANGIBLE ASSETS

The CICA issued the new Handbook Section 3064, “Goodwill and Intangible Assets”, which will replace Section 3062, “Goodwill and Other Intangible Assets”. The new standard establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of preproduction and start-up costs and requires that these costs be expensed as incurred. The new standard applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008.

Effective October 1, 2008, the Company adopted Section 3064 “Goodwill and intangible assets” which establishes revised standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. The adoption of this new standard did not have an impact on the Company’s financial statements.

MINING EXPLORATION COSTS

On March 27, 2009, the CICA approved EIC 174, “Mining Exploration Costs”. This EIC provides guidance on capitalization of exploration costs related to exploration properties in particular and on impairment of long-lived assets in general. The application of this new accounting standard did not have a material impact on the Company’s financial statements.

CREDIT RISK AND THE FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

In January 2009, the CICA issued EIC 173 “Credit Risk and the Fair Value of Financial Assets and Financial Liabilities”. The committee reached a consensus that a company's credit risk and the credit risk of its counterparties should be considered when determining the fair value of its financial assets and financial liabilities, including derivative instruments. The transitional provisions resulting from the implementation of EIC 173 require the abstract to be applied retrospectively without restatement of prior periods. The Company adopted this EIC effective January 20, 2009. The adoption of the EIC did not have a significant impact on the Company’s financial statements.

INVENTORY

Effective October 1, 2008, the Company adopted Section 3031 – Inventory of the CICA handbook. The adoption of this new inventory standard requires changes for accounting of inventory including the requirement to allocate overhead costs based on normal production levels and changes to the definition of net realizable value. The new inventory standard clarifies the definition of ‘cost’ to include all costs of purchase, costs of conversion and other costs incurred to bringing the inventories to their present location and condition. As a result, companies are required to systematically allocate fixed and variable production overheads that are incurred in converting materials into finished goods. The allocation of fixed production overheads is based on normal production capacity of the production facilities. In addition, the standard requires companies to assess the recoverability of inventory costs in comparison to net realizable value. Declines in replacement cost below carrying values for raw materials inventories do not require write downs if the finished goods in which they will be incorporated are expected to be sold at or above cost. The adoption of this new standard did not have a impact on the Company’s financial statements.

Future Accounting Changes

International Financial Reporting Standards ("IFRS")

In January 2006, the CICA's Accounting Standards Board ("AcSB") formally adopted the strategy of replacing Canadian GAAP with IFRS for Canadian enterprises with public accountability. The current conversion timetable calls for financial reporting under IFRS for accounting periods commencing on or after January 1, 2011. On February 13, 2008, the AcSB confirmed that the use of IFRS will be required in 2011 for publicly accountable profit-oriented enterprises. For these entities, IFRS will be required for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

The transition date of fiscal 2012 will require restatement for comparative purposes amounts reported by the Company for the 2012 Fiscal year. The impact IFRS on the Company’s current financial statements has not yet been determined. The Company will monitor any changes in both its activities and in IFRS that may impact its adoption of these statements in 2013 to ensure that the transition is complete in an efficient manner.

Financial Instruments and Financial Risk Factors

- a) Fair value – the Company has determined the estimated fair value of its financial instruments based on estimates and assumptions. The actual results may differ from those estimates and the use of different assumptions or methodologies may have a material effect on the estimated fair values. The fair value of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities are comparable to their carrying value due to the relatively short period to maturity of these instruments.
- b) Credit risk – the Company does not have any material risk exposure to any single debtor or group of debtors.
- c) Commodity price risk – The ability of the Company to develop its properties and the future profitability of the Company is directly related to the market price of natural resources.

See note 13 in the audited annual financial statements for the year ended September 30, 2009 and 2008 for additional financial risk factors.

Critical Accounting Estimates

Critical accounting estimates are those estimates that have a high degree of uncertainty and for which changes in those estimates could materially impact the Company's results. Critical accounting estimates for the Company include property evaluations, capitalization of petroleum and natural gas exploration costs, and stock-based compensation variables.

IFRS CHANGEOVER PLAN

In September 2008, the CICA's Accounting Standards Board confirmed that IFRS will replace Canadian GAAP in 2011. The Company will be required to report its results in accordance with IFRS beginning in 2011. The Company is going to consult external advisors to assist in the development and execution of a changeover plan to complete the transition to IFRS by October 1, 2011, including the preparation of required comparative information. The key elements of the Company's changeover plan will include:

- Determine appropriate changes to accounting policies and required amendments to financial disclosures;
- Identify and implement changes in associated processes, and accounting, and information system;

- Comply with internal control requirements;
- Communicate collateral impacts to internal business groups; and
- Educate and train internal and external stakeholders.

The Company is going to analyzing accounting policy alternatives and identifying implementation options for the corresponding process changes. The Company will update its IFRS changeover plan to reflect new and amended accounting standards issued by the International Accounting Standards Board. As IFRS is expected to change prior to 2011, the impact of IFRS on the Company's Financial Statements is not reasonably determinable at this time.

Risk Factors and Risk Management

The Company's business is highly uncertain and risky by its very nature. Future business opportunities pursued by the Company may be in other fields, and are also likely to be risky. In addition, the ability to raise funding in the future to maintain the Company's search for new business opportunities and to carry through with the ensuing activities is dependant on financial markets that often fail to provide necessary capital.

Regulatory standards continue to change, making the process longer, more complex and more costly. Even if an apparently successful business proposal is developed, there is no assurance that it will ever be carried out or be profitable, as its potential economics are influenced by many key factors such as the general state of the economy, foreign exchange rates, equity markets and political interference, which cannot be controlled by management.

General

The oil and gas industry is very competitive and is subject to many risks. Many of these risks are outside the Company's control. Management has identified certain key risks, which are discussed below, along with their potential impact on the Company's operations. There is no assurance that commercial quantities of oil and natural gas will be discovered by the Company.

Exploration, Drilling and Operating Risks

The business of exploration for and production of oil, gas and other resources involves a high degree of risk. In particular, the operations of the Company may be disrupted,

curtailed or cancelled by a variety of risks and hazards which are beyond the control of the Company, including environmental hazards, industrial accidents, occupational and health hazards, technical failures, labour disputes, unusual or unexpected rock formations, flooding and extended interruptions due to increment or hazardous weather conditions, mechanical difficulties, shortage or delays in the delivery of rigs and/or other equipment, compliance with governmental requirements, explosions and other accidents. These risks and hazards could also result in damage to, or destruction of, production facilities, personal injury, environmental damage, business interruptions, monetary losses and possible legal liability.

Titles to properties

Title to oil and gas interest is often not capable of conclusive determination, without incurring substantial expense. In accordance with industry practice, the Company will conduct such title review in connection with its principal properties as it believes is commensurate with the value of such properties. Governmental regulations and processing, approvals license and permits are, as a practical matter, subject to the discretion of the applicable governments or governmental offices. The Company must comply with known standards, existing laws and regulations, new laws and regulations, amendments to existing laws and regulations, or more

Fluctuations in the Prices of Oil and Natural Gas

Oil and natural gas prices have fluctuated widely during recent years and are determined by various factors outside the Company's control, including supply and demand factors, weather, general economic conditions, political instability, government regulation and taxes, the price and availability of alternative fuels, and conditions in oil and gas regions around the world. Such fluctuations will have a positive or negative effect on any revenue that the Company receives. If oil and natural gas prices become depressed or decline, the Company's potential revenue and earnings and the value of its assets would be expected to decline.

Additional Financing

To the extent that external sources of capital, including the issuance of additional Common Shares, become limited or unavailable, the Company's ability to make necessary capital investments to maintain or expand its oil and gas exploration and development activities will be impaired.

Foreign Exchange Risk

To the extent that certain operations, explorations and administrative expenses are valued in Euros, there is some foreign exchange risk, but management believes the foreign

exchange risk derived from currency conversions is negligible and therefore does not hedge its foreign its foreign exchange.

Reserve and Resource Estimates

Information on resources and reserves are only estimates and the actual production and ultimate reserves from the properties may be greater or less than the estimates contained herein. In addition, probable reserve estimates for properties may require revision based on the actual development strategies employed to prove such reserves. Estimated reserves may also be affected by changes in oil and natural gas prices. Declines in reserves that are not offset by the acquisition or development of additional reserves may reduce the underlying value of shares to shareholders.

Dependence on Key Personnel

The Company has a small management team and the loss of a key individual or the inability to attract suitably qualified personnel in the future could materially and adversely affect the Company's business.

Foreign Exchange Rates

The Company will be subject to normal market risks including fluctuations in foreign exchange rates. While the Company expects to manage its operations in order to minimize exposure to these risks, the Company has not entered into any derivatives or contracts to hedge or otherwise mitigate this exposure.

Foreign Investments

The Company expects that its oil and gas exploration activities will take place principally outside Canada for the foreseeable future. As such, the Company's operations are subject to a number of risks over which it has no control. These risks may include risks related to economic, social or political instability or change, terrorism, hyperinflation, currency non-convertibility or instability and changes of laws affecting foreign ownership, government participation, taxation, working conditions, rates of exchange, exchange control, exploration licensing, petroleum and export licensing and export duties as well as government control over domestic oil and gas pricing. The Company endeavours to operate in such a manner as to minimize and mitigate its exposure to these risks. However, there can be no assurance the Company will be successful in protecting itself from the impact of all of these risks.

Environment Regulation

The oil and gas industry is subject to environmental regulation. A breach of such legislation may result in the imposition of fines or issuance of clean up orders in respect of the

and potentially more costly obligations. The Company is putting policies and practices in place to ensure its operations conform to the standards and government regulations required for each jurisdiction in which it operates.

Signed

“Alex Falconer”
Chief Financial Officer
January 28, 2010